mnemon

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10 October 2014

Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

By: e-lodgement

COMPANY ANNOUNCEMENT
For immediate release

Offer Booklet

In relation to the proposed merger between Mnemon Limited (**Mnemon**) and Grays (Aust) Holdings Pty Ltd (**Grays**), Mnemon advises that its conditional offer to acquire all the shares in Grays has now been made to Grays shareholders.

The attached offer booklet includes the report of an independent expert (Lonergan Edwards & Associates Limited (**LEA**)) commissioned by the directors of Grays. The sole purpose of this report is to set out LEA's opinion as to whether the proposed merger is in the best interests of Grays shareholders. In its report, LEA considers that the proposed merger is in the best interests of Grays shareholders. The attached offer booklet also includes a unanimous recommendation from the Grays directors that Grays shareholders accept Mnemon's offer to acquire all of their Grays shares.

The meeting of Mnemon shareholders to consider the proposed merger is scheduled to be held on Friday, 31 October 2014 at 8.30am (Sydney time) at Minter Ellison, Level 19, Aurora Place, 88 Phillip Street, Sydney.

For further information please contact:

Michael Rosenbaum
Chief Executive Officer
mike@dealsdirect.com.au
+61 2 9641 2222

Mark Tayler
Chief Financial Officer
mark.tayler@dealsdirect.com.au
+61 2 9641 2222

RECOMMENDED OFFER

TO

BUY 100% OF YOUR SHARES IN

GRAYS (AUST) HOLDINGS PTY LIMITED

FOR

638 NEW MNZ SHARES FOR EACH OF YOUR GRAYS SHARES AND

THE RIGHT TO RECEIVE BONUS MNZ SHARES (SUBJECT TO CONDITIONS)

The Grays Directors 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 the Independent Expert continuing to conclude that the MNZ Offer is in the best interests of Grays Shareholders.

The offer expires at 5.00pm on 6 November 2014, unless extended.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THE DOCUMENT IN ITS ENTIRETY BEFORE YOU DECIDE WHETHER OR NOT TO PARTICIPATE IN THE OFFER. IF YOU ARE IN DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER.

Important Notices

General

This Booklet is dated 10 October 2014.

This document is important. This Booklet provides information about the MNZ Offer. You should read it in its entirety before making a decision on whether or not to participate in the MNZ Offer.

An Acceptance Form is also enclosed.

If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

Interpretation

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

The documents reproduced in this Booklet 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 Booklet are references to the time in Sydney, Australia, unless otherwise stated.

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

A reference to a Part is to a part of this Booklet, unless otherwise stated.

Responsibility for information

The information about the MNZ Offer contained in the letter from the MNZ Chairman and Part A – Sections 1, 2 and 3 has been prepared by MNZ (**MNZ Offer Information**) and is the responsibility of MNZ. Neither Grays nor any of its related entities, directors, officers, employees, contractors, advisers or agents assumes any responsibility for the accuracy or completeness or reliability of the MNZ Offer Information.

The information contained in the letter from the Grays Chairman and the recommendations and statements of intentions of the Grays Directors contained in Part A of this Booklet has been prepared by Grays (**Grays Offer Information**) and is the responsibility of Grays. Neither MNZ nor any of its related entities, directors, officers, employees, contractors, advisers or agents assumes any responsibility for the accuracy or completeness or reliability of the Grays Offer Information.

The information concerning MNZ contained in Part B of this Booklet (except for the Investigating Accountant's Report) including financial information and information as to the opinions and decisions of the MNZ Directors has been prepared by MNZ (**MNZ Information**) and is the responsibility of MNZ. Neither Grays nor any of its related entities, directors, officers, employees, contractors, advisers or agents assumes any responsibility for the accuracy or completeness or reliability of any MNZ Information.

The information concerning Grays contained in Part B of this Booklet (except for the Investigating Accountant's Report) including financial information and information as to the opinions and decisions of the Grays Directors has been prepared by Grays (**Grays Information**) and is the responsibility of Grays. Neither MNZ nor any of its related entities, directors, officers, employees, contractors, advisers or agents assumes any responsibility for the accuracy or completeness or reliability of any Grays Information.

The information concerning the Combined Group contained in Part B of this Booklet, including information concerning the Combined Group contained in:

- the Investment Overview in Part B – Section 2;
- the benefits of the Transaction in Part B – Sections 3.1(a) to (g) inclusive;
- the Industry Overview in Part B – Section 4; and
- and the risk factors in Part B – Section 9,

has been prepared by MNZ based on the Grays Information, and is the responsibility of MNZ except to the extent it is based on the Grays Information. Neither Grays nor any of its related entities, directors, officers, employees, contractors, advisers or agents assumes any responsibility for the accuracy or completeness or reliability of any of the information concerning the Combined Group except to the extent it is based on the Grays Information.

McGrathNicol Transaction Advisory Pty Ltd has prepared the Investigating Accountant's Report and has given, and has not withdrawn, as at the date of this Booklet, its written consent to the inclusion of the Investigating Accountant's Report, and the references to that report, in the form and context in which they are included in this Booklet. McGrathNicol Transaction Advisory Pty Ltd takes responsibility for that report but is not responsible for any other information contained within this Booklet. Each of Grays, MNZ and their respective related entities, directors, officers, employees, contractors, advisers or agents do not assume any responsibility for the accuracy or completeness or reliability of the Investigating Accountant's Report. Grays Shareholders should read the Investigating Accountant's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

Lonergan Edwards & Associates Limited has prepared the Independent Expert's Report and has given, and has not withdrawn, as at the date of this Booklet, its written consent to the inclusion of the Independent Expert's Report, and the references to that report, in the form and context in which they are included in this Booklet. Lonergan Edwards & Associates Limited takes responsibility for that report but is not responsible for any other information contained within this Booklet. Each of Grays, MNZ and their respective related entities, directors, officers, employees, contractors, advisers or agents do not assume any responsibility for the accuracy or completeness or reliability of the Independent Expert's Report. Grays Shareholders should read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

Each of Grays and MNZ do not accept responsibility for any errors, omissions or misstatements in this Booklet that are attributable to errors, omissions or misstatements in publicly available information or third party sources or otherwise. Each of Grays and MNZ, subject to the Corporations Act, do not make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

ASIC and ASX

Neither ASIC, ASX nor any of their respective officers takes any responsibility for the contents of this document.

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.

Each of Grays, MNZ and their respective officers, and any person named in this document or involved in the preparation of this document, do not 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. None of Grays nor MNZ 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.

Privacy and personal information

Grays is required to collect personal information about you to implement the Transaction. That personal information may include your name, contact details and details of your holding. The collection of some of this information is required or authorised by the Corporations Act.

If you are an individual, you have certain rights to access the personal information collected about you. You may contact Grays if you wish to exercise those rights. The information may be disclosed to MNZ and its related bodies corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to implement the Transaction.

If the information outlined above is not collected, Grays and MNZ may be hindered in, or prevented from implementing the Transaction effectively, or at all.

No financial product advice

This document is not financial product or investment advice nor is it a recommendation in respect of Grays Shares. It has been prepared without taking into account the objectives, financial situation or needs of Grays Shareholders or other persons. Before deciding how to act, Grays Shareholders and other persons 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. Grays is not licensed to provide financial product advice in respect of Grays Shares or MNZ Shares. MNZ is not licensed to provide financial product advice in respect of MNZ Shares or Grays Shares.

Financial information presentation

Investors should be aware that certain financial data included in Part B of this document 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 document.

Grays Directors' Recommendation

The Grays Directors 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 the Independent Expert continuing to conclude that the MNZ Offer is in the best interests of Grays Shareholders.

The Grays Directors have each confirmed that they intend to accept the MNZ Offer in respect of all of the Grays Shares held or controlled by them.

Important notice about drag along

You should be aware that the Majority Grays Shareholders gave the Drag Along Notice on or about 10 October 2014. This means that all Grays Shareholders who do not accept the MNZ Offer will be required to sell all of their Grays Shares to MNZ on the same terms and conditions as the MNZ Offer (assuming that the Majority Grays Shareholders all accept the MNZ Offer).

Reasons to accept

- The listing of the Combined Group on ASX means that you may ultimately gain improved access to liquidity (after the end of escrow restrictions applicable under the MNZ Offer), in comparison to the illiquid nature of unlisted Grays Shares.
- You will become a shareholder in the Combined Group which is expected to give rise to benefits, including the potential to realise significant synergies over time.
- The implied value of the MNZ Offer represents attractive value for your Grays Shares.
- The MNZ and Grays Boards unanimously recommend the MNZ Offer in the absence of a superior proposal.
- The Independent Expert has concluded that the MNZ Offer is in the best interests of Grays Shareholders.
- Key Grays Shareholders, including Caledonia who has an interest in 26.7% of all Grays Shares, intend to accept the MNZ Offer.
- You may be eligible for 'partial' capital gains tax rollover relief. Relief should be available to the extent you receive MNZ Shares as consideration for Grays Shares. Relief is not available for the consideration received that is rights to Bonus MNZ Shares.

Reasons to not accept

- Despite the unanimous recommendation of the Grays Directors, you may take a different view and may believe that the MNZ Offer is not in your best interests.
- You may wish to maintain an investment in Grays as a stand-alone entity in order to have an investment in a non-listed company with the specific characteristics of Grays such as industry, operational profile, size and geography.
- There will be risks inherent in an investment in the Combined Group and you may consider that these risks outweigh the potential advantages of the Transaction.

See Part B – Section 9 for more information on significant risk factors.

- You may believe that there is the possibility of a superior proposal emerging for Grays in the future.
- You may be concerned about the tax consequences of accepting of the MNZ Offer, as accepting the MNZ Offer may trigger income tax consequences for you. You should read the summary of tax consequences of the MNZ Offer in Part A – Section 1 and seek professional taxation advice in respect of your individual tax situation.

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Key Dates

Event	Date
MNZ Offer sent to Grays Shareholders	10 October 2014
Last time and date for Grays Shareholders to accept the Liquidity Offer and the Entitlement Offer	12.00pm on 30 October 2014
MNZ Shareholders' meeting	8.30am on 31 October 2014
Completion of Liquidity Offer and Entitlement Offer (New Grays Shares issued and cash paid)	12.00pm on 31 October 2014
Record Date for the MNZ Offer (Date for determining who holds Grays Shares for the purposes of the MNZ Offer)	7.00pm on 31 October 2014
Last time and date for Grays shareholders to accept MNZ Offer	5.00pm on 6 November 2014
Completion of MNZ Offer (All Grays Shares transferred to MNZ and new MNZ Shares issued to Grays Shareholders)	7 November 2014

All times set out above are Sydney time. The above times and dates are subject to change.

Letter from the MNZ Chairman

10 October 2014

Dear Grays Shareholder

Recommended scrip takeover offer for Grays (Aust) Holdings Pty Ltd

On 5 August 2014, MNZ announced that it had agreed to a proposed merger of Grays and MNZ. The merger is to be effected by an offer by MNZ to Grays Shareholders to acquire 100% of their Grays Shares in return for the issue of shares in MNZ, plus the right to receive Bonus MNZ Shares subject to certain conditions.

On behalf of the MNZ Board, I am pleased to enclose this Booklet detailing the MNZ Offer.

The MNZ Offer

The MNZ Offer will result in Grays Shareholders owning between 78% and 84% of the Combined Group on a fully diluted basis. The consideration under the MNZ Offer comprises:

- 638 new MNZ Shares for each of your Grays Shares; and
- 1 additional Bonus MNZ Share for every 2 MNZ Shares held, subject to certain conditions (see Part A – Section 1 for more details).

Rationale for the Transaction

The MNZ Directors and the Grays Directors believe that the rationale for the Transaction is compelling for the following reasons:

- 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 it potential to be an aggregator in the consolidating B2B and B2C online markets
- Enhances product category coverage through combining a portfolio of complementary and recognised 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

I believe that if the MNZ Offer is successful, the Combined Group will have the financial strength, and operational and technical expertise to better realise the potential value of MNZ and Grays.

Grays Directors Unanimously Recommend the MNZ Offer

The Grays Directors 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 the Independent Expert continuing to conclude that the MNZ Offer is in the best interests of Grays Shareholders.

The Grays Directors have each confirmed that they intend to accept the MNZ Offer in respect of all of the Grays Shares held or controlled by them.

Independent expert conclusion

The Independent Expert has concluded that the MNZ Offer is in the best interests of the Grays Shareholders. Please refer to Part A – Section 5 for a full copy of the Independent Expert's Report.

Conditions to the MNZ Offer

Please note that the Offer is subject to a number of conditions, which are customary in a transaction of this nature. These conditions include MNZ Shareholder approval which is to be sought at a meeting to be held on or around 31 October 2014, and the Merger Implementation Agreement not being terminated. See Part B – Section 11.2 of this Booklet for a summary of the key terms and conditions of the Merger Implementation Agreement.

Accepting the MNZ Offer

This MNZ Offer is scheduled to close at 5.00pm (Sydney time) on 6 November 2014, unless extended. Please read this Booklet carefully before you make a decision in relation to the MNZ Offer. To accept the MNZ Offer, please follow the instructions on the enclosed Acceptance Form – MNZ Offer.

The MNZ Directors believe that the implied value of the MNZ Offer represents attractive value for your Grays Shares. I encourage you to **ACCEPT** the MNZ Offer as soon as possible and look forward to receiving your acceptance.

Yours faithfully

Naseema Sparks
Chairman
Mnemon Limited

Letter from the Grays Chairman

10 October 2014

Dear Grays Shareholder

Recommended scrip takeover offer from Mnemon Limited

On 5 August 2014, Grays and MNZ announced that they had agreed on a proposal to merge their two businesses. MNZ is listed on the ASX and operates the online department stores 'DealsDirect' and 'TopBuy'.

Grays Board unanimously recommend the MNZ Offer

The Grays Directors 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 the Independent Expert continuing to conclude that the MNZ Offer is in the best interests of Grays Shareholders.

The Grays Directors, who in aggregate hold or control 37.3% of all Grays Shares as at the date of this Booklet, have each confirmed that they intend to accept the MNZ Offer in respect of all of the Grays Shares held or controlled by them.

MNZ Offer highlights

The Grays Board and I are proud of our involvement with Grays as it has grown into a leading online ‘pure play’ retailer and auctioneer in Australasia. The Grays Board’s priority has consistently been the maximisation of shareholder value.

As you are aware, we undertook a strategic review last year in consultation with our advisers. Following careful consideration of the options available to Grays including continuing operations as status quo and a break up of the business units, the Grays Board determined that combining Grays with MNZ achieved the best outcome for Grays Shareholders.

The Grays Board considers the MNZ Offer to be an excellent outcome for all Grays Shareholders. The MNZ Offer provides a number of benefits for Grays Shareholders including:

- The listing of the Combined Group on ASX means that you may ultimately gain improved access to liquidity (after the end of escrow restrictions applicable under the MNZ Offer), in comparison to the illiquid nature of unlisted Grays Shares
- You will become a shareholder in the Combined Group which is expected to give rise to benefits, including the potential to realise significant synergies over time
- The implied value of the MNZ Offer represents attractive value for your Grays Shares
- You may be eligible for 'partial' capital gains tax rollover relief. Relief should be available to the extent you receive MNZ Shares as consideration for Grays Shares. Relief is not available for consideration you receive that is rights to Bonus MNZ Shares

The Grays Board was delighted to announce the appointment of Mark Bayliss as CEO of Grays in May 2014, and we are pleased that he has also been proposed as the CEO of the Combined Group. We are confident that the Transaction provides Mark and the executive team with the appropriate scale and structure to best deliver shareholder value going forward.

Independent expert conclusion

The Independent Expert has concluded that the MNZ Offer is in the best interests of the Grays Shareholders. Please refer to Part A – Section 5 for a full copy of the Independent Expert's Report.

Conditions to the MNZ Offer

Please note that the Offer is subject to a number of conditions, which are customary in a transaction of this nature. These conditions include MNZ Shareholder approval which is to be sought at a meeting to be held on or around 31 October 2014, and the Merger Implementation Agreement not being terminated. See Part B – Section 11.2 of this Booklet for a summary of the key terms and conditions of the Merger Implementation Agreement.

Escrow requirements

Under the MNZ Offer, all Grays Shareholders will be required to enter into escrow arrangements to retain:

- 100% of issued MNZ Shares until one week following the announcement by MNZ on ASX of its interim results for the half year ending 31December 2014; and
- the remaining 50% of issued MNZ Shares until one week following the announcement by MNZ on ASX of its full year results for the financial year ending 30 June 2015.

This requirement applies to all Grays Shareholders, there are no exceptions.

Accepting the MNZ Offer

The MNZ Offer is scheduled to close at 5.00pm (Sydney time) on 6 November 2014, unless extended. Please read this Booklet carefully before you make a decision in relation to the MNZ Offer. To accept the MNZ Offer, please follow the instructions on the enclosed Acceptance Form – MNZ Offer.

You should also be aware that, on or about 10 October 2014, Grays Shareholders who hold at least 75% of all Grays Shares issued a 'drag along notice' under the Grays Shareholders Agreement. This means that all Grays Shareholders who do not accept the MNZ Offer will be required to sell all of their Grays Shares to MNZ on the same terms and conditions as the MNZ Offer (assuming that the Majority Grays Shareholders all accept the MNZ Offer).

Further information

The Grays Board will keep you informed of any further developments in relation to the MNZ Offer.

If you require any further information, please consult your legal, financial or other professional adviser. You may also contact the Company Secretary, John Martin on (02) 9741 9623 or john.martin@grays.com.au.

On behalf of the Grays Directors, I urge you to take the time to read this document in its entirety and to **ACCEPT** the MNZ Offer.

Yours faithfully

Will Vicars
Chairman
Grays (Aust) Holdings Pty Ltd

What to do now

1. Carefully read this document

This document sets out the terms of the MNZ Offer and provides Grays Shareholders with information to assist them in deciding whether or not to accept the MNZ Offer. This information is important. You should read this document carefully, and in its entirety, before making a decision as to whether or not to accept the MNZ Offer.

2. Seek further information if required

If you require any further information, please consult your legal, financial or other professional adviser.

How to accept

The MNZ Offer

Under the MNZ Offer, you can sell all of your Grays Shares to MNZ in consideration for:

- 638 new MNZ Shares for each of your Grays Shares to be issued on completion of the MNZ Offer; and
- 1 additional Bonus MNZ Share for every 2 MNZ Shares held, if you hold, on the date that is 12 months after the date of completion of the MNZ Offer, that number of MNZ Shares that is not less than 75% of the number of MNZ Shares issued to you on completion of the MNZ Offer (ignoring any MNZ Shares you hold prior to completion of the MNZ Offer).

You should be aware that under the terms of the MNZ Offer, if you have borrowed moneys from Grays for the purposes of acquiring Grays Shares and any amount relating to those borrowed moneys is still outstanding and repayable to Grays, you will be required to repay Your Shareholder Loan in order for you to sell your Grays Shares under the MNZ Offer.

You should also be aware that the Majority Grays Shareholders gave the Drag Along Notice on or about 10 October 2014. This means that all Grays Shareholders who do not accept the MNZ Offer will be required to sell all of their Grays Shares to MNZ on the same terms and conditions as the MNZ Offer (assuming that the Majority Grays Shareholders all accept the MNZ Offer).

How to Accept

1. Complete the white boxes in the pink shaded part of the enclosed Acceptance Form – MNZ Offer.
2. Send (or hand deliver) the Acceptance Form – MNZ Offer, together with a certified copy of any power of attorney that you relied on in signing the form, so that they are received before 5.00pm (Sydney time) on 6 November 2014:
   - at MNZ's registered office, at 5 Inglis Road, Ingleburn, NSW 2565;
   - at the facsimile number at MNZ's registered office, +61 2 9641 2299; or
   - by scanned copy to Mark Tayler, Company Secretary at mark.tayler@dealsdirect.com.au
3. If Grays holds your original share certificate for all of your Grays Shares you do not need to do anything further – this will be the case if you accepted either the Liquidity Offer or the Entitlement Offer.

   If Grays does not hold your original share certificate, then either:
   - if you hold the **original** share certificate for all of your Grays Shares – put it in an envelope and send (or hand deliver it) to MNZ's registered office, 5 Inglis Road, Ingleburn, NSW 2565, so that it is received before 5.00pm (Sydney time) on 6 November 2014; **or**
   - if you have lost or cannot locate your original share certificate – complete the statutory declaration enclosed with the Acceptance

	Form – MNZ Offer and put it in an envelope and send (or hand deliver it) to MNZ's registered office, 5 Inglis Road, Ingleburn, NSW 2565, so that it is received before 5.00pm (Sydney time) on 6 November 2014. If you are unsure whether or not Grays holds your original share certificate please contact John Martin, Company Secretary at john.martin@grays.com.au.
When you will be issued new MNZ Shares	If you validly accept the MNZ Offer, the new MNZ Shares will be issued to you if and when completion of the MNZ Offer takes place, which is expected to be 7 November 2014, or as soon as reasonably practicable afterwards. Any Bonus MNZ Shares will be issued on the day that is 12 months after completion of the MNZ Offer takes place, which is expected to be 7 November 2015.

PART A

INFORMATION ABOUT THE MNZ OFFER

1. Information about the MNZ Offer

This section provides a summary only of important information about the MNZ Offer, and should be read in conjunction with the entire Booklet (including Part A – Section 3, which contains the terms of the MNZ Offer) before you decide whether or not to accept the MNZ Offer.

The MNZ Offer is not being made under a prospectus or product disclosure statement.

