

# Prospectus

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Mnemon Limited  
(Proposed to be re-named  
Grays eCommerce Group Limited)  
ACN 125 736 914

For an offer of 1,000 MNZ Shares at an issue price of \$1.50 per MNZ to raise up to \$1,500

This Prospectus is a re-compliance prospectus for the purposes of satisfying Chapters 1 and 2 of the ASX Listing Rules and to satisfy ASX requirements for re-listing following a change to the scale of MNZ's activities pursuant to its proposed acquisition of all the shares in Grays (Aust) Holdings Pty Ltd ACN 114 615 780.

If, after reading this document, you have any questions, please contact MNZ for more information or alternatively seek independent professional advice on any aspects of which you are not certain.

# Important Notices

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## **The Offer**

This Prospectus is issued by Mnemon Limited ACN 125 736 914 for the purposes of Chapter 6D of the Corporations Act. Pursuant to ASX Listing Rule 11.1.3, MNZ is required to satisfy the requirements of Chapters 1 and 2 of the ASX Listing Rules, as advised by ASX, as if applying for re-admission to the Official List. This is due to the change to the scale of MNZ's activities that occurs under the Transaction. Accordingly, this Prospectus is being issued principally to satisfy those requirements.

The Offer contained in this Prospectus is an invitation to Emesco Agents Pty Ltd (ACN 000 405 265) only to acquire fully paid ordinary shares in MNZ that will be issued by MNZ.

At the Prospectus Date, MNZ had 19,287,806 MNZ Shares on issue. Before Settlement of the Offer, MNZ will acquire all the shares in Grays (Aust) Holdings Limited ACN 114 615 806. Refer to Sections 2, 3 and 8 for further information.

## **Lodgement and Listing**

This Prospectus is dated 30 September 2014 and a copy was lodged with ASIC on that date (**Prospectus Date**). MNZ will apply to ASX within seven days after the Prospectus Date for quotation of the offered MNZ Shares on ASX. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

## **Exposure Period**

The Corporations Act prohibits MNZ from processing applications to subscribe for MNZ Shares in the seven day period after the Prospectus Date (**Exposure Period**). ASIC may extend this period by up to a further seven days (i.e. up to a total of 14 days). The purpose of the Exposure Period is to enable the Prospectus to be examined by market participants prior to the raising of the funds. The examination may result in the identification of certain deficiencies in this Prospectus in which case any application may need to be dealt with in accordance with section 724 of the Corporations Act. If an application is received during the Exposure Period, it will not be processed until after the expiry of the Exposure Period.

## **Expiry Date**

This Prospectus expires on the date which is 13 months after the Prospectus Date (**Expiry Date**) and no MNZ Shares will be issued on the basis of this Prospectus after the Expiry Date.

## **Foreign jurisdictions**

This Prospectus does not constitute an offer or invitation to apply for MNZ Shares in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. No action has been taken to register or qualify the MNZ Shares or the Offer, or to otherwise permit a public offering of the MNZ Shares, in any jurisdiction outside Australia.

The distribution of this Prospectus outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

## **Prospectus availability**

A copy of this Prospectus can be downloaded from the MNZ website at [www.mnemon.com.au](http://www.mnemon.com.au). If you are accessing the electronic version of this Prospectus for the purpose of making an investment in MNZ, you must be an Australian resident and must only access this Prospectus from within Australia.

Other than as otherwise stated in this Prospectus, no document or information included on MNZ's website is incorporated by reference into this Prospectus.

**No cooling-off rights**

Cooling-off rights do not apply to an investment in MNZ Shares issued under the Prospectus. This means that, in most circumstances, an application cannot be withdrawn once it has been accepted.

**Forward looking statements**

Some of the statements appearing in this document may be in the nature of forward looking statements. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected.

None of MNZ, Grays, or any of their respective officers, or any person named in this document or involved in the preparation of this document, make any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, and you are cautioned not to place undue reliance on those statements.

The forward looking statements in this document reflect views held only as at the date of this document. Neither MNZ nor Grays has an obligation to disseminate after the date of this document any updates or revisions to any such statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any of those statements are based unless required to do so under the Corporations Act to update or correct this document or pursuant to MNZ's continuous disclosure obligations under the ASX Listing Rules and the Corporations Act.

**No financial product advice**

This document is not financial product or investment advice nor is it a recommendation in respect of the MNZ Shares. It has been prepared without taking into account the objectives, financial situation or needs of MNZ Shareholders or other persons. Before deciding how to act, a potential investor in MNZ Shares should consider the appropriateness of the information having regard to their own objectives, financial situation and needs, and seek legal, taxation, financial and other advice appropriate to their jurisdiction and circumstances. MNZ is not licensed to provide financial product advice in respect of MNZ Shares.

**Financial information presentation**

Investors should be aware that certain financial data included in this Prospectus is 'non-IFRS financial information' under Regulatory Guide 230 Disclosing non-IFRS financial information, published by ASIC. MNZ believes this non-IFRS financial information provides useful information to users in measuring the financial performance and conditions of the Combined Group. The non-IFRS measures do not have standardised meanings prescribed by Australian Accounting Standards and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. Investors are cautioned, therefore, not to place undue reliance on any non-IFRS financial information and ratios included in this Prospectus.

**Photographs and diagrams**

Photographs and diagrams used in this Prospectus are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by MNZ. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the date of this Prospectus.

**Privacy statement**

If you complete an Application Form, you will be providing personal information to MNZ. MNZ collects, holds and will use that information to assess your application, service your needs as an MNZ Shareholder and to facilitate distribution payments and corporate communications to you as an MNZ Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your securities in the context of takeovers, regulatory bodies including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the share registry. You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the share registry at the relevant contact number set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information are governed by legislation including the Privacy Act 1988, the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the application for MNZ Shares, MNZ may not be able to accept or process your application.

### **Interpretation**

Capitalised terms used in the Prospectus are defined in the Glossary at the end of this document, or where the relevant term is first used.

The documents reproduced in this Prospectus may have their own defined terms, which are sometimes different from those in the Glossary.

All numbers are rounded unless otherwise indicated.

A reference to \$ and cents is to Australian currency, unless otherwise stated.

All times referred to in this Prospectus are references to the time in Sydney, Australia, unless otherwise stated.

A reference to a Section is to a section in this Prospectus, unless otherwise stated.

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## Key dates

Date of this Prospectus	30 September 2014
Lodge Prospectus with ASIC and ASX	30 September 2014
Offer opening date	6 November 2014
Completion of MNZ Offer (and Transaction)	7 November 2014
Offer closing date	10 November 2014
Settlement of the Offer	11 November 2014
Completion of the Offer	11 November 2014
Quotation of MNZ Shares issued under the Offer	12 November 2014

The above timetable is indicative only. MNZ reserves the right to vary the dates and times set out above subject to the Corporations Act and other applicable laws. In particular, MNZ reserves the right to close the Offer early, extend the Closing Date or accept late Applications (generally or in particular cases) without notifying any recipients of this Prospectus or any Applicants.

## Key Offer statistics

Number of MNZ Shares on issue as at date of this Prospectus	19,287,806
Offer Price	\$1.50 per MNZ Share
Total number of Shares to be issued under the Offer	1,000
Number of MNZ Shares on issue after completion of the Transaction (fully diluted)	93,999,819
Number of MNZ Shares on issue after completion of the Offer (fully diluted)	94,000,819

# 1. Investment overview

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**This Section highlights key information about MNZ, Grays and the Combined Group that will exist after completion of the Transaction, and explains where you can find more detailed information about the Combined Group.**

Topic	Summary	For more information
<b>What is the Combined Group?</b>	<p>The Combined Group will be created on completion of the Transaction as a result of the merger of the businesses of MNZ and Grays. It is proposed that the Combined Group will be named ‘Grays eCommerce Group’.</p> <p>The Combined Group will have sales operations in the Australian online consumer auction and fixed price retail (B2C) and online industrial auction (B2B) markets.</p> <p>The Combined Group will operate four websites, graysonline.com, dealsdirect.com.au, topbuy.com.au and OO.com.au.</p> <p>In the online industrial auction (B2B) market, the Combined Group will work closely with corporates, banks and insolvency practitioners to auction fixed and mobile plant and equipment, through the graysonline.com website. It will also provide valuation and workplace health and safety consulting services to business customers under the Grays Asset Services brand.</p> <p>In the consumer auction retail (B2C) market segment, the Combined Group will offer consumer auction sales through the graysonline.com website, with an emphasis on wine, computers, white-goods, brown-goods and jewellery. In the consumer fixed price retail (B2C) market segment, the Combined Group will offer fixed price retail sales mainly through the dealsdirect.com.au, topbuy.com.au and OO.com.au online department stores, with an emphasis on consumer electronics, home and garden, sporting goods and toys.</p> <p>The Combined Group's businesses had aggregated Invoiced Sales of \$495 million in the 2014 financial year.</p> <p>The Combined Group had aggregated net operating revenue of \$122.4 million in the 2014 financial year, and pro forma net cash of greater than \$10 million as at 30 June 2014 (after allowing for Transaction costs</p>	Section 8.1.

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Topic	Summary	For more information
	<p>and other events occurring before completion of the Transaction such as the Grays Capital Raising). Please see Section 9.5 for pro forma financial information about the Combined Group.</p>	
<p><b>What will be the strategy of the Combined Group?</b></p>	<p>The Combined Group's goal is to be the number one online auctioneer in the Consumer (B2C) and industrial (B2B) market segments, and to be a significant fixed price retailer (B2C) in a number of key product categories.</p> <p>The enhanced scale and strategic benefits associated with combining the businesses of Grays and MNZ are expected to facilitate growth opportunities for the Combined Group by optimising the current business, expanding the core business and extending the business into adjacent segments.</p> <p>The optimisation of the Combined Group's current business will focus on achieving, over time, cost and revenue synergies that are made possible by the Transaction, as well as benefits from economies of scale across supply-chain and back-office infrastructure.</p> <p>Strategies to expand the core business include building on the product category strengths of wine, home and garden, electronics, furniture and computer equipment, as well as targeting product and service lines that are not generally serviced by the 'bricks and mortar' retailers such as reverse logistics services and the sale of refurbished, box damaged and superseded computer equipment, white-goods and audio-visual products.</p> <p>The expansion of the core business, and its extension into adjacent segments, also relies on merger and acquisition opportunities.</p> <p>The strategic goal of the Combined Group's consumer and retail (B2C) division (which will include the brands DealsDirect, TopBuy, GraysOnline and OO.com.au) is to be a low cost per unit supplier of targeted consumer product categories.</p> <p>The intended strategy for the Combined Group's industrial (B2B) division is to increase GraysOnline's already strong market position in the finance, insolvency and major corporate segments, expand its services to government and grow vertical industry. Opportunities exist to further grow in geographical segments both within and outside Australia, both</p>	<p>Section 8.4.</p>



Topic	Summary	For more information
	organically and through merger and acquisition and joint venture opportunities.	
<b>What are the strengths of the Combined Group's business?</b>	<ul style="list-style-type: none"> <li>• A 'pure play' e-commerce retail group, bringing together recognised e-commerce brands in DealsDirect, TopBuy, GraysOnline and OO.com.au.</li> <li>• A growth platform in the online market.</li> <li>• Enhanced scale, listed status and improved financial position of the Combined Group give the Combined Group potential to be an aggregator in the consolidating B2B and B2C online markets.</li> <li>• Enhanced product category coverage associated with combining a portfolio of recognised and complementary brands, and provides opportunity to better exploit combined customer bases.</li> <li>• Potential to realise cost and revenue synergies over time.</li> <li>• Potential to benefit from economies of scale across a range of supply-chain and back-office infrastructure.</li> <li>• Skilled and experienced Board and management team.</li> </ul>	Section 4.1.
<b>What are the key risks for the Combined Group?</b>	<ul style="list-style-type: none"> <li>• <b>New acquisitions:</b> Any acquisition of companies or businesses by the Combined Group in line with its intended growth strategy may not be economically successful.</li> <li>• <b>Online retail market may deteriorate:</b> The Australian online retail market in which the Combined Group will operate may experience challenging conditions, due to volatility in consumer sentiment and retail demand.</li> <li>• <b>Growth of internet penetration and online migration may decline:</b> There can be no guarantee that the rate of internet penetration and migration will continue in the future, which may have an adverse effect on the Combined Group.</li> <li>• <b>Increased competition:</b> The Combined Group's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new</li> </ul>	Section 10.

Topic	Summary	For more information
	<p>competitors or a failure by the Combined Group to continue to position itself successfully as the online retail environment changes.</p>	
	<ul style="list-style-type: none"> <li>• <b>Technology obsolescence:</b> If the Combined Group is significantly slower than its competitors in adopting the latest technology, it could have an adverse effect on the Combined Group's ability to attract new buyers and retain its existing customer base.</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Disruption to information systems:</b> Any material damage or disruption to the Combined Group's information systems which impairs its ability to operate its websites and software may result in significant disruption to the business.</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Disruption to internet services:</b> Should the internet be unavailable, including as a result of outages to hosting providers, it will significantly impact upon the use of the Combined Group's websites and business continuity.</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Payment systems disruption risks:</b> If the payment gateway or other interbank processes, through which the Combined Group's customers pay for purchases, suffer outages, or if the Combined Group ceased to be able to access their services, the Combined Group's ability to accept credit and debit card payments could be significantly affected.</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Loss of intellectual property:</b> Despite precautionary measures, third parties may copy or otherwise obtain and use the Combined Group's proprietary information (which may include elements of the Combined Group's websites, software tools, applications, buyer databases and underlying technology infrastructure) without authorisation or may develop similar technology independently.</li> </ul>	
	<ul style="list-style-type: none"> <li>• <b>Loss of key personnel:</b> The success of the Combined Group will be dependent on the retention of key personnel, in particular those individuals discussed at Sections 8.10 and 8.12. The loss of those key personnel, and an inability to recruit or retain suitable replacement or additional personnel, may</li> </ul>	

Topic	Summary	For more information
	<p>adversely affect the Combined Group's future financial performance.</p> <ul style="list-style-type: none"> <li data-bbox="547 344 1174 562">• <b>Disruptions to logistics, warehouse and fulfilment capabilities:</b> The Combined Group has warehousing and fulfilment capabilities, which are potentially exposed to disruption from a variety of sources and events.</li> <li data-bbox="547 589 1174 1025">• <b>Litigation risk:</b> The Combined Group may from time to time be the subject of complaints, litigation, inquiries or audits initiated by customers, employees, suppliers, landlords, government agencies, regulators or other third parties alleging matters such as product quality issues, injury, health, environmental, safety or operational concerns, nuisance, negligence, failure to comply with applicable laws and regulations or failure to comply with contractual obligations.</li> <li data-bbox="547 1052 1174 1234">• <b>Adverse changes in foreign exchange rates:</b> Adverse movements in exchange rates may have a material adverse effect on the Combined Group's future financial performance.</li> </ul>	
<p><b>In which industry will the Combined Group operate?</b></p>	<p>The Combined Group will operate in two segments of the Australian online market, namely the online consumer auction and fixed price retail (B2C) market segment and the online industrial auction (B2B) market segment.</p> <p>Within the Australian online market, the Combined Group will compete against a broad range of domestic and international 'pure play' online retailers, as well as traditional 'bricks and mortar' retailers which have developed an online presence.</p> <p>However, the Combined Group will have quite a unique position within the Australian online market being one of the only major 'pure play' online businesses with a focus on the Australian online industrial auction (B2B) market segment.</p>	<p>Section 5.</p>

Topic	Summary	For more information										
<p><b>What is the Combined Group's aggregated historical performance?</b></p>	<p style="text-align: center;"><b>Combined Group – Aggregated historical performance</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; background-color: black; color: white;">FY2014</th> <th style="text-align: right; background-color: black; color: white;">\$ (million)</th> </tr> </thead> <tbody> <tr> <td>Net operating revenue</td> <td style="text-align: right;">122.4</td> </tr> <tr> <td>EBITDA pre significant items</td> <td style="text-align: right;">2.8</td> </tr> <tr> <td>EBITDA post significant items (loss)</td> <td style="text-align: right;">(2.8)</td> </tr> <tr> <td>EBIT (loss)</td> <td style="text-align: right;">(6.8)</td> </tr> </tbody> </table> <p>Notes: The financial information presented above is a summary only and should be read in conjunction with the more detailed discussion of the financial information in Section 9.5, including the assumptions, management discussion and analysis.</p>	FY2014	\$ (million)	Net operating revenue	122.4	EBITDA pre significant items	2.8	EBITDA post significant items (loss)	(2.8)	EBIT (loss)	(6.8)	<p>Section 9.5.</p>
FY2014	\$ (million)											
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EBIT (loss)	(6.8)											
<p><b>Where can I find more financial information about the Combined Group?</b></p>	<p>Section 9.5 contains a summary of the financial information in relation to the Combined Group which the MNZ Directors and the Grays Directors have concluded is relevant to investors and comprises the following:</p> <ul style="list-style-type: none"> <li>• An aggregated Statement of Profit &amp; Loss of the Combined Group for the year ended 30 June 2014, as set out in Section 9.5(a);</li> <li>• A pro forma Statement of Cash Flows of the Combined Group for the year ended 30 June 2014, assuming completion of the Grays Capital Raising, the MNZ Offer and the Transaction as set out in Sections 9.5(b) and (c); and</li> <li>• A pro forma Statement of Financial Position of the Combined Group as at 30 June 2014, assuming completion of the Grays Capital Raising, the MNZ Offer and the Transaction as set out in Section 9.5(c).</li> </ul> <p>Significant accounting policies upon which that information is based are included in Section 9.5(d).</p>	<p>Section 9.5.</p>										
<p><b>What is the Combined Group's dividend policy?</b></p>	<p>There is no present intention for the Combined Group to commence a dividend payment strategy. Rather it is intended that, in the short-term, surplus cash flows are reinvested within the business for long-term benefits, rather than a short-term focus on dividends. This policy will be reviewed at an appropriate time each year.</p>	<p>Section 8.16.</p>										
<p><b>Who will sit on the Combined Group Board</b></p>	<p>On completion of the Transaction, MNZ's Board (which will be the Board of the Combined Group)</p>	<p>Section 8.10.</p>										

Topic	Summary	For more information												
<b>after the Transaction is completed?</b>	<p>will comprise:</p> <ul style="list-style-type: none"> <li>• Jonathan Pinshaw – Non-Executive Chairman</li> <li>• Mark Bayliss – Executive Director and Chief Executive Officer</li> <li>• Naseema Sparks – Non-Executive Director</li> <li>• Will Vicars – Non-Executive Director</li> </ul> <p>The Combined Group intends to appoint an additional non-executive director after completion of the Transaction, and will have regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.</p>													
<b>Who will manage the Combined Group after the Transaction is completed?</b>	<p>On completion of the Transaction, the key members of the Combined Group's senior management team will include:</p> <ul style="list-style-type: none"> <li>• Mark Bayliss – Executive Director and Chief Executive Officer</li> <li>• John Martin – Chief Financial Officer</li> <li>• Adam Scharer – Head of B2B</li> <li>• Mark Kehoe – Head of B2C</li> <li>• Michael Rosenbaum – GM, DealsDirect</li> <li>• Stephen Charlesworth – Chief Information Officer</li> <li>• David Sharp – Head of Marketing</li> <li>• Julie Starley – Head of Supply-chain</li> </ul>	Section 8.12.												
<b>What significant benefits are payable to the Combined Group Directors and other persons connected to the Transaction, and what significant interests do they hold?</b>	<table border="1"> <thead> <tr> <th data-bbox="528 1458 847 1525">Key people</th> <th data-bbox="847 1458 1166 1525">Interest or benefit</th> <th data-bbox="1166 1458 1485 1525">For more information</th> </tr> </thead> <tbody> <tr> <td data-bbox="528 1525 847 1697">MNZ Directors</td> <td data-bbox="847 1525 1166 1697"> <ul style="list-style-type: none"> <li>• Directors' interests</li> <li>• Agreements or arrangements with MNZ Directors</li> </ul> </td> <td data-bbox="1166 1525 1485 1697">Section 6.4.</td> </tr> <tr> <td data-bbox="528 1697 847 1906">MNZ Management</td> <td data-bbox="847 1697 1166 1906"> <ul style="list-style-type: none"> <li>• MNZ management interests</li> <li>• Agreements or arrangements with MNZ management</li> </ul> </td> <td data-bbox="1166 1697 1485 1906">Section 6.4.</td> </tr> <tr> <td data-bbox="528 1906 847 2069">Existing Grays Shareholders</td> <td data-bbox="847 1906 1166 2069"> <ul style="list-style-type: none"> <li>• Ownership of Grays Shares</li> <li>• Ownership of MNZ Shares</li> </ul> </td> <td data-bbox="1166 1906 1485 2069">Section 7.5.</td> </tr> </tbody> </table>		Key people	Interest or benefit	For more information	MNZ Directors	<ul style="list-style-type: none"> <li>• Directors' interests</li> <li>• Agreements or arrangements with MNZ Directors</li> </ul>	Section 6.4.	MNZ Management	<ul style="list-style-type: none"> <li>• MNZ management interests</li> <li>• Agreements or arrangements with MNZ management</li> </ul>	Section 6.4.	Existing Grays Shareholders	<ul style="list-style-type: none"> <li>• Ownership of Grays Shares</li> <li>• Ownership of MNZ Shares</li> </ul>	Section 7.5.
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Existing Grays Shareholders	<ul style="list-style-type: none"> <li>• Ownership of Grays Shares</li> <li>• Ownership of MNZ Shares</li> </ul>	Section 7.5.												

Topic	Summary	For more information	
	Grays Directors	<ul style="list-style-type: none"> <li>• Grays Directors' interests</li> <li>• Agreements or arrangements with Grays Directors</li> </ul>	Section 7.9.
	Grays Management	<ul style="list-style-type: none"> <li>• Grays management interests</li> <li>• Agreements or arrangements with Grays management</li> </ul>	Section 7.9.
	Combined Group Directors	<ul style="list-style-type: none"> <li>• Combined Group Directors' interests</li> <li>• Agreements or arrangements with Combined Group Directors</li> <li>• Combined Group Directors' fees</li> </ul>	Section 8.11.
	Combined Group Management	<ul style="list-style-type: none"> <li>• Combined Group management interests</li> <li>• Agreements or arrangements with Combined Group management</li> <li>• Employee incentive arrangements</li> </ul>	Sections 8.11 and 8.14.
	Combined Group Management	<ul style="list-style-type: none"> <li>• Remuneration</li> </ul>	Section 8.13.
	Advisers and other service providers	<ul style="list-style-type: none"> <li>• Fees for services</li> </ul>	Section 12.9.

Information about the Offer		
<b>What is the Offer?</b>	<p>The Offer is an invitation to Emesco Agents Pty Ltd (ACN 000 405 265) to subscribe for 1,000 MNZ Shares at an issue price of \$1.50 per MNZ Share.</p> <p>The MNZ Shares to be issued under the Offer will represent 0.001% of the MNZ Shares on issue following Settlement.</p>	Section 2.1.
<b>Why is the Offer being conducted?</b>	Pursuant to ASX Listing Rule 11.1.3, MNZ is required to satisfy the requirements of Chapters 1 and 2 of the ASX Listing Rules, as advised by ASX, as if applying for re-admission to the Official List. This is due to the change to the scale of MNZ's activities that occurs under the Transaction. Accordingly, this Prospectus is being issued principally to satisfy those	Section 2.3.

Topic	Summary	For more information
	<p>requirements.</p> <p>Another purpose of this Prospectus is to remove any trading restrictions that may have attached to MNZ Shares issued by MNZ prior to the Closing Date pursuant to the MNZ Offer.</p>	
<p><b>Who will own the Combined Group on completion of the Offer?</b></p>	<p>If the Transaction proceeds, then on completion of the Transaction 73,244,952 MNZ Shares will be issued to the Grays Shareholders under the MNZ Offer.</p> <p>This means that immediately before completion of the Offer (assuming that the Transaction has completed), there will be 93,999,819 MNZ Shares on issue (on a fully diluted basis).</p> <p>After completion of the Offer (assuming that the Transaction has completed), there will be 94,000,819 MNZ Shares on issue (on a fully diluted basis).</p> <p>As a result, after completion of the Offer, if the Transaction proceeds:</p> <ul style="list-style-type: none"> <li>• the existing Grays Shareholders (who as at the date of this Prospectus collectively own no MNZ Shares) will own approximately 77.9% of the fully diluted issued share capital of MNZ;</li> <li>• the existing MNZ Shareholders (who as at the date of this Prospectus collectively own 100% of the MNZ Shares) will own approximately 22.1% of the fully diluted issued share capital of MNZ; and</li> <li>• the Offeree will who as at the date of this Prospectus owns no MNZ Shares) will own approximately 0.001% of the fully diluted issued share capital of MNZ.</li> </ul> <p>After completion of the Transaction, it is expected that the largest MNZ Shareholder will be Caledonia, who (together with its associates) will hold less than 20% of the MNZ Shares on issue. Other Grays Shareholders will not hold their new MNZ Shares as a collective.</p>	<p>Section 8.7.</p>
<p><b>What is the proposed use of proceeds pursuant to the Offer?</b></p>	<p>If an Application is received under the Offer, the proceeds will be used in order to contribute to payment of costs of the Transaction.</p>	<p>Section 12.9.</p>

Topic	Summary	For more information
<b>What will happen on Settlement?</b>	On or about Settlement, MNZ will issue 1,000 MNZ Shares to Emesco Agents Pty Ltd (ACN 000 405 265) under the Offer.	
<b>How is the Offer structured/who is eligible to participate?</b>	<p>The Offer is an invitation only to Emesco Agents Pty Ltd (ACN 000 405 265) to subscribe for 1,000 MNZ Shares. No other person is invited to subscribe for MNZ Shares under the Offer.</p> <p>Further, this Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.</p>	
<b>What is the Offer Price?</b>	\$1.50 per MNZ Share.	Section 2.1.
<b>Is the Offer underwritten?</b>	No.	Section 2.11.
<b>Will the Shares be quoted?</b>	<p>MNZ will apply, within seven days of the Prospectus Date, to ASX for Official Quotation of the MNZ Shares offered pursuant to this Prospectus.</p> <p>Settlement of the Offer is conditional on ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all application monies received will be refunded without interest, as soon as practicable in accordance with the requirements of the Corporations Act.</p>	Section 2.6.
<b>Is there any brokerage, commission or stamp duty payable by the Applicant?</b>	No brokerage, commission or stamp duty is payable by the Applicant on an acquisition of MNZ Shares under the Offer.	N/A
<b>What are the tax implications of investing in the Shares?</b>	The tax consequences of any investment in the MNZ Shares will depend upon Emesco Agents Pty Ltd's particular circumstances. The Applicant should obtain its own tax advice prior to deciding whether to invest.	N/A
<b>How can an application be made?</b>	<p>An application for MNZ Shares under the Offer can be made by validly completing the Application Form attached to or accompanying this Prospectus.</p> <p>To the extent permitted by law, an application by an applicant under the Offer is irrevocable.</p>	Section 2.4.
<b>Is the Offer conditional?</b>	<p>Yes. The contracts formed on acceptance of an application for MNZ Shares under the Offer will be conditional on:</p> <ul style="list-style-type: none"> <li>• MNZ re-complying with Chapters 1 and 2 of the ASX Listing Rules; and</li> </ul>	Section 2.2.



Topic	Summary	For more information
	<ul style="list-style-type: none"> <li data-bbox="544 253 1155 320">• MNZ receiving conditional approval for re-quotation of the MNZ Shares on ASX.</li> </ul> <p data-bbox="544 344 1166 488">If these conditions are not met, MNZ will not proceed with the Offer and will repay all application monies received, without interest and in accordance with the Corporations Act.</p>	
<b>Can the Offer be withdrawn?</b>	<p data-bbox="544 517 1166 618">Yes. MNZ reserves the right not to proceed with the Offer at any time before the issue of MNZ Shares under the Offer.</p> <p data-bbox="544 642 1177 786">If the Offer does not proceed, application monies will be refunded. No interest will be paid on any application monies refunded as a result of the withdrawal of the Offer.</p>	Section 2.4.

## 2. Details about the Offer

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**This Section sets out the key terms and conditions of the Offer.**

### 2.1 The Offer

Pursuant to this Prospectus, MNZ invites an application by Emesco Agents Pty Ltd (ACN 000 405 265) for 1,000 MNZ Shares at an issue price of \$1.50 per MNZ Share.

The MNZ Shares offered under this Prospectus will rank equally with the existing MNZ Shares on issue (trading, as at the date of this Prospectus, under ASX Code: MNZ).

### 2.2 Conditions to the Offer

Completion of the Offer under this Prospectus is subject to:

- MNZ re-complying with Chapters 1 and 2 of the ASX Listing Rules; and
- MNZ receiving conditional approval for re-quotations of the MNZ Shares on ASX.

If these conditions are not met, MNZ will not proceed with the Offer and will repay all application monies received, without interest and in accordance with the Corporations Act.

### 2.3 Purpose of the Offer

Pursuant to ASX Listing Rule 11.1.3, MNZ is required to satisfy the requirements of Chapters 1 and 2 of the ASX Listing Rules, as advised by ASX, as if applying for re-admission to the Official List. This is due to the change to the scale of MNZ's activities that occurs under the Transaction. Accordingly, this Prospectus is being issued principally to satisfy those requirements.

Another purpose of this Prospectus is to remove any trading restrictions that may have attached to MNZ Shares issued by MNZ prior to the Closing Date pursuant to the MNZ Offer.

Relevantly, section 708A(11) of the Corporations Act provides that a sale offer does not need disclosure to investors if:

- the relevant securities are in a class of securities that are quoted securities of the body;
- either:
  - a prospectus is lodged with the ASIC on or after the day on which the relevant securities were issued but before the day on which the sale offer is made; or
  - a prospectus is lodged with ASIC before the day on which the relevant securities are issued and offers of securities that have been made under the prospectus are still open for acceptance on the day on which the relevant securities were issued; and
- the prospectus is for an offer of securities issued by the body that are in the same class of securities as the relevant securities.

This Prospectus was lodged with ASIC before the day on which MNZ Shares will be issued under the MNZ Offer and the Offer will still be open for acceptance on the day on which MNZ Shares will be issued under the MNZ Offer. Accordingly, this Prospectus will satisfy those requirements, allowing MNZ Shares that are issued under the MNZ Offer to be offered for sale within 12 months of their issue without a disclosure document.

## **2.4 Application**

An application for MNZ Shares under the Offer must be made using the Application Form.

An application for MNZ Shares under the Offer must be for all of the MNZ Shares offered under the Offer.

The completed Application Form and accompanying cheque, made payable to “Mnemon Limited” and crossed “Not Negotiable”, must be mailed to the address set out on the Application Form so that it is received by no later than the Closing Date.

MNZ reserves the right to close the Offer early.

## **2.5 Re-compliance with Chapters 1 and 2 of the ASX Listing Rules**

On the date of the Meeting, MNZ Shares will be suspended from quotation on ASX. Provided MNZ Shareholders approve the Transaction at the Meeting (including a change in the scale of MNZ’s activities), the MNZ Shares will continue to be suspended from trading and will not be reinstated to Official Quotation until the ASX approves MNZ’s re-compliance with Chapters 1 and 2 of the ASX Listing Rules which will not occur until completion of the Transaction.

In the event that MNZ does not receive conditional approval for re-quotation on the ASX, it will not proceed with the Offer and will repay all application monies received, without interest.

## **2.6 ASX listing**

Application for Official Quotation by ASX of the MNZ Shares offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus.

If the MNZ Shares are not admitted to Official Quotation by ASX before the expiration of 3 months after the date of issue of this Prospectus, or such period as varied by ASIC, MNZ will not issue any MNZ Shares and will repay all application monies within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant Official Quotation to the MNZ Shares offered pursuant to this Prospectus is not to be taken in any way as an indication of the merits of MNZ or the MNZ Shares being offered for subscription.

## **2.7 Issue**

Allotment of MNZ Shares offered under this Prospectus will take place as soon as practicable after the Closing Date.

Pending the allotment and issue of the MNZ Shares or payment of any refund pursuant to this Prospectus, application monies will be held by MNZ in trust for the Applicant in a separate bank account as required by the Corporations Act. MNZ, however, will be entitled to retain all interest that accrues on the bank account and the Applicant waives the right to claim interest.

The MNZ Directors reserve the right to reject an application. Where the number of MNZ Shares issued is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the Applicant as soon as practicable after the Closing Date.

## **2.8 No Escrow arrangements**

No escrow arrangements apply to the MNZ Shares issued pursuant to this Prospectus.

## **2.9 Foreign jurisdictions**

This Prospectus does not, and is not intended to, constitute an offer in any place or jurisdiction, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into

possession of this Prospectus should seek advice on and observe any of these restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the MNZ Shares or otherwise permit a public offering of the MNZ Shares the subject of this Prospectus in any jurisdiction outside Australia.

## **2.10 Offer Proceeds**

If an Application is received under the Offer, the proceeds will be used in order to contribute to costs of the Transaction.

## **2.11 Not underwritten**

The Offer is not underwritten.

## **2.12 No Commissions payable**

No commissions are payable to any person in connection with the Offer.

## **2.13 Acknowledgements**

The Applicant under the Offer will be deemed to have:

- agreed to become a member of MNZ and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) accompanying the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- acknowledged that once MNZ receives the Application Form it may not be withdrawn;
- applied for 1,000 MNZ Shares at an aggregate issue price of \$1,500;
- agreed to being allocated and issued the number of MNZ Shares applied for (or a lower number allocated in a way described in this Prospectus), or no MNZ Shares at all;
- authorised MNZ and its officers or agents, to do anything on behalf of the applicant necessary for MNZ Shares to be allocated to the applicant, including to act on instructions received by the MNZ Share Registry upon using the contact details in the Application Form;
- acknowledged that, in some circumstances, MNZ may not pay dividends (and does not intend to pay dividends in the short-term);
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not investment advice or a recommendation that MNZ Shares are suitable for the Applicant, given the investment objectives, financial situation or particular needs of the Applicant;
- declared that the Applicant is a resident of Australia;
- acknowledged that the MNZ Shares have not been, and will not be, registered under or pursuant to the securities laws of any other jurisdiction outside Australia;
- represented and warranted that the Applicant is not in any place outside Australia, and the Applicant will not offer, sell or resell the MNZ Shares in any place outside Australia, or for the account or benefit of, any persons outside Australia;
- acknowledged and agreed that the Offer may be withdrawn by MNZ or may otherwise not proceed in the circumstances described in this Prospectus; and

- acknowledged and agreed that if re-listing of MNZ on ASX does not occur for any reason, the Offer will not proceed.

#### **2.14 Governing law**

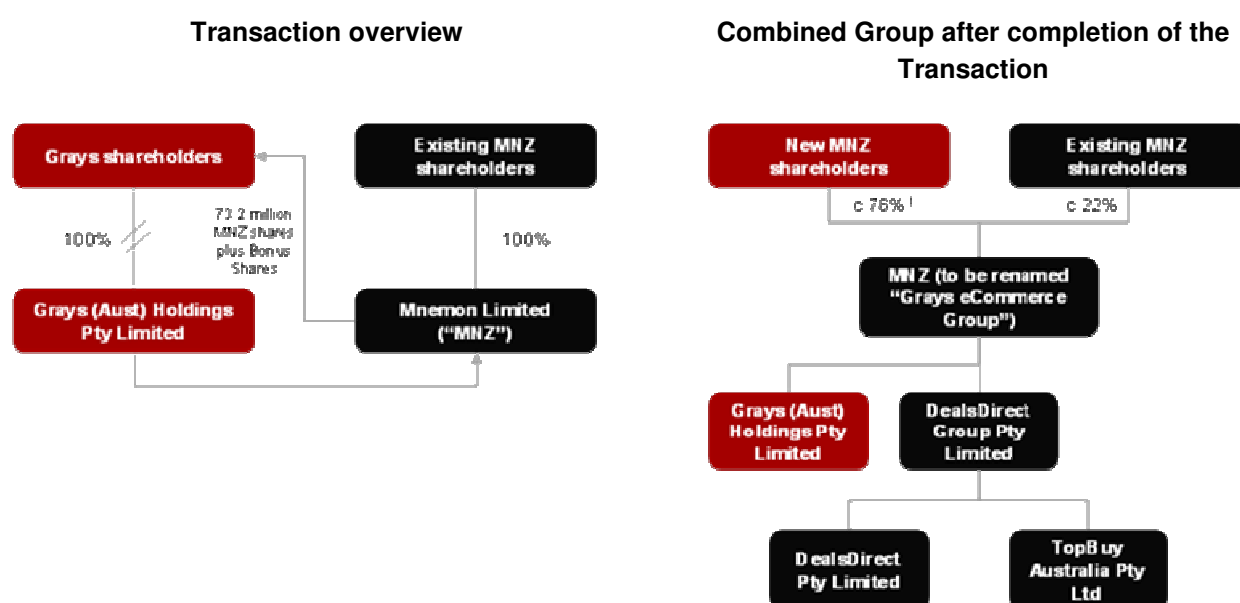
The Offer is governed by the law in force in New South Wales. The Applicant under the Offer will be deemed to have submitted to the non-exclusive jurisdiction of the courts of New South Wales.

### 3. Important information about the Transaction

This Section provides a summary only of important information about the Transaction and its components. This Section should be read in conjunction with the entire Prospectus before any investment decision is made.

#### Information about the Transaction

Figure 1



1. Excluding Bonus MNZ Shares, on a fully diluted basis. If all Bonus MNZ Shares are fully issued, new MNZ shareholders will own approximately 84% of the then fully diluted share capital. See Section 8.8 for more details.

#### What is the Transaction?

The Transaction ultimately results in MNZ and Grays merging their businesses, and Grays Shareholders becoming shareholders of MNZ.

The Transaction will see MNZ acquire 100% of Grays via a scrip-for-scrip offer to Grays Shareholders, significantly increasing the market capitalisation of the Combined Group.

It is proposed that the Combined Group will be renamed "Grays eCommerce Group" and will bring together the GraysOnline and OO.com.au brand with MNZ's existing recognised e-commerce brands, Deals Direct and TopBuy.