Question	Answer
Key terms and conditions of 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 right to receive Bonus MNZ Shares subject to certain conditions.
What will I receive under the MNZ Offer?	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. In addition, each Grays Shareholder who holds, 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 MNZ Offer) will be issued 1 additional Bonus MNZ Share for every 2 MNZ Shares held.
What is the implied value of the MNZ Offer?	The implied value of 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. For example, based on: • 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 a Grays Share under the MNZ Offer is approximately $1,397 (assuming the maximum number of Bonus MNZ Shares are issued); or • the closing price of MNZ Shares on ASX on 9 October 2014 (being the last practicable trading day prior to printing of this Booklet) of $1.30, the implied value of a Grays Share under the MNZ Offer is approximately $1,244 (assuming the maximum number of Bonus MNZ Shares are issued). It is important to note that, under the MNZ Offer, Grays

Question	Answer
	Shareholders are being offered consideration consisting of a specified number of MNZ Shares. As such, the value of the consideration will fluctuate with movements in the market value of MNZ Shares. Note also 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.
What restrictions will apply to MNZ Shares issued under the MNZ Offer?	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: • 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 • 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. This requirement applies to all Grays Shareholders, there are no exceptions. See Part A – Section 4 for a copy of the terms of that Escrow Deed and Part B – Section 11.5 for a summary of those terms. If you validly accept the MNZ Offer, you will be deemed to authorise Grays (together with its directors, secretaries, officers, servants and agents) to sign and deliver the Escrow Deed on your behalf. This means that you will not need to sign the Escrow Deed, but you will be bound by its terms if you accept the MNZ Offer. Similarly, if you do not accept the MNZ Offer but are required to sell all of your Grays Shares to MNZ on the same terms and conditions as the MNZ Offer pursuant to the Drag Along Notice (assuming that the Majority Grays Shareholders all accept the MNZ Offer), the Escrow Deed will be signed on your behalf and you will be bound by its terms in the same away as if you had accepted the MNZ Offer.
Which Grays Shares will the MNZ Offer apply to?	The MNZ Offer will apply to **all** Grays Shares that are on issue as at 7.00pm (Sydney time) on 31 October 2014 (that time being after the Liquidity Offer and the Entitlement Offer have both completed).
How many Grays Shares can I sell under the MNZ Offer?	You can sell all of your Grays Shares under the MNZ Offer, but you cannot choose to sell some only.

<table>
<tr><th>Question</th><th>Answer</th></tr>
<tr><td>Do I have to accept the MNZ Offer?</td><td>No, acceptance of the MNZ Offer is optional.

But you should be aware that the Majority Grays Shareholders gave the Drag Along Notice on or about 10 October 2014. This means that all Grays Shareholders who do not accept the MNZ Offer will be required to sell all of their Grays Shares to MNZ on the same terms and conditions as the MNZ Offer (assuming that the Majority Grays Shareholders all accept the MNZ Offer).</td></tr>
<tr><td>How do I accept the MNZ Offer?</td><td>In order to accept the MNZ Offer, you need to:
complete the white boxes in the pink shaded part of the enclosed Acceptance Form – MNZ Offer;
send (or hand deliver) the Acceptance Form – MNZ Offer, together with a certified copy of any power of attorney that you relied on in signing the form to any of the addresses indicated on that form, so that the completed Acceptance Form is received before 5.00pm (Sydney time) on 6 November 2014; and
if Grays holds your original share certificate for all of your Grays Shares you do not need to do anything further – this will be the case if you accepted either the Liquidity Offer or the Entitlement Offer.

If Grays does not hold your original share certificate, then either:
if you hold the <u>original</u> share certificate for all of your Grays Shares – put it in an envelope and send (or hand deliver it) to MNZ's registered office, 5 Inglis Road, Ingleburn, NSW 2565, so that it is received before 5.00pm (Sydney time) on 6 November 2014; or
if you have lost or cannot locate your original share certificate – complete the statutory declaration enclosed with the Acceptance Form – MNZ Offer and put it in an envelope and send (or hand deliver it) to MNZ's registered office, 5 Inglis Road, Ingleburn, NSW 2565, so that it is received before 5.00pm (Sydney time) on 6 November 2014.
If you are unsure whether or not Grays holds your original share certificate please contact John Martin, Company Secretary at john.martin@grays.com.au.</td></tr>
<tr><td>Can I accept the MNZ Offer for only some of my Grays Shares?</td><td>No, you can sell all of your Grays Shares under the MNZ Offer, but you cannot choose to sell some only.</td></tr>
<tr><td>How do I reject the MNZ Offer?</td><td>To reject the MNZ Offer, you do not need to do anything.

But you should be aware that the Majority Grays Shareholders gave the Drag Along Notice on or about 10 October 2014. This means that all Grays Shareholders who do not accept the MNZ Offer will be required to sell all of their Grays Shares to MNZ on the same terms and conditions as the MNZ Offer (assuming that the Majority Grays Shareholders all accept the MNZ Offer).</td></tr>
</table>

Question	Answer
When does the MNZ Offer close?	The MNZ Offer will close at 5.00pm (Sydney time) on 6 November 2014.
What are the conditions to the MNZ Offer taking effect?	Completion of the MNZ Offer is conditional on MNZ Shareholders approving the Transaction at the MNZ Shareholder Meeting scheduled to be held on or about 31 October 2014, and the Merger Implementation Agreement not being terminated before the scheduled completion date of the MNZ Offer. The Merger Implementation Agreement may be terminated if the following conditions are not satisfied or waived: • Each of the MNZ Board and the Grays Board continuing to unanimously endorse the Transaction. • Grays raising not less than $13.2 million in cash under the Entitlement Offer. • On completion of the MNZ Offer, the aggregate number of MNZ Shares issued to Grays Shareholders under the MNZ Offer not being more than 77.92% of the total number of MNZ Shares on issue immediately after completion of the MNZ Offer (on a fully diluted basis). • No material adverse change occurring to MNZ or Grays. See Part B – Section 11.2 for a summary of the key terms and conditions of the Merger Implementation Agreement. MNZ will inform the market of the results of the MNZ Shareholder vote immediately after that meeting takes place. An announcement of the results will be available on the ASX website at www.asx.com.au (ASX code: MNZ). Grays will also email or write to you to inform you of the result of that meeting.
Can MNZ vary or withdraw the MNZ Offer?	No. The terms of the MNZ Offer as set out in this Booklet cannot be varied or withdrawn.
Information about why you should accept the MNZ Offer	
Do the Grays Directors recommend the MNZ Offer?	The Grays Directors 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 the Independent Expert continuing to conclude that the MNZ Offer is in the best interests of Grays Shareholders.
What do the Grays Directors intend to do in relation to the MNZ Offer?	The Grays Directors, who in aggregate hold or control 37.3% of all Grays Shares as at the date of this Booklet, have each confirmed that they intend to accept the MNZ Offer in respect of all of the Grays Shares held or controlled by them.

Question	Answer
What is the opinion of the Independent Expert?	The Independent Expert has considered the merits of the MNZ Offer and has concluded that the MNZ Offer is in the best interests of Grays Shareholders. The Independent Expert's Report is reproduced in Part A – Section 5.
Will Grays' key shareholders accept the MNZ Offer?	Grays' largest shareholder, Caledonia, who has an interest in 26.7% of all Grays Shares as at the date of this Booklet, has confirmed that it intends to accept the MNZ Offer in respect of all of the Grays Shares controlled by it. Further, it is expected that each of the Majority Drag Shareholders who gave the Drag Along Notice will accept the MNZ Offer in respect of all of the Grays Shares they hold or control. Those Majority Drag Shareholders in aggregate hold or control over 75% of all Grays Shares as at the date of this Booklet.
What are the prospects of a superior proposal?	Since the Transaction was announced on 5 August 2014, there has been a significant period of time and ample opportunity for an alternative proposal to emerge. The Grays Board is not currently aware of any superior proposal.
What other reasons are there to accept the MNZ Offer?	The reasons why you might accept the MNZ Offer (and become a shareholder in the Combined Group) include: • The listing of the Combined Group on ASX means that you may ultimately gain improved access to liquidity (after the end of escrow restrictions applicable under the MNZ Offer), in comparison to the illiquid nature of unlisted Grays Shares[1]. • You will become a shareholder in the Combined Group which is expected to give rise to benefits, including the potential to realise significant synergies over time. • The implied value of the MNZ Offer represents attractive value for your Grays Shares. • The MNZ and Grays Boards unanimously recommend the MNZ Offer in the absence of a superior proposal. • The Independent Expert has concluded that the MNZ Offer is in the best interests of Grays Shareholders. • Key Grays Shareholders, including Caledonia who has an interest in 26.7% of all Grays Shares, intend to accept the MNZ Offer. • You may be eligible for 'partial' capital gains tax rollover relief. Relief should be available to the extent you receive MNZ Shares as consideration for Grays Shares. Relief is not available for the

[1] As a term of the MNZ Offer, every Grays Shareholder will be required to enter into an Escrow Deed. See Part A – Section 4 for a copy of the terms of that Escrow Deed and Part B – Section 11.5 for a summary of those terms.

Question	Answer
	consideration received that is rights to Bonus MNZ Shares). See Part B – Section 3.2 for more detailed information on potential benefits of the Transaction and the Combined Group.
What reasons are there to not accept the MNZ Offer?	The reasons why you might not accept the MNZ Offer include: • Despite the unanimous recommendation of the Grays Directors, you may take a different view and may believe that the MNZ Offer is not in your best interests. • You may wish to maintain an investment in Grays as a stand-alone entity in order to have an investment in an unlisted company with the specific characteristics of Grays such as industry, operational profile, size and geography. • There will be risks inherent in an investment in the Combined Group and you may consider that these risks outweigh the potential advantages of the Transaction. See Part B – Section 9 for more information on significant risk factors. • You may believe that there is the possibility of a superior proposal emerging for Grays in the future. • You may be concerned about the tax consequences of accepting of the MNZ Offer, as accepting the MNZ Offer may trigger income tax consequences for you. You should read the summary of tax consequences of the MNZ Offer in Part A – Section 1 and seek professional taxation advice in respect of your individual tax situation. But you should be aware that the Majority Grays Shareholders gave the Drag Along Notice on or about 10 October 2014. This means that all Grays Shareholders who do not accept the MNZ Offer will be required to sell all of their Grays Shares to MNZ on the same terms and conditions as the MNZ Offer (assuming that the Majority Grays Shareholders all accept the MNZ Offer). See Part B – Section 3.3 for more detailed information on significant risks and potential disadvantages associated with Transaction and the Combined Group.
Is there any risk associated with the value of the MNZ Shares being offered under the MNZ Offer?	The consideration under the MNZ Offer consists solely of MNZ Shares. Also, the number of MNZ Shares that Grays Shareholders will receive as consideration under the MNZ Offer is a fixed number of MNZ Shares, being 638 MNZ Shares for each Grays Share (plus the right to receive Bonus MNZ Shares, subject to conditions), rather than a number of MNZ Shares with a specified market value. As a result, the value of the consideration under the MNZ Offer will fluctuate with any movements in the trading price of MNZ Shares on ASX. The trading price of MNZ Shares on ASX is subject to fluctuations due to a number of different factors, including but not limited to

Question	Answer
	general economic conditions, changes in the value of underlying assets, fluctuations in domestic and international financial markets, movements in interest rates and market expectations. Any fluctuation in price will directly impact the value of the consideration under the MNZ Offer to which Grays Shareholders will be entitled. Importantly, if the trading price of MNZ Shares on ASX falls materially, the implied value of the MNZ Shares to be issued under the MNZ Offer may fall outside the range that the Independent Expert considered to be such that the MNZ Offer is in the best interest of Grays Shareholders. Given this, Grays Shareholders should carefully consider the then current trading price of MNZ Shares on ASX, as well as the potential for that price to fall or rise before (and after) the MNZ Shares are issued under the MNZ Offer, before deciding whether to accept the MNZ Offer. Grays Shareholders should also read and consider the important information regarding MNZ Shares set out in Part B and, in particular, the risks associated with owning MNZ Shares set out in Part B – Section 9.
What other risks are associated with the Combined Group?	If the MNZ Offer is implemented, Grays Shareholders will receive new MNZ Shares as consideration. 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. Part B – Section 9 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 Grays Shareholders should be aware of. Some of the most material key 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. Grays Shareholders should read Part B – Section 9 carefully in its entirety before making any decision on whether or not to accept the MNZ Offer.

Question	Answer
Background to the MNZ Offer	
Who is making the MNZ Offer?	The MNZ Offer is being made by MNZ, a company listed on ASX. MNZ, via its key brands DealsDirect and TopBuy, operates an online retail business, offering products in a range of household product categories, including home furnishings, appliances, furniture and toys, branded consumer electronics, fashion and general merchandise. See Part B – Section 5 for further information about MNZ.
Why does MNZ wish to acquire Grays?	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. See Part B – Section 3 for further information about the rationale for the Transaction.
Who owns Grays now?	Grays is a private company owned by 47 shareholders, many of whom are current or former employees of Grays. 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 Booklet.
Relationship of the MNZ Offer to the Liquidity Offer and the Entitlement Offer	
How does the MNZ Offer relate to the Liquidity Offer?	The MNZ Offer and the Liquidity Offer are separate offers. The Liquidity Offer will complete before the Record Date for the MNZ Offer. This means that if you sell any Grays Shares under the Liquidity Offer, you will not be able to participate in the MNZ Offer in respect of those Grays Shares. You will, however, still be eligible to accept the MNZ Offer in respect of any remaining Grays Shares held by you that you do not sell under the Liquidity Offer.
How does the MNZ Offer relate to the Entitlement Offer?	The MNZ Offer and the Entitlement Offer are separate offers. The Entitlement Offer will complete before the Record Date for the MNZ Offer. This means that if you subscribe for any Grays Shares under the Entitlement Offer, you will be eligible to accept in the MNZ Offer in respect of those new Grays Shares (as well as your existing Grays Shares). If you do not subscribe for any Grays Shares under the Entitlement Offer, then you will be eligible to accept the MNZ Offer in respect of your existing Grays Shares. However, it is important to note that there is no guarantee that the MNZ Offer will complete even if the Entitlement Offer proceeds. Completion of the Entitlement Offer will occur before the MNZ Offer completes, and completion of the MNZ Offer will be subject

Question	Answer
	to the Merger Implementation Agreement not being terminated. This means that if you acquire new Grays Shares under the Entitlement Offer, and the Merger Implementation Agreement is terminated after completion of the Entitlement Offer (which is expected to occur on 31 October 2014) but before completion of the MNZ Offer, your new Grays Shares will not be sold to MNZ under the MNZ Offer. You will continue to hold those new Grays Shares, and the merger of Grays and MNZ will not have occurred.
Impact of the MNZ Offer on shareholder loans	
What happens if I accept the MNZ Offer but owe loans to Grays in respect of my Grays Shares?	Under the terms of the MNZ Offer, you will need to ensure that no encumbrances exist in respect of your Grays Shares (so that those Grays Shares can be freely sold to MNZ). However, under the terms of Your Shareholder Loan, Grays holds security interests over your Grays Shares. Those security interests that Grays holds will only be released when Your Shareholder Loan is repaid. This means that Your Shareholder Loan will need to be repaid in order for you to sell your Grays Shares to MNZ. Accordingly, when your Grays Shares are acquired under the MNZ Offer, you will have to repay Your Shareholder Loan through your own means or through alternative external financing organised by you.
What happens if I accept the MNZ Offer but owe loans to third party financiers (such as a bank) in respect of my Grays Shares?	Under the terms of the MNZ Offer, you will need to ensure that no encumbrances exist in respect of your Grays Shares (so that those Grays Shares can be freely sold to MNZ). Accordingly, when your Grays Shares are acquired under the MNZ Offer, depending on the terms of your loans owed to third party financiers, you may need to either repay those loans through your own means, or through alternative external financing organised by you so that all encumbrances over your Grays Shares are released. You should check with your financier to confirm the position.
What happens if I do not accept the MNZ Offer and owe loans to Grays in respect of my Grays Shares?	If you do not accept the MNZ Offer, your Grays Shares will be transferred to MNZ on the same terms and conditions as the MNZ Offer in accordance with the Drag Along Notice and clause 8 of the Grays Shareholders Agreement (assuming that the Majority Grays Shareholders all accept the MNZ Offer). If that occurs, and you have borrowed money from Grays for the purposes of acquiring any Grays Shares, Your Shareholder Loan will require immediate repayment. This means you will have to repay Your Shareholder Loan through your own means or through alternative external financing organised by you.

Question	Answer
What happens if I do not accept the MNZ Offer but owe loans to third party financiers (such as a bank) in respect of my Grays Shares?	If you do not accept the MNZ Offer, your Grays Shares will be transferred to MNZ on the same terms and conditions as the MNZ Offer in accordance with the Drag Along Notice and clause 8 of the Grays Shareholders Agreement (assuming that the Majority Grays Shareholders all accept the MNZ Offer). If that occurs, depending on the terms of your loans owed to third party financiers, you may need to either repay any loans you owe to third party financiers through your own means, or through alternative external financing organised by you. You should check with your financier to confirm the position.
Implications of accepting (or not accepting the MNZ Offer)	
When will the MNZ Shares be issued under the MNZ Offer?	If MNZ Shareholders approve the Transaction at the MNZ Shareholder 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. 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.
What rights will attach to MNZ Shares?	MNZ is currently admitted to trading on ASX. New MNZ Shares issued under the MNZ Offer will, once issued, rank equally with all existing MNZ Shares. The rights and liabilities attaching to MNZ Shares are: • set out in the Constitution of MNZ, which can be obtained from the MNZ website (www.mnemon.com.au); and • regulated by the Corporations Act, the ASX Listing Rules and the common law applicable in Australia.
Will new MNZ Shares issued under the MNZ Offer be quoted on ASX?	MNZ will apply to ASX for quotation of all MNZ Shares to be issued under the MNZ Offer.
Can I trade MNZ Shares that are issued under the MNZ Offer?	All MNZ Shares issued under the MNZ Offer will be subject to escrow restrictions which means that those MNZ Shares cannot be sold or transferred as follows: • 100% of the MNZ Shares issued to a Grays Shareholder under the MNZ Offer cannot be sold or transferred until one week following the announcement by MNZ on ASX of its interim results for the half year ending 31 December 2014; and • the remaining 50% of the MNZ Shares issued to a Grays Shareholder under the MNZ Offer cannot be sold or transferred until one week following the announcement by MNZ on ASX of its full year results for the financial year ending 30 June 2015. See Part A – Section 4 for a copy of the terms of that Escrow Deed

Question	Answer
	and Part B – Section 11.5 for a summary of the terms of those escrow arrangements. After the escrow restrictions are lifted, it is expected that you will be able to freely trade your MNZ Shares on ASX.
What happens if I do nothing or don't accept the MNZ Offer?	If you do nothing, your Grays Shares will be transferred to MNZ on the same terms and conditions as the MNZ Offer in accordance with the Drag Along Notice and clause 8 of the Grays Shareholders Agreement (assuming that the Majority Grays Shareholders all accept the MNZ Offer). Further, if necessary, MNZ intends to rely on the benefit of compulsory acquisition powers available to it under Part 6A.2 of 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 at fair value in accordance with section 664F of the Corporations Act where MNZ relies on compulsory acquisition powers available to it under section 664A(3) of the Corporations Act.
Can I be forced to sell my Grays Shares?	Yes. In accordance with the Drag Along Notice and clause 8 of the Grays Shareholders Agreement, if you do not accept the MNZ Offer, you will be required to sell all of your Grays Shares to MNZ on the same terms and conditions as the MNZ Offer (assuming that the Majority Grays Shareholders all accept the MNZ Offer). Further, MNZ may become entitled to compulsorily acquire your MNZ Shares outside of the MNZ Offer in certain circumstances, including where MNZ becomes entitled to exercise general compulsory acquisition rights under Part 6A.2 of the Corporations Act.
Will I pay brokerage or stamp duty if I accept the MNZ Offer?	If you accept the MNZ Offer, you will not pay any brokerage or other fees. Any stamp duty payable on a transfer of your Grays Shares to MNZ under the Liquidity Offer will be paid by MNZ.
If I accept the MNZ Offer, can I withdraw my acceptance?	You may not withdraw your acceptance of the MNZ Offer without MNZ's prior written consent (which it may withhold or give at its absolute discretion).
What warranties will I give if I accept the MNZ Offer?	If you accept the MNZ Offer, you will give various warranties to MNZ in relation to you and the Grays Shares that you hold. MNZ required these warranties so that it could be satisfied that you own the Grays Shares in respect of which you accept the MNZ Offer and are free to sell them to MNZ. Most relevantly, you will warrant that: • you are the registered owner of the Grays Shares in respect of which you accept the MNZ Offer; • you have the authority to accept the MNZ Offer;

Question	Answer
	• you have not been subject to an insolvency event (i.e. you are not bankrupt); • the Grays Shares in respect of which you accept the MNZ Offer are free from encumbrances and no pre-emptive rights are attached to those Grays Shares. Your maximum liability for a breach of such a warranty is limited to the value of the consideration actually received by you under the MNZ Offer. If you do not accept the MNZ Offer, your Grays Shares will be transferred to MNZ on the same terms and conditions as the MNZ Offer in accordance with the Drag Along Notice and clause 8 of the Grays Shareholders Agreement (assuming that the Majority Grays Shareholders all accept the MNZ Offer). In that case, you will be deemed to give MNZ the same warranties as if you had accepted the MNZ Offer. See Schedule 1 to the MNZ Offer on page 54 of this Booklet for the full text of the warranties that Grays Shareholders will give to MNZ under the MNZ Offer.
What warranties will I receive if I accept the MNZ Offer?	If you accept the MNZ Offer, MNZ will give you various warranties in relation to MNZ and its business. These warranties are intended to support the due diligence enquiries that Grays conducted on MNZ and its business before the Transaction was agreed. Most relevantly, MNZ will give warranties in respect of: • its corporate status and the action it has taken to facilitate the MNZ Offer; • its capital structure; • compliance with regulatory requirements such as continuous disclosure obligations; • material contracts MNZ has entered into; • its employees and superannuation; • litigation affecting MNZ; • tax, intellectual property, insurance; and • property owned by MNZ. MNZ's maximum liability for a breach of such a warranty is limited to $5 million. The warranties given by MNZ are also subject to and qualified by facts, matters or circumstances that have been fairly disclosed by MNZ to Grays in a specified set of due diligence material and certain publicly accessible information. If you do not accept the MNZ Offer, your Grays Shares will be

Question	Answer
	transferred to MNZ on the same terms and conditions as the MNZ Offer in accordance with the Drag Along Notice and clause 8 of the Grays Shareholders Agreement (assuming that the Majority Grays Shareholders all accept the MNZ Offer). In that case, you will be deemed to receive from MNZ the same warranties as if you had accepted the MNZ Offer. See Schedule 2 to the MNZ Offer on pages 55 to 61 of this Booklet for the full text of the warranties that MNZ will give to Grays Shareholders under the MNZ Offer.
What other warranties are being given in connection with the MNZ Offer?	Grays gives MNZ warranties in relation to Grays and its business. These warranties are reciprocal to the warranties about MNZ and its business that MNZ gives to Grays Shareholders under the MNZ Offer. These warranties are intended to support the due diligence enquiries that MNZ conducted on Grays and its business before the Transaction was agreed. Grays Shareholders do not have any direct liability in respect of the warranties given by Grays to MNZ.
Taxation consequences of the MNZ Offer	
What are the tax implications of accepting the MNZ Offer?	If you accept the MNZ Offer your Grays Shares will be sold to MNZ on completion of the MNZ Offer and you will be issued with MNZ Shares and rights to Bonus MNZ Shares. The sale of your Grays Shares under the MNZ Offer will mean that you will trigger a capital gains tax event. You will derive a capital gain to the extent the capital proceeds received from the disposal exceed the cost base of your Grays Shares. You will make a capital loss where the capital proceeds are less than your reduced cost base for the Grays Shares. Where an Australian tax resident Grays Shareholder derives a capital gain as a result of participating in the MNZ Offer, it may: • be eligible for a CGT discount which will enable it to reduce its capital gains by 50% for individuals and trusts and 33 1/3% for complying superannuation funds (there is no CGT discount for companies); or • elect CGT roll-over relief under Subdivision 124-M of the Tax Law (to the extent MNZ Shares are issued as consideration for Grays Shares). The value of the right to receive Bonus MNZ Shares will be taxable at the time of the Transaction and is not eligible for rollover relief. Please see Part A – Section 2 for more information about the taxation consequences of the MNZ Offer.

Question	Answer
Is any tax payable in respect of the rights to receive Bonus MNZ Shares?	In addition to the implications outlined in the section above, the right to Bonus MNZ Shares should be a separate CGT asset acquired at the time of the Transaction and its cost base should be equal to its market value. Accordingly, future transactions involving the rights to Bonus MNZ Shares and/or acquisition of Bonus MNZ Shares should have tax implications. Please see Part A – Section 2 for more information about the taxation consequences of the MNZ Offer.

2. Tax Information about the MNZ Offer

This Section provides a summary of the taxation consequences of the MNZ Offer.

1. Tax considerations generally

The following is a general summary of the Australian income tax (including CGT) and stamp duty implications for Australian tax resident investors who will participate in the MNZ Offer by disposing of their Grays Shares in exchange for:

- MNZ Shares; and
- the right to Bonus MNZ Shares.

This summary does not constitute taxation advice and should not be relied upon as such. Given the general nature of the summary and the complexity of the Australian taxation laws, it is strongly recommended that each Grays Shareholder consult with their own independent taxation adviser regarding the consequences of participating in the MNZ Offer in light of current Australian taxation laws and their particular investment circumstances and anticipated future circumstances.

This summary reflects the provisions of the Tax Law and the regulations made under the Tax Law, taking into account ATO rulings and determinations applicable as at the date of the MNZ Offer. The summary does not otherwise take into account or anticipate changes in the Tax Law, whether by way of judicial decision or legislative action, nor does it take into account taxation legislation of countries other than Australia. You should be aware that legislation, regulations, rulings, administrative interpretations and judicial decisions are subject to change at any time and, in some circumstances, with retrospective effect.

Grays Shareholders who are non-residents of Australia for Australian taxation purposes should obtain specific independent advice as to the taxation consequences of the MNZ Offer in their country of residence, as well as in Australia.

The following summary is not exhaustive of all the Australian taxation considerations that could apply to particular Grays Shareholders. In particular, the summary does not apply to Grays Shareholders who:

- hold their Grays Shares on revenue account (that is, they are engaged in a business of trading in shares), as trading stock or have made an election under the Tax Law that results in gains and losses being regarded on revenue account;
- acquired their Grays Shares for the purposes of resale at a profit;
- acquired their Grays Shares under an arrangement which qualifies as an employee share or option plan for Australian tax purposes;
- are a bank, insurance company, tax exempt organisation or superannuation fund that are subject to special tax rules; or
- are non-resident shareholders that hold their Grays Shares as an asset of a permanent establishment in Australia.

In broad terms, the Australian taxation considerations for Grays Shareholders who hold Grays Shares and dispose of those Grays Shares under the MNZ Offer, will generally depend on whether or not CGT 'scrip for scrip' rollover relief is available or chosen.

This summary therefore considers the general Australian taxation considerations for Grays Shareholders where:

(a) CGT 'scrip for scrip' rollover relief is not available or is not chosen; and

(b) CGT 'scrip for scrip' rollover relief is available and chosen.

2. Australian resident Grays Shareholders – CGT consequences

Introduction

If the MNZ Offer is implemented, Grays Shareholders will dispose of their Grays Shares to MNZ and the disposal will trigger a CGT event (CGT Event A1) for Grays Shareholders.

As the Grays Shareholders will dispose of their shares under a contract, the time of the CGT event will be the time a disposal contract is entered into. The time of this contact is the time the acceptance is received by the Company – the time of the Transaction.

Subject to the application of CGT 'scrip for scrip' rollover (refer below), the consequences of CGT event A1 being triggered in respect of the Grays Shares are as follows.

Capital Gain (Loss)

Grays Shareholders will:

- make a capital gain if the capital proceeds received on the disposal of their Grays Shares are greater than the cost base of those shares; or
- make a capital loss if the capital proceeds received on the disposal of their Grays Shares is less than the reduced cost base of those shares.

Any capital gain made from the disposal of the Grays Shares will be included in the Grays Shareholder's assessable income for the income year in which that disposal occurs.

A capital loss that arises on the disposal of the Grays Shares can generally be offset against any other capital gains from other asset disposals that arise in the same year.

Any unutilised capital losses can generally be carried forward and offset against capital gains in future years, subject to satisfying the relevant loss utilisation rules.

Capital Proceeds

The 'capital proceeds' for the disposal of the Grays Shares will consist of:

- the market value of the MNZ Shares; and
- the market value of the right to Bonus MNZ Shares.

Determining the Market Value of the Consideration received

Lonergan Edwards & Associates Limited has undertaken a draft valuation of the rights to Bonus MNZ Shares as requested by Grays. The valuation of the rights is ultimately dependent on the market value of the MNZ Shares at completion of the MNZ Offer, which should be calculated based on the VWAP at which MNZ Shares trade subsequent to completion of the MNZ Offer (in accordance with ATO guidance) and as such cannot be determined until post completion.

Indicatively, Lonergan Edwards & Associates Limited have determined that the value of the rights to Bonus MNZ Shares should be between $0.09 and $0.13 per right based on a per share price of MNZ Shares of between $1.00 and $1.50.

Following completion of the MNZ Offer, Lonergan Edwards & Associates Limited will finalise this valuation and you will be provided with a letter which sets out the VWAP of MNZ Shares subsequent to completion of the MNZ Offer and Lonergan Edwards & Associates Limited's view of the resultant market value of the rights to Bonus MNZ Shares. You should retain that letter so that your accountant or taxation adviser can use the VWAP of MNZ Shares subsequent to completion of the MNZ Offer and market value of rights to Bonus Shares in calculating the income tax implications associated with the Transaction and future associated income tax implications.

Cost Base

The CGT 'cost base' of the Grays Shares will generally include the actual (or deemed) cost of acquisition plus incidental costs incurred to acquire the Grays Shares or that relate to the disposal of the Grays Shares.

3. Australian resident Grays Shareholders – CGT 'scrip for scrip' rollover relief is not available or is not chosen

Capital Loss

Where a Grays Shareholder makes a capital loss as a result of participating in the MNZ Offer, the 'scrip for scrip' rollover relief is not available.

The Grays Shareholder will make a capital loss if the capital proceeds received on the disposal of their Grays Shares is less than the reduced cost base of those shares.

Capital Gains and CGT Discount

Where a Grays Shareholder makes a capital gain and it does not make an election for the 'scrip for scrip' rollover relief to apply, the capital gains is included in taxable income.

The CGT discount is available to Grays Shareholders who are individuals, trusts or complying superannuation funds that have held their Grays Shares for at least 12 months before the disposal under the MNZ Offer.

Broadly, the CGT discount rules enable the Grays Shareholders to reduce their capital gain (after the application of any current year or prior year capital losses) by 50% for individuals and trusts and 33 1/3% for complying superannuation funds. Grays Shareholders having any current year capital losses or net capital losses from previous income years should seek independent taxation advice in relation to the potential availability of the CGT discount.

The CGT discount is not available to Grays Shareholders that are companies.

The application of the CGT discount rules to a Grays Shareholder that is a trustee of a trust is complex, particularly where distributions are attributable to discounted capital gains. Such Grays Shareholders should therefore seek their own independent taxation advice based on their particular circumstances.

4. Australian resident Grays Shareholders – CGT 'scrip for scrip' rollover is available and chosen

Introduction

Under Australian tax laws, CGT 'scrip for scrip' rollover relief is available where shareholders exchange 'post-CGT' shares (i.e. shares acquired on or after 20 September 1985) in one company for shares in another company under a single arrangement where 'qualifying' conditions are met.

Grays has obtained tax advice that Grays Shareholders will be entitled to CGT 'scrip for scrip' rollover relief in respect of any capital gain arising under the MNZ Offer:

(a) where the disposal of the Grays Shares would otherwise realise an assessable capital gain; and

(b) to the extent that the Grays Shareholders receive MNZ Shares in exchange for their Grays Shares (**eligible proceeds**).

The 'scrip for scrip' rollover relief is not available to the extent that the consideration received is the right to receive Bonus MNZ Shares (**ineligible proceeds**).

Operation of the CGT 'scrip for scrip' rollover provisions

In summary, if CGT 'scrip for scrip' rollover is available, the consequences of choosing the rollover are as follows:

(a) any capital gain in respect of the disposal of the Grays Shares (to the extent it relates to the MNZ Shares) will be disregarded; and

(b) the realisation of any capital gain will be deferred until a CGT event takes place in respect of the MNZ Shares.

To determine the capital gain on the Grays Shares to the extent it relates to eligible proceeds, the Grays Shareholder's original cost base should be apportioned between the MNZ Shares and the right to receive Bonus MNZ Shares on a reasonable basis. This is generally based on the relative market value of the components received. That is, based on the:

- market value of the rights to Bonus MNZ Shares as a proportion of the total consideration or proceeds; and
- the market value of the MNZ Shares received as a proportion of the total consideration or proceeds.

Making a CGT rollover Election

If CGT 'scrip for scrip' rollover is available, Grays Shareholders will need to choose for the rollover to apply. The choice must be made before the lodgement of their income tax return for the income year in which the MNZ Offer is implemented, although a formal written choice is not necessary.

Rather, the choice will be evidenced by the manner in which Grays Shareholders prepare and lodge their income tax return for the relevant income year (that is, by the fact that the Grays Shareholders' income tax return excludes the capital gain that is subject to the CGT scrip-for-scrip rollover, if that rollover is available).

5. Right to Bonus MNZ Shares and Bonus MNZ Shares

The right to Bonus MNZ Shares will be a separate CGT asset acquired at the time of the Transaction. This asset should have a tax cost base equal to its market value at that time. This is also the amount that is taxed as consideration for the sale of the Grays Shares.

Bonus MNZ Shares are Issued

When the right to receive Bonus MNZ Shares ends (e.g. because the bonus shares are issued) or is extinguished, Shareholders will trigger a CGT Event C2 at that time. However any capital gain or loss will be disregarded to the extent that Bonus MNZ Shares are acquired. The tax cost base of the right to Bonus MNZ Shares will then form part of the cost base of the Bonus MNZ Shares acquired. This tax cost base, together with any other costs incurred in acquiring the Bonus MNZ Shares will be the tax cost base of the Bonus MNZ Shares.

The shareholder will acquire the Bonus MNZ Shares on the date the Bonus MNZ Shares are issued.

Bonus MNZ Shares are not Issued

When the right ends or is extinguished, Shareholders will trigger a CGT Event C2 at that time. In the event the right to Bonus MNZ Shares ends and no MNZ Shares are issued (that is, if the Shareholder does not satisfy the conditions), then a capital loss will arise when the right ends. The capital loss should be the reduced tax cost base for the right (being the market value of the right at the time it is issued), assuming no further consideration is received for this right ending. This capital loss may arise in a different income tax year to which the right is granted. In this case, the capital loss cannot be offset against any earlier tax gain arising on the issue of the right.

6. Non-Australian resident Grays Shareholders

Under current Australian Tax Laws, non-Australian tax residents are not assessable on capital gains arising from the disposal of shares in an Australian company where those shares do not qualify as 'taxable Australian property'. Shares in an Australian company may only qualify as 'taxable Australian property' if a majority of the company's underlying assets consists of real property situated in Australia.

A non-Australian resident Grays Shareholder should therefore not be subject to Australian CGT as a result of disposing of the Grays Shares under the MNZ Offer. This is on the basis that a majority of Grays' assets do not consist of Australian 'real property' at the time of the disposal and the Grays Shares held by a non-Australian resident Grays Shareholder will therefore not be 'taxable Australian property'.

Non-Australian resident Grays Shareholders should seek their own independent taxation advice as to the taxation implications of the MNZ Offer.

7. Stamp duty

Shareholders should not be liable for stamp duty in respect of the acquisition of their MNZ Shares or the right to Bonus MNZ Shares or the acquisition of Bonus MNZ Shares.

3. Terms of the MNZ Offer

1. Offer to acquire your Grays Shares

1.1 Offer

MNZ offers to acquire all of the Grays Shares held by you on the terms set out in this Offer.

1.2 Consideration

The amount offered for each Grays Share held by you is:

(a) 638 new MNZ Shares to be issued on Completion (**New MNZ Shares**); plus

(b) if you accept the Offer and on the first anniversary of the Completion Date you hold that number of MNZ Shares that is greater than or equal to 75% of the New MNZ Shares issued to you under clause 1.2(a) (ignoring any MNZ Shares you may have held immediately prior to Completion), a number of additional MNZ Shares (**Bonus Shares**) calculated as follows:

$$A = B \times 1/2$$

where:

A = the number of Bonus Shares (rounded up, if not a whole number, to the nearest whole number)

B = the number of MNZ Shares that you hold on the first anniversary of the Completion Date (ignoring any MNZ Shares you may have held immediately prior to Completion).

1.3 Condition

This Offer is subject to the following conditions (**Conditions**):

(a) MNZ Shareholders pass the MNZ Resolutions by the requisite voting majorities at the MNZ Shareholder Meeting; and

(b) the Merger Implementation Agreement has not been terminated prior to 11.00am on the Completion Date.

Each Condition is a condition subsequent and will not prevent a contract to purchase your Grays Shares arising from your acceptance of the MNZ Offer. However, if a Condition is not fulfilled all contracts resulting from the acceptance of the MNZ Offer will be void.

1.4 Terms of sale of Grays Shares

On Completion, if you accept the Offer you must sell to MNZ and MNZ must buy from you all of the Grays Shares held by you:

(a) for the consideration set out in clause 1.2;

(b) free from Encumbrances;

(c) with all rights, including dividend and voting rights, attached or accrued to them on or after the Completion Date; and

(d) subject to the terms and conditions of this Offer.

1.5 Terms of issue of New MNZ Shares

(a) If you accept the Offer, the New MNZ Shares and Bonus Shares must be issued by MNZ to you:

(i) credited as fully paid;

(ii) free from Encumbrances;

(iii) subject to MNZ's constitution; and

(iv) on the basis that when issued they rank equally in all respects with the other MNZ Shares then on issue.

(b) MNZ will procure (at its own cost) that, as from the date that is no more than three Business Days after the Completion Date, the New MNZ Shares issued on that date will be listed for quotation on the official list of ASX.

(c) All issues of New MNZ Shares and Bonus Shares made under this Offer must be made in full without any deduction, set-off or counter-claim, and MNZ irrevocably waives any right of deduction, set-off or counter-claim it may have against any issue of New MNZ Shares and Bonus Shares made under this Offer.

1.6 Escrow

If you accept the Offer the New MNZ Shares you are issued on Completion will be subject to escrow restrictions. For that purpose, when you accept the Offer you will be deemed to have authorised Grays and each of its directors, secretaries, officers, servants and agents individually as your agent and attorney to sign and deliver the Escrow Deed on your behalf.

1.7 Offer Period

This Offer will remain open for the period:

(a) starting on 10 October 2014; and

(b) ending at 5.00pm (Sydney time) on 6 November 2014,

unless this period is extended by MNZ in its absolute discretion (**Offer Period**).

1.8 How to accept the Offer

(a) You may only accept this Offer during the Offer Period for all of the Grays Shares held by you.

(b) To validly accept this Offer, you must:

(i) complete and sign the Acceptance Form – MNZ Offer accompanying this Offer in accordance with the instructions on it; and

(ii) send the Acceptance Form – MNZ Offer, and all other documents required by the instructions on the Acceptance Form– MNZ Offer, so that they are received by MNZ before the end of the Offer Period at the relevant address(es) stated on the Acceptance Form – MNZ Offer.

(c) To be a valid acceptance of this Offer, your Acceptance Form must be accompanied by each of the following documents:

(i) if you hold the original share certificate(s) in respect of your Grays Shares – the original share certificates held by you; or

(ii) if you have lost or cannot locate your original share certificate in respect of your Grays Shares – a statutory declaration as provided together with the Acceptance Form – MNZ Offer; and

(iii) any power of attorney or other authority under which you have signed the Acceptance Form – MNZ Offer.

(d) MNZ may, in its absolute discretion, determine that any Acceptance Form it receives is a valid acceptance, even if one or more of the requirements set out in the Acceptance Form or in clauses 1.8(b) or 1.8(c) have not been complied with.

(e) The Acceptance Form – MNZ Offer forms part of the Offer, and the instructions on the Acceptance Form – MNZ Offer must be followed in using it to accept the Offer.

(f) Each action that must be performed by a Grays Shareholder in order to accept the Offer in accordance with this clause 1.8 may be performed on behalf of that Grays Shareholder by any person authorised to do so, including without limitation, any person authorised to sign an agreement in respect of Grays Shares pursuant to clauses 8.2 and 8.3 of the Grays Shareholders Agreement.

1.9 Effect of acceptance

(a) An acceptance of the Offer in accordance with clause 1.8 constitutes:

(i) your agreement to transfer your Grays Shares to MNZ on the terms and subject to the conditions of the Offer;

(ii) an application by you to subscribe for the New MNZ Shares on Completion; and

(iii) your agreement to become a member of MNZ for the purposes of section 231(b) of the Corporations Act.

(b) By accepting the Offer in accordance with clause 1.8, you will be deemed to have:

(i) severally represented and warranted to MNZ, in respect of yourself only (and not in respect of any other Accepting Shareholder), that each of the Accepting Shareholder Warranties will be true and accurate on Completion;

(ii) waived in favour of MNZ any rights of pre-emption which you have or may have in respect of any Grays Shares;

(iii) irrevocably and unconditionally authorised Grays, its directors, secretaries, officers, servants and agents jointly and each of them severally to complete or alter the Acceptance Form – MNZ Offer on your behalf (and irrevocably and unconditionally appoint Grays and each of its directors, secretaries, officers, servants and agents individually as your attorney for that purpose) by:

(A) filling in any blanks remaining on the Acceptance Form– MNZ Offer;

(B) rectifying any error in or omission from the Acceptance Form – MNZ Offer; and

(C) completing and signing on behalf of you (or as your attorney) any other instrument or transfer,

as may be necessary to make the Acceptance Form an effective acceptance of the Offer or to enable the registration of the transfer of the Grays Shares held by you to MNZ;

(iv) irrevocably and unconditionally authorised Grays, its directors, secretaries, officers, servants and agents jointly and each of them severally to do each of the following in your name and for and on your behalf (and irrevocably and unconditionally appoint Grays and each of its directors, secretaries, officers, servants and agents individually as your attorney for that purpose):

(A) complete and execute all documents, transfers and assurances as may be necessary or desirable to transfer your Grays Shares to MNZ;

(B) complete and execute any instruments necessary to give effect to the transactions contemplated by this Offer or any document referred to or which is ancillary or related to this Offer (including the Escrow Deed) or any document which comes into operation as a result of the transactions contemplated by this Offer (**Transaction Documents**), including any document necessary, convenient or appropriate to enable Completion to take place;

(C) give or agree to give, any and all consents, waivers, amendments, approvals, announcements, disclosures or modifications deemed by Grays in its reasonable and good faith discretion, to be necessary or appropriate under this Offer or any of the other Transaction Documents and complete and execute (under hand or under seal) any instruments necessary to give effect thereof and receive all such consents, waivers, amendments, approvals, announcements, disclosures or modifications from MNZ and any instruments necessary to give effect thereof;

(D) amend any of the Transaction Documents;

(E) receive and forward notices pursuant to this Offer and any of the other Transaction Documents; and

(F) do and perform any or all of the other acts, matters or things necessary, convenient or appropriate to give effect to the transactions contemplated by this Offer and the other Transaction Documents including the exercise of any right and the discharge of any obligation under this Offer and any other Transaction Documents;

(v) irrevocably appointed MNZ and its directors, secretaries and officers jointly and each of them severally as your attorney, with effect from Completion, with power to exercise the powers and rights which you could lawfully exercise as the registered holder of your Grays Shares, including:

(A) requesting Grays to register your Grays Shares in the name of MNZ;

(B) applying for a replacement certificate in respect of any share certificate that has been lost or destroyed;

(C) signing any form, notice or instrument relating to the transfer of your Grays Shares to MNZ; and

(D) doing all things incidental and ancillary to any of the above,

and you acknowledge and agree that the attorney may exercise those powers in the interests of MNZ as the intended registered holder of your Grays Shares; and

(vi) irrevocably authorised MNZ and its nominees to do all things necessary to transfer your Grays Shares to MNZ on Completion.

1.10 No disposal of Grays Shares after acceptance

From the date of your acceptance of this Offer in accordance with clause 1.8 up to and including the Completion Date, you must not:

(a) dispose of, agree to dispose of, grant an option over or grant any interest in any Grays Share held by you; or

(b) Encumber any Grays Share held by you,

except as contemplated by this Offer.

1.11 Acceptances by nominees and transferees

(a) During the Offer Period:

(i) any person who is able to give good title to a parcel of your Grays Shares may accept this Offer as if an offer on terms identical to this Offer has been made to them; and

(ii) any person who holds one or more parcels of Grays Shares as trustee, nominee, or otherwise on account of another person, may accept as if a separate and distinct offer had been made in relation to:

(A) each of those parcels; and

(B) any parcel they hold in their own right.

(b) A person is taken to hold Grays Shares if the person is, or has a right to be registered as, the holder of those Grays Shares.