<b>What are the components of the Transaction?</b>	The Transaction features a number of components, the main ones being the Grays Capital Raising and the MNZ Offer.
	<ul style="list-style-type: none"> <li>• <b>Grays Capital Raising:</b> Grays will seek to raise not less than \$13.2 million in cash by way of an issue of new Grays Shares. The Grays Capital Raising will be underwritten by Caledonia. The Grays Capital Raising is being undertaken by Grays so that the Combined Group can be appropriately funded. Only Grays Shareholders will participate in the Grays Capital Raising.</li> <li>• <b>MNZ Offer:</b> MNZ will make an offer to Grays Shareholders to acquire 100% of their Grays Shares in return for the issue of MNZ Shares, plus the right to receive Bonus MNZ Shares subject to certain conditions.</li> </ul>
<b>How does the Transaction relate to the Offer?</b>	<p>The Offer under this Prospectus is not a component of the Transaction. But the Prospectus is being issued so that the Transaction can be implemented.</p> <p>This is because, pursuant to ASX Listing Rule 11.1.3, MNZ is required to satisfy the requirements of Chapters 1 and 2 of the ASX Listing Rules, as advised by the ASX, as if applying for re-admission to the Official List. This is due to the change to the scale of MNZ's activities that occurs under the Transaction. Accordingly, this Prospectus is being issued principally to satisfy those requirements.</p>
<b>What will happen to the MNZ Shares if the Transaction proceeds?</b>	<p>Nothing will happen to the MNZ Shares held by existing MNZ Shareholders under the Transaction.</p> <p>However, MNZ will issue New MNZ Shares to Grays Shareholders under the Transaction.</p> <p>See Section 8.8 for the dilutionary impact the Transaction will have on existing MNZ Shareholders.</p> <p>The Transaction is scheduled to complete before the Closing Date. As such, under the Transaction, nothing will happen to the MNZ Shares being offered under this Prospectus.</p>
<b>How will the structure of MNZ's ownership change if the Transaction proceeds?</b>	<p>Under the Transaction, approximately 73,244,952 MNZ Shares will be issued to the Grays Shareholders.</p> <p>As a result, after completion of the Transaction, the existing MNZ Shareholders (who as at the date of this Prospectus collectively own 100% of the MNZ Shares) will own approximately 22.1% of the fully diluted issued share capital of MNZ prior to the issue of the Bonus MNZ Shares, and approximately as low as 15.9% of the fully diluted issued share capital of MNZ following the issue of the Bonus MNZ Shares (assuming that the maximum number of Bonus MNZ Shares are issued).</p> <p>This will mean that MNZ will no longer be controlled by the current MNZ Shareholders, collectively, as those current MNZ Shareholders will collectively hold less than a majority interest in</p>

	<p>MNZ.</p> <p>After completion of the Transaction, it is expected that the largest MNZ Shareholder will be Caledonia, who (together with its associates) will hold less than 20% of the MNZ Shares on issue. Other Grays Shareholders will not hold their new MNZ Shares as a collective.</p>
<b>Will MNZ remain listed on the ASX if the Transaction proceeds?</b>	<p>Yes, subject to the issue of this Prospectus and MNZ's re-compliance with the admission requirements of ASX pursuant to Chapters 1 &amp; 2 of the ASX Listing Rules, MNZ will remain listed on the ASX after completion of the Transaction.</p>
<b>What are the conditions to the Transaction?</b>	<p>Completion of the Transaction occurs when the MNZ Offer completes. Completion of the MNZ Offer is subject to MNZ Shareholders passing the resolutions to approve the Transaction at the Meeting, and the Merger Implementation Agreement not being terminated.</p> <p>The Merger Implementation Agreement may be terminated if the following conditions are not satisfied or waived:</p> <ul style="list-style-type: none"> <li>• Each of the MNZ Board and the Grays Board continuing to unanimously endorse the Transaction.</li> <li>• Grays raising not less than \$13.2 million in cash under the Grays Capital Raising.</li> <li>• On completion of the Transaction (which is 12 months prior to the issue of any Bonus MNZ Shares), the aggregate number of MNZ Shares issued to Grays Shareholders not being more than 77.92% of the total number of MNZ Shares on issue immediately after completion of the Transaction (on a fully diluted basis).</li> <li>• No material adverse change occurring to MNZ or Grays.</li> </ul> <p>See Section 12.2 for a summary of the key terms and conditions of the Merger Implementation Agreement.</p>
<b>What will happen if the Transaction does not proceed?</b>	<p>If the MNZ Shareholders do not approve the Transaction at the Meeting, or the other conditions are not satisfied or waived, the Transaction will not proceed.</p> <p>If the Transaction does not proceed, MNZ will not acquire any Grays Shares and no new MNZ Shares will be issued to Grays Shareholders.</p> <p>In those circumstances, the MNZ Board intends to continue to focus on the operation and growth of MNZ's existing businesses.</p> <p>However, as the Offer under this Prospectus is not conditional on the Transaction completing, if an application is lodged in respect of the Offer, then the MNZ Shares offered under this Prospectus will be issued regardless of whether the Transaction completes.</p>
<b>What is the Merger Implementation Agreement?</b>	<p>The Merger Implementation Agreement was signed by Grays and MNZ on 5 August 2014. It sets out MNZ's and Grays' obligations</p>



in connection with the implementation of the Transaction. See Section 12.2 for a summary of the key terms and conditions of the Merger Implementation Agreement.

### Transaction Highlights

#### Potential benefits of the Transaction and the Combined Group

Potential benefits of the Transaction and the Combined Group include:

- Creates a significant listed ‘pure play’ e-commerce retail group, bringing together recognised e-commerce brands in DealsDirect, TopBuy, GraysOnline and OO.com.au.
- Establishes a growth platform in the online market.
- Enhanced scale, listed status and improved financial position of the Combined Group give the Combined Group potential to be an aggregator in the consolidating B2B and B2C online markets.
- Enhanced product category coverage associated with combining a portfolio of recognised and complementary brands, and provides opportunity to better exploit combined customer bases.
- Potential to realise cost and revenue synergies over time.
- Potential to benefit from economies of scale across a range of supply-chain and back-office infrastructure.
- Skilled and experienced Board and management team.

See Section 4.1 for more detailed information on potential benefits of the Transaction and the Combined Group.

#### Significant risks and potential disadvantages associated with the Transaction and the Combined Group

Significant risks and potential disadvantages associated with the Transaction and the Combined Group include:

- The Transaction will result in MNZ Shareholders having significantly smaller percentage voting interests in the Combined Group than their current percentage voting interests in MNZ. This will give MNZ Shareholders, collectively, less influence over the future direction of the Combined Group.
- Integration of the MNZ and Grays businesses after completion of the Transaction will give rise to costs, including costs that will be incurred in order for the Combined Group to realise the potential cost and revenue synergies described in Section 4.2(e) and the potential economy of scale opportunities described in Section 4.2(f).
- There will be risks inherent in an investment in the Combined Group and those risks may be considered to outweigh the potential advantages of the Transaction. See Section 10 for more information on significant risk factors.

See Section 4.3 for more information on significant risks and potential disadvantages associated with the Transaction and the

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Combined Group.

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**Information about the MNZ Offer**

**What is the MNZ Offer?**

The MNZ Offer is an offer made by MNZ to Grays Shareholders to acquire 100% of their Grays Shares in return for the issue of new MNZ Shares, plus the rights to receive Bonus MNZ Shares subject to certain conditions.

**How does the MNZ Offer relate to the Offer under this Prospectus?**

The MNZ Offer and the Offer under this Prospectus are two separate Offers, being made to different people for different reasons.

MNZ is making the MNZ Offer to existing Grays Shareholders in order to acquire their Grays Shares.

MNZ is making the Offer under this Prospectus to Emesco Agents Pty Ltd (ACN 000 405 265) for the purposes of satisfying Chapters 1 and 2 of the ASX Listing Rules and to satisfy ASX requirements for re-listing following a change to the scale of MNZ's activities that occurs under the Transaction.

**Who is Grays?**

Grays is a leading online 'pure play' retailer and auctioneer in Australasia, with diversified sales operations in the Australian online consumer auction and fixed price retail (B2C) and online industrial auction (B2B) markets.

Grays, through its flagship website, graysonline.com, is a significant player in the Australian online market, spanning the consumer auction and fixed price retail (B2C) and the online industrial auction (B2B) market segments.

Grays operates in three segments of the Australian online market:

- **Consumer auction retail (B2C):** auctioning household products to consumers with an emphasis on wine, computers, white-goods, brown-goods and jewellery, through its website graysonline.com;
- **Fixed price retail (B2C):** offering fixed-price consumer sales with an emphasis on consumer electronics, home and garden, sporting goods and toys, primarily through its fixed price department store, OO.com.au, and on certain products offered on graysonline.com; and
- **Industrial auction (B2B):** mostly catering to business customers, working closely with corporates, banks and insolvency practitioners to auction fixed and mobile plant and equipment, through its website graysonline.com.

The vast majority of Grays' sales are through the auction model on graysonline.com, with fewer sales through the fixed price model at OO.com.au and on certain products offered on graysonline.com. In the majority of cases, Grays acts as the agent for its vendors when it sells items.

Grays also provides valuation and workplace health and safety

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	<p>consulting services to business customers.</p> <p>Grays had \$431 million in Invoiced Sales in the 2014 financial year.</p> <p>Please see Section 7 for more information about Grays.</p> <p>Grays had net operating revenue of \$96.5 million in the 2014 financial year. Please see Section 9.4 for historical financial information about Grays.</p>
<b>Why does MNZ wish to acquire Grays?</b>	<p>The MNZ Directors and the Grays Directors believe that the Transaction makes compelling strategic sense, combining two sets of recognised e-commerce brands to create a significant listed ‘pure play’ e-commerce retail group.</p> <p>See Section 4 for further information about the rationale for the Transaction.</p>
<b>Who owns Grays now?</b>	<p>Grays is a private company owned by 47 shareholders, many of whom are current or former employees of Grays.</p> <p>Grays’ largest shareholder is Caledonia, a privately owned Australian investment manager with an interest in 26.7% of all Grays Shares as at the date of this Prospectus.</p>
<b>Will MNZ Shareholders be able to participate in the MNZ Offer?</b>	<p>No, MNZ Shareholders cannot participate in the MNZ Offer. The MNZ Offer relates only to the acquisition of Grays Shares and is therefore open to Grays Shareholders only. It does not involve MNZ Shareholders.</p> <p>Further, as the MNZ Offer will complete before the Closing Date of the Offer under this Prospectus, any MNZ Shares to be issued under this Prospectus cannot participate in the MNZ Offer.</p>
<b>What will Grays Shareholders receive under the MNZ Offer?</b>	<p>On completion of the MNZ Offer, each Grays Shareholder will receive 638 new MNZ Shares in consideration for each Grays Share transferred to MNZ. In total, Grays Shareholders will receive approximately 73,244,952 new MNZ Shares on completion of the MNZ Offer.</p> <p>In addition, Grays Shareholders who hold, on the date that is 12 months after the date of completion of the Transaction, that number of MNZ Shares that is not less than 75% of the number of MNZ Shares issued to them on completion of the Transaction (ignoring any MNZ Shares they hold prior to completion of the Transaction) will be issued 1 additional ‘bonus’ MNZ Share for every 2 MNZ Shares held.</p>
<b>Will new MNZ Shares issued under the MNZ Offer be quoted on ASX?</b>	<p>MNZ will apply to ASX for quotation of all MNZ Shares to be issued under the MNZ Offer.</p>

<b>What restrictions will apply to MNZ Shares issued under the MNZ Offer?</b>	<p>As a term of the MNZ Offer, every Grays Shareholder will be required to enter into an Escrow Deed under which they may not sell or transfer:</p>
	<ul style="list-style-type: none"> <li>• 100% of the MNZ Shares issued to that Grays Shareholder under the MNZ Offer until one week following the announcement by MNZ on ASX of its interim results for the half year ending 31 December 2014; and</li> <li>• the remaining 50% of the MNZ Shares issued to that Grays Shareholder under the MNZ Offer until one week following the announcement by MNZ on ASX of its full year results for the financial year ending 30 June 2015.</li> </ul>
	<p>See Section 12.5 for a summary of the terms of those escrow arrangements.</p>
<b>What is the implied value of the consideration MNZ is offering to acquire Grays under the MNZ Offer?</b>	<p>The implied value of the consideration that MNZ is offering to acquire Grays under the MNZ Offer depends on the value of the MNZ Shares issued under the MNZ Offer, and the total number of MNZ Shares (including Bonus MNZ Shares) that are ultimately issued under the MNZ Offer.</p>
	<p>For example, based on 73,244,952 MNZ Shares being issued on completion of the MNZ Offer and:</p>
	<ul style="list-style-type: none"> <li>• the closing price of MNZ Shares on ASX on 1 August 2014 (being the last trading day prior to announcement of the MNZ Offer) of \$1.46, the implied value of the consideration that MNZ is offering to acquire Grays under the MNZ Offer is approximately \$160 million (assuming the maximum number of Bonus MNZ Shares are issued); or</li> <li>• the closing price of MNZ Shares on ASX on 25 September 2014 (being the last practicable trading day prior to printing of this Prospectus) of \$1.375, the implied value of the consideration that MNZ is offering to acquire Grays under the MNZ Offer is approximately \$151 million (assuming the maximum number of Bonus MNZ Shares are issued).</li> </ul>
	<p>Note that Bonus MNZ Shares will not be issued until the date that is 12 months after the date of completion of the Transaction, and in order to receive Bonus MNZ Shares each Grays Shareholder must, on the date that is 12 months after the date of completion of the Transaction, hold at least 75% of the number of new MNZ Shares issued to them on completion of the Transaction.</p>
<b>When was the MNZ Offer made?</b>	<p>The MNZ Offer will be made on or about 10 October 2014 and will apply to those Grays Shares that are on issue as at 7.00pm (Sydney time) on 31 October 2014 (that time being after the Grays Capital Raising has completed).</p>

<b>What are the conditions to the MNZ Offer taking effect?</b>	<p>The MNZ Offer is subject to MNZ Shareholders approving the Transaction at the Meeting, and to the Merger Implementation Agreement not being terminated.</p> <p>See page 24 above and Section 12.2 for a summary of the key terms and conditions of the Merger Implementation Agreement.</p>
<b>What is the maximum number of MNZ Shares to be issued under the MNZ Offer?</b>	<p>Under the MNZ Offer, Grays Shareholders will receive, in total, approximately 73,244,952 new MNZ Shares on completion of the Transaction.</p> <p>In addition, if all Grays Shareholders are entitled to receive the maximum number of Bonus MNZ Shares, then up to a total of approximately 36,622,476 Bonus MNZ Shares will be issued to those Grays Shareholders under the MNZ Offer on the date that is 12 months after the date of completion of the Transaction.</p>
<b>When will the MNZ Shares be issued under the MNZ Offer?</b>	<p>If MNZ Shareholders resolutions to approve the Transaction at the Meeting, and the other conditions to the Transaction are satisfied or waived, the MNZ Offer is expected to complete, and the MNZ Shares are expected to be issued under the MNZ Offer, on 7 November 2014.</p> <p>Any Bonus MNZ Shares that are issued under the MNZ Offer will be issued on the date that is 12 months after the date of completion of the Transaction, which is expected to be 7 November 2015.</p>
<b>Does the Grays' Board support the MNZ Offer?</b>	<p>The Grays Board intends to unanimously recommend that Grays Shareholders accept the MNZ Offer in respect of all Grays Shares held or controlled by them, in the absence of a superior proposal and subject to an independent expert concluding that the MNZ Offer is in the best interests of Grays Shareholders.</p>
<b>Will Grays' key shareholders accept the MNZ Offer?</b>	<p>Grays' largest shareholder, Caledonia, who has an interest in 26.7% of all Grays Shares as at the date of this Prospectus, has confirmed that it intends to accept the MNZ Offer in respect of all of the Grays Shares controlled by it, in the absence of a superior proposal and subject to an independent expert concluding that the MNZ Offer is in the best interests of Grays Shareholders.</p> <p>The Grays Directors, who in aggregate hold or control 13.4% of all Grays Shares as at the date of this Prospectus, have each has confirmed that they intend to accept the MNZ Offer in respect of all of the Grays Shares held or controlled by them, in the absence of a superior proposal and subject to an independent expert concluding that the MNZ Offer is in the best interests of Grays Shareholders.</p> <p>If necessary, MNZ intends to rely on the benefit of provisions under the Grays' Shareholders Agreement, or compulsory acquisition powers available to it under the Corporations Act, under which, in certain circumstances, minority Grays Shareholders who do not accept the MNZ Offer can be compelled to transfer all of their Grays Shares to MNZ on the same terms as the MNZ Offer (or otherwise at fair value in accordance with section 664F of the Corporations Act where MNZ relies on compulsory acquisition</p>

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powers available to it under the Corporations Act).

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### Information about the Grays Capital Raising

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<b>What is the Grays Capital Raising?</b>	<p>The Grays Capital Raising is being made by Grays as a requirement under the Transaction, so that the Combined Group can be appropriately funded.</p> <p>Grays expects to raise a total of \$13.2 million in cash from the issue of 26,169 Grays Shares under the Grays Capital Raising.</p> <p>The Grays Capital Raising is underwritten by Caledonia, a privately owned Australian investment manager with a substantial existing interest in Grays. Caledonia will not charge a fee for providing this underwrite.</p> <p>The underwriting arrangement between Grays and Caledonia is subject to a cap, so that Caledonia and its associates hold less than 20% of the MNZ Shares on issue after completion of the MNZ Offer.</p> <p>The Grays Capital Raising does not involve MNZ or MNZ Shareholders.</p> <p>New Grays Shares that are issued under the Grays Capital Raising will then be eligible to participate in the MNZ Offer.</p>
<b>How does the Grays Capital Raising relate to the MNZ Offer?</b>	<p>The Grays Capital Raising is a component of the Transaction that will occur before the MNZ Offer is completed. It is separate to the MNZ Offer itself.</p> <p>The MNZ Offer will not complete, and the Transaction will not be implemented, unless the Grays Capital Raising raises not less than \$13.2 million in cash.</p>
<b>Will I be able to participate in the Grays Capital Raising?</b>	<p>No, MNZ Shareholders cannot participate in the Grays Capital Raising. That offer relates only to Grays Shares and is open to Grays Shareholders only. It does not involve MNZ or MNZ Shareholders.</p>
<b>What are the conditions to the Grays Capital Raising taking effect?</b>	<p>The Grays Capital Raising is conditional on the MNZ Shareholders resolutions to approve the Transaction at the Meeting, and to the Merger Implementation Agreement not being terminated.</p> <p>See page 24 above and Section 12.2 for a summary of the key terms and conditions of the Merger Implementation Agreement.</p>
<b>What will the proceeds of the Grays Capital Raising be used for?</b>	<p>It is intended that the proceeds of the Grays Capital Raising will be used to pay Transaction costs, repay, in-full, all debt under Grays' debt facilities with the Commonwealth Bank of Australia (other than the guarantee facility), with the remainder being available to fund working capital requirements of the Combined Group. See Section 8.9 for further details.</p>

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**Transaction timetable**


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<b>What is the indicative timetable for the Transaction?</b>	Date of the Notice of Meeting and Explanatory Statement	29 September 2014
	Results of Grays Capital Raising known	12.00pm on 30 October 2014
	Time and date of the Meeting	8.30am (Sydney time) on 31 October 2014
	Last date for Grays Shareholders to accept MNZ Offer	6 November 2014
	Completion of MNZ Offer	7 November 2014

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## 4. Transaction rationale

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**This Section sets out the MNZ Directors' recommendation and the strategic rationale for the Transaction. This Section also sets out significant risks and potential disadvantages associated with the Transaction and the Combined Group.**

### 4.1 Overview

The MNZ Directors and the Grays Directors believe that the Transaction is likely to be beneficial to MNZ Shareholders, for a number of reasons including because of the potential benefits that the Combined Group may offer. This Section 4 summarises the key potential benefits of the Transaction and the Combined Group, as well as significant risks and potential disadvantages associated with the Transaction and the Combined Group.

### 4.2 Benefits of the Transaction and the Combined Group

- (a) Creates a significant listed 'pure play' e-commerce retail group, bringing together recognised e-commerce brands in DealsDirect, TopBuy, GraysOnline and OO.com.au**

Following completion of the Transaction, the Combined Group is expected to be one of the largest 'pure play' e-commerce retail groups listed on the ASX by measure of market capitalisation. Further, the Combined Group will bring together Grays' and MNZ's recognised names in the Australian online consumer and auction and fixed price retail (B2C) market, with Grays' market leading name in the Australian online industrial auction (B2B) market.

The Combined Group will combine recognised e-commerce brands including DealsDirect, TopBuy, GraysOnline and OO.com.au, and will have a database of over 800,000 Active Customers<sup>1</sup>.





The MNZ Directors and the Grays Directors believe that this combination makes compelling strategic sense.

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<sup>1</sup> Based on simple aggregation ignoring any duplication. The actual number (net of any duplication) will be less.



Figure 2: Combined Group's key brands<sup>1</sup>

	Grays		MNZ	
				
<b>TRADING MECHANISM</b>	Online Auctioneer	Online Department Store (Fixed Price)	Online Department Store (Fixed Price)	Online Department Store (Fixed Price)
<b>VALUE PROPOSITION CUSTOMERS</b>	A leading online auctioneer and retailer in Australia & NZ. Offering over 80 categories in industrial, commercial and consumer goods	Online department store in Australia & NZ with over 30 categories offering extensive range of quality products from leading brands at exceptional prices	Online department store offering a range of over 15,000 quality products at heavily discounted prices across 20 categories	Online super store in providing customers with high quality and brand name products with key strengths in branded consumer electronics, fashion and general merchandise
<b>VALUE PROPOSITION VENDORS</b>	To be the most efficient channel between vendors and online buyers in both B2C and B2B markets	Tap into the growing and complementary online channel, for both local brands and international importers	Tap into the growing and complementary online channel, for both local brands and international importers	Tap into the growing and complementary online channel, for both local brands and international importers
<b>TAGLINE</b>	The smartest bargains are just a click away	The Joy of Shopping Online	Australia's online department store	TOP Brands! TOP Service! TOP Prices!
<b>BRAND ATTRIBUTES</b>	B2B & B2C   Trusted   Australian   Broad Range   Established   Distressed Stock   Auction & Fixed Price   Quality Brands   Physicality   Local Call Centre   Value	B2C   The Great Rebate   Best Deals   Strong returns policy   Hassle-free   Reliable   Easy & Fun   Australian   Quality brands   Brand New Stock	B2C   Brand New Stock   Trusted Australian Retailer   Full range offering   Quick and reliable fulfilment   Industry leading customer service	B2C   Value   Brand New Stock   Branded electronics   Flash sales   Fashion focus   Innovative retailer
<b>CUSTOMER PERSONAS WHO SHOPS?</b>	Male 35+ Age Group Educated High disposable income Consumers Businesses	Female Age group (29 – 45) Families Lower disposable income	Female Age group (35 – 55) Families Lower disposable income	Female and Male Age group (25 – 45) Higher disposable income

1. Source: Grays Management

### (b) Establishes a growth platform in the online market

The MNZ Directors and the Grays Directors believe that the Combined Group will be well positioned as a platform to grow, both organically by optimising the existing business and growing product categories and geographies, as well as in-organically through acquisitions that can expand the core business and extend it into adjacent segments.

The Combined Group will have pro forma net cash of greater than \$10 million as at 30 June 2014 (after allowing for Transaction costs and other events occurring before completion of the Transaction such as the Grays Capital Raising).

The Combined Group Directors intend to pursue a disciplined acquisition strategy underpinned by strong financial governance. Targeted future acquisitions may be funded from a combination of existing cash reserves, new debt facilities and/or the issue of equity (by offering listed shares in the Combined Group as consideration).

See Section 8.9 for further information on financing of the Combined Group.

### (c) Enhanced scale, listed status and improved financial position of the Combined Group give the Combined Group potential to be an aggregator in the consolidating B2B and B2C online markets

The Australian B2B and B2C online markets are highly fragmented, due to many small businesses operating within various segments in those markets, and a lack of businesses that dominate sales across a variety of segments within those markets. However, consolidation and mergers and acquisitions activity within the Australian B2B and B2C online markets has seen Shoply, iBuy, DealsDirect, Grays, APN and Woolworths all acquire adjoining operations in the past 24 months.

The MNZ Directors and the Grays Directors expect that such consolidation and mergers and acquisitions activity will continue, and will be primarily driven by the importance of scale in an increasingly competitive online market.

The Combined Group is expected by the MNZ Directors and the Grays Directors to be well positioned to be an aggregator in the consolidating Australian B2B and B2C online markets due to the enhanced scale, listed status and improved financial position achieved under the Transaction.

The Combined Group's businesses had aggregated Invoiced Sales of \$495 million in the 2014 financial year (aggregated net operating revenue of \$122.4 million in the 2014 financial year). The Combined Group is expected to be better positioned to fund future growth opportunities in the Australian B2B and B2C online market (by offering listed shares in the Combined Group as consideration), and its listed status is expected to and enhance the Combined Group's ability to raise additional equity capital.































In addition, the greater scale of the Combined Group may potentially result in a greater number of research analysts taking-up coverage on the Combined Group, which in-turn may better enhance its ability to raise additional equity capital.

**(d) Enhanced product category coverage associated with combining a portfolio of complementary and recognised brands, and provides opportunity to better exploit combined customer bases**

By combining a recognised portfolio of complementary brands, including DealsDirect, TopBuy, GraysOnline and OO.com.au, the Combined Group's product offering will be enhanced, leading to greater coverage of product categories across the Australian online consumer auction and fixed price retail (B2C) markets.

Further, Grays's market leading position within the Australian online industrial auction (B2B) market provides potential diversification benefits for the Combined Group's operations.

**Figure 3: Combined Group's top product categories by websites/brands<sup>1</sup>**

GRAYS ECOMMERCE GROUP				
Top product categories	Auction	Fixed Price	Websites / brands	
B2C / Consumer	Wine	✓	✓	  
	Computers & IT	✓	✓	   
	Appliances and whitegoods	✓	✓	   
	Audio, TV & home theatre	✓	✓	   
	Fine jewellery	✓	✓	  
	Bedding & Manchester	✓	✓	  
	Home Furniture	✓	✓	  
B2B / Industrial	Motor vehicles	✓	—	
	Agriculture	✓	—	
	Mining and mining services	✓	—	
	Manufacturing & production	✓	—	
	Transport, trucks and trailers	✓	—	
	Earth moving and mobile plant	✓	—	

1. Source: Grays Management

See Sections 7 and 8 for further information on the market position and product offering of Grays and the Combined Group across the Australian online consumer auction and fixed price retail (B2C) markets, as well as the Australian online industrial auction (B2B) market.

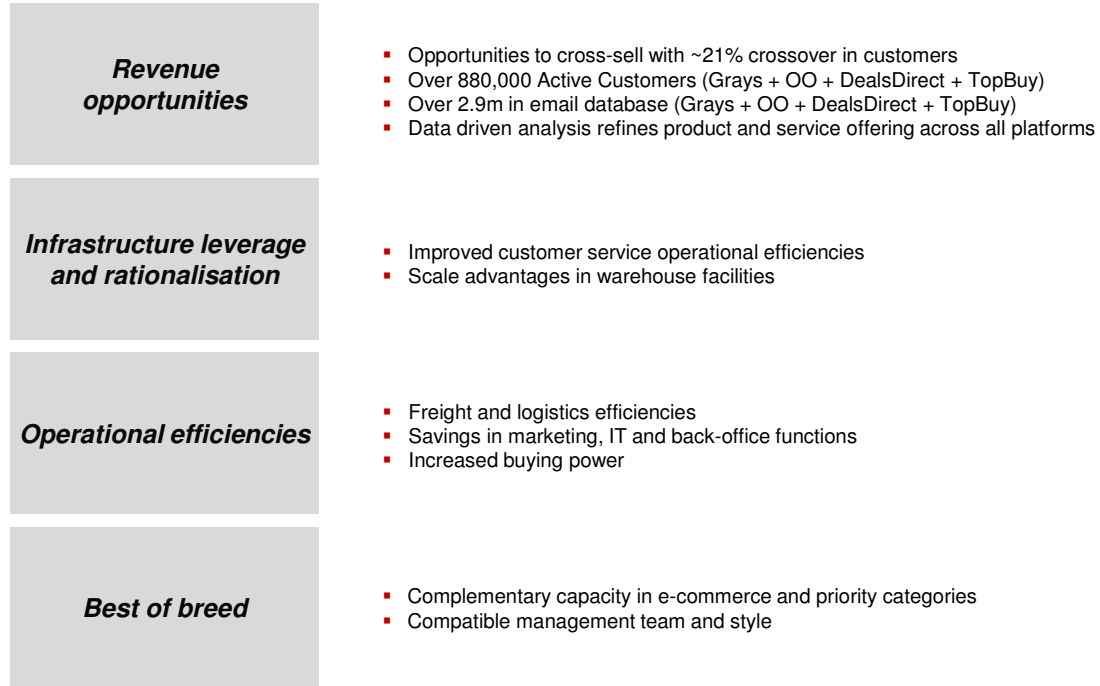
In addition, the customer bases of Grays and MNZ are considered by the MNZ Directors and the Grays Directors to be complementary in nature and are likely to have limited overlap due to the fact that the typical demographics of GraysOnline customers are different to the typical demographics of OO.com.au,

DealsDirect and TopBuy customers (see Figure 2 in Section 4.2(a)). Accordingly, the Combined Group is expected to be in a better position to exploit cross-selling opportunities through the combination of the Grays and MNZ customer databases of over 800,000 Active Customers<sup>2</sup>, which creates potential to in-turn lift sales.

**(e) Potential to realise cost and revenue synergies over time**

The Transaction has the potential to generate cost and revenue synergies to be realised over the medium to long-term associated with the below opportunities.

**Figure 4: Cost and revenue synergy opportunities for the Combined Group<sup>1</sup>**



1. Source: Grays Management

Grays and MNZ management have not discussed in detail the analysis of potential synergies, and based on the limited due diligence information provided to date, it has not been possible to accurately quantify potential synergies or develop a detailed integration plan to achieve cost and revenue synergies. Accordingly, it is considered that it would be misleading to attempt to quantify the potential value of these synergies at this stage.

**(f) Potential to benefit from economies of scale across a range of supply-chain and back-office infrastructure**

Further opportunities exist to leverage and rationalise the supply-chain and back-office infrastructure of each business and realise efficiency gains associated with the increased scale of the Combined Group.

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<sup>2</sup> Based on simple aggregation ignoring any duplication. The actual number (net of any duplication) will be less.

**Figure 5: Economy of scale opportunities for the Combined Group<sup>1</sup>**

<u>Function</u>	<u>Benefits of Scale</u>
▪ Supply Chain	Freight synergies from critical mass/optimum processes
▪ Warehousing	Efficiencies gained through increased scale
▪ IT and Website Management	Remove duplication of services – reduce use of multiple platforms that require separate management
▪ Corporate Functions	Combined infrastructure (finance, admin, HR, customer service)
▪ Marketing Spend	Single marketing function to support multiple sites and improved media buying

**← Significant network effects creating economies of scale →**

1. Source: Grays Management

The Combined Group will possess warehousing and fulfilment capabilities, operating approximately 75,000 square metres of distribution centres, including facilities at Homebush and Ingleburn in Sydney, and satellite distribution centres in other states for effective distribution of bulky goods.

**Figure 6: Grays distribution centre – Homebush**

**(g) Skilled and experienced Board and management team**

The Board and senior management of the Combined Group will bring relevant skills and experience, including deep industry and business knowledge, financial management and corporate governance experience. See Sections 8.10 and 8.12 for further information on the proposed Board and management team of the Combined Group.

**4.3 Significant risks and potential disadvantages**

The Transaction, and an investment in the Combined Group, have possible risks and disadvantages for MNZ Shareholders. The most significant risks and potential disadvantages are summarised below.

**The MNZ Directors believe that the potential advantages of the Transaction outweigh the risks and potential disadvantages of the Transaction, and unanimously recommend that MNZ Shareholders who are not excluded from voting, vote in favour of all Resolutions at the Meeting.**

**(a) Significant risks associated with the Transaction and the Combined Group**

There will be risks inherent in an investment in the Combined Group. Section 10 outlines the key, but not all, risks associated with an investment in the Combined Group and the value of its shares and other risks that MNZ Shareholders should be aware of. Section 10 also outlines significant risks associated with the Transaction.

Some of the most significant risks that may materially affect the financial performance of the Combined Group include:

- **New acquisitions:** Any acquisition of companies or businesses by the Combined Group in line with its intended growth strategy may not be economically successful.
- **Online retail environment may deteriorate:** The Australian online retail industry in which the Combined Group will operate is currently experiencing challenging conditions due to volatility in consumer sentiment and retail demand.
- **Growth of internet penetration and online migration may decline:** There can be no guarantee that the rate of penetration and migration will continue in the future which may have an adverse effect on the expected growth of the Combined Group.

Please note that, as an MNZ Shareholder, you already have exposure to some of these significant risks in relation to the MNZ business.

Some of the most significant risks that may materially affect the successful implementation of the Transaction include:

- **Risk of MNZ not achieving 100% ownership of Grays:** If MNZ is unable to rely on the benefit of provisions under the Grays' Shareholders Agreement to effect the compulsory transfer to it of all Grays Shares that are not accepted into the MNZ Offer, there is a risk that MNZ may not acquire any of the Grays Shares.
- **Integration risks:** It is possible that the integration of MNZ and Grays as a single business will be more difficult or take more time than currently anticipated, and could delay the realisation of any synergy benefits that may result from the Transaction.
- **Significant retained holding by Grays Shareholders:** The absence of any sale of escrowed MNZ Shares held by Grays Shareholders during their escrowed period may cause, or at least contribute to, limited liquidity in the market for MNZ Shares after completion of the Transaction.

**(b) Potential disadvantages associated with the Transaction**

The Transaction has possible disadvantages for MNZ Shareholders. The most significant disadvantages include the following:

- **MNZ Shareholders will have smaller percentage voting interests in the Combined Group than their current percentage voting interests in MNZ**

If implemented, the Transaction will result in MNZ Shareholders having smaller percentage voting interests in the Combined Group than their current percentage voting interests in MNZ.

After completion of the Transaction, the existing MNZ Shareholders (who, as at the date of this Prospectus in aggregate own 100% of the MNZ Shares) will own approximately 22.1% of the fully diluted issued share capital of MNZ prior to the issue of the Bonus MNZ Shares, and as low as 15.9% of the fully diluted issued share capital of MNZ following the issue of the Bonus MNZ Shares (assuming that the maximum number of Bonus MNZ Shares are issued).

- **MNZ Shareholders' reduced ownership in the Combined Group will give them less influence over MNZ in the future**

The MNZ Shareholders' reduced ownership in the Combined Group will give MNZ Shareholders, collectively, less influence over the future direction of MNZ (which will be part of the Combined Group).

However, it is important to note that the Grays Shareholders will not hold their new MNZ Shares as a collective. Grays is not aware of any existing agreement, arrangement or understanding between the Grays Shareholders in respect of any matters relating to MNZ, including their MNZ Shares upon or following their issue, or of any expectation that such an agreement, arrangement or understanding will exist in the future.

- **Transaction Expenses**

The MNZ Directors estimate that the expenses of the Transaction payable by MNZ will be approximately \$300,000 (excluding GST). Those expenses incurred by MNZ to date must be paid by MNZ regardless of whether the Transaction proceeds to completion.

- **Integration costs**

Integration of the MNZ and Grays businesses after completion of the Transaction will give rise to costs, including costs that will be incurred in order for the Combined Group to realise the potential cost and revenue synergies described in Section 4.2(e) and the potential economy of scale opportunities described in Section 4.2(f).

However, Grays and MNZ management have not discussed in detail the draft integration plan for the Combined Group, and based on the limited due diligence information provided to date, it has not been possible to accurately quantify costs associated with such integration. Accordingly, it is considered that it would be misleading to attempt to quantify the potential integration costs at this stage.

See Section 8.5 for further details on the integration plan for the Combined Group.

## 5. Industry Overview

This section sets out information about the industry in which MNZ and Grays operate, and in which the Combined Group will operate.

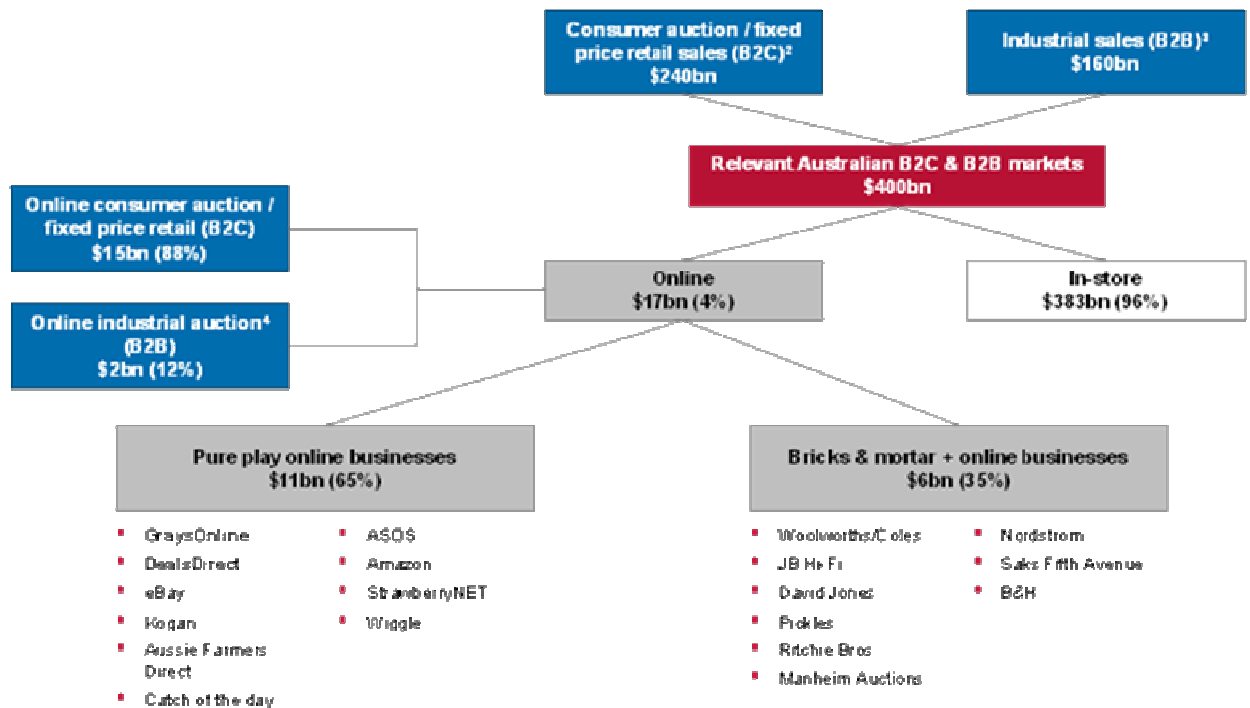
### 5.1 Market overview

#### (a) Australian online market

The Combined Group will operate in the Australian online market, which is a sub-market of the broader Australian consumer auction and fixed price retail (B2C) and industrial auction (B2B) markets.

The Australian online market is comprised of two main segments, the online consumer auction and fixed price retail (B2C) market segment and the online industrial auction (B2B) market segment, and is serviced by a variety of business models, as described in Figure 7 below.

Figure 7: Australian market overview<sup>1</sup>



1. Source: Grays management estimates

2. Excludes café, restaurants and travel

3. The B2B market is difficult to define due to its highly fragmented nature. Market size estimates shown have been derived by Grays management and represent estimated annual sales for FY14 across the major product categories in which Grays competes (including construction, mining, transport and agricultural equipment and machinery and automotive)

4. Grays management estimate that total annual online and offline industrial auction sales across the major product categories in which Grays competes were in the order of \$7bn in FY14

#### (b) Combined Group's operations in the Australian online market

It is difficult to describe how Grays' operations sit within the broader Australian online market, as Grays' business has a unique offering across a number of different segments, a number of different product categories and offering both new and used products. Further, Grays offers both auction and fixed price sales formats within those market segments.

In simple terms, it can be said that Grays operates in the online industrial auction (B2B) market segment and that it also operates across the Australian online consumer auction and fixed price retail (B2C) market segment, both in the online fixed price retail and online consumer auction portions of that market segment. Further, Grays also operates in both these market segments in the New Zealand online market.

MNZ currently operates in the Australian online consumer auction and fixed price retail (B2C) market segment, but only as a fixed price retailer. MNZ does not operate in the online consumer auction portion of that market segment. Nor does MNZ operate in the online industrial auction (B2B) market segment.