(c) A person who has a right to be registered as a holder of Grays Shares may accept this Offer by completing and signing the Acceptance Form in accordance with the instructions on it and lodging it by returning it (together with all other documents required by the instructions on the Acceptance Form) to the address stated on the Acceptance Form, so that the acceptance is received before the end of the Offer Period.

(d) A person is taken to hold Grays Shares on trust for, as nominee for, or on account of, another person if they:

(i) are entitled to be registered as the holder of particular Grays Shares; and

(ii) hold their interest in the Grays Shares on trust for, as nominee for, or on account of, that other person.

(e) An acceptance of an offer under clause 1.11(a)(ii) is ineffective unless:

(i) the person who holds on account of another person gives MNZ:

(A) a notice in writing stating that the Grays Shares consist of a separate parcel; and

(B) the relevant share certificates (if any) covering that parcel, or a statement in writing signed by that person under section 1070D of the Corporations Act; and

(ii) the acceptance specifies the number of Grays Shares in that parcel.

References in this Offer to your Grays Shares will be treated as relating to that separate parcel.

(f) To accept an offer under clause 1.11(a) or (c), make a photocopy of the original Acceptance Form issued in respect of the relevant Grays Shares, write your name on the photocopy to identify you as the person accepting the offer, and the number of Grays Shares in the parcel to which your acceptance relates, then sign the photocopy (or have it signed on your behalf by the person who holds the shares on your account) and return it in accordance with the instructions on it, so that the acceptance is received before the end of the Offer Period.

2. Completion

2.1 Time and place

Provided that the Condition has not been breached, Completion will take place at 11.00am on 7 November 2014, at the offices of Minter Ellison, Level 19, 88 Phillip Street, Sydney NSW 2000, or another time and place agreed by Grays and MNZ.

2.2 Obligations of MNZ at Completion

(a) At Completion, MNZ must:

(i) allot and issue the New MNZ Shares to each Accepting Shareholder as required by clause 1.2(a); and

(ii) procure that the name of each Accepting Shareholder is entered on the MNZ share register in respect of the New MNZ Shares they are entitled to receive under clause 1.2(a),

in each case subject to the board of directors of Grays resolving that the transfers of the Sale Shares to MNZ be approved and registered (subject only to the payment of stamp duty or other Taxes of a similar nature on the transfers) and existing share certificates for all Sale Shares be cancelled.

(b) On or promptly following Completion, MNZ must deliver to each Accepting Shareholder a holding statement for the New MNZ Shares issued to that Accepting Shareholder at Completion.

2.3 Simultaneous actions at Completion

In respect of Completion:

(a) the obligations of MNZ and the Accepting Shareholders under this Offer are interdependent; and

(b) all actions required to be performed will be taken to have occurred simultaneously at Completion;

(c) if all actions required to be performed on Completion are not so performed, then none of the actions will be taken to have been performed; and

(d) MNZ and the Accepting Shareholders need not complete the sale and purchase of any of the Sale Shares unless the sale and purchase of all the Sale Shares is completed simultaneously.

2.4 Conduct until transfers of Grays Shares are registered

(a) Each Accepting Shareholder:

(i) hereby irrevocably appoints MNZ as that Accepting Shareholder's sole proxy to attend and vote at general meetings of Grays and exercise all voting rights attaching to the Sale Shares;

(ii) must not itself attend or vote at any general meeting of Grays; and

(iii) must take all action as registered holder of the Sale Shares held by that Accepting Shareholder as MNZ directs,

in each case from Completion until the Sale Shares are registered in the name of MNZ.

(b) MNZ must bear all costs of each Accepting Shareholder performing its obligations under clause 2.4(a).

(c) MNZ indemnifies each Accepting Shareholder and its Associates from and against any Claim or Liability that may be suffered or incurred by that Accepting Shareholder or any of its Associates arising directly or indirectly out of out of any exercise of the proxy referred to in clause 2.4(a) or that Accepting Shareholder performing its obligations under clause 2.4(a). The Accepting Shareholder holds the benefit of that indemnity for itself and as agent and trustee for each of its Associates.

3. Obligations of MNZ on the first anniversary of Completion

(a) On the first anniversary of the Completion Date, MNZ must:

(i) allot and issue the Bonus Shares to the Accepting Shareholders as required by clause 1.2(b); and

(ii) procure that the name of each Accepting Shareholder is entered on the MNZ share register in respect of the Bonus Shares they are entitled to receive under clause 1.2(b).

(b) MNZ will procure (at its own cost) that, no later than 3 Business Days after the issue of any Bonus Shares, the Bonus Shares issued will be listed for quotation on the official list of ASX.

(c) On or promptly following the first anniversary of the Completion Date, MNZ must deliver to each Accepting Shareholder a holding statement for the Bonus Shares issued to that Accepting Shareholder on the first anniversary of the Completion Date.

(d) Provided MNZ has obtained ASIC Relief in respect of the Bonus Shares before the first anniversary of the Completion Date, then as soon as reasonably practicable, and no later than 5 Business Days, after the issue of any Bonus Shares, MNZ will issue a cleansing notice in accordance with sections 708A(5)(e) and 708A(6) of the Corporations Act in respect of all of the Bonus Shares that are issued on the first anniversary of the Completion Date under or pursuant to this Offer.

4. Warranties given by Accepting Shareholders to MNZ

(a) The Accepting Shareholder Warranties are personal to MNZ and may not be assigned to any other person.

(b) Each of the Accepting Shareholder Warranties:

(i) is separate and independent and is not limited by reference to any other Accepting Shareholder Warranty; and

(ii) remains in full force and effect after Completion.

(c) The maximum aggregate liability (including for legal costs and expenses incurred in defending a Claim from a third party) of an Accepting Shareholder for loss or damage of any kind relating in any way to a breach of an Accepting Shareholder Warranty is limited to an amount equal to:

(i) the consideration actually received from MNZ by that Accepting Shareholder under this Offer at or prior to the date the Claim is made; less

(ii) any amount previously recovered by MNZ from that Accepting Shareholder for loss or damage of any kind relating in any way to this Offer or its subject matter.

(d) The maximum aggregate liability to MNZ of an Accepting Shareholder for loss or damage of any kind not excluded by any other provision of this Offer, however caused, in contract, tort (including negligence), under statute or otherwise from or relating in any way to this Offer is limited, in aggregate for any and all Claims and amounts payable, to an amount equal to:

(i) the consideration actually received from MNZ by that Accepting Shareholder under this Offer at or prior to the date the Claim is made; less

(ii) any amount previously recovered by MNZ from that Accepting Shareholder for loss or damage of any kind relating in any way to this Offer or its subject matter.

5. Warranties given by MNZ to Offerees

5.1 MNZ Warranties

MNZ represents and warrants to each Offeree that each of the MNZ Warranties is true and accurate at the date of this Offer and will be true and accurate on the Completion Date.

5.2 Application of the MNZ Warranties

(a) Each of the MNZ Warranties:

(i) is separate and independent and is not limited by reference to any other MNZ Warranty; and

(ii) remains in full force and effect after Completion.

(b) The MNZ Warranties are personal to the Offerees and may not be assigned to any other person.

5.3 Qualifications

The MNZ Warranties are given subject to and qualified by, and an Offeree is not entitled to claim that any fact, matter or circumstance causes any of the MNZ Warranties to be breached if and to the extent that the fact, matter or circumstance is:

(a) fairly disclosed in:

(i) this Offer and the accompanying documents;

(ii) the MNZ Due Diligence Material;

(iii) announcements made to ASX by MNZ prior to the date of this Offer;

(iv) any information available, on or before the date that is 5 Business Days before the date of this Offer, on public registers maintained by any of the High Court of Australia, the New South Wales Registry of the Federal Court, the Supreme Court (throughout Australia), the New South Wales Land Titles Office (and the equivalent office in each Australian state), the Trade Marks Office and the Australian Securities and Investments Commission; or

(b) otherwise within the actual knowledge of the Offeree on or before the date of this Offer.

5.4 Acknowledgments

By accepting the Offer in accordance with clause 1.8, an Offeree will be deemed to have acknowledged and agreed with MNZ that:

(a) the MNZ Warranties are the only warranties that the Offeree requires, and on which the Offeree has relied, in accepting the Offer;

(b) for the avoidance of doubt, no warranty or representation, expressed or implied, is given in relation to any financial forecast contained or referred to in the MNZ Due Diligence Material; and

(c) to the extent permitted by law, all other warranties, representations and undertakings (whether express or implied and whether oral or in writing) made or given by any entity which is a member of the MNZ Group or their respective employees, customers, agents or representatives are expressly excluded.

5.5 Financial limits on MNZ Warranty Claims

No Offeree may make a MNZ Warranty Claim, and MNZ has no liability under or in relation to or arising out of a breach of an MNZ Warranty:

(a) unless the amount of the MNZ Warranty Claim exceeds $100,000; and

(b) unless and until the aggregate of all MNZ Warranty Claims properly made by all Offerees under this Offer (each of which must satisfy the relevant requirement in clause 5.5(a)) exceeds $1,000,000, in which event MNZ is liable for the full amount finally awarded or agreed as being payable.

5.6 Time limits on MNZ Warranty Claims

MNZ has no liability under or in relation to or arising out of a breach of an MNZ Warranty unless:

(a) an Offeree has given written notice of the MNZ Warranty Claim to MNZ under clause 5.9 on or before the date that is 2 years after the Completion Date; and

(b) the MNZ Warranty Claim has been settled or legal proceedings in a court of competent jurisdiction in respect of the MNZ Warranty Claim have been commenced by the Offeree against MNZ within 9 months (or such longer period as may be agreed) of the MNZ Warranty Claim being notified by the Offeree under clause 5.9.

5.7 Other limits on MNZ Warranty Claims

MNZ's liability to an Offeree in respect of any breach of an MNZ Warranty Claim is reduced or extinguished (as the case may be) to the extent that:

(a) the MNZ Warranty Claim has arisen as a result of or in consequence of any voluntary act, omission, transaction or arrangement:

(i) of or on behalf of the Offeree after Completion; or

(ii) with the express written consent or at the express written direction or instruction of the Offeree before Completion;

(b) the MNZ Warranty Claim is as a result of or in respect of, or where the MNZ Warranty Claim arises from, any increase in the rate of Tax liable to be paid or any imposition of Tax not in effect at the date of this Offer;

(c) the MNZ Warranty Claim occurs or is increased as a result of legislation not in force or in effect at the date of this Offer;

(d) the MNZ Warranty Claim occurs as a result of a change after the date of this Offer in any law or interpretation of law;

(e) the MNZ Warranty Claim could only have been avoided by MNZ or any Offeree breaching their obligations at law or under the agreement formed on acceptance of this Offer;

(f) the Offeree or, prior to Completion, Grays is aware of any fact, matter or thing that it should reasonably know constitutes, or would be reasonably expected with the lapse of time to constitute, a breach of this Offer;

(g) the Offeree actually recovers an amount referable to that MNZ Warranty Claim from another source whether by way of contract, indemnity or otherwise (including under a policy of insurance or from a Governmental Agency);

(h) the MNZ Warranty Claim is in relation to special, indirect or consequential loss or damage, including loss of profit, except to the extent that loss may fairly and reasonably be considered to arise naturally, that is according to the usual course of things, from a breach of the agreement formed on acceptance of this Offer; or

(i) the MNZ Warranty Claim is remediable, provided it is remedied to the satisfaction of the Offeree, acting reasonably, not later than 30 Business Days after MNZ receives written notice of the MNZ Warranty Claim in accordance with clause 5.9.

5.8 Maximum aggregate liability for MNZ Warranty Claims

The maximum aggregate liability (including for legal costs and expenses incurred in defending a MNZ Warranty Claim from a third party) of MNZ for loss or damage of any kind relating in any way to a breach of an MNZ Warranty is limited to an amount equal to $5 million.

5.9 Notice of potential MNZ Warranty Claim

If an Offeree becomes aware of anything which is or may be reasonably likely to give rise to an MNZ Warranty Claim, it must notify MNZ in writing, not later than 10 Business Days after it has first come to the Offeree's attention (**Claim Notice**), setting out the act, matter or thing relied on as giving rise to the MNZ Warranty Claim or the MNZ Warranty the subject of the MNZ Warranty Claim and all relevant details of the MNZ Warranty Claim in so far as they are available to the Offeree.

5.10 Mitigation of loss

Each Offeree must take all reasonable actions to mitigate any Liability which may give rise to or increase the quantum of an MNZ Warranty Claim but only if and to the extent that it would be obliged to do so as a matter of general law.

5.11 Recovery only once

An Offeree is not entitled to recover damages or obtain payment, reimbursement, restitution or indemnity more than once in respect of any fact, matter or circumstance that gives rise to an MNZ Warranty Claim.

6. GST

6.1 Interpretation

In this clause 6, a word or expression defined in the ***A New Tax System (Goods and Services Tax) Act 199***9 (Cth) (**GST Act**) has the meaning given to it in that Act.

6.2 Amounts GST exclusive

Unless expressly stated to be inclusive of GST, the consideration for the supply of goods, services or other things under this Offer has been calculated exclusive of GST.

6.3 GST gross up

(a) If a party makes a supply under or in connection with this Offer (**Supplier**) in respect of which GST is payable, the consideration for the supply but for the application of this clause 6.3 (**GST exclusive consideration**) is increased by an amount equal to the GST exclusive consideration multiplied by the rate of GST prevailing at the time the supply is made (**GST Amount**).

(b) The recipient of the supply (**Recipient**) must pay to the Supplier the GST Amount at the same time and in the same manner as the GST exclusive consideration, or the first part of the GST exclusive consideration (as the case may be), is payable or to be provided.

6.4 Input taxed financial supplies

Notwithstanding clause 6.3, the parties acknowledge that, in accordance with section 40-5 of the GST Act and sub-regulation 40-5.09 of the A New Tax System (Goods and Services Tax) Regulations 1999, they have formed the view that the supply of:

(a) the Grays Shares by the Accepting Shareholders to MNZ; and

(b) the MNZ Shares (and any Bonus Shares) by MNZ to the Accepting Shareholders,

under this Offer, are input taxed financial supplies on which no GST is payable.

6.5 Reimbursements

If a party must reimburse or indemnify another party for a loss, cost or expense, the amount to be reimbursed or indemnified is first reduced by any input tax credit the other party, or the representative member of the GST group of which that party is a member, is entitled to for the loss, cost or expense, and then increased in accordance with clause 6.3.

6.6 Tax invoice

A party need not make a payment for a GST Amount made under or in connection with this Offer until it receives a tax invoice for the supply to which the payment relates.

7. Notices and other communications

7.1 Service of notices

A notice, demand, consent, approval or communication under this Offer (Notice) must be:

(a) in writing, in English and signed by a person duly authorised by the sender; and

(b) hand delivered or sent by prepaid post or facsimile to the recipient's address for Notices specified in the Details, as varied by any Notice given by the recipient to the sender.

7.2 Effective on receipt

A Notice given in accordance with clause 7.1 takes effect when taken to be received (or at a later time specified in it), and is taken to be received:

(a) if hand delivered, on delivery;

(b) if sent by prepaid post, the second Business Day after the date of posting (or the seventh Business Day after the date of posting if posted to or from a place outside Australia);

(c) if sent by facsimile, when the sender’s facsimile system generates a message confirming successful transmission of the entire Notice unless, within eight Business Hours after the transmission, the recipient informs the sender that it has not received the entire Notice,

but if the delivery, receipt or transmission is not on a Business Day or is after 5.00pm on a Business Day, the Notice is taken to be received at 9.00am on the next Business Day.

8. Miscellaneous

8.1 Several liability of the Offerees

(a) If a right is conferred on or an obligation is imposed on more than one Offeree, then that right is conferred on and obligation imposed on the Offerees severally.

(b) If a Claim can be brought against more than one Offeree, then:

(i) the Offerees will be severally liable in respect of any such Claim; and

(ii) no Offeree will be liable for any other Offeree's failure to pay the full amount payable in respect of any such Claim.

8.2 Alterations

This Offer may be altered only in writing signed by each party.

8.3 Approvals and consents

Except where this Offer expressly states otherwise, a party may, in its discretion, give conditionally or unconditionally or withhold any approval or consent under this Offer.

8.4 Assignment

A party may only assign this Offer or a right under this Offer with the prior written consent of each other party.

8.5 Costs

Each party must pay its own costs of negotiating, preparing and executing this Offer.

8.6 Stamp duty

Any stamp duty, duties or other taxes of a similar nature (including fines, penalties and interest) in connection with this Offer or any transaction contemplated by this Offer, must be paid by MNZ.

8.7 Survival

Any indemnity or any obligation of confidence under this Offer is independent and survives termination of this Offer. Any other term by its nature intended to survive termination of this Offer survives termination of this Offer.

8.8 No merger

The rights and obligations of the parties under this Offer do not merge on completion of any transaction contemplated by this Offer.

8.9 Entire agreement

This Offer constitutes the entire agreement between the parties in connection with its subject matter and supersedes all previous agreements or understandings between the parties in connection with its subject matter.

8.10 Further action

Each party must do, at its own expense, everything reasonably necessary (including executing documents) to give full effect to this Offer and any transactions contemplated by it.

8.11 Severability

A term or part of a term of this Offer that is illegal or unenforceable may be severed from this Offer and the remaining terms or parts of the term of this Offer continue in force.

8.12 Waiver

A party does not waive a right, power or remedy if it fails to exercise or delays in exercising the right, power or remedy. A single or partial exercise of a right, power or remedy does not prevent another or further exercise of that or another right, power or remedy. A waiver of a right, power or remedy must be in writing and signed by the party giving the waiver.

8.13 Relationship

Except where this Offer expressly states otherwise, it does not create a relationship of employment, trust, agency or partnership between the parties.

8.14 Governing law and jurisdiction

This Offer is governed by the law of New South Wales and each party irrevocably and unconditionally submits to the non exclusive jurisdiction of the courts of New South Wales.

8.15 Offer Date

This offer is dated 10 October 2014.

9. Defined terms & interpretation

9.1 Defined terms

In this Offer:

Accepting Shareholder means an Offeree who, by executing the acceptance form which accompanies this Offer, has accepted the Offer, or, if the context requires, 'you'.

Accepting Shareholder Warranties means each of the representations and warranties given by the Accepting Shareholders in accordance with this Offer and set out in Schedule 1.

Accounting Standards means the Australian Accounting Standard Board standards (AASB's) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act.

ASIC Relief means relief from the provisions of section 707(3)(a) of the Corporations Act and/or section 708A(5) (as applicable) such that a notice under section 708A(6) may be issued in respect of the Bonus Shares notwithstanding that MNZ will not have satisfied the requirements of section 707(3)(a) of the Corporations Act and/or section 708A(5) (as applicable) as at the first anniversary of the Completion Date.

Associate has the meaning given to that term for the purposes of Chapter 6 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691 or, if the context requires, the securities market operated by it.

Australian Consumer Law means the Australian Consumer Law as set out in Schedule 2 of the Competition and Consumer Act 2010 (Cth).

Bonus Shares has the meaning given to that term in clause 1.2(b).

Business Day means:

(a) for receiving a notice under clause 7, a day that is not a Saturday, Sunday, public holiday or bank holiday in the place where the notice is received; and

(b) for all other purposes, a day that is not a Saturday, Sunday, public holiday or bank holiday in Sydney, Australia.

Business Hours means from 9.00am to 5.00pm on a Business Day.

Claim includes a claim, notice, demand, action, proceeding, litigation, investigation, judgment, damage, loss, cost, expense or liability however arising, whether present, immediate,whether based in contract, tort or statute and whether or not involving a third party.

Completion means completion of the sale and purchase of the Sale Shares contemplated by this Offer.

Completion Date means 7 November 2014 or any other date on which Completion occurs.

Condition means the condition set out in clause 1.3.

Corporations Act means the Corporations Act 2001 (Cth).

Encumbrance includes any interest or equity of any person (including any right to acquire, option or right of pre-emption); any mortgage, charge, pledge, lien, assignment, hypothecation, security interest (including any created by Law), title retention or other security agreement or arrangement, or net profit interest or net production interest; and any rental, hire purchase, credit or conditional sale or other agreement for payment on deferred terms.

Entitlement Offer means the capital raising by Grays to raise not less than $13.2 million in cash (after costs of the Entitlement Offer and any other deductions in relation to the Entitlement Offer) by way of issue of fully paid ordinary shares in Grays.

Escrow Deed means a separate escrow deed to be executed by or on behalf of each relevant Accepting Shareholder under which the New MNZ Shares issued to them on Completion will be subject to escrow arrangements.

Grays means Grays (Aust) Holdings Pty Ltd ABN 48 114 615 780.

Grays Group means Grays and each of its subsidiaries.

Grays Prescribed Occurrence means the occurrence on or after 5 August 2014 of any of the following:

(a) Grays converting all or any of its securities into a larger or smaller number of securities;

(b) a member of the Grays Group resolving to reduce its capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its securities;

(c) Grays declaring, paying or distributing any dividend, bonus or other share of its profits or assets by way of dividend, capital reduction or otherwise;

(d) a member of the Grays Group:

    (i) entering into a buy-back agreement; or

    (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;

(e) a member of the Grays Group issuing securities or other instruments convertible into securities, or granting an option (including a performance right) over its securities, or agreeing to make such an issue or grant such an option (including a performance right) other than under the Entitlement Offer;

(f) a member of the Grays Group making any change or amendment to its constitution, other than under the Grays Resolutions;

(g) a member of the Grays Group:

    (i) acquiring or disposing of;

    (ii) agreeing to acquire or dispose of; or

    (iii) offering, proposing, announcing a bid or tendering for the acquisition of,

    any securities, business, intellectual property, assets (in the nature of a business or part of a business), interests in a joint venture, entity or undertaking other than in the ordinary course of conducting its existing business, consistent with past practice, as publicly announced to the market prior to 5 August 2014;

(h) other than in the ordinary course of business, a member of the Grays Group providing financial accommodation other than to members of the Grays Group irrespective of what form of financial indebtedness that accommodation takes;

(i) a member of the Grays Group entering into or agreeing to enter into a contract or commitment requiring total payments of more than $1 million;

(j) a member of the Grays Group incurring or agreeing to incur capital expenditure of more than $1 million;

(k) an Insolvency Event occurring in relation to a member of the Grays Group;

(l) a member of the Grays Group making any significant change to its accounting practices or policies applied by it to report its financial position other than as a result of advice received from its auditors or to comply with the applicable accounting standards; or

(m) other than in the ordinary course of business, a member of the Grays Group:

  (i) entering into any new financial arrangement;

  (ii) repaying any financial indebtedness;

  (iii) cancelling or forgiving any financial indebtedness for money owed to it other than the forgiving of loans owed by Grays shareholders to member of the Grays Group,

provided that a Grays Prescribed Occurrence will not include a matter:

(n) that is required to be done or procured by Grays or a member of the Grays Group pursuant to this agreement;

(o) the undertaking of which has been approved in writing by MNZ; or

(p) that has been fully and fairly disclosed in writing by Grays or to MNZ before 5 August 2014

Grays Resolutions means resolutions of the Grays shareholders necessary to approve the Transaction, as passed by the Grays Shareholders at a meeting held on 5 September 2014.

Grays Share means a fully paid ordinary share in the capital of Grays.

Governmental Agency means any government or governmental, administrative, monetary, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in any part of the world.

Insolvency Event means in relation to a person:

(a) the person is or becomes unable to pay its debts as and when they fall due within the meaning of the Corporations Act or is otherwise presumed to be insolvent under the Corporations Act, or would be presumed to be insolvent if that Act applied;

(b) the person suspends or threatens to suspend payment of its debts generally;

(c) the calling of a meeting to consider a resolution to wind up the person (other than where the resolution is frivolous or cannot reasonably be considered to be likely to lead to the actual winding up of the person) or the making of an application or the making of any order, or the passing of any resolution, for the winding up, liquidation or bankruptcy of the party other than where the application or order (as the case may be) is set aside within 14 days;

(d) the appointment of a provisional liquidator, liquidator, receiver or a receiver and manager or other insolvency official (whether under Australian law or foreign law) to the person or to the whole or a substantial part of the property or assets of the person;

(e) the appointment of an administrator to the person;

(f) the entry by a person into any compromise or arrangement with creditors; or

(g) the person ceases or threatens to cease to carry on business.

Liabilities includes all liabilities, losses, damages, costs and expenses of whatever description.

Merger Implementation Agreement means the Merger Implementation Agreement entered into between Grays and MNZ on 5 August 2014.

MNZ Confidential Information means:

(a) all information of, used by, related to or connected with the MNZ Group or the transactions, operations and affairs of any member of the MNZ Group;

(b) all other information treated by the MNZ Group as confidential;

(c) all notes, data, reports and other records (whether or not in tangible form) based on, incorporating or derived from information referred to in paragraphs (a) or (b); and

(d) all copies (whether or not in tangible form) of the information, notes, reports and records referred to in paragraphs (a), (b) or (c),

(e) that is not public knowledge (otherwise than as a result of a breach of a confidentiality obligation).

MNZ Data Room means the online data room facility provided by MNZ in connection with the Transaction.

MNZ Due Diligence Material means the information and documents provided to Grays, the Grays Group or their Representatives before the Offer is made, comprising:

(a) information provided in the MNZ Data Room;

(b) answers to requests for information made by Grays, the Grays Group and their Representatives, including copies of documents attached to such answers;

(c) information provided to Representatives of Grays and the Grays Group in formal management briefings or technical legal discussions arranged by MNZ;

(d) other information provided in writing (including email) to Grays and the Grays Group or their Representatives by MNZ or its Representatives.

MNZ Group means MNZ and its subsidiaries, and MNZ Group Company means each of them.

MNZ Options means:

(a) 208,333 options to be issued MNZ Shares held by Grootemaat Holdings Pty Limited;

(b) 312,500 options to be issued MNZ Shares held by CVC Limited; and

(c) 312,500 options to be issued MNZ Shares held by CVC Private Equity Limited.

MNZ Prescribed Occurrence means the occurrence on or after 5 August 2014 of any of the following:

(a) MNZ converting all or any of its securities into a larger or smaller number of securities;

(b) a member of the MNZ Group resolving to reduce its capital in any way or reclassifying, combining, splitting or redeeming or repurchasing directly or indirectly any of its securities;

(c) MNZ declaring, paying or distributing any dividend, bonus or other share of its profits or assets by way of dividend, capital reduction or otherwise;

(d) a member of the MNZ Group:

  (i) entering into a buy-back agreement; or

  (ii) resolving to approve the terms of a buy-back agreement under the Corporations Act;

(e) a member of the MNZ Group issuing securities or other instruments convertible into securities, or granting an option (including a performance right) over its securities, or agreeing to make such an issue or grant such an option (including a performance right);

(f) a member of the MNZ Group making any change or amendment to its constitution;

(g) a member of the MNZ Group:

  (i) acquiring or disposing of;

  (ii) agreeing to acquire or dispose of; or

  (iii) offering, proposing, announcing a bid or tendering for the acquisition of,

  any securities, business, intellectual property, assets (in the nature of a business or part of a business), interests in a joint venture, entity or undertaking other than in the ordinary course of conducting its existing business, consistent with past practice or as publicly announced to the market prior to the date of this agreement;

(h) other than in the ordinary course of business, a member of the MNZ Group providing financial accommodation, other than to members of the MNZ Group, irrespective of what form of financial indebtedness that accommodation takes;

(i) a member of the MNZ Group entering into or agreeing to enter into a contract or commitment requiring total payments of more than $500,000;

(j) a member of the MNZ Group incurring or agreeing to incur capital expenditure of more than $500,000;

(k) an Insolvency Event occurring in relation to a member of the MNZ Group; or

(l) a member of the MNZ Group making any significant change to its accounting practices or policies applied by it to report its financial position other than as a result of advice received from its auditors or to comply with the applicable accounting standards;

(m) other than in the ordinary course of business a member of the MNZ Group:

  (i) entering into any new financial arrangement;

  (ii) repaying any financial indebtedness;

  (iii) cancelling or forgiving any financial indebtedness for money owed to it other than the forgiving of loans owed by MNZ shareholders to member of the MNZ Group for an aggregate amount of not more than $2 million,

provided that an MNZ Prescribed Occurrence will not include a matter:

(n) that is required to be done or procured by MNZ or a member of the MNZ Group pursuant to this agreement;

(o) the undertaking of which has been approved in writing by Grays; or

(p) that has been fully and fairly disclosed in writing by MNZ to Grays before execution of this agreement.

MNZ Resolutions means resolutions of the MNZ shareholders necessary to approve the Transaction including:

(a) a resolution for the purposes of Listing Rule 7.1 approving the issue of the New MNZ Shares to Grays shareholders;

(b) if required by ASX, a resolution for the purposes of Listing Rule 11.1 approving the change to the scale of MNZ's activities arising from the transactions contemplated by this agreement;

(c) if required to avoid a contravention of section 606(1) of the Corporations Act occurring through the Transaction, a resolution for the purposes of item 7 of section 611 of the Corporations Act approving the issue of New MNZ Shares to any Grays shareholder/s who, or whose Associates, will have voting power of more than 20% in MNZ following the issue and allotment of the New MNZ Shares pursuant to the Offers.

MNZ Shares means fully-paid ordinary shares in the capital of MNZ.

MNZ Warranties means each of the representations and warranties given by MNZ under clause 5.1 and set out in Schedule 2 to this Offer.

MNZ Warranty Claim means a Claim by an Accepting Shareholder against one or more of the members of the MNZ Group arising as a direct result of a breach of an MNZ Warranty.

New MNZ Shares means the MNZ Shares to be issued to Accepting Shareholders on Completion.

Offer means the offer set out in this document under which MNZ offers to acquire all of the Grays Shares in consideration for the New MNZ Shares and Bonus Shares, or, if the context requires, this document.

Offeree means each holder of Grays Shares as at the commencement of the Offer Period, or, if the context requires, 'you'.

Offer Period has the meaning given to that term in clause 1.7.

Sale Shares means the Grays Shares held by the Accepting Shareholders.

Tax means all forms of taxes, duties, imposts, charges, withholdings, rates, levies or other governmental impositions of whatever nature and by whatever authority imposed, assessed or charged together with all costs, charges, interest, penalties, fines, expenses and other additional statutory charges, incidental or related to the imposition.

Tax Law means the ***Income Tax Assessment Act 1997*** (Cth) and the ***Income Tax Assessment Act 1936*** (Cth) and any law relating to Tax as the context requires.

Transaction means the acquisition by MNZ of all of the Grays Shares in consideration for the New MNZ Shares and Bonus Shares under the Offer.

Transaction Documents has the meaning given to that term in clause 1.9(b)(iv)(B).

9.2 Interpretation

In this Offer, except where the context otherwise requires:

(a) the singular includes the plural and vice versa, and a gender includes other genders;

(b) another grammatical form of a defined word or expression has a corresponding meaning;

(c) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this Offer, and a reference to this Offer includes any schedule or annexure;

(d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;

(e) a reference to A$, $A, dollar or $ is to Australian currency;

(f) a reference to time is to Sydney, Australia time;

(g) a reference to a party is to a party to this Offer, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;

(h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;

(i) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re enactments or replacements of any of them;

(j) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;

(k) the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;

(l) any agreement, representation, warranty or indemnity by two or more parties (including where two or more persons are described in the same defined term), except the Offerees, binds them jointly and severally;

(m) any agreement, representation, warranty or indemnity in favour of two or more parties (including where two or more persons are included in the same defined term) is for the benefit of them jointly and severally;

(n) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this Offer or any part of it;

(o) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day;

(p) a reference to 'so far as MNZ is aware' or words to that effect, in relation to a matter is to the actual knowledge of each Director of MNZ, Stuart Robertson and Mark Tayler.

9.3 Headings

Headings are for ease of reference only and do not affect interpretation.

Schedule 1 – Accepting Shareholder Warranties

The following Warranties are given severally by each Accepting Shareholder in respect of itself only, and not in respect of any other Accepting Shareholder:

(a) The Accepting Shareholder has full power and capacity to sell, or is the registered owner of, the Grays Shares the subject of the Acceptance Form executed by that Accepting Shareholder and has full authority and all necessary consents to enter into and perform the agreement formed on acceptance of this Offer.

(b) The sale of the Sale Shares held by that Accepting Shareholder under the agreement formed on acceptance of this Offer will not:

  (i) impose any Encumbrance on the Accepting Shareholder; or

  (ii) put the Accepting Shareholder in breach of any obligation or agreement by which it is bound.

(c) Subject to laws generally affecting creditors' rights and principles of equity, the agreement formed on acceptance of this Offer is valid and binding upon the Accepting Shareholder.

(d) If the Accepting Shareholder is a body corporate, no:

  (i) meeting has been convened, resolution proposed, petition presented or order made for the winding up of the Accepting Shareholder;

  (ii) receiver, receiver and manager, provisional liquidator, liquidator or other officer of the Court has been appointed in relation to all or any material assets of the Accepting Shareholder; or

  (iii) mortgagee has taken, attempted or indicated an intention to exercise its rights under any security of which the Accepting Shareholder is the mortgagor or chargor.

(e) If the Accepting Shareholder is a natural person, the Accepting Shareholder is not insolvent. For the purposes of this Warranty, an Accepting Shareholder will be insolvent if:

  (i) an order is made for the bankruptcy of the Accepting Shareholder or his or her estate or an event occurs that would give a court the right to make such an order; or

  (ii) the Accepting Shareholder is declared or taken under any applicable law to be insolvent or unable to pay his or her debts or the Accepting Shareholder admits in writing that he or she is insolvent or unable to pay his or her debts.

(f) There is no option, right to acquire or Encumbrance over or affecting the Sale Shares owned by the Accepting Shareholder or any of them.

(g) No regulatory action of any nature has been taken which would prevent, inhibit or otherwise have a material adverse effect on the Accepting Shareholder's ability to fulfil its obligations under the agreement formed on acceptance of this Offer.

(h) At Completion, no person will have any pre-emptive right with respect to any of the Sale Shares held by the Accepting Shareholder that has not been waived.

Schedule 2 – MNZ Warranties

Warranty 1 – MNZ

(a) MNZ is a body corporate validly existing under the laws of its place of incorporation or registration.

(b) MNZ has the corporate power and full authority to enter into and perform or cause to be performed its obligations under this Offer and to carry out the transactions contemplated by this Offer.

(c) MNZ has taken all necessary corporate action to authorise the entry into and performance of this Offer and the Transaction and, subject to MNZ shareholders approving the MNZ Resolutions, has taken all necessary corporate action to authorise the performance of this Offer and to carry out the Transaction in accordance with this Offer.

(d) Subject to laws generally affecting creditors' rights and principles of equity, this Offer is valid and binding upon, and enforceable against, MNZ.

(e) No regulatory action of any nature has been taken which would prevent, inhibit or otherwise have a material adverse effect on MNZ's ability to fulfil its obligations under this Offer.

(f) This Offer does not conflict with or result in the breach of or default under any provision of MNZ's constitution, any material term or provision of any material agreement, or any writ, order or injunction, judgement, law, rule, regulation or instrument to which MNZ is party or subject or of which it or any member of the MNZ Group is bound.

Warranty 2 – MNZ Group

(a) Each member of the MNZ Group is a corporation validly existing under the laws of its place of incorporation.

(b) Each member of the MNZ Group is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for its winding up or dissolution or for the appointment of a liquidator, receiver, administrator or similar officer over any or all of its assets. To that end, no:

  (i) meeting has been convened, resolution proposed, petition presented or order made for the winding up of a member of the MNZ Group;

  (ii) receiver, receiver and manager, provisional liquidator, liquidator or other officer of the Court has been appointed in relation to all or any material asset of a member of the MNZ Group; or

  (iii) mortgagee has taken, attempted or indicated an intention to exercise its rights under any security of which a member of the MNZ Group is the mortgagor or chargor.

(c) The MNZ Group is the owner of, or is entitled to use, each asset that is necessary to operate and conduct its business as it is currently carried on.

(d) No MNZ Prescribed Occurrence has occurred since 5 August 2014 other than as announced to the ASX prior to the date of this Offer.

Warranty 3 – Share capital and New MNZ Shares

(a) The only securities of MNZ on issue are 19,287,806 MNZ Shares and 833,333 MNZ Options, and:

(i) no member of the MNZ Group has issued, agreed to issue or resolved to issue, any other securities or instruments which are still in force and which may convert into MNZ Shares or any other securities in MNZ (other than as contemplated by this Offer); and

(ii) there are no other entitlements (including options) over MNZ Shares or to have MNZ Shares issued (other than in respect of the 833,333 MNZ Options or as contemplated by this Offer or the Transaction).

(b) The New MNZ Shares are not being issued for the purpose of resale (whether by selling or transferring them or granting, issuing or transferring interests in, options or warrants over them).

(c) No ASIC determination under subsection 708A(2) of the Corporations Act is in force in relation to MNZ.

Warranty 4 – Listed company matters and accounts

(a) MNZ is not in breach of its continuous disclosure obligations under the Corporations Act and the Listing Rules and is not relying on the carve-out in Listing Rule 3.1A to withhold any information from disclosure other than disclosed in writing to Grays on or before the date of this Offer.

(b) Since 24 January 2014:

(i) the MNZ Group has carried on its business in the ordinary and usual course;

(ii) no contracts or commitments differing from those ordinarily made in the conduct of that business have been entered into or incurred;

(iii) no distribution of capital has been made, paid or determined to be payable in respect of any share capital of any member of the MNZ Group whether of cash, specific assets or otherwise, save as contemplated by this Offer;

(iv) there has been no material adverse change in the assets, liabilities, turnover, earnings, financial position or the profitability of MNZ other than as announced to the ASX prior to the date of this Offer or in the ordinary course of business;

(v) no member of the MNZ Group has paid or agreed to pay any retiring allowance, superannuation or benefit to any of its officers or employees except where the law requires it or in accordance with a superannuation or retirement scheme in force at 5 August 2014;

(vi) the rights attaching to the MNZ Shares have not altered and no alteration has been made to the capital structure of any member of the MNZ Group;

(vii) unless required by law, no member of the MNZ Group has implemented any new accounting or valuation method for its business, assets, property or rights;

(viii) no loans have been made nor bonuses paid by any member of the MNZ Group to employees, nor have any advances or loan money been accepted from any employees, except in compliance with previously established practice and in the usual course of business; and

(ix) no resolutions have been passed by the members or directors of any member of the MNZ Group except in the ordinary and usual course of the MNZ Group's business and those necessary to give effect to this Offer.

Warranty 5 – Business contracts

(a) As far as MNZ is aware, there are no agreements, arrangements or understandings affecting a member of the MNZ Group or the carrying on of its business that:

(i) MNZ considers are material to the operation of the business and have not been made available (including by being offered for review even if not reviewed) to Grays;

(ii) are outside the ordinary and proper course of business or otherwise contain any unusual, abnormal or onerous provision;

(iii) are incapable of being fulfilled or performed on time without undue or unusual expenditure of money or effort; or

(iv) entitle the other party to terminate the agreement, or impose terms less favourable to the business, by reason of the issue of the New MNZ Shares.

(b) With respect to each contract which is material to the business carried on by the MNZ Group, MNZ is not aware:

(i) of any agreement, arrangement or understanding to terminate or amend or vary the terms of the contract, which has not been disclosed to Grays prior to the commencement of the Offer Period;

(ii) of any party to the contract being in default; or

(iii) of any grounds for rescission or avoidance or repudiation of that contract.

(c) MNZ is not aware of any requirement under a contract which is material to the business carried on by the MNZ Group that requires the consent or agreement of the counterparty to be obtained in order to effect Completion (including without limitation due to the change of control of MNZ or any member of the MNZ Group that occurs as a result of the Transaction) which requirement has not been disclosed to Grays prior to the commencement of the Offer Period.

Warranty 6 – Employees

(a) As far as MNZ is aware, each member of the MNZ Group has complied in all material respects with all obligations arising under law, equity or statute, award, enterprise agreement or other instrument made or approved under any law with respect to employment of its employees.

(b) As far as MNZ is aware, no member of the MNZ Group has made any contract, arrangement, understanding or representation under which one or more employees, contractors or agents will or may be entitled to any benefit (monetary or otherwise) as a consequence of the Transaction.

(c) There are no material Claims made by any employee of a member of the MNZ Group against a member of the MNZ Group for workers compensation which are outstanding and so far as MNZ is aware no event has arisen which may give rise to a material Claim against a member of the MNZ Group for workers compensation by any employee.

(d) No member of the MNZ Group is involved in and so far as MNZ is aware there is no present circumstance which is likely to give rise to any industrial or trade dispute or any dispute or negotiation regarding a claim of material importance with any organisation or body of employees.

(e) As far as MNZ is aware, no director or employee of a member of the MNZ Group been terminated in circumstances which may give rise to a Claim against MNZ in relation to loss of office or termination of employment, including redundancy.

(f) No amount due to or in respect of any director, employee, consultant, contractor or former director, former employee, former consultant or former contractor of a member of the MNZ Group is in arrears and unpaid.

Warranty 7 – Superannuation

(a) With respect to the superannuation contribution obligations of the MNZ Group, there are no outstanding or unpaid contributions.

(b) As far as MNZ is aware, the fund(s) to which superannuation contributions are made by the MNZ Group are complying superannuation funds for the purposes of the ***Superannuation Industry (Supervision) Act 1993*** (Cth) and the Tax Law.

Warranty 8 – Litigation

(a) There is:

(i) no material Claim threatened or, as far as MNZ is aware, pending against a member of the MNZ Group; and

(ii) as far as MNZ is aware, no material fact, matter or circumstance likely to give rise to any material Claim or Liability against a member of the MNZ Group.

(b) There are no material unsatisfied or outstanding judgments, orders, awards or decisions of any court, tribunal or arbitrator affecting a member of the MNZ Group.

(c) No member of the MNZ Group is currently involved in any material legal proceedings.

(d) As far as MNZ is aware, none of the officers or employees of any member of the MNZ Group has committed or omitted to do any act or thing the commission or omission of which is a contravention of the Australian Consumer Law (Section 2 to the ***Competition and Consumer Act 2010*** (Cth)), the ***Fair Trading Act 1987*** (NSW) or like legislation in any other state or territory of Australia.

Warranty 9 – Tax

(a) In this Warranty 9:

Consolidation Date means the date the consolidated group (as defined in Part 3-90 of the ***Income Tax Assessment Act 1997***) of which the MNZ Group is part was formed.

Head Company has the meaning given to it in section 703-15 of ***the Income Tax Assessment Act 1997*** (Cth).

Tax Authority means any government, semi-government, administrative, municipal, statutory, fiscal or judicial body, department, commission, authority, tribunal, agency, entity or person responsible for the collection of any Tax or administration of any Tax Law.

(b) As far as MNZ is aware:

(i) each member of the MNZ Group or the Head Company has complied with all obligations imposed on the member of the MNZ Group or the Head Company in respect of the activities of the member of the MNZ Group by any Tax Law;

(ii) each member of the MNZ Group or the Head Company has filed, lodged or submitted all Tax returns and information regarding Tax and Tax matters in respect of the activities of the member of the MNZ Group as and when required by Tax Law or requested by any Tax Authority;

(iii) each member of the MNZ Group or the Head Company has maintained sufficient and accurate records and all other information required to support all Tax returns and information which has been or may be filed, lodged or submitted to any Tax Authority or is required to be kept under any Tax Law in respect of the activities of the Head Company;

(iv) each member of the MNZ Group has complied with all obligations to register for the purposes of any Tax Law; and

(v) each member of the MNZ Group is registered for GST under the ***A New Tax System (Goods and Services Tax) Act 1999*** (Cth).

(c) Each member of the MNZ Group has paid all Tax which the member of the MNZ Group is or may become liable to pay in respect of the period up to and including 30 June 2014 (including any period that ended before the Consolidation Date).

(d) After 30 June 2014, the only Tax liabilities of each member of the MNZ Group that have arisen or may arise on or before the Completion Date are, or will be, liabilities arising out of the normal business and trading activities of the member of the MNZ Group.

(e) As far as MNZ is aware, there are no unpaid stamp duty liabilities of any member of the MNZ Group or in respect of their respective businesses.

Warranty 10 – Intellectual Property

(a) In this Warranty 10:

Intellectual Property Rights means all intellectual property and proprietary rights (whether registered or unregistered) owned by the MNZ Group including:

(i) business names;

(ii) trade or service marks;

(iii) any right to have information (including MNZ Confidential Information) kept confidential; and

(iv) patents, patent applications, drawings, discoveries, inventions, improvements, trade secrets, technical data, formulae, computer programs, data bases, know-how, logos, designs, design rights, copyright and similar industrial or intellectual property rights.