Based on the above, the Combined Group will operate in two segments of the Australian online market, namely the online consumer auction and fixed price retail (B2C) market segment and the online industrial auction (B2B) market segment. Features of those two market segments are outlined in Figure 8 below.

**Figure 8: Features of the online consumer auction and fixed price retail (B2C) and the online industrial auction (B2B) market segments<sup>1</sup>**

	Description	Breadth of Range	Example Products	Main End User
<b>Consumer auction and fixed price retail (B2C) market</b>	<ul style="list-style-type: none"> <li>Broad category of mass market merchandise or other item of common or regular use, ordinarily bought by individuals or households for private consumption</li> </ul>	Extremely wide range of products	<ul style="list-style-type: none"> <li>Sporting goods</li> <li>Apparel</li> <li>Jewellery</li> <li>Toys</li> <li>Furniture</li> <li>Food</li> </ul>	Consumers ('B2C')
<b>Industrial auction (B2B) market</b>	<ul style="list-style-type: none"> <li>Products purchased for use in the production of other goods or services, in the operation of a business, or for resale to other consumers</li> </ul>	Smaller range of products, however more specialist	<ul style="list-style-type: none"> <li>Tools</li> <li>Vehicles</li> <li>Machinery</li> <li>Drilling Rigs</li> <li>Excavators</li> <li>Forklifts</li> </ul>	Businesses ('B2B')

1. Source: Grays management

### (c) Size of the Australian online market

The Australian consumer auction and fixed price retail (B2C) market segment and the industrial auction (B2B) market segment, both online and offline, are estimated by Grays management to generate over \$400 billion in gross sales in the 2014 financial year. The online consumer auction and fixed price retail (B2C) market segment and the online industrial auction (B2B) market segment in which the Combined Group will operate are estimated by Grays management to generate approximately 4% of the total, or \$17 billion in gross sales in the 2014 financial year. Grays management attribute the remaining \$383 billion in gross sales to in-store (or 'bricks and mortar') sales.

Grays management estimate that Grays (through graysonline.com and OO.com.au) has a 2.1% market share of the total Australian online market based on gross sales by dollar value in the 2014 financial year, and Grays management estimate that MNZ (through DealsDirect and TopBuy), has a 0.4% market share of the total Australian online market based on gross sales by dollar value in the 2014 financial year.

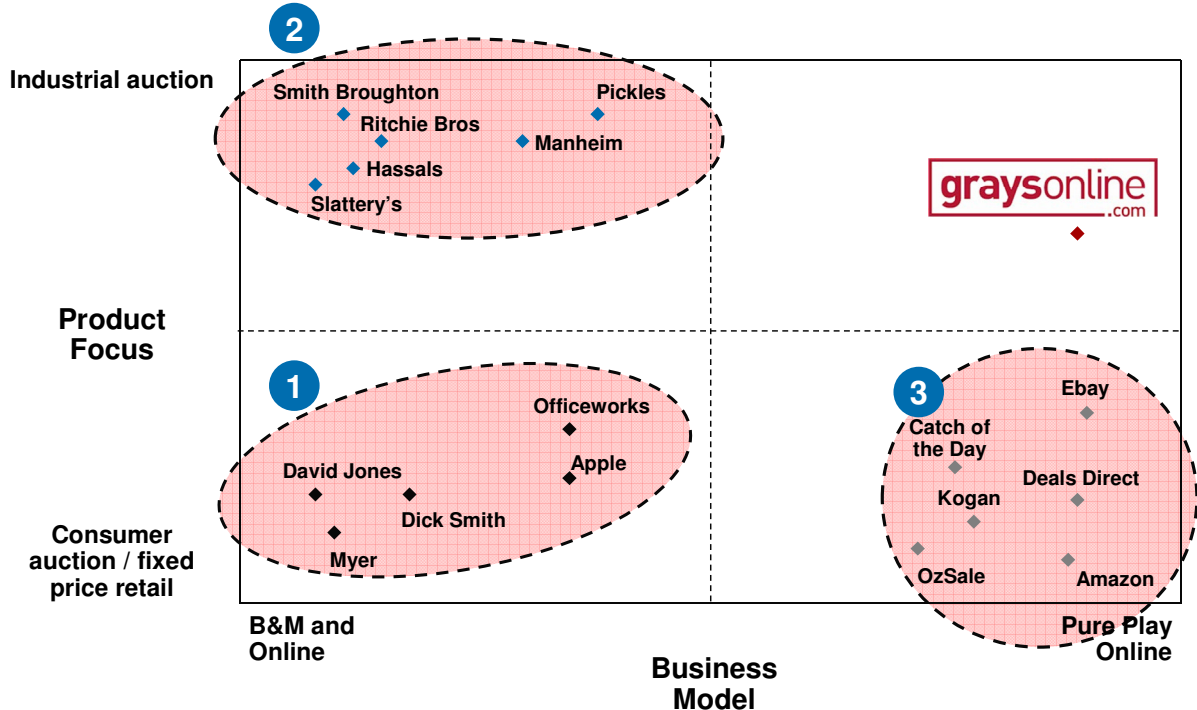
## 5.2 Competitive landscape

Within the Australian online market, Grays and MNZ compete against a broad range of domestic and international 'pure play' online retailers, as well as traditional 'bricks and mortar' retailers which have developed an online presence.



However, Grays has quite a unique position within the Australian online market being one of the only major ‘pure play’ online businesses with a focus on the Australian online industrial auction (B2B) market segment.

**Figure 9: Australian online market  
Competitor breakdown model by business and product focus<sup>1</sup>**



1. Source: Grays management

- 1 Mixed Bricks and Mortar/Online – Consumer auction and fixed price retail (B2C)**

Largely ‘bricks and mortar’ with limited to medium online capabilities. These companies have a strong focus on fixed price and growth of online sales.
- 2 Mixed Bricks and Mortar/Online – Industrial auction (B2B)**

Larger players which specialise in both auto and industrial equipment sales. Sales are mainly auction based, however, some do have fixed price. Online sales typically represent about 20% to 30% of total sales.
- 3 Pure Online Players**

Pure online with no retail footprint. Have a strong focus on consumer product categories and generally a fixed price focus with the exception of e-Bay which does both fixed price and auction.

Operating models vary among business operating in the Australian online market, with primary differences relating to pricing and revenue/inventory risk.

**Figure 10: Key differences in operating models of Australian online businesses<sup>1</sup>**

Model Characteristics	Different Types
Pricing	Auction, Fixed Price (Fixed Price varies from full recommended retail to 'flash discount' or last minute inventory clearance)
Sales cycle	Short Cycle or Long Cycle (seasonal)
Physical inventory	Consignment, sourced and owned or a service providing the introduction of a buyer and seller (drop-shipped)
Consumer intent	Pull (consumer 'needs' a certain product), Push (impulse, discount)
Consumer engagement	Habitual or sporadic

1. Source: Grays management

### 5.3 Industry drivers and trends

#### (a) Macro-economic trends

Businesses operating in the Australian online market are impacted by the health of the broader Australian economy and the retail sector in general. Increased consumer sentiment and levels of real household discretionary income have a positive influence on sales within the consumer auction and fixed price retail (B2C) market segment in particular. Those same impacts are felt by in-store (or 'bricks and mortar') operators in the Australian consumer auction and fixed price retail (B2C) market segment.

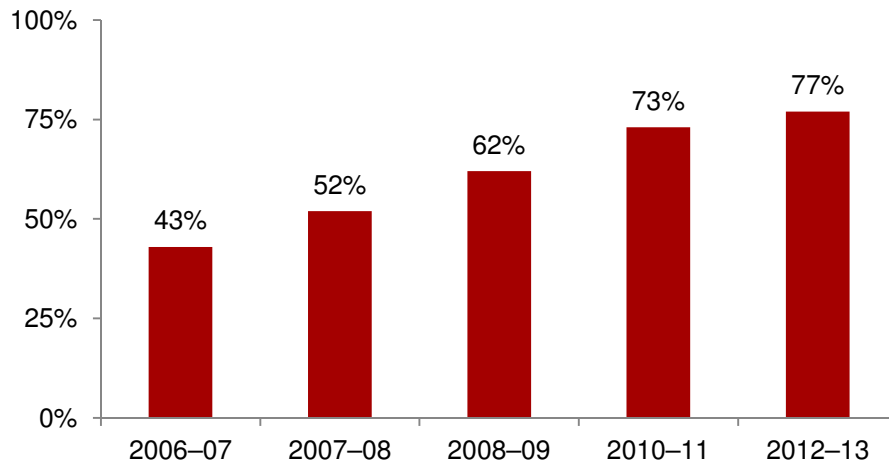
The Australian online industrial auction (B2B) market segment generally outperforms the consumer auction and fixed price retail (B2C) market segment in periods of economic downturn, as businesses with physical inventory and assets are forced to de-stock. Key supply industries to the Australian online industrial auction (B2B) market segment are the Australian automotive, mining, construction and agriculture industries.

The ongoing transition of the Australian economy from a manufacturing base to a service industry base provides ongoing opportunities in the online industrial (B2B) market segment. For instance, Grays management expect that closures at major automotive manufacturers through to 2017 will generate product supply and sales in the online industrial (B2B) market segment. Recent difficulties experienced by some Australian miners and mining contractors have already generated similar opportunities in the online industrial (B2B) market segment.

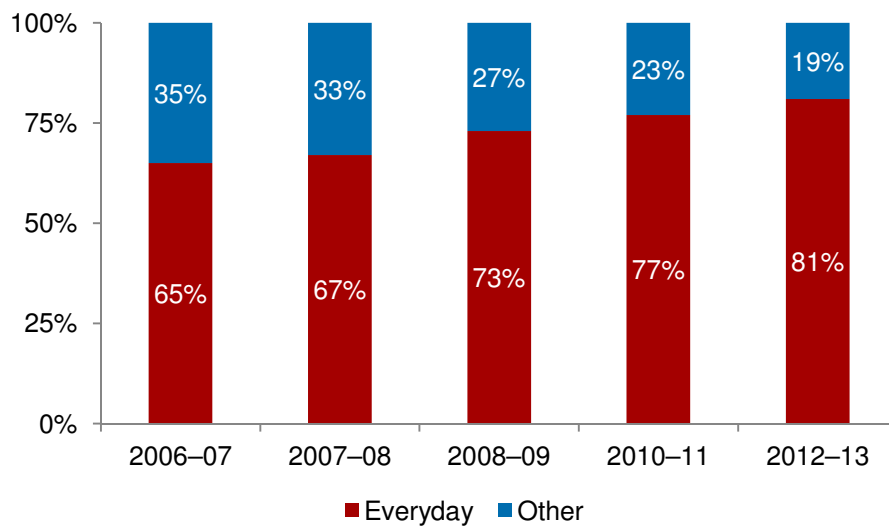
Currency movements and changes in taxation policies (particularly in relation to GST) also influence the competitiveness and profitability of Australian-based participants in the Australian online market, particularly in the consumer auction and fixed price retail (B2C) market segment.

#### (b) Technology trends

Australia's internet penetration generally, and in particular penetration of high-speed and broadband internet services, has grown (See Figures 11 and 12 below), facilitating increased access to the Australian online market for a number of consumers, particularly in regional areas where the online experience can often be sub-optimal. The development of Australia's National Broadband Network has the potential to accelerate and increase this penetration.

**Figure 11: Australian households with broadband internet access<sup>1</sup>**

1. Source: Australian Bureau of Statistics data.

**Figure 12: Australian households frequency of internet access<sup>1</sup>**

1. Source: Australian Bureau of Statistics data.

The Australian online market is experiencing rapid growth in mobile commerce ('m-commerce'). The adoption of smartphones and tablets, and increasing comfort with m-commerce transactions, is expected by the MNZ Directors and the Grays Directors to accelerate. This is expected by the MNZ Directors and the Grays Directors to increase access to the Australian online market for consumers and businesses in the future.

A threat to existing participants in the Australian online market is the ability for wholesalers and manufacturers to bypass 'pure play' websites and access customers directly. Developments in online shopping and improvements in logistics are expected to be a major contribution to this trend. Size, scale, own-brands, unique products and providing wholesalers and manufacturers with a value-added service are ways that participants in the Australian online market are attempting to mitigate this threat.

### (c) Consumer trends

Consumers are becoming more savvy and educated in their purchasing process and are spending much more time researching products and prices. Consumers' confidence in online shopping is constantly increasing as the range of products offered online and transparency of prices also increases.

#### **(d) Consolidation and merger and acquisition activity**

The Australian online market is evolving into a more mature phase. This has led to consolidation as companies seek to benefit from network effects and operational economies of scale. Shoply, iBuy, DealsDirect, Grays, APN and Woolworths have all acquired adjoining operations in the past 24 months.

#### **5.4 Industry outlook**

With the increase in the number of households having access to internet connections (see section 5.3), particularly in regional areas, consumers are better able to transact online. Further, the increased frequency of internet access by households indicate consumer confidence and familiarity with the online platform, creating an opportunity for online retailers to increase sales.

The benefits offered to Australian consumers by operators in the Australian online market include convenience, a broader more diverse range of goods, functionality and attractive pricing. Globally and domestically these themes have been pivotal in increased usage, penetration and acceptance of the internet by consumers. The development of Australia's National Broadband Network is expected to further improve Australians' e-commerce experience.

#### **5.5 Regulatory framework applicable to the Australian online market**

A number of aspects of the Australian online market are subject to government oversight, compliance with statutory provisions and licensing requirements, as summarised below.

##### **(a) Consumer controls**

Business who sell goods to Australian consumers online are subject to the requirements of the *Competition and Consumer Act 2010* (Cth) (**Act**) and Australian Competition & Consumer Commission oversight. The Act regulates anti-competitive behaviour, misleading and deceptive conduct and price fixing. In addition, the Australian Consumer Law regulates unfair contract terms, guarantees consumer rights when buying goods and services and applies product safety standards. Breaches of the Act or the Australian Consumer Law may result in infringement notices, enforceable undertakings or more formal legal action in the courts.

##### **(b) Privacy**

Businesses operating in the Australian online market are required to comply with the privacy regime as outlined in the *Privacy Act 1988* (Cth) and the Australian Privacy Principles (**APP**). The APP prescribe responsibilities for maintaining personal information privacy, including around collection, use, disclosure and access to data, as well as the publication of an up-to-date privacy policy. A breach of those requirements may result in investigations, enforceable undertakings, injunctions, or civil penalty orders.

##### **(c) Regulation of electronic communications**

Businesses operating in the Australian online market use telecommunication services to publish and distribute electronic marketing material. Such operations are subject to the *Spam Act 2003* (Cth) (**Act**) and the Australian eMarketing Code of Practice (**Code**), which the Australian Communications and Media Authority can enforce through court action. Breaches of the Act or the Code may result in civil or criminal action in the courts.

##### **(d) Product-specific regulation**

Businesses operating in the Australian online market are subject to industry specific laws and/or licensing regimes that relate to categories of products sold. For example, online liquor sales and online dealing in motor vehicles are each subject to legislation and licensing requirements in all Australian states and territories. Laws and licensing regimes of this nature are not limited to liquor and motor vehicle sales – additional licences and permits may be required to store, import and distribute a number of other products.

**(e) Regulation of online auctions**

Businesses operating in the Australian online market who sell products under an auction sale model are subject to legislation and licensing requirements in various Australian states and territories.

## 6. Information about MNZ

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This section provides information on MNZ.

### 6.1 Overview

#### (a) Summary of MNZ's key business components

MNZ acquired DealsDirect Group Pty Limited and its subsidiary DealsDirect Pty Limited (collectively, **DealsDirect**) via a reverse acquisition on 17 January 2014. The transaction was a strategic opportunity to create a listed e-commerce entity with a mandate to consolidate e-commerce assets, which are capable of leveraging DealsDirect's scale and operating capability.

Following the acquisition of DealsDirect, MNZ has operated an online retail business, offering products in a range of household product categories, including home furnishings, appliances, furniture and toys. The scope of this business was further expanded with MNZ's acquisition of TopBuy in April 2014.

Notwithstanding the acquisition of TopBuy, the DealsDirect business forms a substantial component of MNZ's operations.

As a wholly-owned subsidiary of MNZ, DealsDirect is a leading Australian pure play online retailer. The DealsDirect business operates from a warehouse and office facility in Ingleburn, New South Wales, and does not operate any retail shops or store fronts. DealsDirect's sales are entirely attributable to Australian based online consumers. DealsDirect operates from the website [www.dealsdirect.com.au](http://www.dealsdirect.com.au) and offers consumers over 10,000 individual items in a range of household product categories.

#### (b) DealsDirect – history and business operations

DealsDirect was founded in 2004 by Paul Greenberg and Michael Rosenbaum. The DealsDirect business expanded through a number of premises, eventually relocating to its existing premises in Ingleburn in 2008.

In 2010, DealsDirect embarked on an expansion strategy that included the launch of group buying site DealMe. In 2011, Ellerston Capital Limited, as principal and in its capacity as nominee and responsible entity for various Ellerston funds, acquired a stake in DealsDirect. The focus on growth led to the launch of a number of adjacencies, including [www.supermarket.deals.com.au](http://www.supermarket.deals.com.au), and the acquisition of ShoppersAdvantage, a white label e-commerce provider.

The expanded business activities of DealsDirect contributed to a significant increase in overheads and a lack of operating efficiencies. Accordingly, since late 2012, DealsDirect's business has been significantly restructured, with a consequent re-focus upon the core offer on [www.dealsdirect.com.au](http://www.dealsdirect.com.au). In conjunction with the restructure of DealsDirect's operations, new investors were introduced to DealsDirect's share register, including CVC Limited, CVC Private Equity Limited and Sun Hung Kai Strategic Capital Limited, and day-to-day management of DealsDirect's business was returned to co-founder Michael Rosenbaum. The restructure, which has resulted in DealsDirect operating under the one brand, [www.dealsdirect.com.au](http://www.dealsdirect.com.au), has recently been completed internally and is in the process of being finalised from a legal perspective.

The majority of the inventory sold on the website [www.dealsdirect.com.au](http://www.dealsdirect.com.au) is owned by DealsDirect and is shipped to consumers from the DealsDirect's facility in Ingleburn. Approximately 25% of products sold are supplied on consignment, via drop shipping partnerships or through similar models that do not require DealsDirect to own or hold the inventory on MNZ's balance sheet. DealsDirect has a specialist buying and merchandise team that sources products from wholesalers, manufacturers and importers.

Approximately 75% of orders received are despatched to customers within 24 hours from being ordered with fulfilment provided by a range of couriers that optimise delivery efficiency.

In the view of the MNZ Directors and the Grays Directors, DealsDirect has been widely regarded as a leader in the online department store category, as has been demonstrated by Canstar recognising DealsDirect with the only 5 star rating amongst online department stores.


### (c) TopBuy – history and business operations

TopBuy is an online retailer founded in 2007 by Peter Xie and Michael Xie, with key strengths in branded consumer electronics, fashion and general merchandise. TopBuy has robust sourcing infrastructure in China and Hong Kong, enabling direct fulfilment to consumers in Australia and has a database of over 200,000 active customers.

Peter Xie and Michael Xie have extensive experience in online retail and product sourcing in China. Following MNZ's acquisition of TopBuy, Peter Xie and Michael Xie have continued in key roles within the senior management of TopBuy.

The acquisition of TopBuy has strengthened MNZ's online retail presence by virtue of contributing to an enlarged, combined, active customer base; and the cross-promotional opportunities attendant upon such an acquisition. Further, the acquisition has delivered synergies as a consequence of the centralised distribution centre in Ingleburn, combined freight savings, staffing synergies and direct to customer shipping capabilities from Asia.

## 6.2 Current MNZ Director profiles

	Director	Expertise, experience and qualifications
	<p><b>Naseema Sparks</b> Independent Non-Executive Chairman Age: 61</p>	<p>Ms Sparks is the Non-Executive Chairman of MNZ.</p> <p>Ms Sparks is deputy Chairman of Racing NSW, non-executive director of Melbourne IT, AIG Australia and PMP.</p> <p>Ms Sparks was previously the managing director of M&amp;C Saatchi and has extensive experience in traditional and digital marketing.</p> <p>Ms Sparks holds an MBA from the Melbourne Business School and is a fellow of the Australian Institute of Company Directors.</p>
	<p><b>David Leslie</b> Non-Executive Director Age: 41</p>	<p>Mr Leslie is a non-executive director of MNZ.</p> <p>Mr Leslie is an Investment Manager at Ellerston Capital Limited, having joined the firm in 2005. Mr Leslie has extensive experience in the technology, gaming and consumer sectors with investment responsibility for public and private investments.</p> <p>In his previous role as Director of Australian Equities Research at Deutsche Bank, Mr Leslie was a research analyst, whose areas of speciality included the gaming and technology sectors. Mr Leslie is also an alternate director of Temando Pty Ltd and Intrepica Pty Ltd.</p>

Director	Expertise, experience and qualifications
<p><b>Elliott Kaplan</b> Independent Non-Executive Director Age: 64</p>	<p>Mr Leslie has a degree in Economics and Finance from the Royal Melbourne Institute of Technology.</p> <p>Mr Kaplan is a non-executive director of MNZ.</p> <p>Mr Kaplan is a Chartered Accountant with extensive experience in senior financial and chief executive officer roles in both private and public listed companies.</p> <p>Mr Kaplan's experience, from both an investor and investee perspective, spans a diverse range of industries including manufacturing, environmental, distribution and services.</p> <p>Mr Kaplan is the Managing Director of CVC Private Equity Ltd, a non-executive director of Cellnet Limited, the chairman and non-executive director of Pro-Pac Packaging Limited and a director of a number of unlisted companies. Mr Kaplan is also a former director of Dolomatrix Limited and the Environmental Group Limited.</p> <p>Mr Kaplan is a Chartered Accountant and holds a Bachelor of Accounting.</p>

### 6.3 Current MNZ senior management profiles

	Executive	Expertise, experience and qualifications
	<p><b>Michael Rosenbaum</b> Chief Executive Officer Age: 33</p>	<p>Mr Rosenbaum co-founded DealsDirect in 2004.</p> <p>Mr Rosenbaum's first foray into online retail was in 2000 when he helped establish one of the first online stores on the eBay network, AuctionBroker Pty Ltd. This business went on to become one of the leading online stores on eBay Australia.</p> <p>Together with co-founder Paul Greenberg, Mr Rosenbaum founded DealsDirect in 2004 as a standalone online retail destination.</p>
	<p><b>Mark Tayler</b> Chief Financial Officer Age: 33</p>	<p>Mr Tayler is the Chief Financial Officer of MNZ.</p> <p>Mr Tayler has experience in a range of industries including retail, wholesale and services and has held senior roles with Fujitsu Australia and BRP Australia.</p> <p>Mr Tayler is a Certified Practising Accountant, with a Bachelor of Commerce (Accounting) from the University of Western Sydney.</p>



## 6.4 Interests and benefits of MNZ Directors and senior management

This Section 6.4 sets out the nature and extent of the interests and fees of certain persons involved in the Transaction.

Other than as set out below or elsewhere in this Prospectus no director, proposed director or senior manager of MNZ holds at the date of this Prospectus an interest in or material to the Transaction.

### (a) MNZ Directors and senior management interests

As at the date of this Prospectus, the number of MNZ Shares owned or controlled by the MNZ Directors and the MNZ senior management listed in Section 6.3 are as follows:

	No. of MNZ Shares	% of all MNZ Shares on issue
Naseema Sparks (Chairman)	4,604	Less than 0.1%
David Leslie	Nil	Nil
Elliott Kaplan	Nil	Nil
Michael Rosenbaum	698,602	3.62%
Mark Tayler	Nil	Nil

### (b) Fees or benefits given or agreed to be given in connection with the Transaction

No fees or benefits have been given or agreed to be given to either Naseema Sparks, Elliot Kaplan, Michael Rosenbaum or Mark Tayler in connection with the Transaction.

On 24 July 2014, MNZ entered into an agreement with Zolude Investments Pty Ltd (**Zolude**). Under the terms of the agreement, Zolude has been engaged to perform corporate advisory services for MNZ in connection with the Transaction.

No MNZ Director nor any member of MNZ's senior management has any beneficial interest in any of the shares in Zolude. However, David Leslie has agreed to perform work for and on behalf of Zolude in connection with the Transaction. Subject to completion of the Transaction, MNZ has agreed to pay Zolude \$120,000 (exclusive of GST) for its services. Pursuant to an arrangement between Zolude and David Leslie, Zolude has agreed to pay David Leslie \$60,000 in consideration for services rendered in connection with the Transaction, on completion of the Transaction and subject to completion occurring.

No other fees or benefits have been given or agreed to be given to David Leslie in connection with the Transaction.

## 6.5 MNZ capital structure and ownership

### (a) Shares and options on issue

As at the date of this Prospectus, there were a total of 19,287,806 MNZ Shares on issue held by 2,949 MNZ Shareholders.

As at the date of this Prospectus, the top 20 MNZ Shareholders held approximately 64.10% of all issued MNZ Shares. As at the date of this Prospectus, there were also a total of 833,333 MNZ Options on issue.

Apart from MNZ Shares and MNZ Options, MNZ does not have any other type of securities on issue.

**(b) Future consideration in respect of TopBuy acquisition**

In accordance with the terms of the share sale agreement relating to MNZ's acquisition of TopBuy Australia Pty Ltd, further MNZ Shares will be issued, and a cash payment will be made, to the vendors as follows:

- on 7 May 2015, being the first anniversary date of the TopBuy acquisition:
  - a cash payment of \$81,250 will be made by MNZ to the vendors; and
  - 316,864 MNZ Shares will be issued to the vendors; and
- on 7 May 2016, being the second anniversary date of the TopBuy acquisition, 316,864 MNZ Shares will be issued to the vendors.

**(c) Substantial holders**

As at the date of this Prospectus, MNZ's substantial holders (excluding nominee holders) were as follows:

Name	Number of MNZ Shares held	% of all MNZ Shares on issue
CVC Limited	2,086,352	10.82%
HSBC Custody Nominees (Australia) Limited-GSI EDA	1,999,045	10.25%
CVC Private Equity Limited	1,960,790	10.17%
Sun Hung Kai Strategic Capital Limited	1,041,759	5.38%
HSBC Custody Nominees (Australia) Limited	991,179	5.14%

**(d) Details of MNZ Options**

As at the date of this Prospectus, there were 833,333 MNZ Options on issue as follows:

Holder	Number	Exercise price	Expiry date
Grootemaat Holdings Pty Limited	208,333	\$1.20	31 December 2014
CVC Limited	312,500	\$1.20	31 December 2014
CVC Private Equity Limited	312,500	\$1.20	31 December 2014

**(e) Restricted securities**

As at the date of this Prospectus, 423,338 of the MNZ Shares on issue are subject to escrow restrictions such that those MNZ Shares may not be traded or sold until the relevant 'escrow end dates' set out in the table below. Those MNZ Shares subject to escrow restrictions can still be voted by the holders at any meeting of MNZ.

In addition, the 833,333 MNZ Options on issue as at the date of this Prospectus are all subject to escrow restrictions such that those MNZ Options may not be traded or sold until the relevant 'escrow end dates' set out in the table below.

Those MNZ Shares and MNZ Options that are subject to escrow restrictions were issued to various parties in connection with the acquisition of DealsDirect Group Pty Limited.

Holder	Number and type of securities escrowed	Escrow end date
CVC Limited	187,688 MNZ Shares 312,500 MNZ Options	29 January 2016
CVC Private Equity Limited	187,688 MNZ Shares 312,500 MNZ Options	29 January 2016
Mensa Investments Pty Ltd as trustee for The Mensa Trust	47,962 MNZ Shares	29 January 2016
Grootemaat Holdings Pty Ltd	208,333 MNZ Options	29 January 2016

## 6.6 Publicly available information

MNZ Shares are listed for quotation on the ASX and MNZ is obliged to comply with the continuous disclosure requirements of ASX and the Corporations Act.

The ASX companies announcement platform (available from ASX's website at [www.asx.com.au](http://www.asx.com.au)) and MNZ's website ([www.mnemon.com.au](http://www.mnemon.com.au)) list announcements issued by MNZ.

## 7. Information about Grays

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**This section provides information about Grays.**

### 7.1 Who is Grays?

#### (a) Overview of Grays

Grays is a leading online ‘pure play’ retailer and auctioneer in Australasia, with diversified sales operations in the consumer auction and fixed price retail (B2C) market segment and the online industrial auction (B2B) market segment. In the 2014 financial year, Grays had \$431 million in Invoiced Sales and net operating revenue of \$96.5 million.

Grays, through its flagship website, graysonline.com, is a significant player in the Australian online auction market, spanning both the consumer auction and fixed price retail (B2C) and the online industrial auction (B2B) market segments.

Grays operates in three segments of the Australian online market:

- **Consumer auction retail (B2C):** auctioning household products to consumers with an emphasis on wine, computers, white-goods, brown-goods and jewellery, through its website graysonline.com;
- **Fixed price retail (B2C):** offering fixed-price consumer sales with an emphasis on consumer electronics, home and garden, sporting goods and toys, primarily through its fixed price department store, OO.com.au, and on certain products offered on graysonline.com; and
- **Industrial auction (B2B):** mostly catering to business customers, working closely with corporates, banks and insolvency practitioners to auction fixed and mobile plant and equipment, through its website graysonline.com.

The vast majority of Grays’ sales are through the auction model on graysonline.com, with fewer sales through the fixed price model at OO.com.au, and on certain products offered on graysonline.com. In the majority of cases, Grays acts as the agent for its vendors when it sells items.

Grays also provides valuation and workplace health and safety consulting services to business customers.

Grays employs over 400 permanent employees and a number of part-time casual employees. Grays’ head office is currently based in Homebush, NSW alongside the Company’s main distribution centre. Grays also operates satellite distribution centres and offices in Queensland, Victoria, South Australia, Northern Territory, Western Australia and New Zealand. In total, Grays has at its disposal close to 60,000 square metres of warehousing facilities.

#### (b) Brief history of Grays

Grays was established in 1989 as a traditional auction house in Sydney’s inner western suburbs that had sales of fixed and mobile plant and equipment, and fortnightly ‘rooms’ auctions of consumer items at the premises. That beginning laid the foundation for today’s online industrial auction (B2B) business and the online consumer auction and fixed price retail (B2C) business. The business was then known as ‘Grays Eisdell Timms’ (GET).

In 2000, Grays conducted its first online auction, becoming a pioneer in the Australian online market. By 2005, Grays’ online auctions were overtaking the traditional auctions as the method of auction choice by most Grays vendors. At this time, several senior executives undertook a management buy-out (MBO) of the business from most of its founders and external shareholders. This further accelerated growth through increased focus and investment in the online business. Today, the majority of auctions are conducted

through the online format, and Grays has grown to become a leading online ‘pure play’ retailer and auctioneer in Australasia.

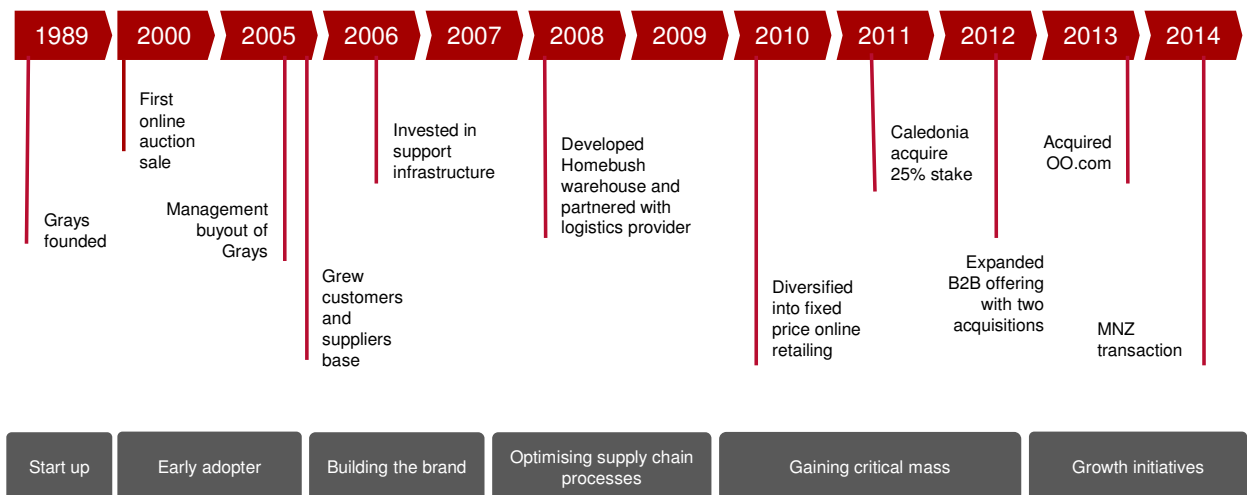
Between 2008 and 2009, Grays management noted there was a consumer trend in the Australian online market towards fixed price sales away from auctions. In particular, this was being driven by eBay globally. In response to this trend, a new improved website was launched for graysonline.com, with fixed price capability. Grays also invested heavily in experienced digital staff and improved software that provided personalisation and optimisation functionalities, thereby further developing its merchandising and buying capabilities.

In 2008, Grays moved to its current head office and distribution centre in Homebush, Sydney, with approximately 30,000 square metres in warehouse floor space, where it remains today.

During the phase of rapid growth following the MBO, Grays was 100% owned by its employees. In 2010, Grays sought an external investor with experience and reputation in the online market. Caledonia acquired a 25% stake in Grays in 2011 to assist management to further grow the business.

In 2013, Grays accelerated the growth of its online fixed price retail (B2C) business by acquiring the business and net assets of OO.com.au, a fixed price online department store that specialises in home and garden products, consumer electronics, furniture, sporting goods and toys.

**Figure 13: Grays timeline<sup>1</sup>**



1. Source: Grays management






## 7.2 How is Grays structured?

Grays’ operations are divided into two divisions – the industrial (B2B) division and the consumer and retail (B2C) division.

Grays’ industrial (B2B) division services financiers, major corporates, government and small business with sales via the graysonline.com website. It also provides valuation and workplace health and safety consulting services to business customers under the ‘Grays Asset Services’ brand.

Grays’ consumer and retail (B2C) division comprises the graysonline.com and OO.com.au websites that provide retail customers with the ability to acquire a wide variety of discounted consumer products.

**Figure 14: Grays divisional overview<sup>1</sup>**

Sales Channel:	B2B		B2C	
Sale Type:	Online Asset Sales	Industrial Services	Online Retail Sales	
	Auction	Service Fees	Auction	Fixed Price
Description:	<ul style="list-style-type: none"> <li>Auction based sales of industrial and commercial equipment</li> </ul>	<ul style="list-style-type: none"> <li>Valuation and other project management functions of industrial equipment sales</li> <li>WH&amp;S consulting services</li> </ul>	<ul style="list-style-type: none"> <li>Auction based retail sales of products</li> </ul>	<ul style="list-style-type: none"> <li>Fixed price retail sales of products</li> </ul>
Products:	<ul style="list-style-type: none"> <li>Manufacturing and engineering</li> <li>Auto, trucks and marine</li> <li>Mining, construction and agriculture</li> <li>Forklifts</li> <li>Warehousing and pallet racking</li> </ul>	<ul style="list-style-type: none"> <li>Valuations</li> <li>Stock takes</li> <li>Tenders</li> <li>Asset Inspections</li> </ul>	<ul style="list-style-type: none"> <li>Wine &amp; liquor</li> <li>IT and consumer electronics electronic goods</li> <li>Homewares &amp; domestic appliances</li> <li>Cosmetics, fragrances and toiletries</li> <li>Jewellery &amp; watches</li> <li>Furniture</li> <li>Sporting goods &amp; toys</li> </ul>	
Brands:				 

1. Source: Grays management

Both business units are supported by a shared corporate function that supplies the information technology, accounting and human resources services.

### 7.3 What is Grays' business model?

#### (a) Grays' revenue model

During the 2014 financial year, Grays earned over 90% of its net operating revenue through a combination of consignment inventory sales and own inventory sales, which provide Grays with revenue based on commissions, premiums and margins.

Grays earned the remaining of its net operating revenue (less than 10%) in the 2014 financial year through fees for providing valuation and workplace health and safety consulting services to business customers under the Grays Asset Services brand. These revenues are based primarily on hourly rates charged and recovery of expenses.

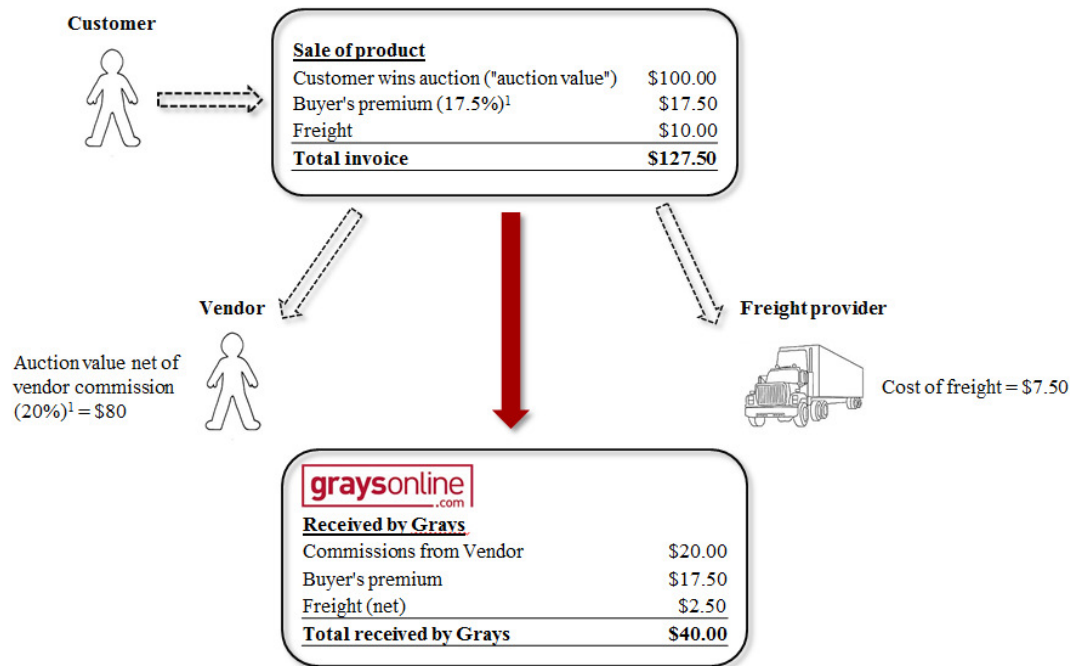
#### **Consignment inventory sales**

During the 2014 financial year, approximately 90% of Grays' Transacted Sales on the graysonline.com website were from products sold on a consignment basis. Also, in the 2014 financial year, approximately 10% of Grays Transacted Sales on the OO.com.au website were from products sold on a consignment basis.

With consignment sales, Grays acts as agent for the vendor (supplier or merchant) in offering the product for sale. When a product offered on a consignment basis is sold, Grays earns a 'commission' from the vendor based on the sale price of the item and a 'premium' from the buyer based on the sales price of the item. In addition, Grays earns income where it charges for merchandise deliveries.

Figure 15 below illustrates Grays' consignment sales revenue model for auction sales.

**Figure 15: Grays' consignment sales revenue model for auction sales (illustrative only)<sup>1</sup>**



1. Source: Grays management

2. Buyer's premium and vendor commission percentages can vary depending on the product being sold. For the purposes of illustration, GST has been ignored.