(b) As far as MNZ is aware, the use of the Intellectual Property Rights does not infringe, breach an obligation of confidence or wrongfully use any confidential information, trade secrets, copyright, letters patent, trade marks, service marks, trade names, designs, business names or other similar industrial, commercial or intellectual property rights of any corporation or person.

(c) As far as MNZ is aware, no Claims have been asserted challenging a member of the MNZ Group's use of the Intellectual Property Rights.

(d) No member of the MNZ Group has licensed, assigned, authorised or permitted any person or corporation to use the Intellectual Property Rights.

Warranty 11 – Insurance

(a) Each member of the MNZ Group maintains insurances customary for its business activities and contractual requirements, and such insurances will be current until Completion.

(b) There are no individual or related claims under insurance policies, in respect of which a member of the MNZ Group has an interest, for amounts in excess of $100,000.

(c) As far as MNZ is aware, nothing has been done or omitted to be done which would make any insurance contract void or voidable or which would permit an insurer to cancel the insurance contract or refuse or reduce a claim, increase the premium or alter any of the other provisions of the insurance contract.

Warranty 12 – Properties

(a) The following properties (**MNZ Properties**) are the only land and buildings used or occupied by the members of the MNZ Group:

  (i) 5 Inglis Road, Ingleburn NSW 2565.

(b) As far as MNZ is aware, in relation to the MNZ Properties:

  (i) there are no subsisting material breaches of the leases of the MNZ Properties (**MNZ Property Leases**); and

  (ii) no member of the MNZ Group has received any notice of any breach of the MNZ Property Leases.

(c) As far as MNZ is aware, the MNZ Property Leases:

  (i) are valid and subsisting; and

  (ii) have not been amended or modified.

(d) As far as MNZ is aware, the MNZ Property Leases are current and enforceable.

Warranty 13 – Compliance with statutory requirements

(a) As far as MNZ is aware, each member of the MNZ Group and all of their officers, agents and employees have materially complied with all applicable laws and no contravention or allegation of any contravention of any applicable law is known to MNZ.

(b) Except as disclosed to Grays:

  (i) there is no matter involving any member of the MNZ Group and any of ASIC, the ACCC or the Australian Communications and Media Authority (**ACMA**) (**MNZ Regulatory Matter**);

  (ii) there is no outstanding correspondence concerning any MNZ Regulatory Matter;

  (iii) no proceedings or processes are threatened, by any of ASIC, the ACCC or ACMA, in respect of which verbal or written communication has been given or received by a member of the MNZ Group;

(iv) each member of the MNZ Group is not aware of any circumstances which could give rise to any such proceedings or processes; and

(v) each member of the MNZ Group is in compliance with the requirements of any statute, code, ordinance, regulation, policy, instrument or other law administered by any of ASIC, the ACCC and ACMA.

(c) As far as MNZ is aware:

(i) the MNZ Group holds all statutory licences, consents, approvals and authorisations necessary for carrying on its business and the use of the MNZ Properties (**MNZ Licences**);

(ii) each member of the MNZ Group has complied with the terms of those MNZ Licences; and

(iii) there are no facts which could prejudice renewal or lead to revocation or variation in any material respect of those MNZ Licences.

(d) As far as MNZ is aware, all MNZ Licences:

(i) have been fully paid up;

(ii) have been fully complied with; and

(iii) are in full force and effect.

(e) There are no outstanding notices or orders affecting a member of the MNZ Group or their business and, as far as MNZ is aware, no circumstances which may result in the imposition of any such notice or order.

4. Escrow Deed

This Section sets out the form of Escrow Deed that Grays Shareholders are required to enter into as a condition of the MNZ Offer.

Escrow deed

in relation to shares in Mnemon Limited ABN 48 114 615 780

Mnemon Limited (**MNZ**)

[*] (**Holder**)

Escrow deed

Details

Date

Parties

Name	**Mnemon Limited**
ABN	48 114 615 780
Short form name	**MNZ**
Notice details	5 Inglis Road, Ingleburn NSW 2565 Facsimile: (02) 9641 2299 Attention: Mark Tayler, Company Secretary]

Name	[***insert name of holder***] [ACN [*]]
Short form name	**Holder**
Notice details	[***insert***]

Background

A MNZ will issue the Escrow Shares to the Holder under the Offer Deed.

B In consideration for MNZ issuing the Escrow Shares, the Holder has agreed to hold all of the Escrow Shares on and subject to the disposal restrictions and other terms and conditions set out in this deed.

Agreed terms

1. Defined terms & interpretation

1.1 Defined terms

In this deed:

ASX means ASX Limited or the financial market it operates, as the context requires.

Board means the board of directors of MNZ from time to time.

Corporations Act means the *Corporations Act 2001* (Cth).

Deal means:

(a) Dispose of, or agree or offer to dispose of;

(b) create, or agree or offer to create, any Security Interest in; or

(c) do, or omit to do, or agree to do, or agree to omit to do, any act if the act or omission would have the effect of transferring, whether directly or indirectly, effective ownership or control of, or any legal, beneficial or economic interest in,

any Escrow Share, and **Dealing** has a corresponding meaning.

Dispose includes:

(a) the meaning given to that term in Listing Rule 19.12; and

(b) to sell, assign, transfer or otherwise dispose of, or agree or offer to sell, assign, transfer or otherwise dispose of, a Escrow Share or any legal, beneficial or economic interest in that Escrow Share.

Escrow Period means, where:

(a) paragraph (a) of the definition of 'Escrow Shares' applies, the period commencing on the date on which the Escrow Shares are issued to the Holder under the Offer Deed up to and including the First Release Date; and

(b) paragraph (b) of the definition of 'Escrow Shares' applies, the period commencing on the date on which the Escrow Shares are issued to the Holder under the Offer Deed up to and including the Final Release Date.

Escrow Shares means:

(a) at any time before and including the First Release Date, all Shares to be issued to the Holder (or a nominee of the Holder) pursuant to the Share Subscription Agreement; and

(b) at any time after the First Release Date, 50% of the Shares referred to in paragraph (a) above.

Final Release Date means the date that is one week following the date of announcement by MNZ on ASX of its full year results for the financial year ending 30 June 2015.

First Release Date means 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.

Holding Lock has the meaning given to that term in the Settlement Rules.

Issuer Sponsored Subregister has the meaning given to it under the Listing Rules.

Listing Rules means the listing rules of ASX, as they apply to MNZ from time to time.

Notice means a notice which is:

(a) legible and in English;

(b) addressed to the party to whom that notice is being given;

(c) marked to the attention of the individual who is specified in the address of that party; and

(d) delivered to that party by being left at, or sent by security post to, the postal address, or transmitted by facsimile number, which is specified in the address of that party.

Offer Deed means the documents under which MNZ offers to acquire all of the fully paid ordinary shares in the capital of Grays (Aust) Holdings Pty Ltd in consideration for the issue of new Shares.

PPSA means the *Personal Property Securities Act* 2009 (Cth).

Record Date has the meaning given to that term in the Listing Rules.

Release Date means the First Release Date, the Final Release Date or either or both of them, as the context requires.

Security Interest means:

(a) an interest or power:

(b) reserved in or over an interest in any security including, but not limited to, any retention of title;

(c) created or otherwise arising in or over any interest in any security under a bill of sale, mortgage, charge, lien, pledge, trust or power;

(d) an interest of the kind referred to in section 12 of the PPSA; or

(e) any agreement to grant or create any such interest or power referred to in paragraphs (a), (b) or (c) of this definition.

Settlement Rules means the settlement operating rules made by ASX Settlement Pty Limited, as amended, varied, modified or waived from time to time.

Share means a fully paid ordinary share in MNZ.

1.2 Interpretation

In this deed including the recitals, unless the contrary intention appears:

(a) the singular includes the plural and vice versa, and a gender includes other genders;

(b) another grammatical form of a defined word or expression has a corresponding meaning;

(c) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this deed, and a reference to this deed includes any schedule or annexure;

(d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;

(e) a reference to **A$**, **$A**, **dollar** or **$** is to Australian currency;

(f) a reference to time is to Sydney time;

(g) a reference to a party is to a party to this deed, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;

(h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;

(i) a reference to a statute, ordinance, code or other law including the Listing Rules includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(j) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;

(k) the meaning of general words is not limited by specific examples introduced by including, for example or similar expressions;

(l) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this deed or any part of it;

(m) if a day on or by which an obligation must be performed or an event must occur is not a Business Day, the obligation must be performed or the event must occur on or by the next Business Day; and

(n) for so long as MNZ is included in the official list of ASX, words and expressions defined in the Listing Rules, and not in this deed, have the meanings given to them in the Listing Rules (as applicable).

1.3 Headings

Headings are for ease of reference only and do not affect interpretation.

1.4 Compliance with Listing Rules

For so long as MNZ is included in the official list of ASX:

(a) notwithstanding anything contained in this deed, if the Listing Rules prohibit an act being done, that act must not be done;

(b) nothing contained in this deed prevents an act being done that the Listing Rules require to be done;

(c) if the Listing Rules require an act to be done or not done, authority is given for that act to be done or not done (as the case may be);

(d) if the Listing Rules require this deed to contain a provision and it does not contain such a provision, this deed is deemed to contain that provision;

(e) if the Listing Rules require this deed not to contain a provision and it contains such a provision, this deed is deemed not to contain that provision; and

(f) if any provision of this deed is or becomes inconsistent with the Listing Rules, this deed is deemed not to contain that provision to the extent of the inconsistency.

2. Obligations conditional

The obligations of the Holder pursuant to this deed are conditional on the admission of MNZ to the official list of ASX.

3. Escrow restrictions

3.1 Holder restrictions during the Escrow Period

Subject to clause 3.3, the Holder must not Deal with the Escrow Shares during the Escrow Period.

3.2 Escrow restrictions

The parties acknowledge and agree that:

(a) as soon as practicable following the issue of the Escrow Shares to the Holder, the Escrow Shares will be registered and held for the Holder on the Issuer Sponsored Subregister;

(b) MNZ will apply a Holding Lock to the Escrow Shares as soon as practicable after registration of the Escrow Shares on the Issuer Sponsored Subregister and the Holder hereby agrees to the application of the Holding Lock; and

(c) MNZ will do all things necessary or desirable to ensure that the Holding Lock is released:

(i) to the extent necessary to permit disposals of Escrow Shares permitted by this deed; and

(ii) in full in respect of the relevant Escrow Shares at 4.00pm on the Release Date,

including by notifying ASX that the Escrow Shares will be released from the Holding Lock, in accordance with the timing requirements set out in Listing Rule 3.10A.

3.3 Exceptions

During the Escrow Period, the Holder may Deal in any of its Escrow Shares only if the Dealing constitutes:

(a) acceptance of a bona fide takeover bid for all the Shares provided all of the conditions in Listing Rule 9.18 applicable to a takeover are met and the Escrow Shares continue to be held on the terms of this deed if the relevant bid does not become unconditional or does not otherwise proceed;

(b) the transfer or cancellation of Shares as part of a scheme of arrangement relating to MNZ under section 411 of the Corporations Act provided all of the conditions in Listing Rule 9.18 applicable to a scheme of arrangement are met and the Escrow Shares continue to be held on the terms of this deed if the relevant scheme does not take effect;

(c) a Dealing that is required (and only to the extent required) by applicable law (including an order of a court of competent jurisdiction);

(d) the acquisition or cancellation of Restricted Shares under a capital return or capital reduction undertaken by MNZ (including any equal access share buy-back or reduction of share capital); or

(e) a Dealing that has been approved in writing by MNZ (which approval may be withheld by MNZ in its absolute discretion).

3.4 Notice

If the Holder becomes aware:

(a) that a Dealing in any of the Escrow Shares has occurred, or is likely to occur, during the Escrow Period; or

(b) of any matter which is likely to give rise to a Dealing in any of the Escrow Shares during the Escrow Period, it must notify MNZ as soon as practicable after becoming aware of the Dealing or the matters giving rise to the Dealing, providing full details.

3.5 Entitlements

For the avoidance of doubt, and subject to any Dealing, this deed will not affect the Holder's entitlement, and the Holder will be entitled on the same basis as all other holders of Shares, to be paid and retain any dividends declared or determined or paid in respect of the Escrow Shares where the Record Date for the dividend occurs during the Escrow Period.

4. Warranties

Each party warrants to the other party that:

(a) it has the power to enter into and perform its obligations under this deed and to carry out the transactions described in this deed;

(b) it has taken all necessary action to authorise its entry into and performance of this deed and to carry out the transactions described in this deed;

(c) its obligations under this deed are valid and binding and enforceable against it in accordance with its terms; and

(d) its entry into this deed does not constitute a breach of any obligation (including any statutory, contractual or fiduciary obligation), or default under any agreement or undertaking, by which it or its assets are bound

5. Consequences of breaching this deed

(a) If the Holder breaches this deed, each of the following applies:

   (i) MNZ may take the steps necessary to enforce this deed, or to rectify the breach, as soon as practicable after becoming aware of the breach; and

   (ii) MNZ may, in addition to its other rights and remedies, refuse to acknowledge, deal with, accept or register any sale, assignment or transfer of any of the Holder's Escrow Shares (this is in addition to other rights and remedies of MNZ).

(b) If the Holder breaches this deed, the Holder acknowledges and agrees that such a breach could cause substantial commercial and financial detriment to MNZ and other third parties.

(c) The parties agree that damages would be an insufficient remedy for breach of clause 3.1 and the Holder agrees that MNZ is entitled to seek and obtain an injunction or specific performance to enforce clause 3.1 without proof of actual damage and without prejudice to any of its other rights or remedies.

6. Amendment and waiver

This deed may not be amended or waived without the prior written consent of all parties.

7. Miscellaneous

7.1 Alteration

This deed may be altered only in writing signed by each party.

7.2 Approvals and consent

Except where this deed expressly states otherwise, a party may, in its discretion, give conditionally or unconditionally or withhold any approval or consent under this deed.

7.3 Assignment

A party may only assign this deed or a right under this deed with the prior written consent of each other party.

7.4 Costs

Each party must pay its own costs of negotiating, preparing and executing this deed.

7.5 Stamp duty

Any stamp duty, duties or other taxes of a similar nature (including fines, penalties and interest) in connection with this deed or any transaction contemplated by this deed, must be paid by MNZ.

7.6 Survival

Any indemnity or any obligation of confidence under this deed is independent and survives termination of this deed. Any other term by its nature intended to survive termination of this deed survives termination of this deed.

7.7 Counterparts

This deed may be executed in counterparts. All executed counterparts constitute one document.

7.8 No merger

The rights and obligations of the parties under this deed do not merge on completion of any transaction contemplated by this deed.

7.9 Entire agreement

This deed constitutes the entire agreement between the parties in connection with its subject matter and supersedes all previous agreements or understandings between the parties in connection with its subject matter.

7.10 Further action

Each party must do, at its own expense, everything reasonably necessary (including executing documents) to give full effect to this deed and any transactions contemplated by it.

7.11 Severability

A term or part of a term of this deed that is illegal or unenforceable may be severed from this deed and the remaining terms or parts of the term of this deed continue in force.

7.12 Waiver

A party does not waive a right, power or remedy if it fails to exercise or delays in exercising the right, power or remedy. A single or partial exercise of a right, power or remedy does not prevent another or further exercise of that or another right, power or remedy. A waiver of a right, power or remedy must be in writing and signed by the party giving the waiver.

7.13 Relationship

Except where this deed expressly states otherwise, it does not create a relationship of employment, trust, agency or partnership between the parties.

7.14 Governing law and jurisdiction

This deed is governed by the law of New South Wales and each party irrevocably and unconditionally submits to the non exclusive jurisdiction of the courts of New South Wales.

Signing page

EXECUTED as a deed.

Executed by **Mnemon Limited** in accordance with Section 127 of the *Corporations Act 2001*

Signature of director	Signature of director/company secretary (Please delete as applicable)
Name of director (print)	Name of director/company secretary (print)

[insert signing block for each shareholder]

5. Independent Expert's Report

This Section sets out the Independent Expert's Report prepared by Lonergan Edwards & Associates Limited.

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GPO Box 1640, Sydney NSW 2001

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The Directors
Grays Aust (Holdings) Pty Ltd
Level 42
Homebush Corporate Park
29-33 Carter Street
Lidcombe NSW 2141

9 October 2014

Subject: Proposed acquisition of Grays Aust (Holdings) Pty Ltd

Dear Directors

The Proposed Transaction

1 As announced by Mnemon Limited (Mnemon) on 5 August 2014, the proposed transaction involves the sale of all the shares in Grays (Aust) Holdings Pty Ltd (Grays or the Group) to Mnemon to create the largest listed pure online retailer in Australia through the combination of the GraysOnline business with the existing Deals Direct and TopBuy websites operated by Mnemon (the Proposed Transaction).

2 Under the terms of the transaction, Grays shareholders will receive 73.2 million new shares in Mnemon as consideration. In addition, Grays shareholders who hold on the date that is 12 months after completion that number of Mnemon shares that is not less than 75% of their new Mnemon shares (ignoring any Mnemon shares they hold prior to completion) will be issued one additional Mnemon share for every two shares held (Bonus Shares). The Proposed Transaction will require Mnemon shareholder approval.

3 Excluding the Bonus Shares, Grays shareholders will own 78% of the enlarged issued capital of Mnemon post the Proposed Transaction. If all the Bonus Shares entitlements are taken up, Grays shareholders will own 84% of the enlarged issued capital of Mnemon.

4 Under the Proposed Transaction Grays shareholders will enter into escrow arrangements to retain:

(a) 100% of issued Mnemon shares until one week following the announcement by Mnemon on the Australian Securities Exchange (ASX) of its interim results for the half year ending December 31 2014; and

(b) 50% of issued Mnemon shares until one week following the announcement by Mnemon on the ASX of its full year results for the financial year ending 30 June 2015 (FY15).

5 Post the Proposed Transaction Mnemon will be renamed Grays eCommerce Group (GEG). GEG will be Australia's largest listed e-commerce group with a database of 6.2 million customers across its leading online brands (GraysOnline, OO, DealsDirect and TopBuy) and gross sales of greater than $440 million. Mr Mark Bayliss (Mr Bayliss), who is the current Chief Executive Officer (CEO) of Grays, will become CEO of GEG.

Scope

6 The Directors of Grays have requested that Lonergan Edwards & Associates Limited (LEA) prepare an independent expert's report (IER) in relation to the Proposed Transaction, stating whether, in our opinion the Proposed Transaction is in the best interests of Grays shareholders.

7 LEA is independent of Grays and Mnemon and has no involvement with, or interest in the outcome of the Proposed Transaction other than the preparation of this report.

Summary of opinion

8 In our opinion the advantages of the Proposed Transaction outweigh the disadvantages. We therefore consider the Proposed Transaction is in the best interests of the shareholders of Grays. We have formed this view for the reasons set out below.

Advantages and disadvantages

9 We summarise below the advantages and disadvantages of the Proposed Transaction:

Advantages	Disadvantages
• Under the Proposed Transaction, Grays shareholders receive aggregate interests equivalent to at least 78% and potentially up to 84% of the GEG business, which is higher than the proportional value contribution of the Grays business to GEG of some 75% • The Proposed Transaction provides all shareholders in Grays the opportunity to realise their shares for cash post the expiry of the escrow restrictions (i.e. liquidity) • Existing shareholders will continue to own an interest in Grays and will therefore benefit from any future growth achieved by Grays in its listed form as GEG (including the realisation of the identified synergy benefits)	• Grays shareholders will face modest dilution of their collective interest in the Group

General

10 In preparing this report we have considered the interests of Grays shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

11 The ultimate decision whether to approve the Proposed Transaction should be based on each Grays shareholder's assessment of their own circumstances. If Grays shareholders are in

doubt about the action they should take in relation to the Proposed Transaction or matters dealt with in this report. Grays shareholders should seek independent professional advice.

12 For our full opinion on the Proposed Transaction and the reasoning behind our opinion, we recommend that Grays shareholders read the remainder of our report.

Yours faithfully

Craig Edwards Authorised Representative	Martin Holt Authorised Representative

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Appendices

I The Proposed Transaction

Summary

13 As announced by Mnemon on 5 August 2014, the proposed transaction involves the sale of all the shares in Grays to Mnemon to create the largest listed pure online retailer in Australia through the combination of the GraysOnline business with the existing Deals Direct and TopBuy websites operated by Mnemon (the Proposed Transaction).

14 Under the terms of the transaction, Grays shareholders will receive 73.2 million new shares in Mnemon as consideration. In addition, Grays shareholders who hold, on the date that is 12 months after completion, that number of Mnemon shares that is not less than 75% of their new Mnemon shares (ignoring any Mnemon shares they hold prior to completion) will be issued one additional Mnemon share for every two shares held (Bonus Shares). The Proposed Transaction will require Mnemon shareholder approval.

15 Excluding the Bonus Shares, Grays shareholders will own 78% of the issued capital of Mnemon post the Proposed Transaction. If all the Bonus Shares entitlements are taken up, Grays shareholders will own 84% of the then issued capital of Mnemon.

16 Under the Proposed Transaction Grays shareholders will enter into escrow arrangements to retain:

(a) 100% of issued Mnemon shares held until one week following the announcement by Mnemon on the ASX of its interim results for the half year ending December 31 2014; and

(b) 50% of issued Mnemon shares until one week following the announcement by Mnemon on the ASX of its full year results for FY15.

17 Post the Proposed Transaction Mnemon will be renamed Grays eCommerce Group (GEG). GEG will be Australia's largest listed e-commerce group with a database of 6.2 million customers across its leading online brands (GraysOnline, OO, DealsDirect and TopBuy) and gross sales of greater than $440 million. Mr Bayliss, who is the current CEO of Grays, will become CEO of GEG.

Conditions

18 The Proposed Transaction is subject to the following conditions:

(a) Grays and Mnemon board endorsement

(b) Mnemon shareholder approval

(c) no material adverse change in Grays (taken as a whole), subject to reasonable carve-outs for a transaction and business of this nature

(d) no material adverse change in Mnemon (taken as a whole), subject to reasonable carve-outs for a transaction and business of this nature

(e) no Mnemon and Grays prescribed occurrences

(f) Grays conducting a capital raising of at least $13.2 million prior to the implementation of the Proposed Transaction

(g) the ASX issuing a waiver to allow the issue of Bonus Shares in Mnemon to Grays shareholders (if and when appropriate) or that if such a waiver is not issued, that Grays and Mnemon agree to changes to the terms of the Proposed Transaction to deliver an equivalent commercial result

(h) on completion of the Proposed Transaction the aggregate number of new Mnemon shares issued to Grays shareholders is not more than 77.92% of the total number of Mnemon shares on issue immediately after completion.