### ***Own inventory sales***

During the 2014 financial year, approximately 90% of Grays' Transacted Sales on the OO.com.au website were from own inventory sales. Also, in the 2014 financial year, approximately 10% of Transacted Sales on the graysonline.com website were from own inventory sales.

With own inventory sales, Grays earns a margin on the sale of inventories that it has purchased. In addition, Grays earns income where it charges for merchandise deliveries.

### ***Margin on freight***

Grays relies on Toll for delivery services to its online consumer auction and fixed price retail (B2C) customers. See Section 7.10 for a summary of the agreement with Toll. Under that agreement, Grays pays Toll a fee per parcel for provision of delivery services, the rate of which is dependent upon the product size, weight and the delivery address of the customer. Grays charges the customer a fee that is also dependent on the same parameters. Grays will usually charge a premium over the cost of delivery, however, Grays will occasionally waive the freight fee as an inducement to make a sale to the customer.

## **(b) Grays' industrial (B2B) division operations**

### ***Key features***

Grays' industrial (B2B) division is an Australian market leader of online auctions in the online industrial auction (B2B) market segment, servicing financiers, major corporates, government and small business. It provides the interface between buyers and sellers of manufacturing, engineering, automotive, mining and warehouse equipment.

Grays' industrial (B2B) division further caters to the needs of business customers by providing access to approximately 50 specialist plant and equipment valuers and project managers that are employed by Grays and who supply asset valuations, site inspections, risk assessments, and advice on plant closure. It has a valuation team and a support group in each mainland state in Australia and in Auckland, New Zealand.

Over the past five years, Grays' industrial (B2B) division has experienced strong sales and revenue growth, established strategic alliances with international auctioneers and broking houses and has further growth potential with opportunities both in Australia and overseas. In particular, Grays has invested heavily in this division over the past three years by employing senior executives in specialised fields, and acquiring a business in Western Australia.

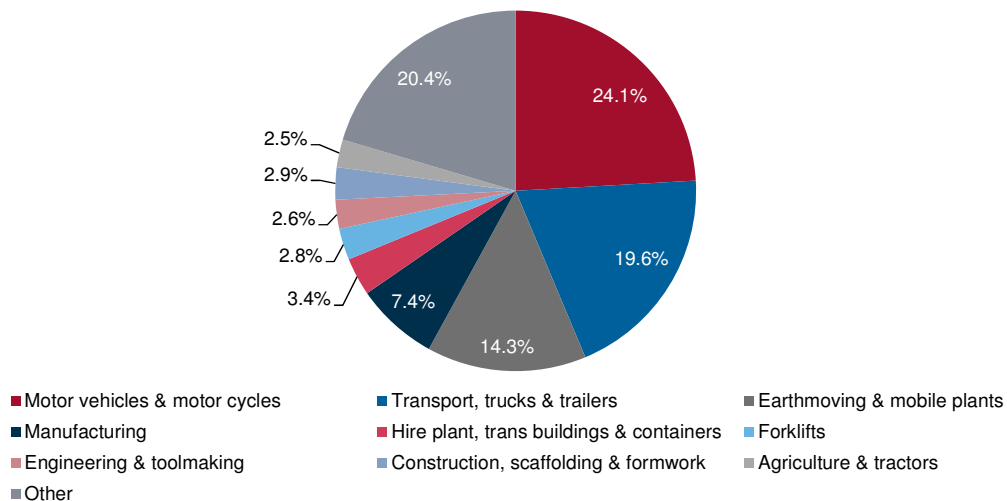
### **Online asset sales**

Grays' industrial (B2B) division offers vendors an efficient way to market and sell their products while buyers are provided with a dynamic pricing auction model that provides products at attractive prices to the buyer. Grays is able to meet the demands of both vendors and buyers by leveraging its graysonline.com website and marketing analytics suite of products.

Auction-based sales of industrial and commercial equipment through the graysonline.com website include a large number of unreserved products, which attracts registered bidders creating the ideal marketplace.

Figure 16 below presents Grays' industrial (B2B) division's Transacted Sales by product category in the 2014 financial year.

**Figure 16: Grays' industrial (B2B) division  
Transacted Sales by product category for FY14<sup>1</sup>**



1. Source: Grays management estimates

Grays' industrial (B2B) division sells a range of industrial goods and typically assists businesses that are undergoing site and plant closures, relocations and the sales of surplus equipment and industrial inventory. Although it offers some traditional and tender based sales, the vast majority of sales are conducted online through the graysonline.com website.

Grays' industrial (B2B) division has a relatively low working capital commitment in comparison with businesses that rely predominately on own inventory sales, due to over 98% of the Grays' industrial (B2B) division's sales being sold on a consignment or a commission sales basis. Goods sold are provided by a range of suppliers including manufacturers, retailers, banks, distributors, importers, finance companies and insolvency practitioners across a wide range of product categories.

Grays' industrial (B2B) division sources its products from a mix of short-term or intermittent, and longer-term or repetitive suppliers. An aim of the industrial (B2B) division is to increase the number of repetitive suppliers.

Where Grays acts as the agent for sale of products on consignment (which accounts for the majority of Grays' sales – see paragraph 7.3(a) above), each supplier is required to sign a vendor agreement, usually



on Gray's standard terms, where the terms of trade and obligations of both vendor and agent are clearly shown. For short-term or intermittent suppliers, such agreements will only apply to the sale of the relevant products. For longer-term suppliers, Grays may sometimes enter into a vendor agreement that applies to the sales of various products over a longer-period of time.

Grays' industrial (B2B) division does not rely on Grays' supply-chain and logistics functions as heavily as the consumer and retail (B2C) division. This is because the industrial (B2B) division sells larger items such as industrial machinery or equipment that is often sold whilst it is still installed or held at the supplier's premises. Accordingly, the industrial (B2B) division sells a large proportion of its items in situ at the supplier's premises or in specially procured third party premises on short-term rental arrangements.

### ***Strategic alliances***

Grays' industrial (B2B) division has established a number of strategic alliances with international auction and brokerage firms including Iron Planet, Equipnet and Hilco Industrial. These alliance partners collaborate with the industrial (B2B) division on asset realisation programs and otherwise cooperate with the industrial (B2B) division in respect of asset sales in their respective industries and product focuses as follows:

- Iron Planet – [www.ironplanet.com](http://www.ironplanet.com) – expertise in mobile mining and large civil equipment;
- Equipnet – [www.equipnet.com](http://www.equipnet.com) – expertise in pharmaceutical, bio, laboratory and chemical production equipment; and
- Hilco Industrial – [www.hilcoind.com](http://www.hilcoind.com) – expertise in automotive manufacturing equipment.

### ***Grays Asset Services***

Grays' industrial (B2B) division also provides valuation and project management functions to business customers to ensure a smooth sales process for industrial and commercial equipment. The offering of such industrial services is not online, but operates in a complimentary fashion to the main online sales function of Grays' industrial (B2B) division. It operates under the brand 'Grays Asset Services'.

Industrial services provided by Grays Asset Services include:

- undertaking valuations of company assets;
- undertaking inventory stock-takes;
- operating tender processes for the sale of large, high-value or unique assets;
- undertaking asset inspections to determine the condition of assets that may be offered for sale; and
- providing workplace health and safety services in relation to risks at industrial worksites.

## **(c) Grays' consumer and retail (B2C) division operations**

### ***Key features***

Grays' consumer and retail (B2C) division offers a wide range of product categories including wine, home and garden, electronics, fine jewellery, white-goods, brown-goods, computer equipment and art.

Auctioning household products to consumers is conducted through its website [graysonline.com](http://graysonline.com), with an emphasis on wine, computers, white-goods, brown-goods and jewellery. This sales method accounts for the vast majority of the Grays' consumer and retail (B2C) division's sales.

Fixed-price consumer sales are conducted primarily through its fixed price department store, [OO.com.au](http://OO.com.au), and on certain products offered on [graysonline.com](http://graysonline.com). Fixed-price consumer sales have an emphasis on consumer electronics, home and garden, sporting goods and toys.

### ***Supply chain***

Grays is a pioneer of online auction retail sales in Australia, offering a complete supply-chain service for vendors.

The consumer auction process provides an efficient way for Grays' major vendors to clear excess inventories and discontinued lines. Grays' consumer and retail (B2C) division manages the entire sales process of warehousing, marketing, national fulfilment, payment and customer service. For some customers, Grays' consumer and retail (B2C) division also provides a reverse logistics service where it receives, and refurbishes store returned products and then resells them on behalf of these vendors. Some of the consumer electronics industry's leading brands utilise Grays' services in this way.

On the graysonline.com website, the Grays' consumer and retail (B2C) division conducts the majority of its retail sales via auction, acting as agent for the vendor – ownership of the inventory never passes to Grays and no inventory working capital is required on these sales. On the OO.com.au website, the Grays' consumer and retail (B2C) division conducts the majority of its sales at a fixed price and owns the majority of the inventory that it sells.

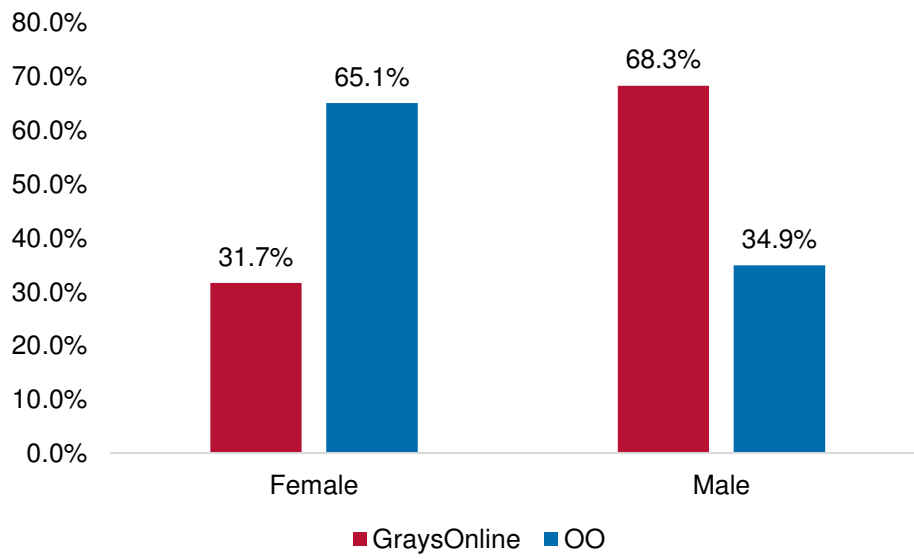
For the graysonline.com website, the Grays' consumer and retail (B2C) division relies on the availability of specific inventory categories which it sources from an extensive network of over 1,000 merchants. For the OO.com.au website, the Grays' consumer and retail (B2C) division relies on a range of local and overseas suppliers to provide the inventory that it sells to its customers. Both in-turn rely on information technology front-end platforms (websites) to transact sales.

Grays' consumer and retail (B2C) division has an effective supply-chain process and since 1 October 2013 has had an established relationship with Toll where over 90% of goods are despatched within two days of sale through the graysonline.com and OO.com.au websites. The Grays' consumer and retail (B2C) division operates a drop-ship and standard inventory model. On average over the last nine months to June 2014, Grays consumer and retail B2C Division delivered approximately 87% of parcels through Grays' Homebush, Sydney warehouse, while approximately 11% of its parcels were delivered through its 86 active drop-ship partners. In total, Grays' consumer and retail (B2C) division, through its logistics partner Toll, despatched over 1 million parcels to its customers from its warehouses and drop-ship partners over the nine months since the Toll Contract began on 1 October 2013. This equated to approximately 2 million items sold in that same 9 month period.

### ***Customer base***

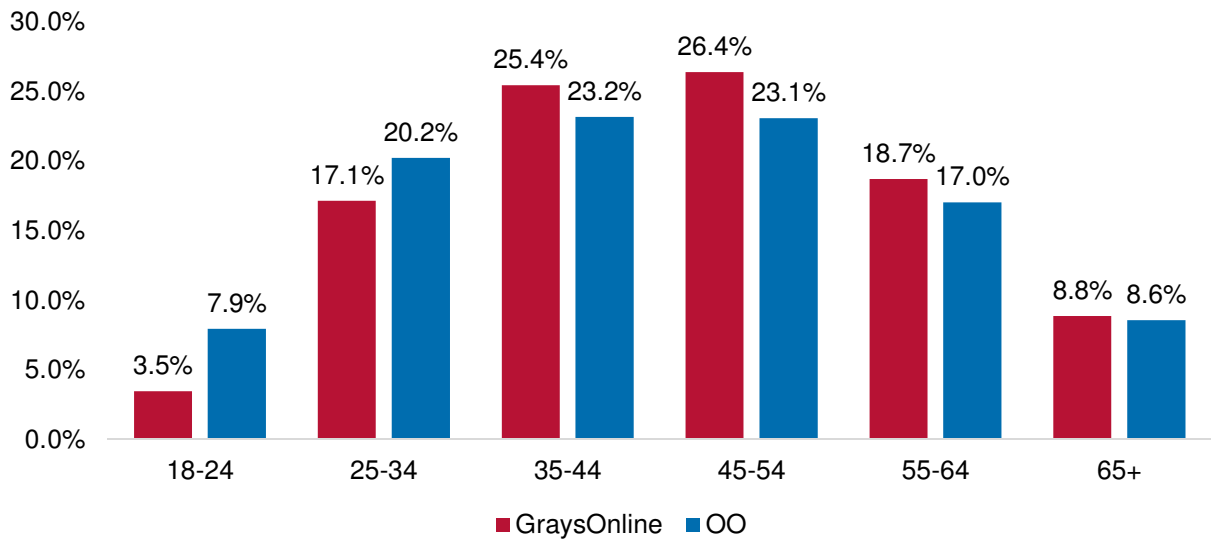
The Grays' consumer and retail (B2C) division has access to Grays' database of over 450,000 Active Customers.

**Figure 17: Unique visits to Grays' websites per month in FY14 by gender<sup>1</sup>**

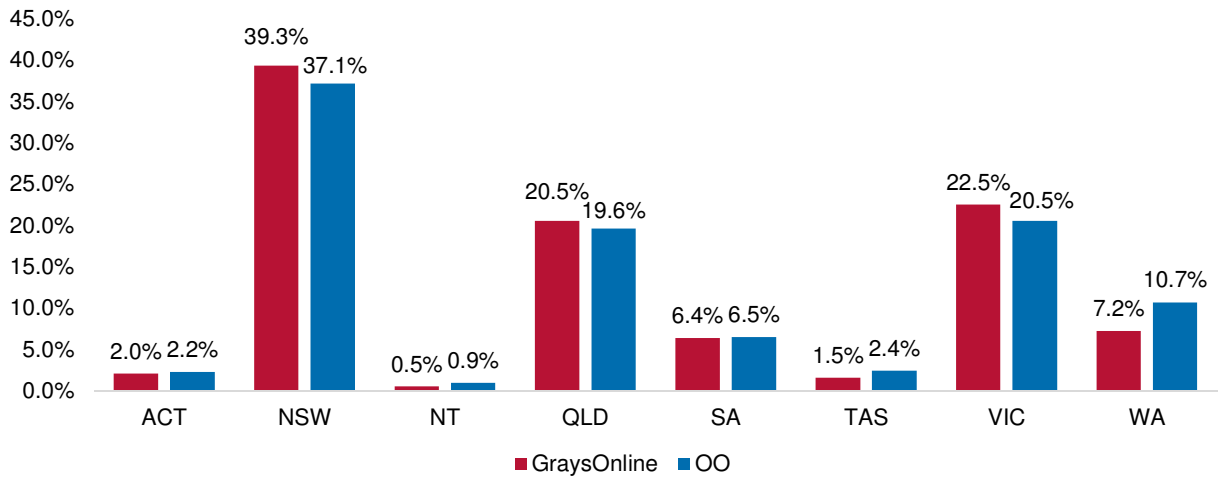


1. Source: Grays management

**Figure 18: Unique visits to Grays' websites per month in FY14 by age group<sup>1</sup>**



1. Source: Grays management

**Figure 19: Unique visits to Grays' websites per month in FY14 by state<sup>1</sup>**

1. Source: Grays management

## ***Product categories***

### ***Wine***

Wine is the strongest category for Grays' consumer and retail (B2C) division in terms of profitability and brand awareness. Over 6 million bottles of wine were sold in the 2014 financial year. In 2012, GraysOnline won the Canstar Blue Most Satisfied Customer Award in the online liquor store category.

Wine sales are predominately through the graysonline.com website.

The wine offering of Grays' consumer and retail (B2C) division provides an alternative route to market for wine growers and distributors and services more than 400 wineries from Australia, and New Zealand. Grays' consumer and retail (B2C) division is increasingly sourcing wines direct from Europe and the Americas.

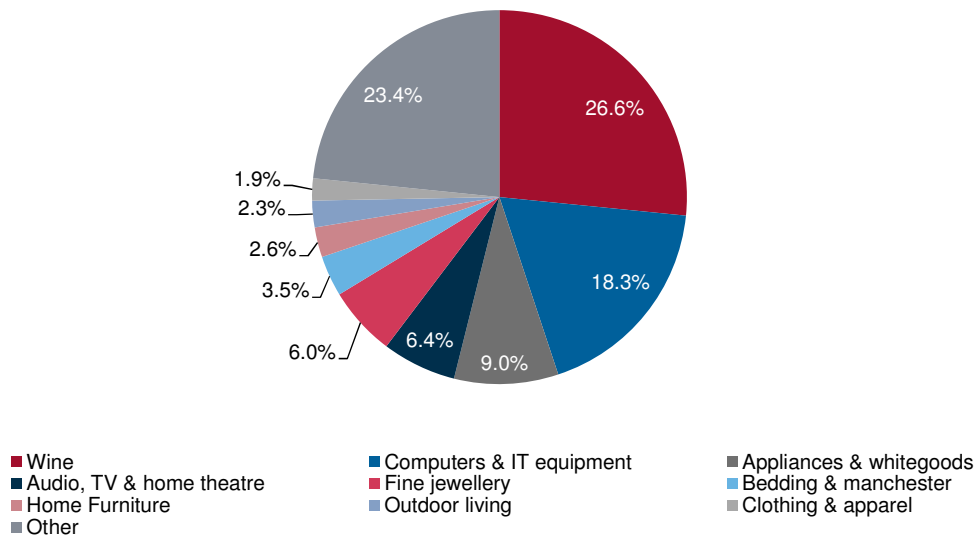
Grays' consumer and retail (B2C) division provides good quality wines at affordable prices. Often wine is the first product category that is purchased by new customers to the graysonline.com website, providing a strong leverage point for sales on the graysonline.com website in other product categories.

Grays' consumer and retail (B2C) division has developed relationships with wine producers such that a number of those wine producers use GraysOnline as their primary means of distribution and sales, and the wine section of the graysonline.com website is the most frequented Australian wine sales website outside of sites owned by Woolworths and Coles.

### ***Other product categories***

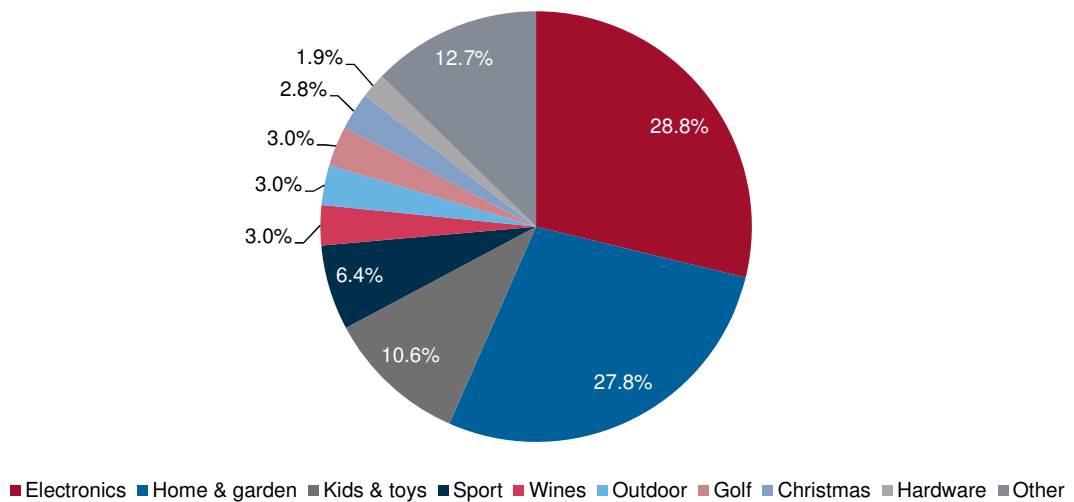
In addition to wine, Grays' consumer and retail (B2C) division sells a wide variety of product categories through both the graysonline.com and OO.com.au websites. The following charts show Grays' Transacted Sales by product categories made on the graysonline.com and OO.com.au websites in FY14.

**Figure 20: Transacted Sales by product category in FY14 on graysonline.com<sup>1</sup>**



1. Source: Grays management

**Figure 21: Transacted Sales by product category in FY14 on OO.com.au<sup>1</sup>**



1. Source: Grays management

**(d) Advertising and marketing**

Grays utilises a variety of advertising and marketing techniques to attract buyers to its graysonline.com and OO.com.au websites.

Grays uses ‘search engine optimisation’ (SEO) as a cost-effective way to optimise Grays’ websites to be more reachable and exposed. This means that when customers conduct online searches for products and categories, the appropriate web pages of the graysonline.com and OO.com.au websites can be listed at the top of the search results.

Grays also uses ‘search engine marketing’ (SEM), which is paid search results to promote specific products and categories available for sale and auction on the graysonline.com and OO.com.au websites, as well as to increase the reach and build awareness of items for sale and auction on the graysonline.com and OO.com.au websites.

Retargeting is another digital marketing technique used by Grays where Grays uses digital advertising to invite visitors to the graysonline.com and OO.com.au websites back to those websites for specific products and categories in which they have shown a previous interest.

Grays also widely uses price comparison sites to list products offered for sale and auction on the graysonline.com and OO.com.au websites to reach a greater audience and generate sales.

Grays has found that its most effective marketing is to the established customer base of GraysOnline and OO.com.au. Grays optimises both its email marketing campaigns and its websites to be product and category specific to customer preferences determined from previous customer user behaviour.

Grays also uses brand and specific product advertising where appropriate for its graysonline.com and OO.com.au websites through signage, as well as radio and television campaigns.

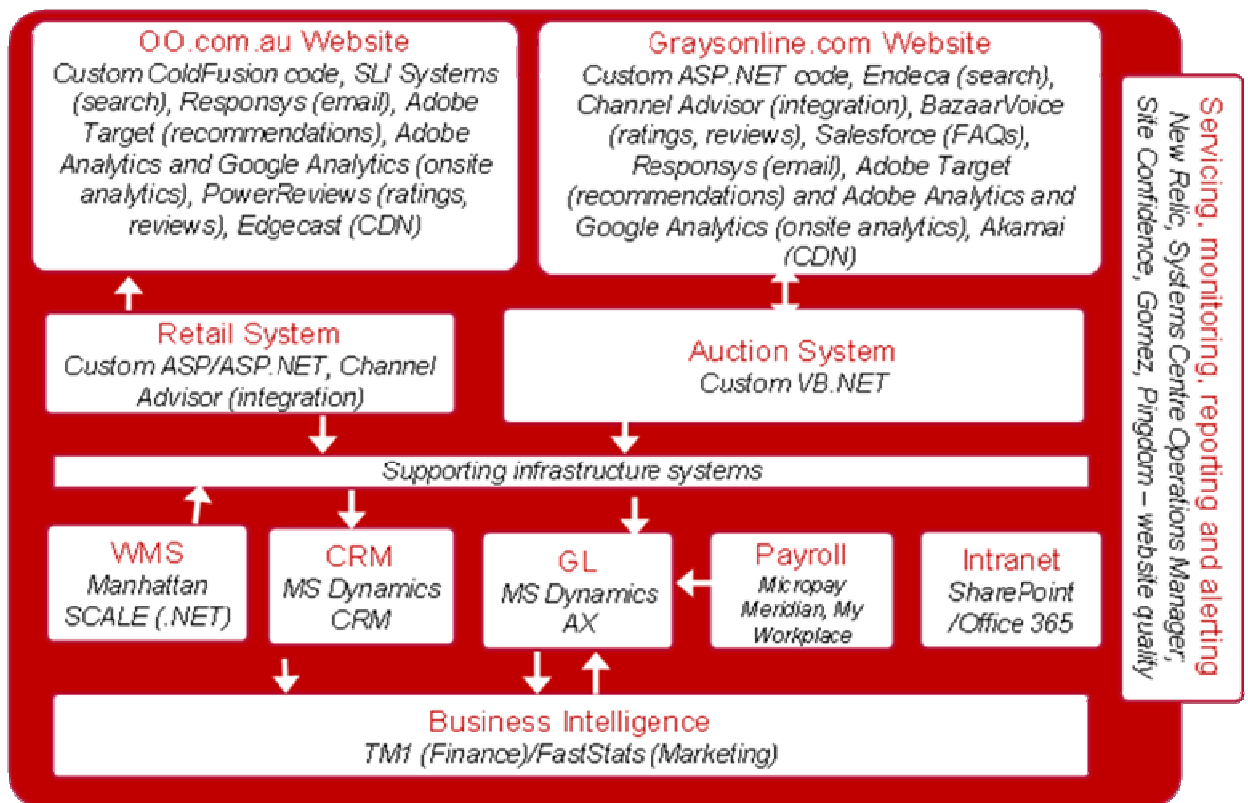
### (e) Information technology

Grays relies on its information technology systems for sales transacting and reporting. Grays has invested in mobile platforms to address the growing take up of internet usage on a mobile device. Grays has a combination of bespoke internally developed systems and best-of-breed off-the-shelf systems adapted to its unique business model. Figure 22 below details the operating systems currently utilised by Grays.

**Figure 22: Grays information technology operating systems<sup>1</sup>**

## Grays Infrastructure Core applications

*Grays application strategy has been to select and deploy best of breed applications largely based on Microsoft technologies with a view to move toward an integrated IT platform.*



1. Source: Grays management

## **(f) Intellectual property**

The ‘Grays’ and ‘GraysOnline’ brand names are integral to the Grays business, originating from the founder’s name. The ‘Grays’ and ‘GraysOnline’ brand names are registered as a trade mark in various forms presently used by the business, which includes the name and the logo, in both Australia and New Zealand.

The ‘OO.com.au’ brand name is also key to the Grays business, having been acquired when Grays purchased the OO.com.au business in 2013. The ‘OO.com.au’ brand name is registered as a trade mark in various forms presently used by the business, which includes the name and the logo, in both Australia and New Zealand.

The ‘graysonline.com’ and ‘OO.com.au’ website addresses are integral to the Grays business. Grays is the registered owner of both the ‘graysonline.com’ and ‘OO.com.au’ website address in Australia.

### **7.4 What is Grays’ strategy?**

Grays’ goal is to be the number one online auctioneer in the Consumer (B2C) and industrial (B2B) market segments and to be a significant fixed price retailer (B2C) in a number of key product categories. To achieve this goal, Grays’ management has continued to reshape the business as market trends change and the economic cycle shifts.

The strategy for Grays’ industrial (B2B) division is to grow on its national market position in the finance, insolvency, SME and major corporate segments, expand its services to government and grow vertical industry categories. While Grays has a significant share of the Australian online industrial auction (B2B) market in certain vertical category segments, Grays management consider that there are significant opportunities to grow Grays’ domestic market share in other segments (such as mining, agriculture and vehicles) and strengthen its presence geographically in regions where these product categories are most represented.

Grays management also believes that overseas expansion in the online industrial auction (B2B) market is a viable option. Grays’ integrated information technology platform, warehouse management system and websites for its industrial (B2B) division are advanced relative to similar industrial auction houses overseas and, together with the Grays’ business processes for its industrial (B2B) division, could be readily transferred to overseas geographies.

Grays has identified opportunities to grow both organically by optimising the existing business and growing product categories and geographies, as well as in-organically through acquisitions within the Australian market. Within the Australian market, Grays has acquired traditional industrial auction businesses and introduced its systems and online model with good success. Grays management believe that such a process to duplicate the Grays model in the online industrial auction (B2B) market in overseas geographies would be a suitable extension of its domestic growth strategy.

The longer-term impact from the global financial crisis has meant that Grays’ consumer and retail (B2C) division has endured a period of low consumer sentiment and increased competition. Grays’ consumer and retail (B2C) division’s strategy has been to reduce its cost base and concentrate on the key product categories of wine, electronics, computer equipment, white-goods and brown-goods, as well as targeting product categories and services that are not generally serviced by the ‘bricks and mortar’ retailers such as reverse logistics and the sale of refurbished, box damaged, and superseded electronics goods, computer equipment and white-goods.

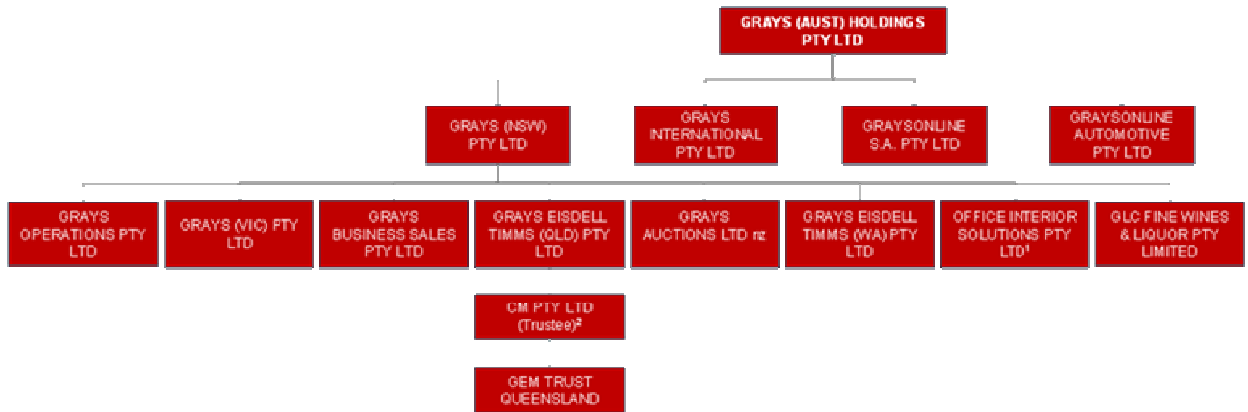
Grays’ fixed price strategy has been to grow sales and customer bases through acquisitions of companies and businesses, and thereby increase profitability through better and more fulsome utilisation of its largely fixed cost infrastructure (warehouses, supply-chain, merchandising and marketing capabilities). In line with this strategy, Grays acquired OO.com.au in April 2013.

Grays management believe that consolidation of the Australian consumer auction and fixed price retail (B2C) market is necessary for industry participants to reach critical mass in terms of gross sales that will lead to sustained profitability. Following the acquisition of OO.com.au in 2013, Grays has achieved cost synergies associated with the consolidation of back-office functions and revenue synergies from the cross-sale of products to GraysOnline and OO.com.au customers.

## 7.5 What is Grays' capital and ownership structure?

### (a) Corporate Structure of the Grays Group

Figure 23:<sup>1</sup>



1. Source: Grays management
2. 100% owned from 28 November 2008
3. 100% owned from 1 October 2007

### (b) Shares on issue

As at the date of this Prospectus, there were a total of 88,635 Grays Shares on issue held by 47 Grays Shareholders.

Grays expects to issue a further 26,169 Grays Shares under the Grays Capital Raising. Accordingly, Grays expects to have 114,804 Grays Shares on issue after the Grays Capital Raising (and prior to completion of the MNZ Offer).

As at the date of this Prospectus, apart from Grays Shares, Grays does not have any other type of securities on issue.

### (c) Key shareholders of Grays

As at the date of this Prospectus, the number of Grays Shares owned or controlled by Grays' largest shareholders are set out in the column titled 'Shareholding before the Grays Capital Raising' in the table below.

The number of Grays Shares owned or controlled by Grays' largest shareholders after the Grays Capital Raising (and prior to completion of the MNZ Offer) will, in part, depend on the number of Grays Shares subscribed for under the Grays Capital Raising. The expected maximum number of Grays Shares owned or controlled by Grays' largest shareholders after the Grays Capital Raising are set out in the column titled 'Maximum shareholding after the Grays Capital Raising' in the table below.



Beneficial shareholder	Shareholding before the Grays Capital Raising		Maximum shareholding after the Grays Capital Raising	
	No. of Grays Shares	% of all Grays Shares on issue	No. of Grays Shares	% of all Grays Shares on issue
Alfred Street Nominees Pty Limited, holding as nominee for <sup>1</sup> :				
Caledonia (Private) Investments Pty Limited and associates	6,041	6.8%	28,862	25.1% <sup>2</sup>
Clients of Caledonia (Private) Investments Pty Limited	17,629	19.9%	22,829	19.9%
Cameron Poolman	11,250	12.7%	14,569	12.7%
Adam Scharer	9,825	11.1%	12,724	11.1%
Michael Hayes	7,537	8.5%	9,761	8.5%
Mark Kehoe	5,250	5.9%	6,799	5.9%
Denis Matthews	4,500	5.1%	5,828	5.1%

1. Alfred Street Nominees Pty Limited, a company associated with Caledonia, holds Grays Shares as nominee on behalf of Caledonia, various associates of Caledonia and various clients of Caledonia. Alfred Street Nominees Pty Limited will transfer all legal and beneficial ownership in the Grays Shares it holds to the nominees (or entities directed by them) prior to completion of the Transaction.

2. Caledonia's maximum potential shareholding is based on the maximum number of Grays Shares that it could hold after the Grays Capital Raising so that it would hold less than 20% of all MNZ Shares on issue after completion of the MNZ Offer. If Caledonia's shareholding in Grays would exceed 25.1% after the Grays Capital Raising, Caledonia will allocate such excess Grays Shares to sub-underwriters who are not associates of Caledonia.

## 7.6 How is Grays financed?

Grays has historically been primarily financed by the issue of equity and through operating cash flows from its business, as well as supplier (trade) credit and a working capital facility.

Grays has two debt facilities with the Commonwealth Bank of Australia (CBA).

The first facility with CBA is a multi option facility (**Multi Option Facility**) with a facility limit of \$8.5 million. The Multi Option Facility comprises a contingent liability – bank guarantee facility (**Guarantee Facility**), and a better business bill facility (**Bill Facility**) with a facility limit of \$5.333 million.

The Guarantee Facility is used by Grays to provide or cash-back bank guarantees that predominantly relate to operating property leases. As at the 30 June 2014, the balance of the guarantees and other contingent guarantees provided under the Guarantee Facility was \$3.167 million.

The Bill Facility is used by Grays to cover working capital requirements. As at the 30 June 2014, the Bill Facility was undrawn.

The second facility with CBA is a Better Business Bill Facility that was provided in 2013 to assist Grays to fund the acquisition of OO.com.au (**Acquisition Facility**). The Acquisition Facility has a facility limit of \$7 million. It is an amortising facility with a three year term. Under the terms of the Acquisition

Facility, Grays must make quarterly repayments of \$350,000 and a balloon repayment at termination of \$2.8 million. The amount drawn under the Acquisition Facility can be repaid early without penalty, however, repaid amounts are not able to be redrawn. Grays has made early repayments under the Acquisition Facility, and as at 30 June 2014 the outstanding balance under facility was \$4.5 million.

See Section 7.10 for a summary of the material terms of the two debt facilities with CBA.



In the 2014 financial year, Grays paid total interest under the two debt facilities with CBA Facility of \$223,873, all of which was met through operating cash flows from the Grays business.




Grays also relies on supplier (trade) credit which predominantly requires repayment of the full amount within between 14 and 45 days.


The table below sets out the capitalisation and indebtedness of Grays as at 30 June 2014:

As at 30 June 2014	\$ (million)
Cash	1.5
Current debt	4.5
Non-current debt	nil
<b>Net total Indebtedness</b>	<b>3.0</b>
<b>Total equity</b>	<b>8.5</b>
<b>Total capitalisation and indebtedness</b>	<b>11.5</b>





## 7.7 Who are the Grays Directors?




	Director	Expertise, experience and qualifications
	<p><b>Will Vicars</b> Non-Executive Director and Chairman</p> <p>Age: 48</p>	<p>Will is Chief Investment Officer at Caledonia and sits on the board of directors of Caledonia, DFO Investments and The Caledonia Foundation.</p> <p>Will is Vice-Chairman and a non-executive director of St Luke's Hospital Foundation, a non-executive director of Oroton Group and Oneview.</p> <p>Prior to Caledonia, Will worked as a Senior Portfolio Manager at NRMA Investments and at Bankers Trust.</p> <p>Will holds a Bachelor of Arts, majoring in Economics, from the University of Sydney.</p>
	<p><b>Mark Bayliss</b> Executive Director and Chief Executive Officer</p> <p>Age: 53</p>	<p>Mark joined Grays in May 2014 as an Executive Director and the new Chief Executive Officer.</p> <p>Mark is a senior executive with over 25 years' experience in international and publicly listed companies, including with leveraged buy-outs, private equity turn-arounds and with all aspects of strategic, operational and financial management.</p> <p>Mark's previous positions include Group Chief Executive at Quick Service Restaurants, Partner at</p>

Director	Expertise, experience and qualifications
	<p>Anchorage Capital Partners, Executive Chairman at Antares Restaurant Group and Chief Financial Officer at Australian Discount Retail Group and Fairfax Media.</p> <p>Mark is a member of the Institute of Chartered Accountants in England and Wales and a graduate of the London School of Economics where he obtained a BSc (Econ).</p>
 <p><b>Adam Scharer</b> Executive Director</p> <p>Age: 44</p>	<p>Adam joined Grays in 1994 and has been Executive Director since 1999.</p> <p>Adam has extensive experience in all aspects of the auction business, including sales, marketing, management, equipment appraisal, innovation, mergers and acquisitions and strategy.</p> <p>Adam's experience also extends to the establishment of new branches across Australia and development of new revenue streams.</p> <p>Adam holds a Bachelor of Engineering (Hons) from the University of Adelaide, and is a certified plant and machinery appraiser.</p>
 <p><b>Mark Kehoe</b> Executive Director</p> <p>Age: 47</p>	<p>Mark joined Grays in 1999, and has been an Executive Director heading the consumer business since 2003.</p> <p>Mark has extensive senior level experience in online e-commerce operations, including general management, sales and marketing, and operations.</p> <p>Mark also has hands on knowledge and extensive experience in the Australian and international online environment over the last fourteen years.</p> <p>Mark holds a Bachelor of Business from the University of Technology, Sydney.</p>
 <p><b>Cameron Poolman</b> Non-Executive Director</p> <p>Age: 45</p>	<p>Cameron joined Grays in 1995 as a trainee auctioneer and valuer in the B2B Industrial division.</p> <p>Cameron became an Executive Director in 1999 and was the Chief Executive Officer of Grays from 2005 to 2014.</p> <p>Cameron holds a Bachelor of Engineering from the University of Sydney and a Masters of Business from the University of Technology, Sydney.</p>

	<b>Director</b>	<b>Expertise, experience and qualifications</b>
	<p><b>Michael Messara</b> Non-Executive Director</p> <p>Age: 33</p>	<p>Michael Messara is the Senior Portfolio Manager at Caledonia and sits on the board of directors of Caledonia. Michael is also a non-executive director of Arrowfield Pastoral Company.</p> <p>Michael joined Caledonia in 2006 after spending five years with UBS AG in Sydney. While at UBS, Michael held a number of roles in equity research with a particular emphasis on the materials, healthcare, media, gaming and small caps sectors.</p> <p>Michael attended Bond University on a Business School Scholarship and completed a Bachelor of Commerce in 2001, majoring in Finance, Accounting and Economics.</p>

## 7.8 Who are the Grays senior management?

	<b>Executive</b>	<b>Expertise, experience and qualifications</b>
	<p><b>Mark Bayliss</b> Executive Director and Chief Executive Officer</p> <p>Age: 53</p>	<p>See Section 7.7.</p>
	<p><b>John Martin</b> Chief Financial Officer</p> <p>Age: 59</p>	<p>John was appointed Chief Financial Officer of Grays in 2007.</p> <p>John has over 16 years of Chief Financial Officer level experience (eight of which were in a listed company environment).</p> <p>John's retail experience includes roles at David Jones and the Nuance Group, one of the world's largest international duty free retail groups.</p> <p>John holds a Bachelor of Commerce from the University of New South Wales, is a qualified member of CPA Australia and a Fellow of the Governance Institute of Australia.</p>
	<p><b>Adam Scharer</b> Head of B2B</p> <p>Age: 44</p>	<p>See Section 7.7.</p>
	<p><b>Mark Kehoe</b> Head of B2C</p> <p>Age: 47</p>	<p>See Section 7.7.</p>

Executive	Expertise, experience and qualifications
 <p><b>Stephen Charlesworth</b> Chief Information Officer</p> <p>Age: 58</p>	<p>Stephen became CIO of Grays in 2013 and as such has taken responsibility for all aspects of information technology including infrastructure, externally hosted environments, the overall direction of software development, management of third party software and the relationships with key information technology suppliers.</p> <p>Stephen came to Grays in 2001 following a successful consulting career in database driven application development.</p> <p>Stephen holds a Bachelor of Arts from Melbourne University and a Graduate Diploma of Computing from Monash University.</p>
 <p><b>David Sharp</b> Head of Marketing</p> <p>Age: 46</p>	<p>David has over 21 years' experience in the Australian data driven marketing, credit and property decision science industries.</p> <p>David was formerly with Sharp &amp; Anderson Consulting, which later became Market Advantage and was fully acquired by Veda Ltd in 2000. During his 12 years with Veda he was responsible for the data-driven marketing and credit analytics businesses.</p> <p>David joined Grays in 2010 as Group Marketing Manager and has also been responsible for the OO.com.au retail business.</p> <p>David has a Bachelor Applied Science (Mathematics &amp; Computer Science) from Swinburne University (Melb).</p>
 <p><b>Julie Starley</b> Head of Supply-chain</p> <p>Age: 41</p>	<p>Julie joined Grays in 2009 leading operational excellence in customer service, logistics and warehousing.</p> <p>Julie has over 16 years' experience in the fast-paced online retail and information communications technology industries.</p> <p>Previously, Julie held international roles in Vodafone Group with experience in marketing, business and segment growth strategies, customer experience and change management.</p>

## 7.9 What are the interests of the Grays Directors and senior management?

### (a) Shareholding interests of Grays Directors and senior management

As at the date of this Prospectus, the number of Grays Shares owned or controlled by the Grays Directors and senior management are set out in the column titled ‘Shareholding before the Grays Capital Raising’ in the table below.

The number of Grays Shares owned or controlled by the Grays Directors and senior management after the Grays Capital Raising (and prior to completion of the MNZ Offer) will, in part, depend on the number of Grays Shares subscribed for under the Grays Capital Raising. The expected maximum number of Grays Shares owned or controlled by the Grays Directors and senior management after the Grays Capital Raising are set out in the column titled ‘Maximum shareholding after the Grays Capital Raising’ in the table below.

	Shareholding before the Grays Capital Raising		Maximum shareholding after the Grays Capital Raising	
	No. of Grays Shares	% of all Grays Shares on issue	No. of Grays Shares	% of all Grays Shares on issue
Cameron Poolman	11,250	12.7%	14,569	12.7%
Adam Scharer	9,825	11.1%	12,724	11.1%
Mark Kehoe	5,250	5.9%	6,799	5.9%
Mark Bayliss	3,775	4.3%	4,889	4.3%
Will Vicars	2,547	2.9%	3,299	2.9%
Michael Messara	392	Less than 1%	508	Less than 1%
John Martin	1,500	1.7%	1,944	1.7%
Stephen Charlesworth	187	Less than 1%	243	Less than 1%
David Sharp	Nil	Nil	Nil	Nil
Julie Starley	100	Less than 1%	130	Less than 1%

### (b) Fees or benefits given or agreed to be given in connection with the Transaction

Other than as set out in Section 8.11(b), no fees or benefits have been given or agreed to be given to any Grays Director or senior manager in connection with the Transaction, other than as a result of his interest in Grays Shares disclosed in paragraph (a) above.

## 7.10 What are Grays’ material contracts?

### (a) Debt facilities with the Commonwealth Bank of Australia

Grays has two debt facilities with the Commonwealth Bank of Australia (CBA).

The first facility with CBA is a multi option facility (**Multi Option Facility**) with a facility limit of \$8.5 million. The Multi Option Facility comprises a contingent liability – bank guarantee facility (**Guarantee Facility**), and a better business bill facility (**Bill Facility**) with a facility limit of \$5.333 million.

A line fee of 1.5% p.a is payable on the Multi Option Facility limit of \$8.5 million. On drawn amounts interest is paid at the BBSY (bid) yield rate.

The second facility with CBA is a Better Business Bill Facility that was provided in 2013 to assist Grays to fund the acquisition of OO.com.au (**Acquisition Facility**). The Acquisition Facility has a facility limit of \$7 million. It is an amortising facility with a three year term. Under the terms of the Acquisition Facility, Grays must make quarterly repayments of \$350,000 and a balloon repayment at termination of \$2.8 million. The amount drawn under the Acquisition Facility can be repaid early without penalty, however, repaid amounts are not able to be redrawn.

A line fee of 2.39% is payable on the Acquisition Facility limit of \$7 million. On drawn amounts interest is paid at the BBSY (Bid) yield rate.

The Multi Option Facility and the Acquisition Facility are subject to financial covenants as follows:

- **Banking Covenant 1:** Drawn debt including guarantees and other contingent liabilities are not to exceed 2 times adjusted earnings before interest, tax, depreciation and amortisation for the previous 12 month period, where adjustments represent agreed allowances for OO integration costs.
- **Banking Covenant 2:** No dividends to shareholders are to be paid while drawn debt including guarantees and other contingent liabilities are not to exceed 1 times adjusted earnings before interest, tax, depreciation and amortisation for the previous 12 month period, where adjustments represent agreed allowances for OO integration costs.

The covenants are applied six monthly under both the Multi Option Facility and the Acquisition Facility.

There are no automatic repayment triggers and each of the Multi Option Facility and the Acquisition Facility are renewable each year in December.

The Multi Option Facility and the Acquisition Facility are both secured by various guarantees, charges and mortgages over the whole of the assets and undertakings of Grays and its subsidiaries

The Multi Option Facility is subject to the Commonwealth Bank of Australia's standard Current Terms and Conditions for Business Finance.

As at 30 June 2014, Grays was in technical breach of the Multi Option Facility after incurring more than agreed allowances for OO.com.au integration costs and writing down the carrying values of certain Grays non-current assets. The CBA acknowledged the breach of Banking Covenant 1 and has agreed to grant a waiver as at 30 June 2014 subject to the following conditions:

- the merger between Grays and MNZ is finalised and consummated by 31 October 2014, or shortly thereafter;
- auditor acceptance and sign off of Grays' 30 June 2014 financial statements;
- repayment of the Acquisition Facility by 31 October 2014;
- repayment of any loans drawn under the Multi Option Facility by 31 October 2014;
- existing security structure to remain in place; and
- the loan available under the Bill Facility component of the Multi Option Facility to remain undrawn until a full review of the business post merger expected to be completed by 31 December 2014.

**(b) Toll Service Agreement for delivery services**

On or about 18 September 2013, Grays NSW entered into an agreement with Toll Transport Pty Limited (**Toll**) for the provision of standard and express delivery services from Grays' sites to customers within Australia for a term of three years, on an exclusive basis (for Grays NSW and its affiliates).

As described in Section 7.3(a), Grays relies on Toll to provide a delivery service to its online consumer auction and fixed price retail (B2C) customers, and often earns a margin on the fee paid to Toll.

This agreement has customary terms for a service agreement including in respect of termination (including for a change of control), confidentiality, indemnities, Toll (as the service provider) being reimbursed for taxes, duties and levies it incurs in delivering the services, title in Toll equipment and property remaining with Toll, how loss in transit is dealt with, submitting 'change requests' (i.e. to vary the services or terms), insurance, intellectual property and information technology, confidentiality and privacy, force majeure and dispute resolution.

Rates under the agreement are fixed for each 12 month period subject to an annual review (in accordance with a specified formula) and other specified review mechanisms.

Toll has agreed to pay an annual rebate of \$500,000 to Grays provided that the agreement is still in force and there has been no material breach of its terms prior to the date the rebate is paid.

If Toll were able to demonstrate material disadvantage from any change of control and were to terminate the agreement, some financial detriment may be incurred by Grays. Management considers such detriment would not exceed \$500,000.

**(d) Distribution warehouse lease**

As noted earlier in this Section 7, Grays' head office is currently based in Homebush, NSW alongside its main distribution centre. Grays NSW is a party to leases and associated documents in respect of the Homebush head office and distribution centre. The leases are for various terms ending on 8 September 2020, with an option to extend for a further five years.

Grays also operates satellite distribution centres and offices in Queensland, Victoria, South Australia, Northern Territory, Western Australia and New Zealand. The leases in respect of these distribution centres have been entered into by members of the Grays Group and are for terms ending between 2014 and 2018, most with options to extend of varying length.

The term for some properties used by Grays have expired and those leases are holding over on a monthly basis.

**(e) Information technology agreements**

Grays and certain of its subsidiaries are parties to agreements with information technology suppliers. These agreements are largely on terms that are reasonably common in information technology supply agreements, including that such terms are favourable to the supplier. Among a variety of termination rights, some agreements may be terminated for convenience by the supplier by giving a period of notice.

**(f) Vendor and supplier agreements**

Grays is a party to numerous vendor or supplier agreements. No one continuing vendor or supplier accounts for 5% or more of Grays' Transacted Sales.

Grays has implemented a contracting strategy with its vendors and suppliers which it considers to be sound, adopting a standard set of terms and conditions in each case which are generally on commercial terms favourable to Grays. From time to time and as considered appropriate by Grays management, Grays will enter into agreements with vendors or suppliers on bespoke negotiated terms or on the standard terms of the vendor or supplier.

A standard agency agreement is used by Grays where it acts as the agent for the sale of consumer or industrial products on consignment (unless a bespoke agreement or the supplier's terms are used). Under this standard agreement Grays is appointed on an exclusive basis to sell the products as agent for the suppliers.

Grays offers additional services under agency agreements for the sale of industrial products where the auction is held at the sellers premises, including auction site cleaning and occupational health and safety hazard identification.



Grays also purchases products, rather than acting as agent for the relevant supplier (including to sell on its website OO.com.au). In these agreements there is a greater focus on ensuring the products purchased by Grays are of merchantable quality and adhere to regulatory standards. The indemnities given by the supplier cover loss sustained in connection with the product supplied, non-compliance with Australian law and infringement of intellectual property rights.

### **7.11 What are Grays' material licences?**

Due to the nature of its business and the products it sells, Grays has obtained auctioneers licences in both Queensland and Western Australia. Grays has liquor licences in New South Wales and Victoria that authorise Grays to sell alcoholic products via its websites. Grays also has motor vehicle dealer licences in those jurisdictions, as well as Queensland, that authorise Grays to sell motor vehicles. Grays management consider these licences to be current, valid, appropriate and sufficient for it to conduct its business.

### **7.12 Is there any litigation affecting Grays?**

Grays is subject to the following material actual or potential litigation.

Except as disclosed below, as at the date of this Prospectus and as far as the Grays Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative or criminal or governmental prosecution of a material nature in which Grays or any of its subsidiaries is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of Grays.

#### **(a) Western Australian fatality**

On 16 July 2012, an employee of Grays NSW died at premises it occupied in Western Australia as a result of an explosion that occurred when the employee was taking steps to move a fuel tank on behalf of the landlord of the site. Grays understands that Worksafe (WA) is investigating the accident. There have been no legal actions or prosecutions commenced against Grays or any of its subsidiaries in connection with the fatality as at the date of this Prospectus. The limitation period for such a prosecution or claim to be commenced is three years from the date of the death. Grays management considers that appropriate insurance is in place and that as such any claim made against Grays NSW is not likely to have a material financial impact on Grays.

#### **(b) Local court proceedings**

Grays or its subsidiaries are also parties to two different local court proceedings in respect of online auctions conducted by them.

The first, brought against Grays (as the second defendant), is part heard before a local court in Western Australia and relates to the sale of furniture and the payment of refunds paid to successful bidders who were unable to collect goods in respect of which they successfully bid. If Grays is unable to settle this claim, is unsuccessful in defending it or does not succeed with its cross-claim against the plaintiff, its liability for the claimed amount and legal fees may amount to approximately \$250,000 (not including any interest that may be payable).

The second, brought against Grays NSW (as the second defendant), relates to the sale of electricity transformers. If the plaintiff is successful and the first defendant (the liquidators of the company selling the transformers by auction) is unable to satisfy any judgment, Grays NSW liability for the claimed amount and legal fees may amount to approximately \$200,000 (not including any interest that may be payable).

## 8. Information about the Combined Group

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**This section provides information about the Combined Group.**

### 8.1 Overview of the Combined Group

The Combined Group will be created on completion of the Transaction as a result of the merger of the businesses of MNZ and Grays. It is proposed that the Combined Group will be named "Grays eCommerce Group".

The Combined Group's businesses had aggregate Invoiced Sales of \$495 million in the 2014 financial year. The Combined Group had aggregated net operating revenue of \$122.4 million in the 2014 financial year, and pro forma net cash of greater than \$10 million as at 30 June 2014 (after allowing for Transaction costs and other events occurring before completion of the Transaction such as the Grays Capital Raising).

The Combined Group will have sales operations in the Australian online consumer auction and fixed price retail (B2C) market, as well as in the online industrial auction (B2B) market.

The Combined Group will operate four websites, graysonline.com, dealsdirect.com.au, topbuy.com.au and OO.com.au.

In the online industrial auction (B2B) market, the Combined Group will work closely with corporates, banks and insolvency practitioners to auction fixed and mobile plant and equipment, through the graysonline.com website. It will also provide valuation and workplace health and safety consulting services to business customers under the Grays Asset Services brand.

In the consumer auction retail (B2C) market segment, the Combined Group will offer consumer auction sales through the graysonline.com website, with an emphasis on wine, computers, white-goods, brown-goods and jewellery. In the consumer fixed price retail (B2C) market segment, the Combined Group will offer fixed price retail sales mainly through the dealsdirect.com.au, topbuy.com.au and OO.com.au online department stores, with an emphasis on consumer electronics, home and garden, furniture, sporting goods and toys.

The Combined Group's head office will be based in Homebush, NSW alongside Grays' main distribution centre.

In the short to medium term, the GraysOnline operations will continue to be based at the Homebush, NSW distribution centre and satellite distribution centres and offices in Queensland, Victoria, South Australia, Northern Territory, Western Australia and New Zealand. The DealsDirect operations will continue to be based the Ingleburn, NSW facility, and TopBuy will continue to despatch consumer products direct from China to Australian customers via TopBuy's distribution centre in Shenzhen.

### 8.2 How will the Combined Group be structured?

In line with Grays' current operational structure as described in Section 7.2, the Combined Group's operations will be divided into two divisions – the industrial (B2B) division and the consumer and retail (B2C) division.

A summary of the operations and divisional structure of the Combined Group is provided in Figure 24 below.

**Figure 24: Overview of Combined Group operations and divisional structure<sup>1</sup>**



1. Source: Grays management

Both business units of the Combined Group will be supported by a shared corporate function that supplies the information technology, accounting and human resources services. It is expected that the shared corporate function for the entire Combined Group will be provided primarily by Grays' current services in those areas.

### 8.3 What will the Combined Group's business model be?

It is intended that the Combined Group's business model will be an extension of the existing business models for the Grays' and MNZ businesses. See Section 7.3 for further details on Grays' business model and Section 6.1 for an overview of MNZ's business.

#### (a) Industrial (B2B) division

It is intended that the Combined Group's industrial (B2B) division will be operated as per its existing business model, as described in Section 7.3(b). No material change to the nature of the Combined Group's industrial (B2B) division from that of Grays is expected, given that DealsDirect and TopBuy do not operate in the online industrial auction (B2B) market.

#### (b) Consumer and retail (B2C) division

The customer facing elements of the Combined Group's consumer and retail (B2C) division, namely its websites and sale formats, will continue in line with their operation under the Grays' and MNZ businesses. That is, the graysonline.com website will continue with a consumer auction focus, with only certain products offered at a fixed price. The dealsdirect.com.au, topbuy.com.au and oo.com.au websites will continue to exclusively offer fixed-price consumer sales.

The operations of the Combined Group's consumer and retail (B2C) division will likely experience some changes to maximise the potential cost and revenue synergies that may be released following completion of the Transaction. In particular, cross-selling opportunities and sharing of customer database information will be explored. This may lead to functionality changes in the graysonline.com, dealsdirect.com.au, topbuy.com.au and oo.com.au websites, or pricing or promotional activity across two or more of those websites.

The operations of the Combined Group's consumer and retail (B2C) division will also likely experience some changes to maximise opportunities to leverage and rationalise the supply-chain and back-office infrastructure of the business, and realise efficiency gains associated with the increased scale of the Combined Group. This may include combination of the warehouse procedures, information technology

systems and processing, financial reporting, customer service and logistics processing of Deals Direct and TopBuy with GraysOnline and OO.com.au.

**(c) Advertising and marketing**

The advertising and marketing activities of the Combined Group are still likely to focus separately on each of the key brands, namely GraysOnline, DealsDirect, TopBuy and OO.com.au. However, there may be opportunity to rationalise some of those functions.

**(d) Information technology**

Each of the Combined Group's websites, namely the graysonline.com, dealsdirect.com.au, topbuy.com.au and OO.com.au websites, uses their own information technology systems, such as hosting and payment facilities. However, there may be opportunity to rationalise some of those systems across some or all of the Combined Group's websites.

It is expected that there will be rationalisation of how the Combined Group utilises back-end information systems such as financial reporting and payroll systems.

**(e) Intellectual property**

Given that the Combined Group intends to maintain the separate use of each of its key brands, namely GraysOnline, DealsDirect, TopBuy and OO.com.au, the Combined Group will maintain all intellectual property rights that relate to those brands, as well as accompanying website registrations.

**8.4 What will the Combined Group's strategy be?**

Grays' goal is to be the number one online auctioneer in the Consumer (B2C) and industrial (B2B) market segments and to be a significant fixed price retailer (B2C) in a number of key product categories. Proposed management of the Combined Group believe that the Combined Group will be better placed to achieve this goal, given the enhanced scale, listed status and improved financial position that the Transaction will provide.

To achieve that goal, it is intended that the strategy for the Combined Group will be an extension of the current strategy for Grays as described in Section 7.4. That is, the Combined Group will continue to be an online auctioneer and online retailer in the consumer auction and fixed price retail (B2C) and industrial auction (B2B) market segments.

It is further intended that the Combined Group will offer online consumer auction retail (B2C) through the GraysOnline brand, online fixed price retail (B2C) through the DealsDirect, TopBuy, and OO.com.au brands (and on certain items offered by GraysOnline), as well as online industrial auction (B2B) through the GraysOnline brand.

The enhanced scale and strategic benefits associated with combining the businesses of Grays and MNZ are expected to facilitate growth opportunities for the Combined Group. The main growth opportunities are expected to be optimising the current business, expanding the core business and extending the business into adjacent segments.

The optimisation of the Combined Group's current business will focus on achieving, over time, cost and revenue synergies that are made possible by the Transaction, as well as benefits from economies of scale across supply-chain and back-office infrastructure. Potential areas in which revenue synergies may be possible include cross-selling opportunities through the combination of the Grays and MNZ customer databases of over 800,000 Active Customers<sup>3</sup>.

Strategies to expand the core business include building on the category strengths of wine, home and garden, electronics, furniture and computer equipment, as well as targeting product and service lines that

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<sup>3</sup> Based on simple aggregation ignoring any duplication. The actual number (net of any duplication) will be less.

are not generally serviced by the ‘bricks and mortar’ retailers, such as reverse logistics services and the sale of refurbished, box damaged and superseded computer equipment, white-goods and audio-visual products.

The expansion of the core business, and its extension into adjacent segments, also relies on merger and acquisition opportunities. The proposed management of the Combined Group that the Combined Group’s enhanced scale, combined with its listed status and improved financial position give the Combined Group potential to be an aggregator in the consolidating B2B and B2C online markets.

Grays management have overseen the successful acquisition and integration of OO.com.au with GraysOnline which delivered significant benefits. The proposed management of the Combined Group believe that the consolidation of the DealsDirect and TopBuy businesses with GraysOnline and OO.com.au will enable further improvements in line with the benefits realised previously by Grays.

The strategy for the Combined Group also extends to specific strategies for its two divisions – the industrial (B2B) division and the consumer and retail (B2C) division.

The strategic goal of the Combined Group's consumer and retail (B2C) division (which will include the brands DealsDirect, TopBuy, GraysOnline and OO.com.au) is to be a low cost per unit supplier of targeted consumer product categories. Each website or B2C brand will target specific consumer segments of the market with content relevant to that segment.

The intended strategy for the Combined Group's industrial (B2B) division is to increase GraysOnline's already strong market position in the finance, insolvency and major corporate segments, expand its services to government and grow vertical industry categories. Opportunities exist to further grow in geographical segments both within and outside Australia, both organically and through merger and acquisition and joint venture opportunities.

## **8.5 What is the integration plan for the Combined Group and what are the likely costs?**

Having recently acquired and successfully integrated the OO.com.au business, Grays has developed a draft integration plan for the Combined Group that will result in the combination of the warehouse procedures, information technology systems and processing, financial reporting, customer service and logistics processing of Deals Direct and TopBuy with GraysOnline and OO.com.au.

However, Grays and MNZ management have not discussed in detail that draft integration plan, and based on the limited due diligence information provided to date, it has not been possible to accurately quantify costs associated with such integration. Accordingly, it is considered that it would be misleading to attempt to quantify the potential integration costs at this stage.

## **8.6 What are the other intentions for the Combined Group?**

The statements set out in this Section 8.6 are statements of current intentions only which may change as new information becomes available or circumstances change. Any decisions will only be reached after implementation when all material facts and circumstances are known to the Combined Group Board.

### **(a) Overview**

This Section 8.6 sets out a summary of the intentions of the proposed Combined Group Directors in relation to:

- the continuation of the businesses of MNZ and Grays within the Combined Group;
- any major changes to be made to the businesses of MNZ and Grays, including any redeployment of the fixed assets of MNZ and Grays; and
- the future employment of the present employees of MNZ and Grays,

in circumstances where the Transaction is implemented.

The statements of intention contained in this Section 8.6 are based on information concerning the MNZ and Grays businesses that is known to the Combined Group Directors as at the date of this Prospectus, either from publicly available information or the limited due diligence review of certain non-public information provided by MNZ and Grays.

Final decisions regarding the matters set out below will only be made by the Combined Group Board in the light of all such material information, facts and circumstances at the relevant time. Accordingly, it is important to recognise that the statements set out in this Section 8.6 are statements of current intentions only, which may change as new information becomes available or circumstances change.

**(b) Maintenance of ASX listing**

It is intended that MNZ will remain admitted to the official list of the ASX after completion of the Transaction. It is proposed that this listing will be under the Combined Group's proposed new name of "Grays eCommerce Group Limited".

It is intended that the shares of MNZ, as the parent entity of the Combined Group will continue to be quoted on ASX after completion of the Transaction.

If the MNZ Shareholders pass the resolutions to approve the Transaction, it is expected that official quotation of MNZ Shares will be suspended immediately following the conclusion of the Meeting pending MNZ's compliance with Chapters 1 and 2 of the ASX Listing Rules, in accordance with ASX Listing Rule 11.1.3.

**(c) Combined Group Board**

The intended composition of the Combined Group Board is discussed in Section 8.12.

**(d) Business continuity / major changes**

The intended strategy for the business of the Combined Group is discussed in Section 8.4.

It is intended that certain of the Combined Group's corporate head office functions will be centralised in order to eliminate duplication and reduce those costs where possible. Functions within Grays and MNZ will be reviewed and either totally merged where relevant, or will continue under current arrangements.

It is intended that the Combined Group will proceed with a detailed review of both Grays' and MNZ's assets, strategies and operations. It is anticipated that this review will take approximately three to six months. The review will pay particular attention to:

- determining how to best further develop the Combined Group in order to maximise returns from the combination of Grays' and MNZ's businesses, including opportunities for acquisitions, disposals and other business initiatives;
- areas where the Combined Group can add value to the businesses of Grays and MNZ through its stronger balance sheet and access to capital;
- integration of management operating systems and platforms, administrative procedures, systems and reporting lines, the intention being to standardise practises and optimise operating costs;
- the review of management and operations, including a review of head office locations;
- potential synergies and cost savings, including overheads, insurances, professional advisory fees and other operational costs;
- Grays' and MNZ's current financing arrangements and future funding requirements to determine the optimal capital structure for the Combined Group; and
- external commercial relationships with service providers and combined purchasing power (e.g. product suppliers).

## (e) Employees

### ***Impact on management and employees***

It is intended that the Combined Group will retain the management personnel of both Grays and MNZ in roles appropriate to their skills, expertise, performance and strategic fit.

As a result of the implementation of the above intentions, it is possible that certain functions in the various operations of Grays and MNZ may become redundant. While some job losses may occur as a result, the incidence, extent and timing of such job losses cannot be predicted in advance and will depend on the outcome of the review described above.

### ***Senior management terms of employment***

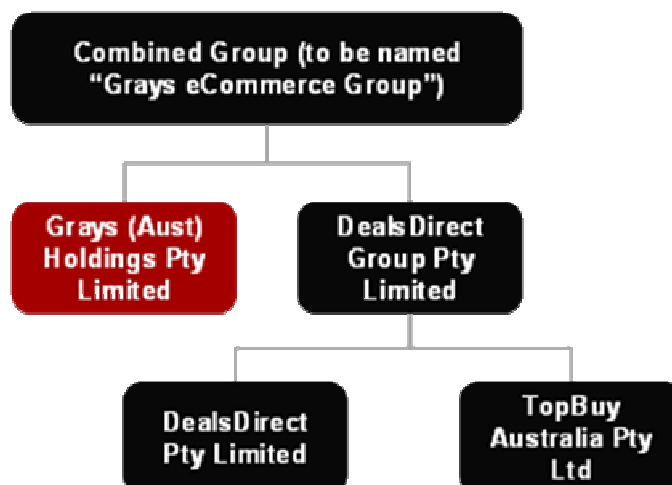
It is intended that the terms of employment of the members of the Combined Group's senior management team who remain with the Combined Group after completion of the Transaction will remain substantially the same as their existing employment terms Section 8.13, other than in respect of remuneration and incentives

It is intended that the Combined Group will undertake a review of the Combined Group's employee and director remuneration and incentive arrangements following completion of the transaction in order to assess whether they remain appropriate in the listed environment. That review may result in the changes to the remuneration payable to senior management, and/or the introduction of rights to participate in short-term incentive and long-term incentive plans (both cash based and equity based).

## **8.7 What will the Combined Group capital and ownership structure be?**

### **(a) Combined Group corporate structure**

Figure 25:<sup>1</sup>



1. Source: Grays management

### **(b) Shares and options on issue after completion of the Transaction and the Offer**

Immediately after completion of the Transaction and the Offer, the capital structure of the Combined Group is expected to be as follows:

<b>Issued share capital</b>	<b>Number of MNZ Shares</b>
Existing MNZ Shares on issue as at the date of this Prospectus <sup>1</sup>	19,287,806
New MNZ Shares issued to Grays Shareholders on completion of the Transaction	73,244,952

<b>Issued share capital</b>	<b>Number of MNZ Shares</b>
<b>Pro forma MNZ Shares on issue immediately after completion of the Transaction</b>	<b>92,532,758</b>
MNZ Options on issue immediately after completion of the Transaction <sup>2</sup>	833,333
Additional MNZ Shares to be issued after completion of the Transaction in relation to the TopBuy acquisition <sup>3</sup>	633,728
<b>Total pro forma (fully diluted) MNZ Shares on issue immediately after completion of the Transaction</b>	<b>93,999,819</b>
Additional MNZ Shares that may be issued on completion the Offer	1,000
<b>Total pro forma (fully diluted) MNZ Shares on issue immediately after completion of the Offer</b>	<b>94,000,819</b>

1. Includes 423,338 existing MNZ Shares that are subject to (escrow) restrictions on trading. See Section 5.5(e) for further details.

2. See Section 5.5(a) for further details.

3. See Section 5.5(b) for further details.

### **(c) Future share issues in respect of the Bonus MNZ Shares**

Under the terms of the MNZ Offer, Grays Shareholders who hold, on the date that is 12 months after the date of completion of the Transaction, that number of MNZ Shares that is at least 75% of the number of new MNZ Shares issued to them on completion of the MNZ Offer will be issued Bonus MNZ Shares at a ratio of 1 Bonus MNZ Share for every 2 new MNZ Shares held.

On the date that is 12 months after the date of completion of the Transaction, the capital structure of the Combined Group is expected to be as follows:

<b>Issued share capital</b>	<b>Number of MNZ Shares</b>	
Pro forma (fully diluted) MNZ Shares on issue immediately after completion of the Transaction		93,999,819
Additional MNZ Shares that may be issued under the Offer		1,000
Pro forma (fully diluted) MNZ Shares on issue immediately after completion of the Offer		94,000,819
	<b>Minimum</b>	<b>Maximum</b>
Bonus MNZ Shares (to be issued 12 months after completion of the Transaction)	Nil	36,622,476
<b>Total pro forma (fully diluted) MNZ Shares on issue 12 months after completion of the Transaction<sup>1</sup></b>	<b>94,000,819</b>	<b>130,623,295</b>

1. Assuming no other MNZ Shares or MNZ Options are issued during the 12 months after the date of completion of the Transaction.

### **(d) Substantial holders of the Combined Group**

Based on the expected maximum shareholdings of the largest Grays Shareholders after the Grays Capital Raising (as set out in Section 7.5(b)), and the expected capital structure of the Combined Group immediately after completion of the Offer, it is expected that the Combined Group's substantial holders



(excluding nominee holders) immediately after completion of the Offer (which is expected to be the same immediately after completion of the Transaction) will be as follows:

	Number of MNZ Shares held immediately after completion of the Offer	% of all MNZ Shares immediately after completion of the Offer
Caledonia (Private) Investments Pty Limited and associates	18,413,956 <sup>1</sup>	19.9%
Clients of Caledonia (Private) Investments Pty Limited <sup>2</sup>	14,564,902	15.7%
Cameron Poolman and associates	9,295,022	10.0%
Adam Scharer and associates	8,117,912	8.8%
Michael Hayes and associates	6,227,518	6.7%

1. Caledonia's expected shareholding is based on the maximum number of Grays Shares that it could hold after the Grays Capital Raising so that it would hold less than 20% of all MNZ Shares on issue after completion of the MNZ Offer. If Caledonia's shareholding in Grays would exceed 25.1% after the Grays Capital Raising, Caledonia will allocate such excess Grays Shares to sub-underwriters who are not associates of Caledonia.

2. This shareholding will be created following the transfer of the legal and beneficial interest in Grays Shares held by Alfred Street Nominees Pty Limited to nominees (or entities directed by them) prior to completion of the Transaction. See Section 7.5(c) for further details.

#### (e) Details of options on issue

It is expected that there will be 833,333 MNZ Options on issue immediately after completion of the Offer (which is expected to be the same immediately after completion of the Transaction) as follows:

Holder	Number	Exercise price	Expiry date
Grootemaat Holdings Pty Limited	208,333	\$1.20	31 December 2014
CVC Limited	312,500	\$1.20	31 December 2014
CVC Private Equity Limited	312,500	\$1.20	31 December 2014

**(f) Escrow arrangements**

Under the terms of the MNZ Offer, Grays Shareholders will be required to enter into Escrow Deeds. The main effect of those Escrow Deeds is that they apply escrow restrictions such that the MNZ Shares to be issued to Grays Shareholders under the MNZ Offer may not be sold or transferred (or otherwise dealt with) during applicable escrow periods as follows:

<b>Percentage of MNZ Shares subject to escrow</b>	<b>Number of MNZ Shares subject to escrow</b>	<b>Duration of escrow period</b>
100% of the 73,244,952 MNZ Shares issued to Grays Shareholders	73,244,952	Until 1 week following the release of the Combined Group's first-half results for the 2015 financial year
50% of the 73,244,952 MNZ Shares issued to Grays Shareholders	36,622,476	Until 1 week following the release of the Combined Group's full-year results for the 2015 financial year

See Section 12.5 for a summary of the key terms and conditions of the Escrow Deeds.

In addition, the escrow restrictions that apply to certain existing holders of MNZ Shares and MNZ Options, as described in Section 6.5(d), will continue to apply following completion of the Transaction in accordance with their existing terms.

**8.8 What is the impact of MNZ Shares issued under the Transaction and the Offer on existing holders of MNZ Shares?**

Based on the current capital structure of MNZ, the terms of the MNZ Offer, and the expected capital structure of the Combined Group immediately after completion of the Transaction, the impact of MNZ Shares issued under the Transaction and the Offer on existing holders of MNZ Shares is expected to be as set out in the table below.

The number of MNZ Shares held by existing MNZ Shareholders, and the total number of MNZ Shares on issue, in the table below are presented on a 'fully diluted' basis – that is, they include the MNZ Shares to be issued on exercise of the 833,333 MNZ Options (which are currently 'in the money') and also include 633,728 MNZ Shares which, as at the date of this Prospectus, remain to be issued in connection with MNZ's acquisition of TopBuy.

		Existing MNZ Shareholders	Existing Grays Shareholders	Offeree	Total
<b>Before completion of the Transaction</b>	<b>No. of MNZ Shares</b>	20,754,867	Nil	Nil	<b>20,754,867</b>
	<b>% of all MNZ Shares on issue</b>	100%	Nil	Nil	<b>100%</b>
<b>Immediately after completion of the Transaction</b>	<b>No. of MNZ Shares</b>	20,754,867	73,244,952	Nil	<b>93,999,819</b>
	<b>% of all MNZ Shares on issue</b>	22.1%	77.9%	Nil	<b>100%</b>
<b>Immediately after completion of the Offer</b>	<b>No. of MNZ Shares</b>	20,754,867	73,244,952	1,000	<b>94,000,819</b>
	<b>% of all MNZ Shares on issue</b>	22.1%	77.9%	Less than 1%	<b>100%</b>
<b>Following issue of Bonus MNZ Shares – Maximum<sup>1</sup></b>	<b>No. of MNZ Shares</b>	20,754,867	109,867,428	1,000	<b>130,623,295</b>
	<b>% of all MNZ Shares on issue</b>	15.9%	84.1%	Less than 1%	<b>100%</b>

1. Based on maximum number of Bonus MNZ Shares issued assuming all Grays Shareholders who are eligible to receive Bonus MNZ Shares hold at least 75% of their new MNZ Shares for a period of 12 months after completion of the Transaction.

## 8.9 How will the Combined Group be financed?

It is expected that the Combined Group's operations will be financed out of the operating cash flows from the Grays business, its cash balances and bank debt, as well as supplier (trade) credit.

### (a) Pro forma net cash

The Combined Group will have pro forma net cash of greater than \$10 million as at 30 June 2014 (after allowing for Transaction costs and other events occurring before completion of the Transaction such as the Grays Capital Raising).

### (b) Bank debt – repayment

Grays expects to raise \$13.2 million in cash under the Grays Capital Raising. The Grays Capital Raising will complete prior to completion of the MNZ Offer. Proceeds of the Grays Capital Raising will be used to repay in full all debt under the debt facilities with the Commonwealth Bank of Australia (as described in Sections 7.6 and 7.10(a)), other than the guarantee facility.

Guarantees and other contingents totalling \$3.1 million provided to Grays under the Guarantee Facility component of the Multi Option Facility will remain in place after completion of the Transaction.

MNZ does not have any bank debt facilities in place as at the date of this Prospectus.

**(c) Bank debt – future availability**

CBA has confirmed to Grays management that CBA will work with the Combined Group to provide a debt finance facility for use by the entire Combined Group, with appropriate banking covenants, after a full review of the Combined Business following completion of the Transaction.

Grays' management expects that the Combined Group will be able to meet future interest payments due under such debt finance facility through operating cash flows from the Grays business.

**(d) Pro forma equity and indebtedness**

The table below sets out the equity and indebtedness of the Combined Group as at 30 June 2014, Pro Forma Adjusted for completion of the Transaction:

<b>As at 30 June 2014 (Pro forma adjusted for completion of the Transaction)</b>	<b>\$ (million)</b>
Cash	13.6
Current debt	Nil
Non-current debt	Nil
<b>Net total Indebtedness</b>	<b>13.6</b>
<b>Total equity</b>	<b>41.5</b>

Note: See Section 9.5 for detail of Pro Forma Adjustments relating to the Combined Group's pro forma balance sheet as at 30 June 2014.

**8.10 Who will be the Combined Group Directors?****(a) Board composition**

The Combined Group will be guided by directors with a complementary set of capabilities. The Combined Group Board will ultimately be comprised of five directors, including the Chairman. The Combined Group Board will consist initially of:

<b>Director</b>	<b>Role</b>	<b>Committees<sup>1</sup></b>
Jonathan Pinshaw	Non-Executive Chairman (Independent)	Audit and Risk Committee Remuneration and Nomination Committee
Mark Bayliss	Executive Director and Chief Executive Officer	None
Naseema Sparks	Non-Executive Director (Independent)	Audit and Risk Committee Remuneration and Nomination Committee
Will Vicars	Non-Executive Director	Audit and Risk Committee Remuneration and Nomination Committee

1. Final composition of the Committees will be determined following appointment of the additional non-executive director described below.




Detailed biographies of the proposed directors are provided in paragraph (b) below.

It is intended that the Combined Group Board will appoint an additional non-executive director after completion of the Transaction and will have regard to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations in doing so.

Three of the five Combined Group Directors will be independent directors for the purposes of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, those persons being free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of their judgment.

Will Vicars, being associated with Caledonia, a substantial shareholder in the Combined Group, is not considered to be independent, and Mark Bayliss is an executive director (the Chief Executive Officer). It is considered that Will Vicars will add significant value given his considerable experience and skills, and will bring objective and independent judgement to the Combined Group Board's deliberations.