II Scope of our report

Purpose

19 This report has been prepared to assist the Directors of Grays in making its recommendation to shareholders in relation to the Proposed Transaction, and to assist Grays shareholders assess the merits of the Proposed Transaction. The sole purpose of this report is to set out LEA's opinion as to whether the Proposed Transaction is in the best interests of Grays shareholders. This report should not be used for any other purpose.

20 The ultimate decision whether to vote in favour of the Proposed Transaction should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Proposed Transaction or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

21 In preparing our report we have given due consideration to the Regulatory Guides issued by Australian Securities & Investments Commission (ASIC) including, in particular, Regulatory Guide 111 – *Content of expert reports* (RG 111).

22 Whilst the Proposed Transaction will result in 100% of the securities in Grays being acquired by Mnemon, in our opinion, the Proposed Transaction should not be regarded as a 'change of control' transaction as defined in RG 111. This is because:

(a) Grays shareholders will (as stated above) collectively own between 78% and 84% (depending on the ultimate issue of Bonus Shares) of the enlarged capital of Mnemon, and will therefore collectively control the enlarged business

(b) the Proposed Transaction is effectively a reverse backdoor listing of the Grays business.

23 As a result of the above, in our opinion, there is no requirement to provide an opinion on whether the Proposed Transaction is 'fair' and 'reasonable' to Grays shareholders (as this regulatory assessment is only applicable to change in control transactions). Further, in our opinion, an 'in the best interests' opinion is more appropriate given the nature of the Proposed Transaction.

24 There is no legal definition of the expression "in the best interests". However, RG 111 states that a transaction may be *"in the best interests of the members of the company"* if there are sufficient reasons for securityholders to vote in favour of the transaction in the absence of a superior proposal.

25 Our report has therefore focused on the advantages and disadvantages of the Proposed Transaction from the perspective of Grays shareholders. If the advantages of the Proposed Transaction outweigh the disadvantages then, in our view, the Proposed Transaction will be in the best interests of Grays shareholders in the absence of a superior proposal.

26 As part of this analysis we have also considered the value implications of the Proposed Transaction for Grays shareholders. This involved consideration of:

(a) the market value of the shares in Grays, having regard to (inter-alia) the business' recent and forecast profitability and share transactions in respect of the Group

(b) the portfolio value of the existing Mnemon business[1], having regard to (inter-alia) the listed market price and recent capital raisings.

Limitations and reliance on information

27 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

28 Our report is also based upon financial and other information provided by Grays, Mnemon and their advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

29 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposed Transaction from the perspective of Grays shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.

30 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.

31 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

32 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

1 Pursuant to the Proposed Transaction Grays shareholders will receive Mnemon shares representing portfolio interests in the company.

33 In forming our opinion, we have also assumed that:

(a) the information set out in the Notice of Meeting and Explanatory Statement is complete, accurate and fairly presented in all material respects

(b) the Proposed Transaction will be implemented in accordance with the terms set out in this report.

III Profile of Grays

Overview

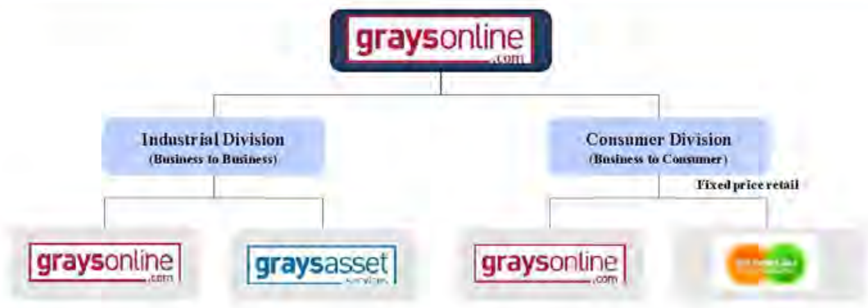
34 Grays is an Australian online retail and auction company, offering a large range of consumer, industrial and commercial goods, direct from manufacturers and distributors. Grays has a heritage spanning over 100 years and has been a pioneer in creating ways for buyers and sellers to connect, from its traditional auction heritage to its first online auctions in 2000. The business has over 14 years internet retailing experience, having evolved to being an integrated e-commerce business. The Group also provides a range of services under the graysasset services brand and operates the fixed price website oo.com.au.

Current operations

35 Grays currently employs more than 400 people throughout Australia and New Zealand in technologically advanced warehouses, distribution centres and offices. The company provides more than 70 product categories, from information technology (IT) and wine to automotive and mining equipment. The Group sells more than 190,000 items every month to both consumers and businesses. Grays has a customer database of 3.9 million prior customers, 1.6 million email subscribers, approximately 0.5 million active customers and its websites attract 56.6 million annual visits.

36 A diagrammatic overview of the Group's operations is set out below:

Grays – operations



37 Grays has developed industry leading warehousing and fulfilment capabilities. It operates approximately 60,000 cubic metres of distribution centres around Australia. The majority of small to mid size consumer items are dispatched from its primary warehouse facility in Homebush, Sydney on next day delivery. The Group's logistics services are also provided to merchants looking to leverage Grays supply chain expertise, resulting in more efficient inventory management and cost reductions for them.

38 The majority of the warehousing and logistics costs are borne by the Consumer Division. Similarly, the Group's sales and marketing functions are primarily focused on the Consumer Division. These costs are largely fixed. In contrast, the Industrial Division's costs are more variable in nature. In addition, the Industrial Division's revenues and earnings can be

somewhat lumpy as it is required to continuously obtain new contracts, the size of which can vary depending on a number of factors.

39 The Group also has a counter cyclical nature to its business. A strong economic environment with growing retail sales favours the Consumer Division, whilst less favourable economic conditions, resulting in increased receiverships and auctions of repossessed property, favour its Industrial Division.

Industrial Division

40 The Industrial Division covers business to business sales and generally works alongside receivers and banks. The division provides the largest contribution to sales and earnings for the Group and primarily offers online auctions for industrial and commercial equipment. Key business drivers include a combination of the level of distressed activity in the economy and the level of business activity in each of its geographic locations. The division also encompasses 50 specialist plant and equipment valuers and project managers and offers a range of services that compliment its sales offerings (e.g. valuation and project management functions).

GraysOnline

41 GraysOnline is the largest industrial and commercial online auction business in the Asia-Pacific region, although the business is predominantly focused on Australia. Its operations cover every state and are by far the largest in Australia. Its competitors include smaller operators such as Pickles (car auctions), Smith & Broughton (mining auctions) and Slattery (industrial equipment auctions), whom each tend to focus on specific niches of the market or geographical areas. Many of these competitors also operate auctions in the traditional manner as opposed to online.

42 Grays clients include major corporations such as BHP Billiton, Coates Hire, Toyota, CAT, McConnell Dowell and Leighton as well as insolvency practitioners, financiers and banks. The core industrial business actively sources industrial equipment and assets for sale in a range of industries including earthmoving and mining, manufacturing, auto, transport, agriculture and marine.

43 Grays recently formed an exclusive partnership with IronPlanet[2] to facilitate sales of excess construction and mining equipment from Australia. The alliance provides Grays' clients in Australia and New Zealand the opportunity of selling their heavy equipment into both the national and international markets through the combined strengths of both companies. With international interest outpacing regional demand in the current economic environment, this partnership enables Australian and New Zealand sellers to reach a greater number of buyers resulting in potentially higher sales prices.

graysasset services

44 graysasset services include valuation services, project management and occupational health and safety (OHS) services. Its valuation team can provide detailed valuation reports that cover insolvency, asset acquisition or divestment, taxation issues, insurance purposes and business sales. The OHS services include hazard identification and risk register development,

2 IronPlanet, founded in 1999, is a United States (US) based international online auction marketplace for used heavy equipment with a presence throughout the US, Europe, the Middle East and Asia Pacific.

safety audits, site inspections, strategic plans and continuous improvement programs and operational risk assessments. The Group can also manage end-of-lease residual values and stock takes.

Consumer Division

45 The Consumer Division covers business to consumer sales and includes both auction (through the GraysOnline website) as well as oo.com.au, a fixed price website offering.

GraysOnline (primarily auction)

46 GraysOnline offers one of the widest ranges of quality consumer products online, primarily auction focused and deep discount. Its major categories include wine, IT and consumer electronics, jewellery, art and white and brown goods. A number of leading brands (including Dell, Sony, Panasonic and Krups) use Grays as a way to manage their inventory effectively, whilst many vendors also use Grays to access a new route to market and new customers.

47 By traffic, GraysOnline is Australia's third largest online wine site, after Dan Murphy's (owned by Woolworths) and First Choice Liquor (a Coles owned business). It sells approximately 55,000 cases of wine per month direct to consumers, with 86% of these sold through online auctions and the remainder sold at fixed prices. The business services more than 400 wineries in Australia and New Zealand, with 30 labels exclusive to Grays, and sells approximately 2% of the Australian total bottled wine market (by volume).

Fixed price retail

48 Grays operates the oo.com.au website, which was acquired by Grays in April 2013. The site is essentially an online department store with a heavy focus on electronics, kids toys, sporting goods and homewares. Grays previously operated the graysoutlet.com.au website, a fixed price direct factory outlet website focusing on fashion, beauty and homewares. This website was developed in-house in FY12 and closed in early FY15, following a lack of market traction.

Financial performance

49 The financial performance of Grays for the four years ended FY14, is set out below:

Grays – statement of financial performance	FY11 $m	FY12 $m	FY13 $m	FY14 $m
Total revenue[1]	112.5	117.2	119.9	143.7
Operating expenses	(106.2)	(112.9)	(114.3)	(144.8)
EBITDA[2]	6.4	4.3	5.5	(1.1)
Depreciation and amortisation[3]	(2.2)	(2.5)	(2.9)	(3.7)
EBIT[4]	4.2	1.8	2.6	(4.8)
Net financial income	0.8	0.2	0.4	0.2
Profit before tax	5.0	2.0	3.0	(4.6)
Income tax benefit / (expense)	(1.7)	(0.4)	(0.9)	0.6
Profit after tax	3.3	1.6	2.1	(4.0)

Note:

1 This is different to the gross value of sales (estimated at $370 million for FY14 in the merger announcement to the ASX on 5 August 2014) as reported revenue includes net sales (i.e. commissions to Grays etc.).

2 Earnings before interest, tax, depreciation and amortisation (EBITDA).

3 Includes the write-off / amortisation of brands of $94,305 in FY12, $419,392 in FY13 and $917,614 in FY14.

4 Earnings before interest and tax (EBIT).

Rounding differences exist.

50 For financial reporting purposes Grays presents revenue on a net basis, i.e. based on the commission it receives on consignment sales and gross margins on own inventory sales. Therefore, reported revenue for the Group does not reflect the gross sales of all products sold (which was $370 million in FY14).

51 Grays receives interest income from the cash held in trust (in an off balance sheet entity) from the sale of consignment stock prior to the release of such cash to the vendor and completion of the sale. Accordingly, for valuation purposes we consider this interest should be included in any assessment of earnings, as it is derived in the ordinary operations of the business (as opposed to, for example, deriving interest from holding surplus cash).

52 A commentary on the key operating items impacting the Group's historical results for the four years to FY14, as well as the two months to 31 August 2014, is as follows.

Actual FY11

53 FY11 was a challenging year for Grays, with the Consumer Division impacted by low consumer confidence and a high Australian dollar[3]. The Australian dollar lowered the cost of sourcing products overseas and translated into increased competition from both online, (including both specialised pure-play online sites with significant resources and group online buying websites) and bricks and mortar retailers. This was further exasperated by price deflation in IT products and a move to tablets from laptops, one of Grays' highest selling products.

54 Prior to the Global Financial Crisis (GFC), Grays was the recipient of significant old and damaged inventories from vendors, which historically was Grays standard product source. After the GFC companies controlled their inventory levels much more efficiently, which in turn reduced the supply of consignment inventories to Grays and forced Grays to acquire (purchase) more stock and thus take a position on inventory. This also increased Grays business risk profile.

Actual FY12

55 In response to falling consignment inventory availability Grays developed a fixed price website called graysoutlet.com.au, with a vision to offer an online direct factory outlet and support the Consumer Division's infrastructure cost base. Management had seen the trend to fixed price away from auctions in other sites (for the Consumer Division) and felt the investment was appropriate. The business cost $2.3 million to develop, but was subsequently closed in early FY15 as mentioned above.

3 Grays was also caught holding product purchased at a lower exchange rate (and hence higher cost).

56 Due to a continuation of price deflation in the Consumer Division's categories resulting from intense competition, Grays' management initiated a cost reduction program to lower its cost base and better compete with a number of growing online fixed price websites. This program completed in FY13 and included a reduction in staff levels and modifications to its supplier pricing policies.

Actual FY13

57 In April 2013 Grays acquired oo.com.au, with plans to utilise its existing sophisticated supply chain, systems, processes and marketing infrastructure. The philosophy behind the acquisition was to increase product throughput and reduce the marginal cost of product sold. As the business was purchased late in the financial year no material revenue increase was recorded, while integration costs were incurred (which were expensed).

58 The Industrial Division made strategic investments during FY13, adding key staff, expanding the geographic location of the business, and acquiring a number of complementary businesses. As a result the Division's cost base increased, and while FY13 sales for the division also rose, EBITDA did not reflect the increased level of investment.

Actual FY14

59 In FY14 Grays lost a lucrative contract refurbishing laptops which impacted sales and had a flow-on impact on earnings as employee numbers were right sized to the new demand levels (Grays currently offers this service for a number of other major computer manufacturers). In addition, other business areas within the Consumer Division such as wine underperformed and hence the division's performance did not meet expectations.

60 The fixed price retail business was also impacted by the loss of a major supplier that previously held a minority shareholding in oo.com.au. This lowered sales for the business. Logistical complications with respect to shipping over the 2013 Christmas period also impacted earnings, due to a material increase in shipping and return costs.

61 In FY14 approximately $2.9 million in one-off non-cash costs were expensed with respect to write downs, primarily for the oo.com.au business, while $1.8 million in transaction costs (i.e. due diligence and other professional costs associated with the Proposed Transaction) were also incurred by the Group (and expensed).

62 Sales and profitability for the Industrial Division were lower than expected due to the relatively low number of high sales months in FY14. As noted below, the results for the two months to 31 August 2014 have been very strong, and management have stated that some of this result (say $1 million EBITDA) could potentially have been earned in FY14, but for the transaction timing that actually occurred. As a result the Industrial Division's performance was lower than management's expectations.

FY15 results

63 Management have stated that FY14 was a consolidation period, after many years of restructuring and reducing costs to meet industry conditions. In addition, the Buyer's Premium was recently increased by 2.5% (in January 2014 for the Consumer Division and July 2014 for the Industrial Division), which appears to have been accepted by the market, with no loss in sales to date. Further, the integration of oo.com.au has been completed, and

the Consumer Division's focus is now on growth and business improvements. As a result, management are expecting FY15 results to be materially higher than FY14.

64 Based on unaudited management accounts, we note that the FY15 period has commenced very strongly, reflecting a particularly good performance from the Industrial Division[4] in both July and August 2014. These results are significantly above the FY15 management budget and also well above the previous comparable historical periods shown above.

Cash conversion ratio

65 The historical cash conversion ratio for Grays (a comparison of un-geared pre-tax cash flow to EBITDA) is set out below:

Grays – cash conversion ratio	FY11 $m	FY12 $m	FY13 $m	FY14 $m
EBITDA (refer paragraph 49)	6.4	4.3	5.5	(1.1)
Operating cash flow	4.8	6.0	4.9	4.4
Add net tax paid	4.2	-	0.7	0.1
Deduct net interest received	(0.8)	(0.2)	(0.4)	(0.2)
Ungeared pre-tax cash flow	8.2	5.8	5.2	4.3
Profit to cash conversion (%)	127.4%	134.8%	95.4%	nm

nm = not meaningful.

66 As noted the Group has achieved a high conversion ratio of earnings into cash, reflecting primarily the cash based nature of annual revenues. The ungeared pre-tax cash flow is also more consistent than EBITDA over the above period, in particular with respect of FY14, where $2.9 million in non-cash write downs impacted reported EBITDA for that period.

Financial position

67 The pro-forma financial position for Grays as at 30 June 2014 including the cash to be raised from the Entitlement Offer[5] and other minor pro-forma balance sheet adjustments, is set out below:

[4] The Industrial Division has had two strong months year-to-date and such a strong monthly performance is not expected to continue throughout FY15.

[5] Grays is in the process of undertaking a pro-rata 1 for 3.39 rights issue to existing shareholders at a price of $505 per Grays share (Entitlement Offer). The Entitlement Offer is expected to raise $13.2 million and is underwritten by Caledonia (Private) Investments Pty Limited & Associates (Caledonia Investments). It is accompanied by a buyout offer for existing shareholders wanting to sell a further 25% of their Grays shares to Caledonia Investments at the same price as the Entitlement Offer (Liquidity Offer).

Grays – pro-forma statement of financial position as at 30 June 2014	
	$m
Trade and other receivables	10.7
Inventory	10.0
Trade and other payables	(22.6)
Net working capital	(1.9)
Property, plant and equipment	3.4
Goodwill	5.0
Other intangible assets	1.8
Deferred tax asset	2.9
Employee provisions	(5.2)
Total funds employed	6.0
Cash and cash equivalents	11.8
Net assets attributable to Grays shareholders	17.8

68 With respect to the above pro-forma statement of financial position we note that:

(a) consistent with retailers generally, the net working capital requirements for Grays are low, due to the fact that cash is received at the point of sale and suppliers are paid on terms (including inventory supplied under consignment arrangements). These trading terms are reflected in the negative working capital shown above

(b) due to the large proportion of consignment sales, inventory levels are low relative to annual sales turnover. Further, the Group has had no significant historical aged inventory issues

(c) plant and equipment primarily relates to leasehold improvements and fixtures, fittings and equipment at the Group's warehouse facilities

(d) subsequent to the Entitlement Offer Grays is expected to hold net cash of $11.8 million and be debt free.

Share capital

69 Grays is currently owned by current and former employees and Caledonia Investments. Post the Entitlement Offer Grays is expected to have 114,804 fully paid ordinary shares on issue.

Significant shareholders

70 Alfred Street Nominees Pty Limited (Alfred Street Nominees), a company associated with Caledonia Investments, currently holds Grays shares as nominee on behalf of Caledonia Investments, associates of Caledonia Investments and clients of Caledonia Investments. Through Alfred Street Nominees, clients of Caledonia Investments currently hold a 19.9% beneficial interest in Grays, whilst Caledonia Investments and its associates hold a 6.8% beneficial interest. Alfred Street Nominees 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 Proposed Transaction.

71 Caledonia Investments may ultimately end up with an interest in Grays anywhere between 6.8% and 25.1%[6], given the underwriting of the Entitlement Offer and Liquidity Offer. Caledonia Investments' ownership level in Grays prior to the Proposed Transaction is thus dependent on the level of take-up of the Entitlement Offer, as well as the number of Grays shareholders who tender their shares under the Liquidity Offer (both of which are unknown at this time).

6 Post the Proposed Transaction a 25.1% interest in Grays equates to a shareholding of no more than 19.9% of the enlarged share capital of Mnemon.

IV Profile of Mnemon

Overview

72 Mnemon is an ASX listed company with a market capitalisation of $27.1 million[7] (as at 26 September 2014). The company operates the dealsdirect.com.au website following the acquisition of DealsDirect Group Pty Limited (DDG) on 17 January 2014, which was completed concurrently with a $6.2 million recapitalisation. The acquisition of DDG was effectively a reverse takeover of Mnemon, which was an ASX listed shell prior to this[8]. Mnemon also operates the TopBuy website which was acquired in April 2014.

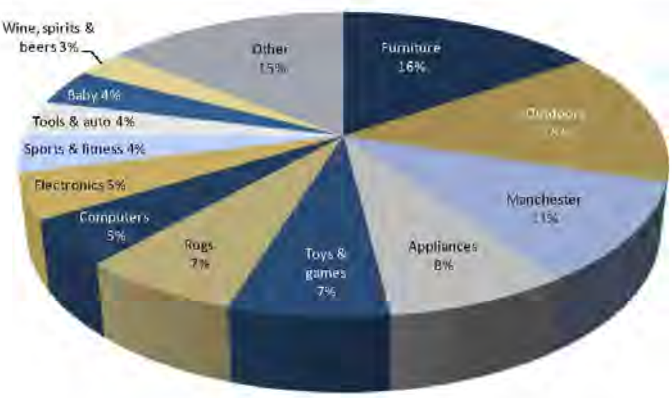
73 The combined DDG and TopBuy businesses have a customer database of 2.3 million prior customers, 1.3 million email subscribers, approximately 0.4 million active customers and its websites attract around 26.5 million annual visits.

DDG

74 Founded in 2004, DDG is one of Australia's leading online retailers having received more Canstar 5 star ratings than its online department store competitors in 2012, 2013 and 2014 (including the categories of overall customer satisfaction, value for money, range of products and delivery speed)[9]. The competitor group for the survey included substantial offline retailers such as Big W, Kmart, Target and Myer as well as pure play online retailers.

75 DDG operates from the www.dealsdirect.com.au website and offers consumers over more than 14,000 products in 22 categories in a range of household categories including home furnishings, furniture, toys and appliances amongst others, as shown in the chart below:

DDG – revenue by product category



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7 Being 19.9 million shares (including the shares to be issued to TopBuy vendors, refer paragraph 87) at $1.36 per share.

8 Mnemon previously operated a mobile solutions business, which it sold during January 2013.

9 Source: http://www.canstarblue.com.au/retailers/online-department-stores.

76 With turnover around $60 million in each of the last four financial years and more than 1 million subscribers (including 400,000 active customers[10]), DDG is well positioned and recognised by customers Australia wide[11]. DDG 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.

77 The business operates from a 20,400 square metre fulfilment centre located in Ingleburn, New South Wales, and does not operate any retail shops. The centre fulfils up to 20,000 items per day in peak periods. The majority of the products sold on the website are purchased by DDG and shipped to customers from its warehouse. Around 25% to 30% of products sold are supplied and shipped directly by third party suppliers.