**(b) Combined Group Director profiles**

	<b>Director</b>	<b>Expertise, experience and qualifications</b>
	<p><b>Jonathan Pinshaw</b> Non-Executive Chairman</p>	<p>Jonathan is an experienced board director and business leader.</p> <p>He has held non-executive director roles in a number of public companies including Just Group (Chairman), Australian Consolidated Investments (Chairman), Fairfax Media (Deputy Chairman), James Hardie and Country Road.</p> <p>He has also chaired a number of private equity owned companies. Previous executive roles include Managing Director of public companies OPSM Group and Freedom Furniture, as well as Chief Executive Officer roles with Gestetner Asia-Pacific and Brierley Investments Australia.</p> <p>Jonathan holds a Bachelor of Business Science (Hons) from the University of Cape Town and a Bachelor of Commerce (Hons) from the University of South Africa.</p>
	<p><b>Mark Bayliss</b> Executive Director and Chief Executive Officer</p> <p>Age: 53</p>	<p>See Section 7.7.</p>
	<p><b>Naseema Sparks</b> Non-Executive Director</p> <p>Age: 61</p>	<p>See Section 6.2.</p>

	Director	Expertise, experience and qualifications
	<b>Will Vicars</b> Non-Executive Director  Age: 48	See Section 7.7.

### (c) Combined Group Directors' disclosures

No proposed Combined Group Director listed in this Section 8.10 has been subject of any legal or disciplinary action that is less than 10 years old.

No proposed Combined Group Director listed in this Section 8.10 was an officer of any company that entered into a form of external administration because of insolvency during the time that the proposed Combined Group Director was an officer or within a 12 month period afterwards, other than as set out below.

Jonathan Pinshaw was the Chairman of Australian Discount Retail Group (**ADR**) between 2005 and 2008, when it was owned by private equity interests. ADR was placed into external administration in 2009. ADR was successfully sold by the administrators and the proceeds of sale repaid the banking syndicate's debt in full, with a surplus remaining. Proceeds received also substantially settled secured creditor's claims.

## 8.11 What are the interests of the Combined Group Directors?

### (a) Shareholding interests of Combined Group Directors

Based on the expected maximum shareholdings of the Grays Directors after the Grays Capital Raising (as set out in Section 7.5(c)), and the expected capital structure of the Combined Group immediately after completion of the Transaction, it is expected that the number of Grays Shares owned or controlled by the Combined Group Directors immediately after completion of the Offer (which is expected to be the same immediately after completion of the Transaction) will be as follows:

	No. of MNZ Shares immediately after completion of the Offer	% of all MNZ Shares on issue immediately after completion of the Offer
Jonathan Pinshaw (Chairman)	226,490	Less than 1.0%
Mark Bayliss	3,119,182	3.4%
Naseema Sparks	4,604	Less than 1.0%
Will Vicars	2,104,762	2.3%

### (b) Fees or benefits given or agreed to be given in connection with the Transaction

No fees or benefits have been given or agreed to be given to Will Vicars in connection with the Transaction, other than as a result of his interest in Grays Shares disclosed in Section 7.5(d).

No fees or benefits have been given or agreed to be given to Naseema Sparks in connection with the Transaction, other than as a result of her interests in MNZ Shares disclosed in paragraph (a) above.

No fees have been given or agreed to be given to either Jonathan Pinshaw or Mark Bayliss in connection with the Transaction. Jonathan Pinshaw and Mark Bayliss, together with certain other senior executives of Grays, each participated in a buy-back of certain Grays Shares that took place on 22 September 2014

with the approval of Grays Shareholders. Those Grays Shares were bought back at the implied price of the MNZ Offer (based on the five day volume weighted average price of MNZ Shares after announcement of the Transaction of \$1.5417 per MNZ Share). The proceeds were used to repay loans they each owed to Grays. The number of Grays Shares held by Jonathan Pinshaw and Mark Bayliss disclosed in Section 7.5(d) represents the number of Grays Shares held by them after that buy-back.

No other benefits have been given or agreed to be given to either Jonathan Pinshaw or Mark Bayliss in connection with the Transaction, other than as a result of their respective interests in Grays Shares disclosed in Section 7.5(d).

**(c) Non-executive directors' remuneration**

Under the MNZ Constitution, the MNZ Directors decide the total amount paid to all MNZ Directors as remuneration for their services as a director. However, under the ASX Listing Rules, the total amount paid to all non-executive directors for their services must not exceed in aggregate in any financial year the amount fixed at the company's general meeting. As at the date of this Prospectus, this amount has been fixed by MNZ at \$200,000 per annum, and that limit will continue to apply to the Combined Group following completion of the Transaction. Given that the size of the MNZ Board will increase following completion of the Transaction, to include two additional directors, MNZ will seek an increase of that amount to \$600,000 at its 2014 annual general meeting.

Otherwise, the remuneration of Combined Group Directors must not include a commission on, or a percentage of, the profits or income of the Combined Group and the non-executive Combined Group Directors are not entitled to participate in any employee incentive scheme (but the Combined Group may allow them to elect to receive their fees in the form of MNZ Shares, subject to shareholder approval under, and/or any necessary waiver of, the ASX Listing Rules).

**(d) Executive Director and CEO**

Grays NSW has entered into an employment contract with Mark Bayliss to govern his employment with Grays. Mark Bayliss is employed in the position of Executive Director and CEO of Grays. See Section 8.13(c) for further details.

**(e) Deeds of access, insurance and indemnity for Combined Group Directors**

It is proposed that the Combined Group will enter into deeds of indemnity, insurance and access with each Combined Group Director which confirm each Combined Group Director's right of access to certain books and records of the Combined Group for a period of seven years after the Combined Group Director ceases to hold office. This seven year period may be extended where certain proceedings or investigations commence before that seven year period expires.

Pursuant to the MNZ Constitution, the Combined Group may indemnify directors and employees, past and present, against liabilities allowed under law. Under the proposed deeds of indemnity, insurance and access, the Combined Group will indemnify each Combined Group Director against all liabilities to another person that may arise from their position as a director of the Combined Group or its subsidiaries to the extent permitted by law. The deed will stipulate that the Combined Group will meet the full amount of any such liabilities, including reasonable legal costs and expenses.

Pursuant to the MNZ Constitution, the Combined Group may arrange and maintain directors' and officers' insurance for the Combined Group Directors to the extent permitted by law. Under the deed of indemnity, insurance and access, the Combined Group must obtain such insurance during each Combined Group Director's period of office and for a period of seven years after a Combined Group Director ceases to hold office. This seven year period can be extended where certain proceedings or investigations commence before the seven year period expires.

**(f) Other information**

It is proposed that Combined Group Directors may also be reimbursed for travel and other expenses reasonably incurred in attending to Grays' affairs. Non-executive directors may be paid such additional or special remuneration as the Combined Group Directors decide is appropriate where a Combined Group Director performs extra work or services which are not in the capacity as director of the Combined Group or a subsidiary. It is not intended that there will be any retirement benefit schemes for Combined Group Directors, other than statutory superannuation contributions.




**8.12 Who will be the senior management of the Combined Group?****(a) Senior management team**

On completion of the Transaction, the key members of the Combined Group's senior management team will include:


- Mark Bayliss – Executive Director and Chief Executive Officer
- John Martin – Chief Financial Officer
- Adam Scharer – Head of B2B
- Mark Kehoe – Head of B2C
- Michael Rosenbaum – GM, DealsDirect
- Stephen Charlesworth – Chief Information Officer
- David Sharp – Head of Marketing
- Julie Starley – Head of Supply-chain

The locations of detailed biographies of the Combined Group's senior management are referred to in paragraph (b) below.

**(b) Combined Group senior management profiles**

	<b>Executive</b>	<b>Expertise, experience and qualifications</b>
	<b>Mark Bayliss</b> Executive Director and Chief Executive Officer  Age: 53	See Section 7.7.
	<b>John Martin</b> Chief Financial Officer  Age: 59	See Section 7.8.
	<b>Adam Scharer</b> Head of B2B  Age: 44	See Section 7.7.



	<b>Executive</b>	<b>Expertise, experience and qualifications</b>
	<b>Mark Kehoe</b> Head of B2C  Age: 47	See Section 7.7.
	<b>Michael Rosenbaum</b> GM – DealsDirect  Age: 33	See Section 6.2.
	<b>Stephen Charlesworth</b> Chief Information Officer  Age: 58	See Section 7.8.
	<b>David Sharp</b> Head of Marketing  Age: 46	See Section 7.8.
	<b>Julie Starley</b> Head of Supply-chain  Age: 41	See Section 7.8.

**(c) Combined Group senior management disclosures**

No proposed senior manager of the Combined Group listed in this Section 8.12:

- has been subject of any legal or disciplinary action that is less than 10 years old; or
- was an officer of any company that entered into a form of external administration because of insolvency during the time the senior manager was an officer or within a 12 month period afterwards.

**8.13 What are the interests of the Combined Group's senior management?**

**(a) Shareholding interests of the Combined Group's senior management**

Based on the expected maximum shareholdings in Grays of the Combined Group's senior management after the Grays Capital Raising, and the expected capital structure of the Combined Group immediately after completion of the Transaction, it is expected that the number of Grays Shares owned or controlled by the Combined Group's senior management immediately after completion of the Offer (which is expected to be the same immediately after completion of the Transaction) will be as follows:

	<b>No. of MNZ Shares immediately after completion of the Offer</b>	<b>% of all MNZ Shares on issue immediately after completion of the Offer</b>
Mark Bayliss	3,119,182	3.4%

John Martin	1,240,272	1.3%
Adam Scharer	8,117,912	8.8%
Mark Kehoe	4,337,762	4.7%
Michael Rosenbaum	698,602	Less than 1.0%
Stephen Charlesworth	155,034	Less than 1.0%
David Sharp	Nil	Nil
Julie Starley	82,940	Less than 1.0%

**(b) Fees or benefits given or agreed to be given in connection with the Transaction**

No fees or benefits have been given or agreed to any of the proposed senior managers of the Combined Group listed in Section 8.12 in connection with the Transaction, other than as a result of their respective interests in Grays Shares and/or MNZ Shares.

**(c) Executive Director and CEO**

An employment agreement between Grays and Mark Bayliss documents the terms of his employment. Mark is the CEO of Grays and sits on the Grays Board as an executive director. His annual salary (inclusive of superannuation) is \$390,000.

On or about the date of Mark's employment agreement, Grays issued to Mark 5,500 Grays Shares at \$505 per share (**Incentive Shares**). Grays made a loan (on a limited recourse basis) to Mark to pay for the Incentive Shares. The Incentive Shares are escrowed, limiting Mark's ability to deal with the Incentive Shares (other than in specific circumstances including a buy back of the Incentive Shares conducted by Grays, transfers to related bodies corporate, family member or family trusts, or if there is a change of control occurring after 31 December 2014).

The employment agreement provides for a staged release of the Incentive Shares from escrow with no transfers permitted up to the first anniversary of the date of the employment agreement, one third of the Incentive Shares able to be transferred between the first and second anniversaries and two thirds of the Incentive Shares able to be transferred between the second and third anniversaries. No transfer restrictions in the employment agreement apply to the Incentive Shares after the third anniversary.

The issue of Incentive Shares and their staged release from escrow are not linked or subject to the satisfaction of any performance criteria or thresholds.

Mark will be permitted to accept the MNZ Offer in respect of the Incentive Shares. With effect from completion of the Transaction, the escrow restrictions that apply to the Incentive Shares will instead apply to the MNZ Shares that Mark receives as consideration for the sale of this Incentive Shares to MNZ under the MNZ Offer. Those escrow restrictions will apply in addition to other escrow arrangements described in this Prospectus (see Section 8.7(f) and Section 12.5).

Mark may terminate his employment with Grays by giving six months notice in writing. Grays may terminate Mark by giving six months notice in writing or by making a payment in lieu of notice. In the event of serious misconduct or other specific circumstances warranting summary dismissal, Grays may terminate Mark's employment agreement immediately without notice.

Mark is subject to a restraint of trade for a period equal to his notice period (for which Grays has paid Mark all his salary and other entitlements) in respect of working for a competitor and in respect of other matter such as solicitation of, for example, customers, suppliers, directors, employees and contractors.

The terms of Mark's employment will be subject to the proposed review of remuneration and incentive arrangements described in Section 8.6(e).

**(d) Other senior management**

In addition to Mark Bayliss (as described in paragraph (c) above), each other proposed member of the Combined Group's senior management is employed under individual employment agreements. These establish total compensation including a base salary, superannuation contribution and incentive arrangements, variable notice and termination provisions of between one and three months, confidentiality provisions, and statutory leave entitlements.

Either the Combined Group or the senior manager may terminate the relevant senior manager's employment by providing between one and three months' notice in writing before the proposed date of termination or in the Combined Group's case, payment in lieu of notice. Non-compete restrictions apply in the event of termination of a senior manager's employment.

The terms of employment of senior management will be subject to the proposed review of remuneration and incentive arrangements described in Section 8.6(e).

**8.14 Employee incentive arrangements**

As at the date of this Prospectus, MNZ has adopted an employee incentive scheme known as the Mnemon Limited Performance Rights Plan (**PRP**), pursuant to which the MNZ Board has discretion to offer performance rights to senior management as a form of long-term equity incentive.

The terms and conditions of the PRP were announced by MNZ to ASX on 24 January 2014.

As at the date of this Prospectus, no rights have been issued by MNZ under the PRP, and there are no rights on issue under the PRP which have not been exercised.

It is not intended that any rights will be issued under the PRP after completion of the Transaction. Instead, the Combined Group Board intends to review the PRP following completion of the Transaction. Following the proposed review of remuneration and incentive arrangements described in Section 8.6(e), changes may be made to the PRP, or a new employee incentive scheme may be adopted, following which rights may be issued under the PRP (as amended) or under any new employee incentive scheme adopted by the Combined Group.

**8.15 Corporate Governance of the Combined Group**

The Combined Group Board is concerned to ensure that the Combined Group is properly managed to protect and enhance MNZ Shareholder interests, and that the Combined Group, the Combined Group Directors, officers and employees operate in an appropriate environment.

The Combined Group intends to remain listed on ASX. The ASX Corporate Governance Council has developed and released the Corporate Governance Principles and Recommendations (**ASX Recommendations**) for Australian listed entities in order to promote investor confidence and to assist companies to meet stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, the Combined Group will be required to provide a statement in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where the Combined Group does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. The proposed Combined Group Board does not anticipate that the Combined Group will depart from the ASX Recommendations – however, it may do so in the future if it considers that such a departure would be reasonable.

The Combined Group Board intends that the MNZ's existing charters, policies and procedures, as summarised in paragraphs (a) to (f) below, will remain effective immediately following completion of the Transaction. Those corporate governance charters and policies reflect the ASX Recommendations. The

Combined Group Board intends to review those charters, policies and procedures following completion of the Transaction, and may make changes to them that the Combined Group Board considers to be necessary or desirable to reflect the structure and operations of the Combined Group. The Combined Group's charters, policies and procedures be made available on the Combined Group's website.

**(a) Board Charter**

The Board Charter formalises the functions and responsibilities of the Combined Group Board. The Combined Group Board is ultimately responsible for all matters relating to the running of the Combined Group.

**(b) Code of Conduct**

The Code of Conduct for directors addresses matters relevant to the Combined Group's legal and ethical obligation to its stakeholders. The policy outlines its requirements with respect to:

- relationships;
- compliance with laws and ethics;
- conflicts of interest;
- confidentiality;
- use of the Combined Group assets; and
- competition.

**(c) Securities Trading Policy**

The Securities Trading Policy sets out the Combined Group's policy with regard to trading in MNZ securities. The policy applies to all directors and key management personnel of the Combined Group and their associates. The policy outlines: the requirements; general prohibition on insider trading; restrictions on trading; additional restrictions on short-term trading; permission to trade; exceptions; required notification of proposed trade in securities; and notification of trade in the securities.

**(d) Audit and Risk Committee Charter**

The Audit and Risk Committee Charter outlines the composition of the committee; its responsibilities; authority; meeting requirements; reporting procedures; and oversight of the risk management system.

**(e) Disclosure Policy**

The Disclosure Policy has been adopted with a view to ensuring that the Combined Group complies with the protocol requirements of the ASX Listing Rules. The strategy highlights the requirements for immediate notification, the procedure for disclosing the information, those responsible for disclosing this information and policy review details.

**(f) Remuneration and Nomination Committee Charter**

The Remuneration and Nomination Committee Charter outlines the composition of the committee; its responsibilities; duties; and meeting requirements.

The Combined Group Board recognises the need for the Combined Group to operate with the highest standards of behaviour and accountability. The Combined Group Board has considered the ASX Recommendations to determine an appropriate system of control and accountability to best fit its business and operations commensurate with these guidelines. The Combined Group will seek to follow these recommendations and, as required under the ASX Listing Rules, where the Combined Group determines it would be inappropriate to follow the principles because of its circumstances, the Combined Group will provide reasons for not doing so in its annual report.

The Combined Group Board will consider on an ongoing basis its corporate governance procedures and whether they are sufficient given the nature of the Combined Group's operations and its size.

### **8.16 Dividend policy of the Combined Group**

There is no present intention for the Combined Group to commence a dividend payment strategy. Rather it is intended that, in the short-term, surplus cash flows are reinvested within the business for the long-term benefit of MNZ Shareholders, rather than a short-term focus on dividends. The Combined Group Board will review this policy in light of existing conditions at an appropriate time each year.

### **8.17 Capital management policy of the Combined Group**

Grays expects to raise \$13.2 million under the Grays Capital Raising before completion of the Transaction. The \$13.2 million raised will be used to pay transaction costs estimated at approximately \$4 million, and to provide the Combined Group with sufficient working capital to fund both the integration process and the Combined Group's growth strategy as outlined in Section 8.4.

### **8.18 Material contracts of the Combined Group**

Other than the material contracts of Grays as summarised in Section 7.10, and the lease describe below, no other contracts are considered to be material to the Combined Group.

MNZ leases premises at 5 Inglis Road, Ingleburn NSW 2565. The term of the lease is from 1 July 2013 to 30 June 2015 with no option to renew.

### **8.19 Related party transactions of the Combined Group**

As at the date of this Prospectus, none of Grays or any of its subsidiaries is party to any material related party arrangements.

On 24 July 2014, MNZ entered into an agreement with Zolude Investments Pty Ltd (**Zolude**) to provide corporate advisory services in respect of the Transaction, with Zolude being entitled to \$120,000 (exclusive of GST) for its services, subject to completion occurring. If completion occurs, half of the \$120,000 amount is payable to David Leslie in consideration of the services he has provided to Zolude in connection with the Transaction. See Section 6.4(c) for further information. This arrangement will not continue to apply to the Combined Group following completion of the Transaction.

As at the date of this Prospectus, none of MNZ and any of its subsidiaries is party to any other material related party arrangements.

## 9. Financial information

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**This section provides an overview of relevant financial information relating to MNZ and Grays and the Combined Group on completion of the Transaction.**

### 9.1 Introduction

This Section 9 contains a summary of the financial information that the MNZ Directors have concluded is relevant for MNZ, for the year ended 30 June 2014, that the Grays Directors have concluded is relevant for Grays for the three years ended 30 June 2012, 30 June 2013 and 30 June 2014 and that the MNZ Directors and the Grays Directors have concluded is relevant in respect of the Combined Group on completion of the Transaction.

### 9.2 Overview and basis of preparation

#### (a) MNZ overview

Section 9.3 contains a summary of the financial information in relation to MNZ which the MNZ Directors have concluded is relevant to investors and comprises the following:

- The historical consolidated Statement of Profit & Loss for the year ended 30 June 2014, as set out in Section 9.3(a);
- The historical consolidated Statement of Cash Flows for the year ended 30 June 2014, as set out in Section 9.3(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Section 9.3(e),

collectively, “**Historical Financial Information – MNZ**”.

Historical Financial Information – MNZ summarises selected financial data derived from MNZ’s audited consolidated financial statements for the year ended 30 June 2014. MNZ’s consolidated financial statements for the year ended 30 June 2014 were audited by Ernst & Young and an unqualified opinion issued.

In addition, investors please be aware that past performance is not an indication of future performance.

MNZ Shares are listed on the ASX and MNZ is obliged to comply with the continuous disclosure requirements of ASX and the Corporations Act.

The ASX companies announcement platform (available from ASX’s website at [www.asx.com.au](http://www.asx.com.au)) and MNZ’s website ([www.mnemon.com.au](http://www.mnemon.com.au)) list announcements issued by MNZ.

#### (b) Grays overview

Section 9.4 contains a summary of the financial information in relation to Grays which the Grays Directors have concluded is relevant to investors and comprises the following:

- The historical consolidated Statements of Profit & Loss for the three years ended 30 June 2012, 30 June 2013 and 30 June 2014, as set out in Section 9.4(a);
- The historical consolidated Statements of Cash Flows for the three years ended 30 June 2012, 30 June 2013 and 30 June 2014, as set out in Section 9.4(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Section 9.4(e),

collectively, “**Historical Financial Information – Grays**”.

Significant accounting policies upon which the Historical Financial Information – Grays is based are included in Section 9.4(f).

Historical Financial Information – Grays summarises selected financial data derived from Grays’ audited consolidated financial statements for the years ended 30 June 2012 and 30 June 2013. In respect of 30 June 2014 preliminary audit clearance has been provided on the trial balance supporting the Statement of Profit & Loss, the Statement of Cash Flows and the Statement of Financial Position but as at the date of this Prospectus the statutory consolidated financial statements have not been approved by the Grays Directors for signing. Grays’ consolidated financial statements for the years ended 30 June 2012 and 30 June 2013 were audited by Ernst & Young and preliminary audit clearance has been provided for 30 June 2014 by Ernst & Young. Unqualified opinions were issued in respect of the years ended 30 June 2012 and 30 June 2013.

In addition, investors please be aware that past performance is not an indication of future performance.

### **(c) Combined Group overview**

Section 9.5 contains a summary of the financial information in relation to the Combined Group which the MNZ Directors and the Grays Directors have concluded is relevant to investors and comprises the following:

- An aggregated Statement of Profit & Loss of the Combined Group for the year ended 30 June 2014, as set out in Section 9.5(a);
- A pro forma Statement of Cash Flows of the Combined Group for the year ended 30 June 2014, assuming completion of the Grays Capital Raising, the MNZ Offer and the Transaction as set out in Sections 9.5(b) and (c); and
- A pro forma Statement of Financial Position of the Combined Group as at 30 June 2014, assuming completion of the Grays Capital Raising, the MNZ Offer and the Transaction as set out in Section 9.5(c),

collectively, “**Pro Forma Financial Information – Combined Group**”.

Significant accounting policies upon which the Pro Forma Financial Information – Combined Group is based are included in Section 9.5(d).

### **(d) Basis of preparation**

The Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act, however have been prepared in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of Australian Accounting Standards. The Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group are presented in an abbreviated form and do not include all of the disclosures usually provided in financial statements prepared in accordance with the Corporations Act.

The Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group have been reviewed by McGrathNicol Transaction Advisory Pty Ltd, whose Investigating Accountant's Report is contained in Section 11.

The information set out in Sections 9.3, 9.4 and 9.5 should be read together with:

- Management's discussion & analysis set out in Sections 9.3(b), 9.3(d), 9.4(b) and 9.4(d);
- The risk factors described in Section 10;

- The Investigating Accountant's Report set out in Section 11; and
- Any other relevant information contained in this Prospectus.

The Pro Forma Financial Information – Combined Group has been prepared in order to give investors a guide as to the performance and position as if the Transaction had taken place at 30 June 2014 and in the circumstances noted in this Prospectus and does not purport to state the actual financial performance and position at the time the Transaction is effected and implemented.

In addition, investors please be aware that past performance is not an indication of future performance.

### 9.3 Historical Financial Information – MNZ

#### (a) MNZ – historical consolidated Statement of Profit & Loss

The historical consolidated Statement of Profit & Loss has been extracted from the audited consolidated financial statements of MNZ for the year ended 30 June 2014.

<b>MNZ - historical consolidated Statement of Profit &amp; Loss</b>		
	Notes	FY2014 \$m
Net operating revenue	1,2	25.9
Operating expenses	2	(26.8)
<b>EBITDA pre significant items</b>		<b>(0.9)</b>
Significant items		(0.8)
<b>EBITDA post significant items</b>		<b>(1.7)</b>
Depreciation and amortisation		(0.3)
<b>EBIT</b>		<b>(2.0)</b>
Net interest expense	1	(0.1)
<b>Loss before tax</b>		<b>(2.1)</b>
Income tax expense		(0.2)
<b>Loss after tax</b>		<b>(2.2)</b>

*Note 1: Net operating revenue is presented net of interest revenue which is separately disclosed within "Net interest expense"*

*Note 2: Net operating revenue is presented net of cost of sales and inclusive of shipping costs to ensure consistency with Grays*

#### (b) Management's discussion & analysis of the historical financial performance

##### *Overview of Historical Financial Information – MNZ*

FY2014 was a transformational year for MNZ completing a successful reverse listing, capital raising and the acquisition of TopBuy in April 2014 thus positioning MNZ as an industry consolidator with a desire to acquire e-commerce assets which are capable of leveraging DealsDirect's scale and operating capability. During FY2014 the focus of the business has been on the operations of DealsDirect (acquired January 2014) and integrating TopBuy. No adjustments have been made for the operations of TopBuy and MNZ prior to the accounting acquirer DealsDirect's acquisition as MNZ continues to restructure and integrate these businesses and in light of the Transaction announced which is the subject of this Prospectus, numerous assumptions would have to be made which would add unnecessary complexity to the presentation of the Historical Financial Information - MNZ. Some restructuring costs were also incurred during FY2014. Transaction and restructuring costs have been identified as significant items in the historical consolidated Statement of Profit & Loss above.

##### *Net operating revenue*

Revenue is derived from online retail sales within Australia. MNZ specialises in a range of home and lifestyle products and sells these products only through its online websites and is a B2C retailer.



For the purposes of the Explanatory Statement, the MNZ Directors have considered the proposed disclosure in the context of the Transaction and have determined that certain adjustments need to be made to the presentation and disclosure of revenue for consistency between MNZ and Grays. For this reason, Net operating revenue represents sales revenue (reported per the consolidated financial statements) net of interest revenue, inclusive of shipping costs recovered and net of cost of sales.

A reconciliation follows:

<b>MNZ – Net operating revenue reconciliation</b>	
	<b>FY2014</b>
	<b>\$m</b>
Sales revenue per the consolidated financial statements	62.6
Other revenue per the consolidated financial statements (excluding interest revenue)	1.3
Less cost of sales	(48.9)
Add shipping costs	10.9
<b>Net operating revenue per Section 8.3(a)</b>	<b>25.9</b>

*Operating expenses*

Operating expenses substantially relate to cost of inventory sold, employment costs and marketing expenses. Transaction and restructuring costs associated with the acquisitions of DealsDirect and TopBuy which amount to \$0.8m have been identified as significant items in the historical consolidated Statement of Profit & Loss above.

**(c) MNZ – historical consolidated Statement of Cash Flows**

The historical consolidated Statement of Cash Flows has been extracted from the audited consolidated financial statements of MNZ for the year ended 30 June 2014.

<b>MNZ - historical consolidated Statement of Cash Flows</b>	
	<b>FY2014</b>
	<b>\$m</b>
<b>Cash flows from operating activities</b>	
Receipts from customers	63.6
Payments to suppliers and employees	(64.8)
Finance costs	(0.2)
Interest received	0.1
Income tax paid	(0.0)
<b>Net cash used in operating activities</b>	<b>(1.4)</b>
<b>Cash flows from investing activities</b>	
Purchase of property plant and equipment	(0.0)
Purchase of intangibles	(0.0)
Cash acquired from subsidiary	4.8
Initial payment for purchase of controlled entities	(0.2)
<b>Net cash provided by investing activities</b>	<b>4.4</b>
<b>Cash flows from financing activities</b>	
Proceeds from issue of ordinary shares	2.6
Cost of ordinary share issues	(0.9)
<b>Net cash provided by financing activities</b>	<b>1.7</b>
Net increase in cash and cash equivalents	4.7
Cash and cash equivalents at the beginning of the year	1.1
<b>Cash and cash equivalents at the end of the year</b>	<b>5.8</b>

**(d) Management's discussion & analysis of the historical cash flows***Cash flows from operating activities*

Cash receipts are derived from customers offset by payments to suppliers and employees, consistent with Section 9.3(b) above.

*Cash flows from investing and financing activities*

During FY2014 MNZ acquired DealsDirect. A simultaneous capital raising was conducted at the same time with an overall increase in cash resulting during the year.

**(e) MNZ – historical consolidated Statement of Financial Position**

The historical consolidated Statement of Financial Position has been extracted from the audited consolidated financial statements of MNZ for the year ended 30 June 2014.

**MNZ - historical consolidated Statement of Financial Position**

	As at 30 June 2014 \$m
Cash and cash equivalents	5.8
Trade and other receivables	1.2
Inventories	6.5
<b>Total current assets</b>	<b>13.5</b>
Property, plant and equipment	0.5
Intangible assets	2.6
Deferred tax asset	0.9
<b>Total non current assets</b>	<b>4.0</b>
<b>Total assets</b>	<b>17.5</b>
Trade and other payables	(10.8)
Provisions	(0.4)
<b>Total current liabilities</b>	<b>(11.2)</b>
Trade and other payables	(0.6)
Provisions	(0.4)
<b>Total non current liabilities</b>	<b>(0.9)</b>
<b>Total liabilities</b>	<b>(12.2)</b>
<b>Net assets</b>	<b>5.3</b>
<b>Equity</b>	
Issued capital	26.0
Reserves	0.3
Accumulated losses	(20.9)
<b>Total equity</b>	<b>5.3</b>

## 9.4 Historical Financial Information - Grays

### (a) Grays – historical consolidated Statements of Profit & Loss

The historical consolidated Statements of Profit & Loss have been extracted from the audited consolidated financial statements of Grays for the years ended 30 June 2012 and 30 June 2013 and from the trial balance for the year ended 30 June 2014 upon which preliminary audit clearance has been given.

FY2014 EBITDA pre significant items included the full year operating results for OO.com.au for the first time. Grays Directors are of the view that the FY2014 result is not truly representative of the business in its current form as by the end of FY2014, the benefits of the OO.com.au retail integration, together with ongoing business improvement initiatives were yet to be fully realised and this work is ongoing. See also Section 9.4(c) for a summary of historical cash flows. Grays has demonstrated positive cash flows from operating activities for the past three financial years.

#### Grays - historical consolidated Statements of Profit & Loss

	Notes	FY2012 \$m	FY2013 \$m	FY2014 \$m
Net operating revenue	1,2	80.0	88.5	96.5
Operating expenses		(75.6)	(82.6)	(92.8)
<b>EBITDA pre significant items</b>		<b>4.3</b>	<b>5.9</b>	<b>3.7</b>
Significant items		-	(0.4)	(4.8)
<b>EBITDA post significant items</b>		<b>4.3</b>	<b>5.5</b>	<b>(1.1)</b>
Depreciation and amortisation		(2.5)	(2.9)	(3.7)
<b>EBIT</b>		<b>1.8</b>	<b>2.6</b>	<b>(4.8)</b>
Net interest revenue	1	0.2	0.4	0.2
<b>Profit before tax</b>		<b>2.0</b>	<b>3.0</b>	<b>(4.6)</b>
Income tax (expense)/benefit		(0.4)	(0.9)	0.6
<b>Profit after tax</b>		<b>1.6</b>	<b>2.1</b>	<b>(4.0)</b>

*Note 1: Net operating revenue is presented net of interest revenue which is separately disclosed in "Net interest revenue"*

*Note 2: Net operating revenue is presented net of cost of sales to ensure consistency with MNZ*

### (b) Management's discussion & analysis of the historical financial performance

#### Overview of Historical Financial Information – Grays

Grays is an Australian and New Zealand e-commerce group with diversified operations covering both B2C retail operations and B2B through its market-facing brands graysonline.com, Grays Asset Services, OO.com.au and other strategic alliances. No retrospective adjustments have been made for the operations of OO.com.au, nor for any other acquisitions prior to their acquisition by Grays given the materiality of some of these acquisitions and the significant restructuring that has taken place following the purchase of OO.com.au. Transaction and restructuring costs have been identified as significant items in the historical consolidated Statements of Profit & Loss above. FY2014 EBITDA pre significant items included the full year operating results for OO.com.au for the first time. Grays Directors are of the view that the FY2014 result is not truly representative of the business in its current form as by the end of FY2014, the benefits of the OO.com.au retail integration, together with ongoing business improvement initiatives were yet to be fully realised and this work is ongoing. See also Section 8.4(c) for a summary of historical cash flows. Grays has demonstrated positive cash flows from operating activities for the past three financial years.

*Net operating revenue*

Revenue is derived from online retail and consumer auction sales (B2C) and online industrial auctions (B2B).

For the purposes of the Explanatory Statement, the Grays Directors have considered the proposed disclosure in the context of the Transaction and have determined that certain adjustments need to be made to the presentation and disclosure of revenue for consistency between MNZ and Grays. For this reason, Net operating revenue represents sales revenue (reported per the consolidated financial statements) net of interest revenue and net of cost of sales. Unlike MNZ shipping costs recovered are included in revenue.

A reconciliation follows:

<b>Grays – Net operating revenue reconciliation</b>			
	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Revenue per the consolidated financial statements or trial balance (excluding interest revenue)	117.2	119.9	143.7
Less cost of sales	(37.2)	(31.4)	(47.2)
<b>Net operating revenue per Section 8.4(a)</b>	<b>80.0</b>	<b>88.5</b>	<b>96.5</b>

*Operating expenses*

Total operating expenses include employment costs, occupancy costs, marketing costs, travel costs, bank charges, refunds, professional fees and other general and administration expenses. Transaction and restructuring costs have been identified as significant items in the historical consolidated Statements of Profit & Loss above. During FY2014 \$2.8m of the significant items was attributable to a write down in intangible assets (OO.com.au) and integration and transaction costs comprised \$2.0m.

**(c) Grays – historical consolidated Statements of Cash Flows**

The historical consolidated Statements of Cash flows have been extracted from the audited consolidated financial statements and results of Grays for the years ended 30 June 2012 and 30 June 2013 and from the trial balance for the year ended 30 June 2014 upon which preliminary audit clearance has been given.

<b>Grays - historical consolidated Statements of Cash Flows</b>			
	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Cash flows from operating activities</b>			
Receipts from customers	118.8	148.9	190.3
Payments to suppliers and employees	(113.0)	(143.7)	(186.0)
Interest received	0.7	0.5	0.4
Interest paid	(0.5)	(0.1)	(0.2)
Income tax paid	(0.0)	(0.7)	(0.1)
<b>Net Cash flows from operating activities</b>	<b>6.0</b>	<b>4.9</b>	<b>4.4</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	0.0	0.0	0.0
Purchase of property, plant and equipment	(0.7)	(0.3)	(2.2)
Purchase of software	(1.1)	(0.9)	(0.9)
Cash paid on acquisition businesses	(0.6)	(5.6)	-
<b>Net Cash flows from investing activities</b>	<b>(2.5)</b>	<b>(6.7)</b>	<b>(3.0)</b>
<b>Cash flows from financing activities</b>			
Capital component of shares repurchased	(1.4)	-	-
Loans repaid by/(to) related party	0.1	-	-
Loans (to)/repaid by employees	1.4	(3.1)	(3.9)
Proceeds from the issue of capital	-	-	3.3
Proceeds from non bank borrowings	3.3	-	-
(Repayment)/proceeds from bank borrowings	(1.0)	6.0	(1.5)
Payment of dividends on shares	(8.1)	(0.8)	-
<b>Net Cash flows from (used in) financing activities</b>	<b>(5.7)</b>	<b>2.1</b>	<b>(2.1)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2.2)</b>	<b>0.3</b>	<b>(0.7)</b>
Cash and cash equivalents at beginning of period	4.1	1.9	2.2
<b>Cash and cash equivalents at end of period</b>	<b>1.9</b>	<b>2.2</b>	<b>1.5</b>

**(d) Management's discussion & analysis of the historical cash flows***Cash flows from operating activities*

Cash receipts are derived from customers offset by payments to suppliers to employees, consistent with Section 9.4(b) above.

*Cash flows from investing and financing activities*

Transactions have primarily related to acquisition of software and purchases of businesses, with the most significant transaction being the purchase of OO.com.au in FY2013.

**(e) Grays – historical consolidated Statement of Financial Position**

The historical consolidated Statement of Financial Position has been extracted from the trial balance as at 30 June 2014 upon which preliminary audit clearance has been given.

**Grays - historical consolidated Statement of Financial Position**

	As at 30 June 2014 \$m
Cash and cash equivalents	1.5
Trade and other receivables	10.7
Inventories	10.0
<b>Total current assets</b>	<b>22.2</b>
Other financial assets	5.5
Deferred tax assets	2.9
Property, plant and equipment	3.4
Intangible assets and goodwill	6.9
<b>Total non current assets</b>	<b>18.6</b>
<b>Total assets</b>	<b>40.8</b>
Trade and other payables	(22.6)
Interest-bearing loans and borrowings	(4.5)
Provisions	(4.1)
<b>Total current liabilities</b>	<b>(31.2)</b>
Provisions	(1.1)
<b>Total non current liabilities</b>	<b>(1.1)</b>
<b>Total Liabilities</b>	<b>(32.3)</b>
<b>Net assets</b>	<b>8.5</b>
<b>Equity</b>	
Contributed equity	9.3
Retained earnings	6.3
Reserves	(7.1)
<b>Total equity</b>	<b>8.5</b>

**(f) Summary of Grays' significant accounting policies**

Set out below are the significant accounting policies as they relate to Grays and which form the basis of the Historical Financial Information – Grays.

*Basis of consolidation*

The consolidated financial statements for FY2012 and FY2013 comprise the financial statements of Grays (Aust) Holdings Pty Limited and its subsidiaries as at 30 June each year ("the Group"). FY2014 is based on the consolidated worksheet as at 30 June 2014.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

#### *Significant accounting judgements, estimates and assumptions*

In the process of applying the Group's accounting policies, management continually evaluate judgements, estimates and assumptions based on experience and other factors including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are set out below:

#### *Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

#### *Revenue recognition*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of goods*

Revenue from the sale of goods is recognised when there is persuasive evidence that the goods have passed to the customer. Evidence is usually in the form of a delivery docket issued at the time of delivery of the goods to the customer. The delivery of the goods and the delivery docket indicate that there has been a transfer of the risks and rewards of ownership.

#### *Rendering of services*

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Commission income, handling, buyer's premium, valuation fees and recovery of expenses are brought into account once the auction or valuation has been completed.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *Interest income*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Other Revenue*

Other revenue is recognised when the right to receive the revenue has been established.

#### *Borrowing costs*

Borrowing costs are recognised as an expense when incurred.



*Leases*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Capitalised leased assets are depreciated over the estimated useful life of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability in the income statement as an integral part of the total lease expense.

*Cash and cash equivalents*

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the historical Statements of Cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

*Trade and other receivables*

Trade receivables, which generally have 30-60 day terms, are recognised and carried at fair value and subsequently measured at amortised cost less an allowance for impairment.

An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Bad debts are written off when identified.

*Inventories*

Inventories comprise finished goods which are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition include the purchase price, freight, cartage and import duties.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

*Foreign currency translation*

Both the functional and presentation currency of Grays (Aust) Holdings Pty Limited and its Australian subsidiaries is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary (Grays Auctions Limited) is New Zealand dollars (NZ\$).

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of Grays (Aust) Holdings Pty Limited at the rate of exchange ruling at balance date and their statements of comprehensive income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are recognised in other comprehensive income.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

#### *Income tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except when:

- the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except when:

- the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

*Tax consolidation legislation*

Grays (Aust) Holdings Pty Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation as of 4 July 2005.

The head entity, Grays (Aust) Holdings Pty Limited and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as contribution to (or distribution from) wholly owned tax consolidated entities.

*Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the historical consolidated Statements of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

*Property, plant and equipment*

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvement, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Leasehold improvements - over the lease term

Plant and equipment:

- electronic equipment - 3 - 5 years
- furniture and fittings - 3 - 5 years
- office equipment - 3 - 5 years
- motor vehicles - 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

*Derecognition and disposal*

An item of property, plant and equipment and software is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income.

#### *Investments and other financial assets*

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

#### Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held to maturity investments and financial assets at fair value through profit and loss. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

#### Investments in subsidiaries

Investments in subsidiaries are recognised and subsequently measured at cost, less any provision for impairment.

#### *Goodwill and intangible assets*

##### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are acquired at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives are recognised in profit and loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether an indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

The amortisation rate is calculated on a straight line basis over the estimated useful life of the asset as follows:

- Computer software - 3 - 5 years
- Brand names - 3 - 5 years
- Customer data bases - 3 - 5 years

### *Research and development costs*

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it would be available for either use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated

impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditures is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

#### *Impairment of assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment losses recognised for goodwill are not subsequently reversed.

#### *Trade and other payables*

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

#### *Interest-bearing loans and borrowings*

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

*Employee leave benefits*Wages, salaries, annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in provision for employee entitlements in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

*Contributed equity*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## (g) Material changes to Grays' financial position

As part of the Transaction a number of adjustments to Grays' historical consolidated Statement of Financial Position will be required. These are set out further in Section 9.5(c).

**9.5 Pro Forma Financial Information – Combined Group****(a) Combined Group – aggregated Statement of Profit & Loss**

The table below reflects aggregated information sourced from Sections 8.3 and 8.4. No retrospective acquisition accounting adjustments have been applied in its preparation and is provided to reflect the Combined Group as if Grays and MNZ had operated together for FY2014 on a simple aggregation basis.

<b>Combined Group - aggregated Statement of Profit &amp; Loss</b>			
	<b>Grays</b>	<b>MNZ</b>	<b>Aggregated</b>
	<b>FY2014</b>	<b>FY2014</b>	<b>FY2014</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Net operating revenue	96.5	25.9	122.4
Operating expenses	(92.8)	(26.8)	(119.6)
<b>EBITDA pre significant items</b>	<b>3.7</b>	<b>(0.9)</b>	<b>2.8</b>
Significant items	(4.8)	(0.8)	(5.6)
<b>EBITDA post significant items</b>	<b>(1.1)</b>	<b>(1.7)</b>	<b>(2.8)</b>
Depreciation and amortisation	(3.7)	(0.3)	(4.0)
<b>EBIT</b>	<b>(4.8)</b>	<b>(2.0)</b>	<b>(6.8)</b>
Net interest revenue/(expense)	0.2	(0.1)	0.1
<b>Loss before tax</b>	<b>(4.6)</b>	<b>(2.1)</b>	<b>(6.7)</b>
Income tax benefit/(expense)	0.6	(0.2)	0.4
<b>Loss after tax</b>	<b>(4.0)</b>	<b>(2.2)</b>	<b>(6.3)</b>

**(b) Combined Group – pro forma Statement of Cash Flows**

The Combined Group’s pro forma Statement of Cash Flows has been sourced from Sections 8.3 and 8.4 and presents the Combined Group as if the Transaction had taken place as at 30 June 2014. No retrospective acquisition accounting adjustments have been made in respect of its preparation.

<b>Combined Group - pro forma Statement of Cash Flows FY2014</b>				
	<b>Grays</b>	<b>MNZ</b>	<b>Pro Forma Adjustments</b>	<b>Pro Forma</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
<b>Cash flows from operating activities</b>				
Receipts from customers	190.3	63.6	-	253.8
Payments to suppliers and employees	(186.0)	(64.8)	-	(250.8)
Interest received	0.4	(0.2)	-	0.2
Interest paid	(0.2)	0.1	-	(0.1)
Income tax paid	(0.1)	(0.0)	-	(0.1)
<b>Cash flows from operating activities</b>	<b>4.4</b>	<b>(1.4)</b>	<b>-</b>	<b>3.0</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property plant and equipment	0.0	-	-	0.0
Purchase of property, plant and equipment	(2.2)	(0.0)	-	(2.2)
Purchase of software	(0.9)	(0.0)	-	(0.9)
Cash acquired from subsidiary	-	4.8	-	4.8
Cash paid on acquisition businesses	-	(0.2)	-	(0.2)
<b>Cash flows from investing activities</b>	<b>(3.0)</b>	<b>4.4</b>	<b>-</b>	<b>1.4</b>
<b>Cash flows from financing activities</b>				
Loans (to)/repaid by employees	(3.9)	-	1.6	(2.3)
Proceeds from non bank borrowings/share issues	3.3	2.6	13.2	19.1
(Repayment)/proceeds from bank borrowings	(1.5)	-	(4.5)	(6.0)
Cost of ordinary share issues	-	(0.9)	(4.0)	(4.9)
<b>Cash flows from financing activities</b>	<b>(2.1)</b>	<b>1.7</b>	<b>6.3</b>	<b>5.9</b>
<b>Net increase (decrease) in cash</b>	<b>(0.7)</b>	<b>4.7</b>	<b>6.3</b>	<b>10.3</b>
Cash at beginning of period	2.2	1.1	-	3.3
<b>Cash at end of period</b>	<b>1.5</b>	<b>5.8</b>	<b>6.3</b>	<b>13.6</b>

See Section 9.5(c) below for note disclosures in respect of the Pro Forma Adjustments.

**(c) Combined Group – pro forma Statement of Financial Position**

The pro forma historical Statement of Financial Position has been prepared to illustrate the effects of the Transaction as if it had occurred as at 30 June 2014.

*Acquisition accounting**Reverse acquisition*

The Transaction results in a reverse acquisition of MNZ by Grays. A reverse acquisition occurs when the entity that issues securities (the legal acquirer) is identified as the acquiree for accounting purposes. In order for a transaction to be accounted for as a reverse acquisition the legal acquirer must meet the definition of a business under AASB 3 Business Combinations (“AASB 3”).

The Transaction has been accounted for in the Pro Forma Statement of Financial Position assuming Grays is the acquirer and MNZ is the acquiree, as defined by AASB 3.



Purchase price allocation

The Transaction has been accounted for by including provisional assessments of the fair values of the assets, liabilities and contingent liabilities as at 30 June 2014. Under AASB 3, Grays has up to 12 months from the date of acquisition during which retrospective adjustments can be made to the provisional acquisition accounting. While Grays has commenced the exercise to consider the fair value of intangible assets acquired, adjustments may occur when the Transaction completes, expected to be 31 October 2014.

Accordingly, adjustments will impact the net asset position of the Combined Group and could have an impact on future depreciation and amortisation charges in future financial periods and therefore impact EBIT and NPAT.

A description of the nature of potential intangible assets which may be identified and the acquisition accounting process is set out below.

In accordance with AASB 3, MNZ's identifiable assets, liabilities and contingent liabilities, including intangible assets, must be identified and valued as at the acquisition date. The purchase price is then allocated across the fair value of these assets, liabilities and contingent liabilities with any residual recognised as goodwill

The valuation of intangible assets is a complex and time-consuming process that may require specialist skills and detailed information about the business, which will become available to Grays following completion of the Transaction. In addition, each of the identified intangibles acquired may have a limited life and must be amortised over that life in contrast to goodwill, which is subject to annual impairment review. Indefinite life intangibles are not amortised and are reviewed for impairment annually. A detailed identification and valuation process will therefore be undertaken after the Transaction completes. The examples provided below are not intended to be an exhaustive list of items acquired in a business combination that meet the definition of an intangible asset. However they provide an indication of the types of intangibles that may be acquired as part of the Transaction including:

- Trade names and internet domain names;
- Computer software; and
- Customer databases.

Nil value has been attributed to potential carry forward tax losses for the purposes of the pro forma Statement of Financial Position.

**Combined Group - pro forma Statement of Financial Position as at 30 June 2014**

		Grays	MNZ	Pro Forma Adjustments	Pro Forma
		\$m	\$m	\$m	\$m
Cash and cash equivalents	1,2,3	1.5	5.8	6.3	13.6
Trade and other receivables		10.7	1.2	-	11.9
Inventory		10.0	6.5	-	16.5
<b>Total current assets</b>		<b>22.2</b>	<b>13.5</b>	<b>6.3</b>	<b>42.0</b>
Deferred tax assets	4	2.9	0.9	(0.6)	3.2
Goodwill (existing)	4,5	5.0	1.1	(1.1)	5.0
Goodwill (recognised on acquisition)	4,5	-	-	16.7	16.7
Software	4,5	1.9	0.4	-	2.3
Other intangibles (customer database)	4,5	-	1.1	7.2	8.3
Shareholder loans	3	5.5	-	(5.5)	-
Property plant and equipment		3.4	0.5	-	3.9
<b>Total non current assets</b>		<b>18.6</b>	<b>4.0</b>	<b>16.6</b>	<b>39.4</b>
<b>Total assets</b>		<b>40.9</b>	<b>17.5</b>	<b>22.9</b>	<b>81.4</b>
Trade and other payables		(22.6)	(10.8)	-	(33.4)
Employee and other provisions	4	(4.1)	(0.4)	0.3	(4.3)
Bank loan	2	(4.5)	-	4.5	-
<b>Total current liabilities</b>		<b>(31.2)</b>	<b>(11.2)</b>	<b>4.8</b>	<b>(37.8)</b>
Trade and other payables		-	(0.6)	-	(0.6)
Employee and other provisions		(1.1)	(0.4)	-	(1.5)
<b>Non current liabilities</b>		<b>(1.1)</b>	<b>(1.0)</b>	<b>-</b>	<b>(2.1)</b>
<b>Total liabilities</b>		<b>(32.3)</b>	<b>(12.2)</b>	<b>4.8</b>	<b>(39.8)</b>
<b>Net assets</b>		<b>8.5</b>	<b>5.4</b>	<b>27.6</b>	<b>41.5</b>
<b>Equity</b>					
Contributed equity	1,3,4	9.3	26.0	14.8	50.1
Reserves		(7.1)	0.3	(0.3)	(7.1)
Retained earnings/Accumulated losses		6.3	(20.9)	13.1	(1.5)
<b>Total equity</b>	<b>4</b>	<b>8.5</b>	<b>5.4</b>	<b>27.6</b>	<b>41.5</b>

*Pro Forma Adjustments*

The following transactions and events contemplated in this Prospectus, referred to as the “Pro Forma Adjustments”, which are to take place on or before completion of the Grays Capital Raising, the MNZ Offer and the Transaction are presented as if they had occurred as at 30 June 2014, as set out below:

1. Grays will seek to raise not less than \$13.2 million in cash by way of an issue of new Grays Shares. The Grays Capital Raising will be underwritten by Caledonia. The Grays Capital Raising is being undertaken by Grays so that the Combined Group can be appropriately funded. Only Grays Shareholders will participate in the Grays Capital Raising.
2. Upon completion of the Grays Capital Raising, \$4.5m will be used to repay the existing working capital facility with the Commonwealth Bank of Australia, so that the facility will be undrawn on completion of the Transaction.
3. In addition a number of subsequent events associated with the shareholder loans, total equity and cash balances will take place as follows:

	Cash	Shareholder loans	Total equity
	As at	As at	As at
	30 June 2014	30 June 2014	30 June 2014
	\$m	\$m	\$m
Balance per the Statement of Financial Position - Grays	1.5	5.5	8.5
Cash received in consideration for repayment of shareholder loans	1.6	(1.6)	-
Dividend paid to shareholders	-	(3.7)	(3.7)
Other items	-	(0.2)	(0.2)
Cash raised net of repayment to CBA (above)	8.7	-	13.2
<b>Balance prior to Step 4. below</b>	<b>11.8</b>	<b>-</b>	<b>17.8</b>

4. MNZ will make an offer to Grays Shareholders to acquire 100% of their Grays Shares in return for the issue of MNZ Shares, plus the right to receive Bonus MNZ Shares subject to certain conditions. As the accounting acquirer, Grays measures the consideration transferred based on the fair value of the equity of MNZ not issued to Grays shareholders. Consideration transferred has been measured at \$27.5m for 19.3m shares (being the outstanding number of shares as at 5 September 2014, subsequent to the issue of shares in respect of TopBuy), valued at \$1.43 based on the prevailing share price as at 15 September 2014. As this is a provisional assessment the value of consideration transferred will need to be remeasured when the Transaction completes.

	<b>Cash</b>	<b>Total equity</b>
	<b>\$m</b>	<b>\$m</b>
	<b>As at</b>	<b>As at</b>
	<b>30 June 2014</b>	<b>30 June 2014</b>
	<b>\$m</b>	<b>\$m</b>
Balance per Step 3. - Grays	11.8	17.8
Balance acquired from MNZ	5.8	5.3
Subsequent issue of shares by MNZ in respect of TopBuy (5 September 2014)	-	0.3
Deduct reserves - MNZ	-	(0.3)
Add back accumulated losses - MNZ	-	20.9
Add back deferred tax assets and existing goodwill - MNZ		1.5
Transaction costs	(4.0)	(4.0)
<b>Balance per pro forma Statement of Financial Position</b>	<b>13.6</b>	<b>41.5</b>

5. As noted earlier with respect to acquisition accounting and the reverse acquisition, Grays has performed provisional assessments of the fair values of the assets and liabilities of MNZ as at 30 June 2014. Assets and liabilities are noted in the pro forma Statement of Financial Position above and intangible asset provisional estimates comprise the following:

	<b>Provisional accounting</b>	<b>Useful life</b>
	<b>Pro Forma</b>	
	<b>As at</b>	
	<b>30 June 2014</b>	
	<b>\$m</b>	
Goodwill (includes \$5.0m in the books of Grays)	21.7	Not amortised
Software (includes \$1.9m in the books of Grays)	2.3	3 years
Customer database (includes \$1.1m in respect of TopBuy in the books of MNZ)	8.3	3 to 5 years

**(d) Summary of the Combined Group's significant accounting policies**

Set out in Section 9.4(f) are the significant accounting policies as they relate to Grays and which form the basis of the Pro Forma Financial Information – Combined Group.

**9.6 Forward Looking Statements**

Due to the inherent uncertainties associated with making a forecast given the recent history of transactions within MNZ and Grays, the uncertainty surrounding the integration of the Combined Group, together with the volatility currently existing in the B2C and B2B business environments, the Directors are of the opinion that any forecast prepared would be potentially misleading to investors.

See Sections 6, 7 and 8 for an overview of the business operations and strategy of MNZ, Grays and the Combined Group, as well as Section 10 for an overview of risk factors that may impact the business operations and strategy of MNZ, Grays and the Combined Group.

## 10. Risk Factors

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**Before deciding whether to subscribe for MNZ Shares pursuant to the Offer, the Applicant should carefully consider the risk factors discussed in this section, as well as other information contained in this document and seek independent professional advice.**

**This section provides a summary of risks only. It does not take into account the investment objectives, financial situation, taxation position nor particular needs of the Applicant.**

**Additional risks and uncertainties not currently known to MNZ or Grays, or which MNZ and Grays consider to be immaterial, may also have an adverse effect on the value of the MNZ Shares. The information set out below does not purport to be, nor should it be construed as representing, an exhaustive summary of all possible risks.**

### 10.1 Introduction

If the Transaction is completed, Grays Shareholders will receive new MNZ Shares as consideration for the transfer to MNZ of their Grays Shares. There are a number of factors that may influence the price of MNZ Shares and the future operating and financial performance of the Combined Group. Many of these factors will remain beyond the control of the Combined Group.

This Section 10 outlines the key, but not all, risks associated with an investment in the Combined Group and the value of its shares and other risks that shareholders should be aware of.

These risks include:

- risks specific to the Transaction;
- risks specific to MNZ's business which may be material to the Combined Group;
- risks specific to Grays' business which will be material to the Combined Group;
- risks common to Grays' and MNZ's businesses; and
- risks relating to an investment in shares.

### 10.2 Risks specific to the Transaction

#### (a) Conditional Transaction

Completion of the Transaction occurs when the MNZ Offer completes. Completion of the MNZ Offer is subject to MNZ Shareholders passing the resolutions to approve the Transaction at the Meeting, and the Merger Implementation Agreement not being terminated.

The Merger Implementation Agreement may be terminated if the conditions summarised in Section 12.2 are not satisfied or waived. Some of these conditions require regulatory bodies to provide waivers, which cannot be guaranteed. Further, other conditions are beyond the control of either MNZ or Grays.

A failure to satisfy conditions has the potential to delay the Transaction, or prevent the Transaction from completing.

As of the date of this Prospectus, the MNZ Directors and the Grays Directors are not aware of any reason why any of the conditions to the Transaction will not be satisfied on or before the agreed completion date of the MNZ Offer. The MNZ Directors will keep MNZ Shareholders and the ASX advised in this regard at all relevant times, including as to the outcome of the vote by MNZ Shareholders at the Meeting.

**(b) Risk of MNZ not achieving 100% ownership of Grays**

If necessary, MNZ intends to rely on the benefit of provisions under the Grays' Shareholders Agreement and/or any rights of compulsory acquisition available to it under the Corporations Act under which, in certain circumstances, Grays Shareholders who do not accept the MNZ Offer can be compelled to transfer all of their Grays Shares to MNZ on the same terms as the MNZ Offer (or otherwise at fair value in accordance with section 664F of the Corporations Act where MNZ relies on compulsory acquisition powers available to it under the Corporations Act).

There is a risk that MNZ may not be able to effectively rely on those provisions and rights to effect the compulsory transfer to it of all Grays Shares that are not accepted into the MNZ Offer. If MNZ is unable to effect the compulsory transfer to it of all Grays Shares that are not accepted into the MNZ Offer, there is a risk that MNZ may not acquire 100% of the Grays Shares.

**(c) Integration risks**

It is possible that the integration of MNZ and Grays as a single business will be more difficult or take more time than currently anticipated, and could delay the realisation of any synergy benefits that may result from the Transaction.

**(d) Significant retained holding by Grays Shareholders**

Grays Shareholders will be required to enter into escrow arrangements in relation to 100% of the MNZ Shares they receive under the MNZ Offer.

In each case, the escrow restrictions are subject to certain exceptions as set out in more detail in Section 12.5. The absence of any sale of escrowed shares by Grays Shareholders during their escrowed period may cause, or at least contribute to, limited liquidity in the market for MNZ Shares after completion of the Transaction. This could affect the prevailing market price at which other MNZ Shareholders who are not subject to such escrow restrictions are able to sell their MNZ Shares.

Following the end of the relevant escrow period, a significant sale of MNZ Shares by Grays Shareholders, or the perception that such sales might occur, could adversely affect the market price of the MNZ Shares.

**10.3 Risks specific to MNZ's business which may be material to the Combined Group**

**(a) Business risk**

MNZ sustained a net loss after tax of \$2.2 million for the financial year ending 30 June 2014. In addition, DealsDirect, which was acquired by MNZ in January 2014 and which forms a substantial component of MNZ's operations, sustained a financial loss for the financial years ending 30 June 2013 and 30 June 2012.

There can be no guarantee that MNZ will be profitable in the foreseeable future. The quantum and timing of MNZ's future profitability is inherently uncertain. MNZ may continue to sustain losses which may impact MNZ's long-term viability.

**(b) Strategic investment risks and management of growth**

MNZ has been pursuing an acquisition and organic growth strategy. Examples of MNZ's acquisition growth strategy include the acquisition of DealsDirect and TopBuy in 2014. MNZ has also identified a number of organic growth strategies to continue to drive margin improvements and sales growth.

There is a risk that the implementation of MNZ's growth strategies may be subject to delays or cost overruns and there is no guarantee that these initiatives and strategies will generate the full benefits anticipated or result in sales growth. Further, the implementation of MNZ's growth strategies may result in changes to MNZ's product mix and the online consumer shopping experience, which may result in unintended consequences if such changes do not match customer preferences. Any delay in

implementation, failure to successfully implement, or unintended consequences of implementing any or all of MNZ's turnaround initiatives and growth strategies may have an adverse effect on MNZ's future financial performance.

**(c) DealsDirect and TopBuy brand names may diminish in reputation and value**

The DealsDirect and TopBuy brand names are key assets of MNZ's business. The reputation and value associated with these brand names could be adversely impacted by a number of factors including failure to provide customers with the quality of product and service standards they expect, disputes or litigation with third parties such as employees, suppliers and customers, or adverse media coverage. Significant erosion in the reputation of, or value associated with, the DealsDirect and TopBuy brand names could have an adverse effect on MNZ's future financial performance and financial position.

**(d) Customer preferences may change**

A significant proportion of MNZ's sales are generated from offering products in a range of household product categories, which are subject to rapid and occasionally unpredictable changes in customer preferences. A large number of products sold by MNZ are manufactured internationally which means there can be a significant delay between ordering and delivery. This delay further exposes MNZ to the risk that customer preferences may change between the time products are ordered and the time they are available for purchase. If MNZ misjudges customer preferences or fails to convert market trends into appealing product offerings on a timely basis, this may result in lower sales and margins and could adversely impact MNZ's future financial performance.

**(e) Seasonal trading patterns may change**

MNZ's sales have historically been subject to seasonal patterns. For example, historically, a disproportionate amount of annual sales have been generated over the Christmas trading period. MNZ's working capital and inventory planning strategies reflect these seasonal patterns. Any significant decrease in customer demand during peak seasons, particularly during the Christmas period, could result in MNZ being left with a substantial amount of unsold inventory, which can only be sold at significant markdowns. This would have an adverse effect on MNZ's financial performance.

**(f) Risks associated with international operations**

MNZ despatches consumer products direct from China to its Australian customers via TopBuy's distribution centre in Shenzhen. There are possible sovereign risks associated with operating in China including, without limitation, changes in the terms of local legislation, changes to the ability of foreign controlled businesses to operate in China, changes to taxation rates and concessions and changes in the ability to enforce legal rights. Further, no assurance can be given regarding future stability in China. Any such impacts may adversely impact MNZ's future operating and financial performance.

**10.4 Risks specific to Grays' business which may be material to the Combined Group**

**(a) Risk of a shortage of products to sell**

Grays' industrial (B2B) division sells a range of industrial goods and typically assists businesses that are undergoing site and plant closures, relocations and the sales of surplus equipment and industrial inventory. While this has been a traditional source of saleable goods for Grays, the B2B product availability can be irregular and this in turn can cause variations in profitability within and between reporting periods.

Similarly, Grays' consumer and retail (B2C) division relies on the availability of specific inventory categories which it sources from an extensive network of over 1,000 merchants. Increased competition and shortages of product may adversely affect Grays' consumer and retail (B2C) division's financial results. To reduce this risk, Grays has a wide variety of vendors that supply the product offering across



many product categories offered by Grays. Grays also supplements its supply of consignment product, reducing this specific risk, by purchasing certain category ranges required by its customers.

Any shortage of products to sell via auction may adversely impact Grays' future operating and financial performance.

**(b) Risk of a fall in buyer demand for items offered for sale**

Grays' industrial (B2B) division often sells high value and unique pieces of plant and equipment. A sale of these items relies on one or more buyers to bid on the items for sale. Should no buyer for particular products exist in Australia, Grays may have difficulty in selling the goods and suffer reputational risk with its vendors. To ameliorate low buyer numbers, Grays has entered into a strategic alliances with international auction and brokerage firms (see Section 7.2(e)). However, any fall in buyer demand for items offered for sale by Grays, and in particular high value and unique pieces of plant and equipment offered for sale by Grays' industrial (B2B) division, may adversely impact Grays' future operating and financial performance.

**(c) Risk relating to valuation and consulting services**

Grays provides valuations and occupational health and safety consulting services and in return receives fees for those professional services. Exposure to litigation due to potentially negligent provision, or otherwise deficient performance, of those services could result in increased costs, payments for damages and damage to reputation, which may adversely impact Grays' future operating and financial performance.

**(d) Valuation guarantee risk**

Grays will occasionally guarantee a minimum price realised at auction on a piece of equipment. When Grays does provide such guarantees, the minimum guaranteed price is normally below price that Grays expects the item to sell for at auction. However, should Grays' valuers make an error in valuing an item when setting such a minimum guaranteed price, it may cause a financial loss to Grays equal to the difference between the price realised at auction and the minimum guaranteed price. Such losses may adversely impact Grays' future operating and financial performance.

**(e) Safety risks**

Grays manage the sale of assets both at their own facilities and the facilities of their vendors. There are a number of potential safety risks associated with the sale of surplus or second hand assets. These include the risk that:

- the asset purchased is unsafe for use and injures the buyer;
- a buyer is injured whilst inspecting the asset, decommissioning the asset or relocating the asset; and
- Grays staff are injured managing the auction process at either the Grays' locations or the vendor's premises.

Grays implements processes and procedures to minimise these safety risks and employs staff dedicated to assist with compliance with those processes and procedures. However, to the extent that these risks materialise, it could result in increased costs, payments for damages and damage to reputation, which may adversely impact Grays' future operating and financial performance.

## **10.5 Risks common to MNZ's and Grays' businesses**

**(a) Risk associated with new acquisitions**

As part of its business strategy, the Combined Group may make acquisitions of or significant investments in, complementary companies or businesses. In particular, the expansion of the Combined Group's core business, and its extension into adjacent segments, relies in part on merger and acquisition opportunities.

Any acquisition of, or investment in, companies or businesses by the Combined Group may not be economically successful, which may adversely impact the Combined Group's future operating and financial performance.

**(b) Risk that demand in the Australian online market may deteriorate**

The Australian online market in which the Combined Group will operate is currently experiencing challenging conditions, due to volatility in consumer sentiment and retail demand. Changes in consumer sentiment or retail demand affect the Combined Group's customers' inclination to spend on fixed price retail goods and bidding activity on auction items. Adverse changes in consumer sentiment or retail demand may reduce sales, which may adversely impact the Combined Group's future operating and financial performance.

**(c) Risk that growth of internet penetration and online migration may decline**

While increased internet penetration and a migration of retail sales to digital platforms has occurred over recent years, there can be no guarantee that the rate of penetration and migration will continue in the future. A decline in the growth of internet penetration and online migration may limit its ability to grow sales, which may adversely impact the Combined Group's future operating and financial performance.

**(d) Risk of increased competition**

The Australian online market has been rapidly evolving and is characterised by relatively low barriers to entry. This means that new competition may arise from a number of sources, including traditional retailers that may have greater capital resources and closer supplier relationships than the Combined Group, or from global e-commerce companies with developed processes, systems, and technology. Further, suppliers may also choose to establish their own online sales sites, rather than utilising the Combined Group to sell their products and services online. Increased competition could result in margin reductions, under-utilisation of employees, reduced operating margins and loss of market share. Any of these occurrences could adversely impact the Combined Group's future operating and financial performance.

**(e) Risk of technology obsolescence**

If the Combined Group is significantly slower than its competitors in adopting the latest technology, it could lead to a reduction in visits to the Combined Group's websites. Further, new disruptive business models could emerge, or significant changes in industry structure, could lead to a significant change in the Combined Group's business economic model. Such impacts could have an adverse effect on the Combined Group's ability to attract new buyers and retain its existing customer base, which may adversely impact the Combined Group's future operating and financial performance.

**(f) Risk of disruptions to fulfilment capabilities**

The Combined Group's sales rely on its fulfilment capabilities, which in-turn rely on logistics capabilities and the availability of warehouse distribution centres both in Australia and Shenzhen, China. Should those logistics, warehouse and fulfilment capabilities fail, for example as a result of disruption to transportation and/or telecommunication networks or catastrophic destruction of infrastructure following natural disasters, this could significantly impact the Combined Group's ability to deliver products sold via its websites. Such disruptions may adversely impact the Combined Group's future operating and financial performance.

**(g) Risk of disruption to information systems**

The Combined Group employs information systems (including advanced online auction websites, data collection and analytics software) to support the business and relies on telecommunications operators, data centres and other third parties in maintaining these information systems. While the Combined Group endeavours to have disaster recovery plans and insurance in place, employs security measures and undertakes regular system maintenance, it cannot completely remove all risk of disruption to its

information systems. Any material damage or disruption to the Combined Group's information systems may adversely impact its reputation, its ability to attract buyers and its ability to make sales of products and services. Such impacts may adversely impact the Combined Group's future operating and financial performance.

**(h) Risk of disruption of internet services**

The majority of the Combined Group's sales will rely on the internet as the vehicle that transacts the sale. Should the internet be unavailable, for example as a result of technical outages or catastrophic destruction of infrastructure following natural disasters, this could significantly impact use of the Combined Group's websites and business continuity. While such disruptions remain in place, it will adversely impact the Combined Group's ability to generate sales. This may adversely impact the Combined Group's future operating and financial performance.

**(i) Hosting provider disruption risks**

The Combined Group will rely upon hosting providers to maintain continuous operation of its websites. Should they suffer outages, for example due to catastrophic destruction of infrastructure following a natural disaster, operation of the Group's websites may also be disrupted. If such hosting providers cease to offer their services, and the Combined Group was unable to obtain a replacement hosting provider quickly, this could also lead to disruption of the operation of the Combined Group's websites. While such disruptions remain in place, it will adversely impact the Combined Group's ability to generate sales. This may adversely impact the Combined Group's future operating and financial performance.

**(j) Payment systems disruption risks**

Two of the major ways in which the Combined Group's customers pay for purchases are via credit/debt cards or through online payment processors such as PayPal. If the payment gateway or other interbank processes suffer outages, or if the Combined Group is unable to access their services, the Combined Group's ability to accept payments could be significantly affected. Inability to accept payments, even if for a short period of time, may adversely impact the Combined Group's future operating and financial performance.

**(k) Credit card fraud risk**

The Combined Group is at risk of fraud from its customers who use credit/debit cards to pay for purchases. For example, customers may attempt to pay using a stolen credit card. Although the Combined Group relies on its financial institutions' anti-fraud strategies, it is not possible to eliminate all such fraud, particularly as perpetrators actively change methodologies to counter such strategies. Where a stolen credit card has been used, the Combined Group may be liable for charge-backs and charge-back fees imposed by payment gateways. Further, if the number of charge-backs in a given period is considered excessively high, credit card companies may levy fines or even exclude the Combined Group from participation in their networks. These impacts may adversely impact the Combined Group's future operating and financial performance.

**(l) Risk of hacking and data loss, theft or corruption**

The Combined Group will sell products online, and will possess a significant database of customers which will be a valuable asset. Hacking or exploitation of any vulnerability in its websites or its customer database could lead to loss, theft or corruption of data. This could render the websites unavailable for a period of time while data is restored. It could also lead to unauthorised disclosure of customers' data, with associated reputational damage, claims by customers, regulatory scrutiny and fines. Although the Combined Group has strategies and protections in place to try to minimise security breaches and to protect data, these strategies might not be successful. Further, payment gateways or financial institutions involved in facilitating credit and debt card payments could be the subject of security breaches that result in the loss, theft or corruption of data, including credit or debit card, or other personal information of

Combined Group customers. Disruption to the Combined Group's websites, or loss, theft or corruption of its data, could adversely impact the Combined Group's future operating and financial performance.

**(m) Display of inappropriate content**

The Combined Group will actively monitor and remove inappropriate content placed on its websites, whether deliberately or inadvertently. This includes but is not limited to the presentation of photographs accepted in good faith and under the terms of its supplier contracts. However, it is not possible for the Combined Group to guarantee that all content displayed on its websites is appropriate at all times. Any display of inappropriate content on any of the Combined Group's websites may be expensive to remedy or may damage its reputation, which may adversely impact the Combined Group's future operating and financial performance.

**(n) Inadvertent sale of counterfeit goods**

Whilst the Combined Group will take precautions, both legal and practical, to ensure that branded goods sold on its websites are genuine, there can be no guarantee that suppliers will not attempt to pass off counterfeit goods as genuine or legitimate. The inadvertent sale of counterfeit goods through the Combined Group's websites may be expensive to remedy or may damage its reputation, which may adversely impact on the Combined Group's future operating and financial performance.

**(o) Loss of intellectual property**

The Combined Group has developed intellectual property in-house consisting of elements of the websites, software tools, applications, buyer databases and underlying technology infrastructure. The laws relating to intellectual property assist to protect the Combined Group's intellectual property rights, however any legal action that the Combined Group may bring to protect its intellectual property could be unsuccessful and expensive and may divert management's attention from its business operations. In addition, despite precautionary measures, there can be no guarantee that unauthorised use or copying of the Combined Group's intellectual property will be prevented. Further, competitors may be able to design around the Combined Group's technology or develop competing technologies substantially similar to those of the Combined Group without any infringement of the Combined Group's intellectual property rights. Any loss of the Combined Group's ability to exclusively use its intellectual property may adversely impact the Combined Group's future operating and financial performance.

**(p) Loss of supplier relationships**

The Combined Group sells products sourced from various suppliers. Contracts between the Combined Group and its suppliers will generally be short-term in nature. There can be no guarantee that suppliers will continue to supply products and services to the Combined Group. Should a significant number of suppliers cease to supply the Combined Group, this may result in a shortage of products to sell, which may adversely impact the Combined Group's future operating and financial performance.

**(q) Loss of key personnel**

The Combined Group success will be dependent on the retention of key personnel, in particular those individuals discussed at Sections 8.10 and 8.12. These individuals have extensive experience in, and knowledge of, the Australian online retail industry and MNZ's and Grays' respective businesses. The loss of those key personnel, and an inability to recruit or retain suitable replacement or additional personnel, may adversely impact the Combined Group's future operating and financial performance.

**(r) Risk of shortage of qualified employees**

The Combined Group is reliant upon qualified employees in order to develop and maintain its operations. Any inability to attract, retain and motivate qualified employees could impact the Combined Group's operations. In particular, any increased competition for qualified employees in the industry in which the Combined Group operates could result in the loss of a substantial number of qualified employees or could

cause wage inflation, which may impact on the Combined Group's profitability. Such impacts may adversely impact the Combined Group's future operating and financial performance.

**(s) Exposure to product recall and warranty obligations**

The Combined Group will sell a number of products sourced from a range of suppliers. Associated with the sale of these products are various recall and warranty obligations. Any significant product recall or warranty obligation may result in a cost that is borne by the Combined Group, net of insurance and other recoverable costs. The Combined Group's potential exposure to such costs is not quantifiable and there is a risk that those costs could be material. If the Combined Group incurs material costs under product recall and warranty obligations, this may adversely impact the Combined Group's future operating and financial performance.

**(t) Litigation risk**

Litigation brought against the Combined Group by third parties including but not limited to customers, employees, business partners, suppliers, landlords, government agencies or regulators may result in a cost that is borne by the Combined Group, net of insurance and other recoverable costs. The Combined Group's potential exposure to such costs is not quantifiable and there is a risk that those costs could be material. If the Combined Group incurs material costs due to litigation, this may adversely impact the Combined Group's future operating and financial performance.

**(u) Adverse changes in foreign exchange rates**

The Combined Group will source a significant proportion of its products internationally, predominantly in US dollars. While the Combined Group will, from time-to-time, engage in foreign currency hedging which limits its exposure to adverse movements in foreign exchange rates, there remains a risk that exchange rate changes may adversely impact its business. For example, a high Australian dollar as compared to the US dollar tends to reduce the average sale price of items offered for sale by Grays' consumer and retail (B2C) division, which in-turn reduces the commission received when Grays acts as agent for consignment goods, and reduces the dollar margin received when selling own inventories. Accordingly, adverse movements in exchange rates may adversely impact the Combined Group's future operating and financial performance.

**(v) Government regulations**

The Combined Group will be subject to local laws and regulations in each of the jurisdictions in which it operates (including taxation legislation). Future laws or regulations may be introduced concerning various aspects of the internet, including online content, e-commerce, foreign ownership of internet and media or retail companies, liability for third party activities and user privacy, and workplace health and safety, all of which may impact the Combined Group's operations. Changes in or extensions of laws and regulations affecting either the retail industry or internet business operations in the countries in which the Combined Group operates and the rules of industry organisations could restrict or complicate the Combined Group's activities and significantly increase its compliance costs. Any such impacts may adversely impact the Combined Group's future operating and financial performance.

**10.6 Risks relating to an investment in shares**

**(a) Economic conditions**

The Combined Group's funding position, financial performance and ability to execute its strategy is impacted by a variety of general global economic, political, social and business conditions. Key factors that have the potential to impact the Combined Group's business include inflation, interest rates and other general economic factors. Deterioration in any of these conditions may adversely impact the Combined Group's future operating and financial performance.

**(b) Share market conditions**

There are risks associated with an investment in financial products on a stock exchange. Share price movements could affect the value of the MNZ Shares and the value of any investment in the Combined Group.

The value of MNZ Shares can be expected to fluctuate depending on various factors including general worldwide economic conditions, changes in government policies, investor perceptions, movements in interest rates and stock markets, prices of the Combined Group's products, variations in the operating costs and development and sustaining capital expenditure which the Combined Group will require in the future.

**(c) Liquidity**

There can be no certainty that following the Transaction, an active market in the MNZ Shares will develop, or that the price of MNZ Shares will increase.

In this regard, immediately after completion of the Transaction, Grays Shareholders will hold in aggregate approximately 77.9% of the total number of MNZ Shares. Further, all of these MNZ Shares held by the Grays Shareholders will be subject to an escrow period after completion of the Transaction, and certain of the existing MNZ Shares are subject to escrow restrictions that will continue after completion of the Transaction.

If an active market in MNZ Shares does not develop, it may be more difficult for MNZ Shareholders to sell their MNZ Shares. This may also affect the volatility of the trading prices of MNZ Shares on ASX.

**(d) Shareholder dilution**

In the future, the Combined Group may elect to issue shares or engage in fundraisings and also to fund, or raise proceeds, for acquisitions that the Combined Group Board may decide to make. While the Combined Group will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), MNZ Shareholders may be diluted as a result of such issues of MNZ Shares and fundraisings.

# 11. Investigating Accountant's Report

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**This section sets out the Investigating Accountant's Report and Financial Services Guide prepared by McGrathNicol Transaction Advisory Pty Ltd in respect of the Historical Financial Information – MNZ, Historical Pro Forma Financial Information – Grays and the Combined Group Pro Forma Financial Information.**



McGrathNicol

29 September 2014

The Directors  
Grays (Aust) Holdings Pty Limited  
Homebush Corporate Park  
29-33 Carter Street  
Homebush NSW 2140

The Directors  
Mnemon Limited  
5 English Road  
Ingleburn NSW 2565

**McGrathNicol Transaction  
Advisory Pty Ltd**

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Dear Directors

**Investigating Accountant's Report and Financial Services Guide**

**Introduction**

We have been engaged by the Directors of Grays (Aust) Holdings Pty Limited ("Grays") and Mnemon Limited ("MNZ") (ultimately to be renamed Grays eCommerce Group Limited) in connection with the proposed transaction relating to MNZ's offer of 73.3 million MNZ shares in exchange for 100% of the shares of Grays (the "Transaction"). The Transaction will result in a "Combined Group" of MNZ and Grays and its subsidiaries. This Investigating Accountant's Report ("Report") has been prepared as part of MNZ's Prospectus ("Prospectus") on the Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information - Combined Group.

Expressions and terms defined in the Prospectus have the same meaning in this Report.

McGrathNicol Transaction Advisory Pty Ltd ("McGrathNicol Transaction Advisory") holds an Australian Financial Services Licence ("AFSL") number 436347 under the *Corporations Act 2001* ("Corporations Act").

**Scope**

McGrathNicol Transaction Advisory has been engaged by the Directors to review the Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group as follows:

***Historical Financial Information – MNZ***

The Historical Financial Information – MNZ comprises:

- The historical consolidated Statement of Profit & Loss for the year ended 30 June 2014, as set out in Section 9.3(a);
- The historical consolidated Statement of Cash Flows for the year ended 30 June 2014, as set out in Section 9.3(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Section 9.3(e).

(Collectively "Historical Financial Information – MNZ")

In association  
with



**Advisory  
Forensic  
Transactions  
Restructuring  
Insolvency**





***Historical Financial Information - Grays***

The Historical Financial Information – Grays comprises:

- The historical consolidated Statements of Profit & Loss for the three years ended 30 June 2012, 30 June 2013 and 30 June 2014, as set out in Section 9.4(a);
- The historical consolidated Statements of Cash Flows for the three years ended 30 June 2012, 30 June 2013 and 30 June 2014, as set out in Section 9.4(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Section 9.4(e).

(Collectively “Historical Financial Information – Grays”)

The Historical Financial Information – MNZ and the Historical Financial Information - Grays has been derived from the following:

- the audited financial statements of MNZ for the year ended 30 June 2014; and
- the audited financial statements of Grays for the years ended 30 June 2012 and 2013.

The financial statements for MNZ for the year ended 30 June 2014, and the financial statements for Grays for the years ended 30 June 2012 and 2013 were audited by Ernst & Young and unqualified audit opinions were issued. In respect of 30 June 2014 for Grays, preliminary audit clearance has been provided by Ernst & Young however as at the date of this Prospectus the statutory consolidated financial statements have not been approved by the Directors for signing and are yet to be lodged with ASIC.

The Historical Financial Information – MNZ and the Historical Financial Information – Grays are presented in an abbreviated form, insofar as they do not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The Historical Financial Information – MNZ and the Historical Financial Information – Grays have been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in the Australian Accounting standards and MNZ and Grays’ adopted accounting policies.

***Pro Forma Financial Information – Combined Group***

The Pro Forma Financial Information – Combined Group comprises:

- An aggregated Statement of Profit & Loss of the Combined Group for the year ended 30 June 2014, as set out in Section 9.5(a);
- A pro forma Statement of Cash flows of the Combined Group for the year ended 30 June 2014, assuming completion of the Grays Capital Raising, the MNZ Offer and the Transaction as set out in Sections 9.5(b) and (c); and
- A pro forma Statement of Financial Position of the Combined Group as at 30 June 2014, assuming completion of the Grays Capital Raising, the MNZ Offer and the Transaction as set out in Section 9.5(c),

(Collectively “Pro Forma Financial Information – Combined Group”)

The Pro Forma Historical Financial Information - Combined Group has been derived from the Historical Financial Information – MNZ and the Historical Financial Information - Grays, after adjusting for the effects of the Pro Forma Adjustments described in Section 9.5(c) of the Prospectus. The stated basis for preparation is the recognition and measurement principles contained in Australian Accounting Standards



applied to the Historical Financial Information – MNZ and the Historical Financial Information – Grays and the events or transactions to which the Pro Forma Adjustments relate, as described in Section 9.5(c) of the Prospectus, as if those events or transactions had occurred as at 30 June 2014.

Due to its nature, the Pro Forma Historical Financial Information - Combined Group does not represent the Combined Group's actual or prospective financial position, financial performance, and cash flows.

#### **Directors' responsibility**

The Directors of MNZ and Grays are responsible for the preparation of the Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group, including the selection and determination of Pro Forma Adjustments made to the Historical Financial Information – MNZ and the Historical Financial Information – Grays and included in the Pro Forma Financial Information – Combined Group.

This includes responsibility for such internal controls as the Directors determine are necessary to enable the preparation of Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group to be free from material misstatement, whether due to fraud or error.

#### **Our responsibility**

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the Historical Financial Information – MNZ, the Historical Financial Information – Grays or the Pro Forma Financial Information – Combined Group.

#### **Conclusions**

##### ***Historical Financial Information – MNZ***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information - MNZ, as described in Section 9.3 of the Prospectus, and comprising:

- The historical consolidated Statement of Profit & Loss for the year ended 30 June 2014, as set out in Section 9.3(a);
- The historical consolidated Statement of Cash Flows for the year ended 30 June 2014, as set out in Section 9.3(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Section 9.3(e),

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 9.2(d) of the Prospectus.



***Historical Financial Information - Grays***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information - Grays, as described in Section 9.4 of the Prospectus, and comprising:

- The historical consolidated Statements of Profit & Loss for the three years ended 30 June 2012, 30 June 2013 and 30 June 2014, as set out in Section 9.4(a);
- The historical consolidated Statements of Cash Flows for the three years ended 30 June 2012, 30 June 2013 and 30 June 2014, as set out in Section 9.4(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Section 9.4(e),

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 9.2(d) of the Prospectus.

***Pro Forma Financial Information – Combined Group***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Financial Information – Combined Group comprising:

- An aggregated Statement of Profit & Loss of the Combined Group for the year ended 30 June 2014, as set out in Section 9.5(a);
- A pro forma Statement of Cash Flows of the Combined Group for the year ended 30 June 2014, as set out in Section 9.5(b); and
- A pro forma Statement of Financial Position of the Combined Group assuming completion of the Capital Raising, the MNZ Offer and the Transaction as set out in Section 9.5(c).

is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 9.2(d) of the Prospectus.

**Restriction on use**

Without modifying our conclusions, we draw attention to Section 9.1 of the Prospectus, which describes the purpose of the Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group, being for inclusion in the Prospectus. As a result, the Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group may not be suitable for use for another purpose.

**Consent**

McGrathNicol Transaction Advisory has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is included.

**Liability**

We disclaim any assumption of responsibility for any reliance on this Report or on the Historical Financial Information – MNZ, the Historical Financial Information – Grays and the Pro Forma Financial Information – Combined Group to which this Report relates for any purposes other than the purpose for which it was prepared. This report should be read in conjunction with the Prospectus.

**Declaration of interest**

McGrathNicol Transaction Advisory does not have any interest in the outcome of this Transaction other than in the preparation of this Report and participation in the review procedures for which normal professional fees will be received.

Yours faithfully

Anne-Maree Keane  
Authorised Representative

Jamie Irving  
Director



## Financial Services Guide

### *Purpose of this guide*

This Financial Services Guide ("FSG") provides you with important information to assist you in deciding how to use our Report. It provides you with information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

We act on behalf of our client to whom our Report is addressed when providing financial services; where you are not the addressee we are required to issue you this FSG under the Corporations Act and the terms of our Australian Financial Services Licence ("AFSL") as a result of our client providing you with a copy of our Report.

### *Financial services we are authorised to provide*

We are authorised to provide general financial product advice in relation to securities, and to arrange for another person to issue, apply for, acquire, vary or dispose of securities to wholesale clients.

### *General financial product advice*

Our Report provides general financial product advice only. In preparing this Report, we have not taken into account your personal circumstances including financial situation or needs. You should consider whether any advice contained in our Report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

We provide no financial services directly to retail clients and receive no remuneration from retail clients for financial services. We do not provide any personal retail financial product advice to retail investors nor do we provide market-related advice to retail investors. You were provided with a copy of our Report because of your connection to the matters in respect of which we have been engaged to report.

### *Remuneration for our services*

Our fees have been agreed with our client on a fixed fee or a time cost basis, and we may also be reimbursed for our out of pocket expenses. Our fees are disclosed within Section 12.9. We will not receive any other

commission, fee or benefit in connection with the provision of the Report.

The remuneration provided to our directors, authorised representatives and the partners, officers and employees of our associated entities is based on their overall performance and contribution over the course of a financial year. No commissions are paid in respect of the provision of financial product advice.

### *Associations and relationships*

McGrathNicol is a group of independent entities operating in association. We and our associated entities do not have any formal associations or relationships with any entities that are issuers of financial products but may provide professional services to issuers of financial products in the ordinary course of business.

### *Complaints process*

If you have any concerns regarding our Report, please let us know. If you wish to lodge a formal complaint, you may do so in writing to: The Risk Partner, McGrathNicol, GPO Box 9986, Sydney NSW 2000 or [complaint@mcgrathnicol.com](mailto:complaint@mcgrathnicol.com). We will respond to your complaint promptly.

If you are not satisfied with our response or the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service ("FOS"). FOS provides free advice and assistance to consumers to assist them to resolve complaints relating to the financial services industry. FOS can be contacted on 1300 780 880 or GPO Box 3, Melbourne VIC 3001, or [info@fos.org.au](mailto:info@fos.org.au). Further details may be obtained from [www.fos.org.au](http://www.fos.org.au).

### *Compensation arrangements*

We hold professional indemnity insurance that covers the services we provide. This insurance as required by section 912B of the Corporations Act 2001 (Cth).

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McGrathNicol Transaction Advisory Pty Ltd, ABN 83 160 621 054, AFSL 436347 of Level 31, 60 Margaret Street, Sydney, NSW 2000.

29 September 2014

## 12. Additional Information

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**This section provides you with additional information regarding the Transaction.**

### 12.1 Key Transaction documents

In order to give effect to the Transaction, the parties have or will enter into the following material agreements:

- the Merger Implementation Agreement;
- the MNZ Offer Terms;
- Escrow Deeds;
- Warranty Deed; and
- an Underwriting Deed between Grays and Caledonia in respect of the Grays Capital Raising.

Sections 12.2 to 12.3 set out a summary of the material terms of each of these agreements.

### 12.2 Merger Implementation Agreement

#### (a) Overview

Grays and MNZ are parties to a Merger Implementation Agreement dated 5 August 2014. Under the Merger Implementation Agreement and the MNZ Offer Terms, MNZ will acquire all of the shares in Grays (including shares issued under an entitlement offer to be conducted by Grays) in consideration for new MNZ shares and, where applicable, bonus shares issued by MNZ (Transaction).

#### (b) Conditions precedent

The following conditions precedent which must be satisfied or waived before completion under the MNZ Offer Terms, the acquisition of the Grays shares by MNZ and the issue of MNZ shares to Grays' shareholders can occur:

- **MNZ Board Endorsement:** the MNZ Board unanimously endorses the Transaction (and does not withdraw such endorsement) including unanimously recommending in this Prospectus that MNZ shareholders vote in favour of resolutions approving the issue of new shares to Grays shareholders and approving the change in scale of MNZ's activities arising from the transactions contemplated;
- **No MNZ Material Adverse Change:** where the EBITDA of the MNZ Group for the three months to 30 September 2014 is negative \$500,000 or worse or no matter, event, circumstance or contingent liability occurs, is announced or becomes known to Grays or the MNZ Board after the date of the Merger Implementation Agreement which (individually or in aggregate) diminishes or could be reasonably be expected to diminish or result in (as the case may be):
  - the net assets of the MNZ Group by an amount of \$1.25 million or more;
  - the EBITDA of the MNZ Group for the 30 June 2015 financial year being \$750,000 or less; or
  - a material adverse effect of the financial condition, assets, liabilities, results of operations, profitability or prospects of the MNZ Group,

other than to the extent such matter, event, circumstance or contingent liability is required to be done under the Merger Implementation Agreement, is undertaken (or not) at the request of Grays or is known to Grays;

- **No MNZ Prescribed Occurrence:** there being no ‘MNZ Prescribed Occurrence’ on or after the date of the Merger Implementation Agreement, which includes certain alterations, issues or reductions to the securities of the MNZ Group, making any distributions, amendments to its constitution, acquisitions or disposal of securities, assets, business or intellectual property (other than in the ordinary course), providing or entering certain financial accommodation or debt forgiveness, capital expenditure greater than and entering contracts or commitments that require payments of more than \$500,000 and no member of the MNZ Group becoming insolvent;
- **ASX consent or change in terms:** ASX has issued a waiver to allow the issue of bonus shares in MNZ to Grays shareholders (if, as and when appropriate) or that if such waiver is not issued, that Grays and MNZ agree to changes to the terms of the Transaction to deliver an equivalent commercial result;
- **Grays Board Endorsement:** the Grays Board unanimously endorses the Transaction (and does not withdraw such endorsement) including unanimously recommending in this Prospectus that Grays shareholders accept the MNZ Offer;
- **Grays Capital Raising:** \$13.2 million is raised (after deducting costs) pursuant to the capital raising to be conducted by Grays;
- **Grays Material Adverse Change:** where the EBITDA of the Grays Group for the three months to 30 September 2014 is less than \$1 or no matter, event, circumstance or contingent liability occurs, is announced or becomes known to MNZ or the Grays Board after the date of the Merger Implementation Agreement which (individually or in aggregate) diminishes or could reasonably be expected to diminish or result in (as the case may be):
  - the net assets of the Grays Group by an amount of \$10 million or more;
  - the EBITDA of the Grays Group for the 30 June 2015 financial year being \$4 million or less; or
  - a material adverse effect of the financial condition, assets, liabilities, results of operations, profitability or prospects of the Grays Group,

other than to the extent such matter, event, circumstance or contingent liability is required to be done under the Merger Implementation Agreement, is undertaken (or not) at the request of MNZ or is known to MNZ;

- **Grays Prescribed Occurrence:** there being no ‘Grays Prescribed Occurrence’ on or after the date of the Merger Implementation Agreement, which includes certain alterations, issues or reductions to the securities of the Grays Group, making any distributions, amendments to its constitution, acquisitions or disposal of securities, assets, business or intellectual property (other than in the ordinary course), providing or entering certain financial accommodation or debt forgiveness, capital expenditure greater than and entering contracts or commitments that require payments of more than \$1 million and no member of the MNZ Group becoming insolvent;
- **New MNZ shares cap:** that, subject to the condition precedent relation to ‘ASX consent or change in terms, on completion of the Transaction the aggregate number of new MNZ shares issued to Grays shareholders is not more than 77.92% of the total number of MNZ shares on issue immediately after completion.

Grays is the party entitled to the benefit (which has the right to waive a condition precedent or terminate the Merger Implementation Agreement if it cannot be satisfied as required) of all the conditions precedent other than the Grays Board Endorsement condition precedent which is for the benefit of Grays and MNZ.

**(c) Transaction obligations**

MNZ and Grays are subject to a general obligation to execute all documents and do all acts and things within its power as may be necessary or desirable for the implementation and performance of the Transaction in accordance with the transaction timetable. Each of MNZ and Grays has also agreed to particular obligations, including in respect of promoting the transaction, preparing, assisting, reviewing and despatching (as appropriate) the requisite documentation for the Transaction, providing information, engaging independent experts (as need be), undertaking specified Transaction steps, notifying the other of certain objections or obstructions, liaising with regulators and independent experts and convening meetings.

If approval under item 7 of section 611 of the Corporations Act is required to avoid a contravention of section 606 of the Corporations Act (due to a Grays shareholder having voting power of more than 20% in MNZ as a result of the Transaction) certain of MNZ's obligations and Grays obligations referred to above shall extend to the matters necessary to seek MNZ shareholder approval under item 7 of section 611.

**(d) Conduct of business**

From the date of the Merger Implementation Agreement to the date of completion of the Transaction, Grays and MNZ must each conduct their respective businesses in the ordinary course and have agreed to customary restrictions to not undertake certain transactions or do certain things in respect of their business prior to completion of the Transaction (including those things that would give rise to an MNZ or Grays prescribed occurrence as described in the conditions precedent section above).

**(e) Board recommendations and reconstitution**

MNZ's directors must unanimously state that the Transaction is in the best interests of its shareholders, recommend that its shareholders vote in favour of the resolutions approving the issue of new shares to Grays shareholders and approving the change in scale of MNZ's activities arising from the transactions contemplated and must not change, withdraw or modify those recommendations (or make a statement that contradicts the above) unless the independent expert opines that the issue of new MNZ shares is not fair and reasonable to MNZ shareholders, a Grays prescribed occurrence or material adverse change (as described in the conditions precedent above) occurs or an offer is received that the MNZ Board determines is a superior transaction for MNZ.

Grays' directors must unanimously state that the Transaction is in the best interests of its shareholders, recommend that its shareholders vote in favour of the resolutions approving amendments to Grays constitution and shareholders agreement and accept the MNZ Offer and must not change, withdraw or modify those recommendations (or make a statement that contradicts the above) unless the independent expert opines that MNZ Offer is not in the best interests of Grays shareholders, an MNZ prescribed occurrence or material adverse change (as described in the conditions precedent above) occurs or an offer is received that the Grays Board determines is a superior transaction for Grays.

On completion of the Transaction the MNZ board will be reconstituted so that it comprises Jonathan Pinshaw (chair), Naseema Sparks, Mark Bayliss (who will also be appointed CEO of MNZ), Will Vicars along with an additional non-executive director to be determined.

**(f) Exclusivity**

From the date of the Merger Implementation Agreement until the earlier of its termination and six months from the date of the Merger Implementation Agreement:

- **No shop:** each of Grays and MNZ must not, and must procure that its representatives do not, solicit, invite, facilitate, encourage or initiate any enquiries, negotiations or proposals (or communicate any intention to do any of those things) with a view of obtaining from any person an alternative offer or proposal;



- **No talk:** each of Grays and MNZ must not, and must procure that its representatives do not, directly or indirectly initiate, negotiate or enter into or participate in negotiations or discussions with any person (or communicate any intention to do any of those things) in respect of an alternative offer or proposal;
- **Due diligence:** each of Grays and MNZ must not, and must procure that its representatives do not, in respect of an alternative offer or proposal from a third party, solicit, invite, initiate, encourage or facilitate any third party to undertake due diligence investigations on, or make available any non-public information in respect of, it (including its related entities, business and operations);
- **Notify of any approach or recommendation:** if either Grays or MNZ receives an alternative offer or proposal it resolves to consider, Grays or MNZ (as appropriate) must notify the other:
  - of the existence and material details of such offer or proposal;
  - if it proposes to provide information to or allow the third party to undertake due diligence; and
  - if its board has resolved to recommend the alternative offer or proposal; and
- **Exceptions and fiduciary carve out:** in addition to some customary exceptions to the above exclusivity arrangements (for example, providing information required by law or to auditors, brokers, customers or suppliers in the ordinary course), the ‘No talk’ and ‘Due diligence’ restrictions outlined above do not apply to the extent they restrict a party or its board from taking or refusing to take part in any action with respect to an alternative offer or proposal that that party's board has determined is a superior transaction for it.

**(g) Representations and warranties**

Both MNZ and Grays have given customary short form representations and warranties in the Merger Implementation Agreement in respect of title, capacity, authority and solvency. In addition to these customary short form warranties, Grays gives a broad set of warranties to MNZ under the Warranty Deed (see Section 12.4 below for a summary of the Warranty Deed).

**12.3 MNZ Offer Terms**

**(a) Overview**

The Offer Terms (which comprise Annexure A of the Merger Implementation Agreement) sets out the terms on which MNZ will make the MNZ Offer and pursuant to which Grays Shareholders will have the right to receive bonus shares issued by MNZ, subject to certain conditions.

**(b) Condition precedent**

The MNZ Offer will not be made if the Merger Implementation Agreement is terminated on or before the date of completion of the MNZ Offer because of a breach of the conditions precedent to the Merger Implementation Agreement. See Section 12.2(b) for a discussion of these conditions precedent.

**(c) Offer to purchase shares**

MNZ will make an offer to Grays Shareholders to acquire all of their Grays Shares. As such, Grays Shareholders will not be able to accept the offer by agreeing to sell only some of their Grays Shares. The MNZ Offer is made on the terms that the Grays Shares will be sold to MNZ free from encumbrances and with all rights, such as dividend or voting rights, attached or accrued to them.

MNZ will offer the following consideration for the purchase of the Grays Shares:

- MNZ will issue 638 new fully-paid ordinary shares in the capital of MNZ for each Grays Share sold to MNZ; and

- a number of additional new MNZ shares if, on the first anniversary after completion of the MNZ Offer, the former Grays Shareholder holds a number of MNZ shares equal to or greater than 75% of the new MNZ shares issued to them as described above.

The new MNZ shares will be issued free from encumbrances, subject to MNZ's constitution and on the basis that they rank equally in all respects with the other MNZ Shares on issue at the time of the MNZ Offer. The new MNZ Shares will be listed for quotation on the Official List of the ASX.

The new MNZ shares issued under the MNZ Offer will be subject to escrow restrictions. See Section 12.5 for further information about the escrow restrictions.

The MNZ Offer will remain open for a period of three weeks, unless it is extended by MNZ. Grays Shareholders may only accept the offer during that period.

**(e) Effect of acceptance**

Acceptance by a Grays Shareholder (Accepting Shareholder) of the MNZ Offer will constitute:

- an agreement by that Accepting Shareholder to transfer their Grays Shares to MNZ;
- an application by that Accepting Shareholder to subscribe for the new MNZ shares on completion of the MNZ Offer; and
- an agreement by that Accepting Shareholder to become a member of MNZ for the purpose of the Corporations Act.

From the date of acceptance of the offer, the Accepting Shareholder must not dispose of, grant an option over or grant any interest in any Grays Share or encumber any Grays Share. The Accepting Shareholder appoints MNZ as sole proxy to attend and vote at general meetings of Grays and must not itself attend or vote at any general meeting of Grays from the date of completion of the MNZ Offer until the shares are registered in the name of MNZ. The Accepting Shareholder also waives any rights of pre-emption they may have in respect of any Grays Shares.

**(f) Warranties and limitations on liability**

MNZ and the Accepting Shareholder each give various warranties in relation to the MNZ Offer. The Accepting Shareholder warrants that it is the registered owner of the Grays Shares, has the authority to accept the MNZ Offer, has not been subject to an insolvency event, the shares are free from encumbrances and no pre-emptive rights are attached to the shares.

An Accepting Shareholder's liability for a breach of warranty, contract or in tort, is limited to the value of the consideration actually received by the Accepting Shareholder under the MNZ Offer.

MNZ gives more extensive warranties than the Accepting Shareholder, for example in relation to its corporate status, the action it has taken to facilitate the offer, its capital structure, compliance with regulatory requirements such as continuous disclosure obligations, material contracts it has entered into, its employees and superannuation, litigation, tax, intellectual property, insurance and property owned by MNZ.

Liability to the Accepting Shareholders for claims for a breach of a warranty are subject to certain financial and time limits (among others), including limiting aggregate liability to a maximum of \$5 million. However, the Accepting Shareholders may only recover the value of liabilities owed to them in respect of any breach of a warranty given by MNZ under the MNZ Offer from MNZ's warranty insurer. MNZ intends to obtain such warranty insurance prior to the date of the MNZ Offer.

Accepting Shareholders have an obligation to mitigate their loss in respect of any matter that gives rise to a breach of a warranty given by MNZ.

The warranties given MNZ are also subject to and qualified by facts, matters or circumstances within the that are fairly disclosed by MNZ to Grays in a specified set of due diligence material and certain publicly accessible information.

#### **12.4 Warranty Deed**

On or about the date of the MNZ Offer and in connection with the MNZ Offer, Grays and MNZ will enter into a deed pursuant to which Grays will give MNZ additional warranties in respect of Grays, members of the Grays Group, the share capital of Grays, Grays Group accounts, business contracts of the Grays Group, employees, superannuation, litigation, tax, intellectual property, insurance, properties and compliance with statutory requirements (**Warranty Deed**).

The warranties given by Grays under the Warranty Deed are given on the date of the Warranty Deed and on the date of completion of the MNZ Offer. The warranties are consistent with warranties in agreements for the sale and purchase of a corporate group by way of shares.

Liability to MNZ for claims for a breach of a warranty are subject to certain financial and time limits (among others), including limiting aggregate liability to a maximum of \$10 million. However, MNZ may only recover the value of liabilities owed to them in respect of any breach of a warranty given by Grays under the Warranty Deed from Grays' warranty insurer. Grays intends to obtain such warranty insurance prior to the date of the MNZ Offer.

MNZ has an obligation to mitigate its loss in respect of any matter that gives rise to a breach of a warranty given by Grays.

The warranties are also subject to and qualified by facts, matters or circumstances within the actual knowledge of MNZ or the MNZ Group on or before the date of Warranty Deed or that are fairly disclosed by Grays to MNZ in the Warranty Deed, a specified set of due diligence material and certain publicly accessible information.

#### **12.5 Escrow Deeds**

Each Grays Shareholder (who is issued MNZ Shares under the MNZ Offer) is required enter into an individual deed with MNZ under which they will agree to escrow;

- 100% of the MNZ Shares issued to them under the MNZ Offer for a period ending on the date that is one week following the date of announcement by MNZ on ASX of its interim results for the half year ending 31 December 2014; and
- 50% of the MNZ Shares issued to them under the MNZ Offer for a period ending on the date that is one week following the date of announcement by MNZ on ASX of its interim results for the financial year ending 30 June 2015.

Under the Escrow Deeds, each Grays Shareholder (who is issued MNZ Shares under the MNZ Offer) agrees, for the escrow periods set out above, to:

- not dispose or agree or offer to dispose of, create a security interest in or agree to create a security interest in their escrowed MNZ Shares and not deal with, do, or omit from doing, anything which would have the effect of transferring control or ownership of their escrowed MNZ Shares; and
- the application of a holding lock over their MNZ Shares.

The restrictions set out above will not apply in certain circumstances including to the extent necessary to allow acceptance of a bona fide takeover bid (on certain terms) for all MNZ Shares, a transfer or cancellation of MNZ Shares as part of a scheme of arrangement, as required by law, pursuant to a capital return or reduction undertaken by MNZ or as approved by MNZ.

## 12.6 Underwriting Deed

Grays and Caledonia have entered into a deed dated on or around 29 September 2014 pursuant to which Caledonia has agreed to fully underwrite the Grays Capital Raising (**Underwriting Deed**).

No fee is payable by Grays to Caledonia in consideration for provision of the underwrite subject of the Underwriting Deed.

The Underwriting Deed provides, among other things, the following:

- **Condition:** the underwriting commitment is subject to MNZ Shareholders approving the Transaction 2014 and the Merger Implementation Agreement not being terminated;
- **20% limit:** the number of shortfall shares that Caledonia must subscribe is limited so that Caledonia and its associates will have voting power in MNZ following completion of the MNZ Offer of less than 20%. If that limit applies, Caledonia must ensure that non-associated sub-underwriters subscribe for any shortfall shares above the cap;
- **Sub-Underwriters:** Caledonia may appoint sub-underwriters at its costs. Any such appointment does not limit Caledonia's obligations to ensure that applications are received for all shortfall shares;
- **Indemnity:** Grays indemnifies Caledonia (as underwriter) including its directors, officers, employees and advisers against certain matters in relation to the Grays Capital Raising (including a breach of a warranty given by Grays (see below)), subject to certain customary limitations;
- **Warranties:** both of Grays and Caledonia have given representations and warranties, and Grays has given the underwriter certain undertakings, customary for an underwriting deed of this nature;
- **Termination:** The Underwriting Deed can be terminated on the occurrence of certain events which include, broadly speaking:
  - the ASX All Ordinaries Share Price Index is 85% or less than the level at the close of trading on the date of the deed for five consecutive days;
  - the MNZ Share price is, for five consecutive days, at a level which is 75% or less than the level at the close of trading on 30 September 2014;
  - there is a change in law, governmental policy or regulations which does or is likely to prohibit, restrict or regulate the Grays Capital Raising;
  - a material contract referred to in the offer booklet for the Grays Capital Raising is, without Caledonia's consent, breached by Grays or a related body corporate, terminated, amended or found to be void or voidable;
  - Grays breaches the Underwriting Deed or any representation or warranty given becomes untrue or incorrect;
  - Grays alters its capital structure or constitution without Caledonia's consent;
  - Grays or a related body corporate fails to comply with its constitution, a statute, ASIC or other governmental guideline, requirement, policy, order or request;
  - a material part of Grays' business or property is disposed of or it ceases to carry on business;
  - there is an outbreak of (or major escalation of) hostilities involving Australia, UK, USA, China or Japan;
  - there is a material adverse change in Grays' financial position or that of a related body corporate;

- the offer booklet for the Grays Capital Raising is or becomes defective;
- Grays does not despatch a supplementary or replacement offer booklet for the Grays Capital Raising in the form, with the content and within the time reasonably required by Caledonia;
- any Grays' director, its chief executive officer or its chief financial officer is charged with an indictable offence relating to a financial or corporate matter;
- there is a change to the Grays Directors or a related body corporate (excluding Caledonia's nominees to the Grays Board) or Grays senior management without Caledonia's consent (not to be unreasonably withheld); or
- Grays or a related body corporate suffers an insolvency event, agrees to encumber the whole or a substantial part of its business, is the subject of material proceedings commenced or its affairs are subject to an investigation by a person appointed to do so by law,

provided that, in the reasonable opinion of the underwriter, the event has or is likely to have, or the events together have or are likely to have, a material adverse effect, or could give rise to a liability for Caledonia under the Corporations Act or otherwise.

If the Underwriting Deed is terminated in accordance with its terms, or the condition to the underwriting commitment described above is not satisfied, then unless Grays can find alternative person(s) to acquire the shares subject of the underwriting commitment (or all Grays Shareholders take-up their full entitlement under the Grays Capital Raising), the Grays Capital Raising may not raise the minimum amount of \$13.2 million necessary for the Transaction to proceed.

## 12.7 ASX Waivers

In relation to the Transaction, ASX has provided the following confirmations and waivers of the ASX Listing Rules:

- confirmation that the proposed terms of the Bonus MNZ Shares are appropriate and equitable for the purpose of ASX Listing Rule 6.1, on the condition that the full terms of the Bonus MNZ Shares are clearly disclosed in the Notice of Meeting;
- waiver of ASX Listing Rule 7.3.2, to the extent necessary to permit the Notice of Meeting to state that the Bonus MNZ Shares will be issued up to 13 months after the Meeting, on the condition that MNZ's annual report for any period in which the Bonus MNZ Shares are yet to be issued, sets out in detail the circumstances in which the Bonus MNZ Shares may be issued;
- confirmation that the restrictions in clauses 1, 2, 3, 4, 7, 8 and 9 in Appendix 9B of the ASX Listing Rules do not apply to MNZ in accordance with ASX Listing Rule 9.1.3;
- confirmation that the Transaction requires MNZ Shareholder approval under ASX Listing Rule 11.1.2;
- confirmation that ASX Listing Rule 11.1.3 applies to the Transaction and that a prospectus must be issued and lodged with ASIC in order to satisfy ASX Listing Rule 1.1 (Condition 3). The issue and lodgement of this Prospectus with ASIC satisfies ASX Listing Rule 1.1 (Condition 3).

## 12.8 Consents and disclaimers

The following persons have given and have not, before despatch of this Prospectus, withdrawn their consent to be named in this Prospectus in the form and context in which they are named:

Role	Person
MNZ's legal adviser	Minter Ellison, Melbourne

Role	Person
MNZ's auditor	Ernst & Young
MNZ's share registry	Computershare Investor Services Pty Limited
Grays' auditor	Ernst & Young

In addition to consenting to be named in this Prospectus, the following persons have given and have not, before despatch of this Prospectus, withdrawn their consent to the inclusion in this Prospectus of the following statements and references to those statements in the form and context in which they are included:

Person	Statement
Grays	Grays Information
McGrathNicol Transaction Advisory Pty Ltd	Investigating Accountant's Report reproduced in Section 11.

## 12.9 Transaction costs

### (a) Costs borne by MNZ

The persons named in this Prospectus as performing a function for MNZ in a professional or advisory capacity up to the date of this Prospectus in connection with the Transaction on are set out below, together with the estimated fees payable to them assuming the Transaction proceeds (all amounts excluding GST):

Role	Adviser / Provider	Fees
Legal adviser	Minter Ellison, Melbourne	\$165,000
Corporate adviser	Zolude Investments Pty Ltd	\$120,000
Registry (including administration, registry functions, print and mail, call centre and other related services)	Computershare Investor Services Pty Limited	\$15,000

The total transaction costs are estimated to be \$3.65 million. That total includes the above costs. The balance of transaction costs of \$3.35 million primarily relate to costs expected to be incurred by Grays as described in paragraph (b) below.

### (b) Costs borne by Grays

Set out below are the names of those persons who performed a function for Grays in a professional or advisory capacity up to the date of this Prospectus in connection with the Transaction, together with the estimated fees payable to them assuming the Transaction proceeds (all amounts excluding GST):

Role	Adviser / Provider	Fees
Legal adviser	Minter Ellison, Sydney	\$1,000,000
Investigating Accountant and due diligence services (jointly retained with MNZ)	McGrathNicol Transaction Advisory Pty Ltd McGrathNicol Advisory Partnership	\$200,000

<b>Role</b>	<b>Adviser / Provider</b>	<b>Fees</b>
Financial adviser	Moelis Australia Advisory Pty Ltd	No more than \$2,000,000
Tax adviser regarding the MNZ Offer	PwC	\$30,000
Expert valuation report relating to tax advice	Lonergan Edwards & Associates Limited	\$15,000
Provider of tax due diligence services	Ernst & Young	\$50,000
Independent Expert in respect of the MNZ Offer	Lonergan Edwards & Associates Limited	\$70,000

### **12.10 Documents available**

You can view or download an electronic version of this Prospectus at MNZ's website ([www.mnemon.com.au](http://www.mnemon.com.au)).

### **12.11 Electronic Prospectus**

Pursuant to Class Order 00/44, the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please contact MNZ and MNZ will send you, for free, either a hard copy or a further electronic copy of this Prospectus or both. Alternatively, you may obtain a copy of this Prospectus from MNZ's corporate website at [www.mnemon.com.au](http://www.mnemon.com.au).

MNZ reserves the right not to accept an Application Form if it has reason to believe that when that the application was given access to the electronic Application Form, was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

## 13. MNZ Directors' authorisation

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This Prospectus is issued by MNZ and its issue has been authorised by a resolution of the MNZ Directors and separately consented to by each of the proposed Combined Group Directors.

In accordance with Section 720 of the Corporations Act, each MNZ Director has consented to the lodgement of this Prospectus with ASIC.

Naseema Sparks  
Chairman  
For and on behalf of  
Mnemon Limited



# Glossary

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Unless the context otherwise requires, the singular includes the plural and vice versa, and the following terms will have the following meaning:

**Active Customer** means a person who has made a purchase on any of the graysonline.com, OO.com.au, dealsdirect.com.au or topbuy.com.au websites within the 12 months prior to the date of this Prospectus.

**Applicant** means, if it applies for the 1,000 MNZ Shares being offered to it pursuant to this Offer, Emesco Agents Pty Ltd (ACN 000 405 265).

**Application Form** means the application forms attached to or accompanying this Prospectus relating to the Offer.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited ACN 008 624 691.

**ASX Listing Rules** means the Listing Rules of the ASX or financial market conducted by it, as applicable.

**B2B** means business-to-business.

**B2C** means business-to-consumer.

**Bonus MNZ Share** means one MNZ Share to be issued under the MNZ Offer to Grays Shareholders who satisfy the terms and conditions of the MNZ Offer relating to the issue to them of additional MNZ Shares on the date that is 12 months after the date of completion of the Transaction.

**Caledonia** means Caledonia (Private) Investments Pty Limited ACN 003 977 115.

**Closing Date** means the closing date of the Offer, as set out in the indicative timetable on page 6 of this Prospectus (subject to MNZ reserving the right to extend the Closing Date or close the Offer early).

**Combined Group** means the combined MNZ and Grays entities once Grays becomes a wholly-owned subsidiary of MNZ (ie. following Completion).

**Combined Group Board** means the board of directors of MNZ from time to time following Completion.

**Combined Group Directors** means the directors of MNZ from time to time following Completion, and on Completion being those persons referred to in Section 8.10.

**Constitution** means the constitution of MNZ.

**Corporations Act** means the *Corporations Act 2001* (Cth), as amended from time to time.

**Corporations Regulations** means *Corporations Regulations 2001* (Cth).

**Grays** means Grays (Aust) Holdings Pty Ltd ACN 114 615 780.

**Grays Board** means the board of directors of Grays at the date of this Notice of Meeting and Explanatory Statement.

**Grays Capital Raising** means an offer of new Grays Shares by Grays to existing Grays Shareholders by way of an entitlement offer to raise not less than \$13.2 million in cash.

**Grays Directors** means the directors of Grays at the date of this Notice of Meeting and Explanatory Statement.

**Grays Constitution** means the constitution of Grays, as amended from time to time.

**Grays NSW** means Grays (NSW) Pty Ltd, which is a wholly-owned subsidiary of Grays.

**Grays Shares** means fully paid ordinary shares in the capital of Grays.

**Grays Shareholder** means a holder of Grays Shares.

**Grays Shareholders Agreement** means the Consolidated Shareholders' Agreement in relation to Grays (Aust) Holdings Pty Limited, as amended from time to time.

**Invoiced Sales** means:

- in respect of items sold by auction on graysonline.com – the aggregate of the final 'hammer price' (auction price), plus freight charged by GraysOnline in respect of those sales, plus buyer's premium charged by GraysOnline in respect of those sales; and
- in respect of items sold by fixed price sale on any of graysonline.com.au, OO.com.au, dealsdirect.com.au or topubuy.com.au – the aggregate of the sales prices plus any freight charged in respect of those sales.

**Meeting** means the general meeting of the members of MNZ in respect of certain resolutions required to approve the Transaction, which has been convened to be held at 1.00pm (Sydney time) on 30 October 2014.

**Merger Implementation Agreement** means the merger implementation agreement between MNZ and Grays dated 5 August 2014.

**MNZ** means Mnemon Limited ACN 125 736 914.

**MNZ Board** means the board of directors of MNZ at the date of this Notice of Meeting and Explanatory Statement.

**MNZ Chairman** means Ms Naseema Sparks, the chairman of MNZ.

**MNZ Directors** means the directors of MNZ at the date of this Notice of Meeting and Explanatory Statement.

**MNZ Offer** means the offer by MNZ to Grays Shareholders to acquire 100% of their Grays Shares in return for the issue of shares in MNZ, plus the rights to receive Bonus MNZ Shares subject to certain conditions.

**MNZ Option** means an option to be issued an MNZ Share.

**MNZ Share** means a fully paid ordinary share in the capital of MNZ.

**MNZ Share Registry** means Computershare Investor Services Pty Limited ACN 078 279 277.

**MNZ Shareholder** means a holder of one or more MNZ Shares.

**Offer** means the offer of MNZ Shares pursuant to this Prospectus.

**Offeree** means Emesco Agents Pty Ltd (ACN 000 405 265), being the only person invited to subscribe for the 1,000 MNZ Shares being offered under this Offer.

**Official List** means the official list of ASX.

**Official Quotation** means official quotation by ASX.

**Opening Date** means the opening date of the Offer, as set out in the indicative timetable on page 6 of this Prospectus.

**Prospectus** means this prospectus.

**Settlement** means settlement of the Offer, effected by the issue of 1,000 MNZ Shares to Emesco Agents Pty Ltd (ACN 000 405 265) pursuant to the Offer.

**Transacted Sales** means:

- in respect of items sold by auction on graysonline.com – the final ‘hammer prices’ (auction prices) of those items; and
- in respect of items sold by fixed price sale on any of graysonline.com, OO.com.au, dealsdirect.com.au or topubuy.com.au – the sales prices of those items.

**Transaction** means the proposed merger between MNZ and Grays, and includes the Grays Capital Raising and the MNZ Offer as components.