TopBuy

78 On 22 April 2014 Mnemon entered into a share sale agreement to acquire online retailer TopBuy Australia Pty Ltd (TopBuy), which operates the website topbuy.com.au. TopBuy is an online retailer founded in 2007 by Mr Peter Xie and Mr Michael Xie, with key strengths in branded consumer electronics, fashion and general merchandise. It has robust sourcing infrastructure in China and Hong Kong, enabling direct order fulfilment to consumers in Australia. TopBuy has a database of 250,000 active customers, has annualised revenues of approximately $10 million and is expected to be earnings accretive to Mnemon in the first full year of operation.

79 In addition to the above, the acquisition of TopBuy is expected to bring:

(a) sourcing capabilities, including direct distribution capabilities out of China

(b) strong management team, who will remain in key roles within the group

(c) significant operating synergies through the consolidation of the TopBuy business into the DDG operations

(d) substantial cross-selling opportunities with DDG

(e) an inventory light model aligned to the company's strategic direction.

80 The total consideration for TopBuy was $2.23 million and was settled by way of $0.325 million cash, with the balance in Mnemon shares at a share price based on the 60 day volume weighted average price (VWAP). There was also small earn out component.

Financial performance

81 A summary of DDG's financial performance for the three years ended 30 June 2013 (i.e. prior to the acquisition by Mnemon) as well as the financial results for DDG for the year ended 30 June 2014 including the results for TopBuy post 7 May 2014, is set out below:

10 Active refers to subscribers who have opened an email in the last three months.

11 100% of DDG's sales come from Australian based online consumers.

Mnemon (DDG) – summary of financial performance[1]	FY11 $m	FY12 $m	FY13 $m	FY14 $m
Sales and commission revenue	72.5	78.8	67.8	63.8
EBITDA	1.2	(2.4)	(14.7)	(1.7)
Depreciation and amortisation	(0.5)	(0.7)	(0.9)	(0.3)
EBIT	0.7	(3.1)	(15.6)	(2.0)
Interest (expense) / income	-	0.1	-	(0.1)
Profit / (loss) before tax	0.7	(3.0)	(15.6)	(2.1)
Tax (expense) / benefit	(0.2)	1.0	0.2	(0.1)
Profit / (loss) after tax	0.5	(2.0)	(15.4)	(2.2)
Loss after tax from discontinued operations[2]	-	(0.5)	(1.5)	-
Profit / (loss) after tax	0.5	(2.5)	(16.8)	(2.2)

Note:
1 Sales and commission revenue are not reported on a consistent basis to Grays sales revenue.
2 The FY11 result has not been able to be split between the results from continuing and discontinued operations.
Rounding differences exist.

82 In FY11 and FY12 DDG launched a number of new businesses including Supermarketdeals.com.au, group buying site DealMe.com.au and shoe site Soletrove.com.au In addition DDG also acquired white label shopping site provider Shoppers Advantage. However, a number of these sites have since been closed (refer below), in order to focus on the core brands owned by DDG.

83 Cash operating costs materially exceeded cash revenue in FY13, resulting in the decision to restructure the business in late FY13 and early FY14. As a result DDG has undergone a significant transformation, with a number of strategic steps undertaken including:

(a) the closure of non-performing websites and the exit of Shoppers Advantage

(b) a significant reduction in headcount, including the relocation of customer support to Manila, which has resulted in a reduction in costs of approximately 40%

(c) refocusing of marketing spend to strong "return on investment" based initiatives and the in-sourcing of key functions resulting in an approximate 25% saving in marketing expenditure

(d) the implementation of additional strategies to reduce both fixed and variable expenses in relation to IT costs, warehousing costs and consultancy costs

(e) implementing an inventory light model by scaling up non-owned inventory channels such as consignment and drop ship.

84 The financial impact of these initiatives resulted in a number of non-recurring charges in FY13, which increased the reported loss in that year. However, these initiatives have materially reduced the operating cost base of the company compared with the level of costs incurred in FY13.

85 While revenues in FY14 reduced compared to FY13, gross profits increased year on year from $11.6 million to $15.0 million and the net loss before non-recurring items narrowed to $1.2 million in FY14, from $11.3 million in FY13. DDG's net operating cash flow also reduced significantly from negative $7.5 million in FY13 to negative $1.4 million in FY14. As a result, the Mnemon business appears to be moving towards break-even and subsequent profitability in FY15.

Financial position

86 The financial position of Mnemon as at 30 June 2014 is set out below:

Mnemon – financial position	30 Jun 14 $m
Cash	5.8
Trade and other receivables	1.2
Inventory	6.5
Current assets	13.5
Fixed assets	0.5
Intangibles	2.6
Deferred tax asset	0.9
Non-current assets	4.0
Total assets	17.5
Trade and other payables	10.8
Employee provisions	0.5
Current liabilities	11.2
Trade and other payables	0.6
Employee provisions (non-current)	0.4
Non-current liabilities	0.9
Total liabilities	12.2
Net assets	5.3

Note:
Rounding differences exist.

Share capital

87 As at 4 September 2014 there were 19,287,806 Mnemon shares on issue, including 423,338 shares held under escrow arrangements[12]. In addition there are 633,729 shares to be issued to the vendors of TopBuy, taking the total number of shares in Mnemon (subsequent to this

[12] Shares are subject to escrow restrictions to 24 January 2016.

issue) to 19,921,535. There are also 833,333 unlisted Mnemon options on issue to subscribe for ordinary shares at a share price of $1.20 per share (which expire on 31 December 2014).

Share price performance

88 The price of Mnemon shares from 29 January 2014 (i.e. since the reverse acquisition of DDG and subsequent recapitalisation of the company) to 1 August 2014 (i.e. the last day of trading prior to the announcement of the merger with Grays) is summarised below:

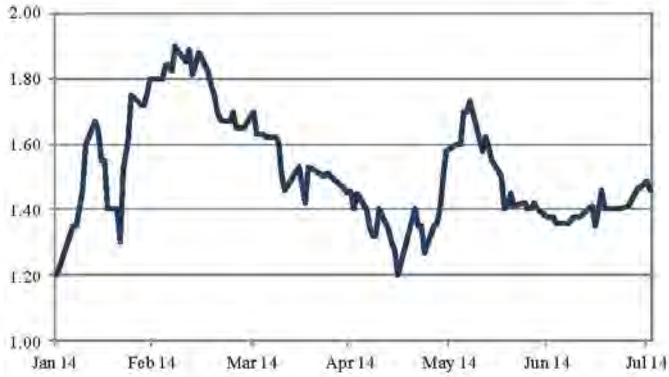
Mnemon – share price performance

	High $	Low $	Close $	Monthly volume 000
January 2014	1.30	1.17	1.25	865
February 2014	1.87	1.30	1.80	1,832
March 2014	1.98	1.64	1.70	1,756
April 2014	1.70	1.40	1.46	214
May 2014	1.60	1.15	1.58	585
June 2014	1.75	1.35	1.38	707
July 2014	1.50	1.25	1.49	486
August 2014 (1 August only)	1.50	1.46	1.46	13

Source: Bloomberg.

89 The following chart illustrates the movement in the share price of Mnemon over the above period:

Mnemon – share price history
29 January 2014 to 1 August 2014



Source: Bloomberg.

90 Prior to the reverse acquisition of DDG and subsequent recapitalisation of the company, Mnemon shares were trading at nominal values, reflecting the limited prospects of the company (which at that stage was an ASX listed shell). We note that from 29 January 2014 (i.e. post the reverse acquisition of DDG and subsequent recapitalisation of the company) the Mnemon share price has moved in a relatively wide range of between $1.20 to $1.80 and closed on 1 August 2014 at $1.46 per share.

Liquidity in Mnemon shares

91 The liquidity in Mnemon shares based on trading on the ASX over the period from 29 January 2014 (i.e. since the reverse acquisition of DDG and subsequent recapitalisation of the company) to 1 August 2014 (i.e. the last day of trading prior to the announcement of the merger with Grays) is set out below:

Mnemon – liquidity in shares						
			No of shares traded	WANOS[1] outstanding	Implied level of liquidity	
					Period[2]	Annual[3]
Period	Start date	End date	000	000	%	%
1 month	2 Jul 14	1 Aug 14	494	19,090	2.59	31.05
3 months	2 May 14	1 Aug 14	1,789	19,072	9.38	37.53
6 months	2 Feb 14	1 Aug 14	5,593	18,939	29.53	59.06
Since 29 January 2014	29 Jan 14	1 Aug 14	6,458	18,937	34.10	34.10

Note:
1 Weighted average number of outstanding shares (WANOS) during relevant period.
2 Number of shares traded during the period divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the period.

92 While there have been a relatively high number of shares traded since the reverse acquisition of DDG and subsequent recapitalisation of the company, the dollar value of the actual trades has been low, which largely reflects the small size of the company.

V Valuation methodology

93 ASIC Regulatory Guide 111 – *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

(a) the discounted cash flow (DCF) methodology

(b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets

(c) the amount that would be available for distribution to shareholders in an orderly realisation of assets

(d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis

(e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

94 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

95 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future "maintainable" earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.

96 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

97 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

Grays

98 The market value of Grays has been assessed by aggregating the market value of the business operations, together with the realisable value of any surplus assets and deducting net borrowings. The valuation of the business has been made on the basis of market value as a going concern. The primary valuation method used to value the Grays business is the capitalisation of future maintainable EBITDA. Under this methodology the value of the business is represented by its core underlying maintainable EBITDA capitalised at a rate (or EBITDA multiple) reflecting the risk inherent in those earnings.

99 We have adopted this method when valuing Grays for the following reasons:

(a) we do not have long-term cash flow projections which we regard as sufficiently robust to enable a DCF valuation to be undertaken

(b) the December 2010 acquisition of a 25% interest in Grays by Caledonia Investments was made by reference to the implied EBITDA multiple.

100 The resulting value has also been cross-checked by reference to:

(a) the capitalisation of EBIT method; and

(b) the price paid for a 25% interest in Grays by Caledonia Investments in December 2010.

Mnemon

101 As Mnemon incurred operating losses in FY14 it is not appropriate to seek to assess the value of Mnemon using a capitalisation of earnings method. Further, as the quantum and timing of Mnemon's future profitability is inherently uncertain, it is inappropriate to use a DCF approach. Accordingly, we have assessed the value of Mnemon having regard to:

(a) recent transactions involving the Group's assets, including the acquisitions of DDG and TopBuy by Mnemon

(b) the capital raising in January 2014 at $1.20 per share, which included commitments from sophisticated and institutional shareholders (and was conditional on the DDG acquisition being completed); and

(c) recent share market trading in Mnemon, including the volume weighted average share price.

VI Valuation of Grays

Valuation methodology

102 As stated in Section V we have adopted the capitalisation of EBITDA method as our primary valuation methodology. Under this method the EBITDA (before non-recurring items) is capitalised at an appropriate multiple. The value of the shares in Grays is then derived by adding to this business value the net cash held by the Group[13].

103 The resulting value has also been cross-checked by reference to:

(a) the capitalisation of EBIT method; and

(b) the price paid for a 25% interest in Grays by Caledonia Investments in December 2010.

EBITDA methodology

EBITDA

104 In order to assess the appropriate level of EBITDA for valuation purposes we have had regard to the historical and budget results of each business unit (Industrial Division and Consumer Division split into GraysOnline and fixed price retail), and have discussed each business unit's financial performance, operating environment and prospects with Grays' management.

105 The FY11 to FY14 results shown in Section III include a number of significant or one-off items such as integration, restructuring and redundancy costs and other items. We have therefore adjusted the historical EBITDA for these items in the table below:

Grays – adjusted EBITDA	FY11 $m	FY12 $m	FY13 $m	FY14 $m
EBITDA (refer paragraph 49)	6.4	4.3	5.5	(1.1)
Non-recurring items / other				
Cost of share sale to Caledonia Investments[1]	1.2	-	-	-
oo.com.au integration and purchase costs[2]	-	-	0.8	-
Write off of assets[3]	-	-	-	2.9
Redundancy costs[4]	0.3	0.2	0.5	0.1
Cost of setting up graysoutlet.com.au		2.3	-	-
Lease book contract settlement[5]	-	-	(1.3)	1.3
Valuation dispute settlement	-	0.2	-	-
Cut off adjustments[6]	-	-	0.2	(0.2)
Shipping issues[7]	-	-	-	0.3
Proposed Transaction costs[8]	-	-	-	1.8
Interest income on off balance sheet cash[9]	0.9	0.7	0.5	0.4
EBITDA before non-recurring items	8.8	7.7	6.3	5.6

13 We have been advised there are no assets held by Grays that are surplus to the business operations of the Group.

Note:

1 Represents transaction costs associated with the sale of a 25% interest in the Group to Caledonia Investments in FY11.
2 oo.com.au was purchased in FY13, with integration costs incurred in that year.
3 Primary relates to write off of $2.3 million for oo.com.au brand name and customer bases.
4 Costs of termination of employees whose positions were made redundant through restructuring.
5 One off benefit received from closing out a lease book. This income would have otherwise been received in FY14 and has been reallocated accordingly.
6 FY14 expenditure expensed in FY13.
7 Logistical complications with respect to shipping of product over the 2013 Christmas period negatively impacted earnings due to a material increase in shipping and return costs.
8 Due diligence and professional fees incurred in respect of the Proposed Transaction.
9 Interest income from cash held in trust attributable to the sale of consignment stock. For valuation purposes this interest has been included in EBITDA as it is derived in the ordinary operations of the business (and is expected to continue to do so).

Rounding differences exist.

106 Grays management was slow to respond to key changes in its core Consumer Division, including a trend away from auction websites to fixed price sites and increased online competition from global online retailers, Australian bricks and mortar retailers moving into the online space, as well as online group buying websites. As a result Grays' financial performance in FY11 to FY14 was generally lower than budget (particularly for the Consumer Division). After a number of years of restructuring and cost cutting, and with new leadership and management in place, Grays management believe that both the Consumer and Industrial Divisions are well placed to improve their respective financial performance.

107 As highlighted in Section III, based on our review of the management accounts for the two months to 31 August 2014, Grays' results have been particularly strong with EBITDA ahead of management's budget for this period (and well above the previous comparable historical periods analysed above). Accordingly, in assessing EBITDA for valuation purposes we have had regard to the improved operating performance currently prevailing (noting that the Industrial Division's revenues and earnings are typically lumpy by nature and that other monthly periods during FY15 may not meet budget expectations).

108 Grays has plans to implement a number of operational optimisation initiatives that have in principle board approval. These initiatives have the potential to reduce the overall cost base of the Group and are to be implemented regardless of whether the Proposed Transaction goes ahead[14]. In our assessment of EBITDA for valuation purposes we have adopted cost savings from the operational optimisation initiatives of $1.0 million to $1.5 million per annum, which makes allowance for the cost of implementation, the time value of money and any potential diseconomies.

109 Having regard to the above, we have assessed EBITDA for valuation purposes at $8.0 million. This reflects in particular our view that there is a natural limit on the extent to which willing buyers are prepared to pay for future earnings potential.

[14] Due to commercial sensitivity, we have been requested not to disclose specific details of these initiatives.

110 In the event that the performance to date in FY15 is sustainable for the rest of the year and beyond (which would give rise to a level of earnings comparable to that achieved in FY10[15]), we would adopt a higher level of EBITDA and hence the value of the Grays business would be higher.

EBITDA multiple

111 There are limited auction and online retailing businesses listed on the ASX (i.e. excluding other ASX online companies operating in the classified and travel sectors which we do not consider relevant to Grays) and those that are listed are generally not profitable. In terms of online auction businesses, we note that:

(a) Ebay Inc (Ebay) is a US$67 billion company and is one of the world's largest online retailers with 149 million active buyers. Its size alone makes comparability to Grays difficult. Ebay is currently trading on an implied multiple of 12.2 times historical EBITDA[16]

(b) Trade Me Group Ltd (Trade Me) is a NZ$1.3 billion online auction and online classifieds business. Its comparability to Grays is primarily compromised by the level of earnings it derives from classifieds (approximately 50%). Trade Me's current market capitalisation implies a multiple of 12.3 times historical EBITDA[16].

112 While Ebay and Trade me are significantly larger than Grays (and have other material differences to the Grays business operations), and generally large companies trade on higher multiples than small companies, provided other variables (e.g. forecast growth rates) are similar, the high implied EBITDA multiples indicate that such online businesses are highly sought after by share market investors. In our view, an appropriate controlling interest multiple for Grays would be at a discount to minority interest multiples for Trade Me and Ebay, given the size differences and the vastly different historical profit profiles.

113 In our opinion the primary indicator of the appropriate EBITDA multiple to adopt for valuation purposes is from the price paid for a 25% interest in Grays by Caledonia Investments in December 2010. This transaction implied an enterprise value of $151 million[17] for a 100% interest in the business. Based on prospective FY11 EBITDA of $17.8 million, the transaction implied an EBITDA multiple of 8.5 times.

114 As this transaction was in respect of a 25% interest, it is unlikely to represent full controlling interest value. While the profitability of the Group has since fallen (for the reasons discussed in Section III), we note that the expected earnings growth at the time was lower than current earnings growth expectations. However, today's earnings growth expectations are off a lower base and, in our opinion, the quality of historical earnings in FY10 was at a higher level than

[15] Grays derived EBITDA of approximately $17.2 million in FY10.

[16] Note that these multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBIT multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company.

[17] Noting that the actual purchase consideration was revised down to an enterprise value of $145 million, due to the underperformance of the Group in the period up to December 2010 versus budget.

at present (given the adverse earnings performance of the Grays business in FY11 to FY14). On this basis we consider an EBITDA multiple at least equal to that implied by the investment by Caledonia Investments in 2010 to be appropriate.

115 In assessing the appropriate EBITDA multiple to apply we have also considered, inter-alia:

(a) Grays' market leading position in the industrial auction sector (both in Australia and Asia Pacific) and its counter cyclical business model

(b) the highly recognised brand and level of brand recognition for the GraysOnline name (and to a lesser extent the oo.com.au name)

(c) the number of active customers (almost 0.5 million), its customer database (3.9 million), email subscribers (1.6 million) and large number of annual visits that the Grays websites draw (56.6 million)

(d) the market position held for key items such as wine, IT and consumer electrical goods

(e) the Group's long standing relationships with major Australian and international brands

(f) the scalability of the Grays business infrastructure

(g) the consignment based inventory light model of parts of the Grays business that essentially limits the required investment capital and reduces risk

(h) that there are international markets for some of Grays business segments that have been identified as underserved and therefore present opportunities for expansion.

116 Based on the above we have adopted an EBITDA multiple ranging from 8.5 to 9.5 times, which reflects a full controlling interest value multiple.

Value of business based on EBITDA approach

117 On this basis the value of the Grays business (before debt) is as follows:

Value of the Grays business	Low $m	High $m
EBITDA adopted for valuation purposes	8.0	8.0
EBITDA multiple (x)	8.5	9.5
Enterprise value	68.0	76.0

Net cash

118 Subsequent to the Entitlement Offer Grays is expected to be debt free and hold pro-forma net cash of some $11.8 million.

Equity value of Grays

119 Based on the above, we have adopted an equity value for Grays ranging from $80.0 million to $90.0 million, determined as follows:

Value of the Grays equity	Low $m	High $m
Enterprise value	68.0	76.0
Add net cash	11.8	11.8
Equity value	79.8	87.8
Equity value – adopted	80.0	90.0

Other indicators of value

EBIT multiple cross-check

120 While Grays has reported depreciation and amortisation expenses ranging from $1.9 million to $3.7 million[18] between FY11 to FY14, over this period only $1.2 million per annum was spent on maintenance capital expenditure[19]. For the purposes of our EBIT multiple cross-check we have therefore adopted depreciation consistent with maintainable capital expenditure. On this basis the implied EBIT multiple for Grays is as follows:

Value of the Grays business	Low $m	High $m
EBITDA for valuation purposes	8.0	8.0
Less maintainable depreciation	(1.2)	(1.2)
EBIT for valuation purposes	6.8	6.8
Enterprise value (as above)	68.0	76.0
Implied EBIT multiple	10.0	11.2

121 Based on the implied EBIT multiple range, and having regard to the considerations in paragraph 115 above, we believe our valuation of Grays is reasonable.

Comparison to price paid by Caledonia Investments for 25% interest in 2010

122 Our enterprise value range of $68.0 million to $76.0 million is significantly lower than the value of Grays implied by the purchase of a 25% interest by Caledonia Investments in December 2010 (which was $151 million[20]). However, this transaction was based on earnings at the time that were approximately double the earnings we have adopted for valuation purposes. Assuming constant growth expectations and other variables, our current valuation should therefore represent approximately half the value implied by the 2010

18 The $3.7 million reported in FY14 was particularly high due to the write off of brand names of $0.9 million.

19 Some of this difference relates to the amortisation of software costs and other costs incurred in setting up and closing down the graysoutlet.com.au website.

20 Noting that the actual purchase consideration was revised down to an enterprise value of $145 million, due to the underperformance of the Group versus budget in the period up to December 2010.

transaction. As shown above, the mid-point of our enterprise valuation range of Grays (i.e. $72 million) is approximately half the $151 million enterprise value implied by the purchase of a 25% interest by Caledonia Investments in 2010, indicating our valuation appears to be appropriate.

VII Valuation of Mnemon

Valuation methodologies

124 As Mnemon incurred operating losses in FY14 it is not appropriate to seek to assess the value of Mnemon using a capitalisation of earnings method. Further, as the quantum and timing of Mnemon's future profitability is inherently uncertain, it is inappropriate to use a DCF approach. Accordingly, we have assessed the value of Mnemon having regard to:

(a) recent transactions involving the Group's assets, including the acquisitions of DDG and TopBuy by Mnemon

(b) the capital raising in January 2014 at $1.20 per share, which included commitments from sophisticated and institutional shareholders (and was conditional on the DDG acquisition being completed); and

(c) recent share market trading in Mnemon including the volume weighted average share price.

Recent transactions involving the Group's assets

125 The value of Mnemon implied by recent transactions involving Mnemon's assets (including the DDG and TopBuy businesses), is set out below:

Mnemon – value implied by recent transactions	$m
Value of Mnemon assets held prior to DDG deal[1]	0.7
Value implied by DDG transaction[2]	15.0
Price paid for TopBuy	2.3
Implied enterprise value	18.0
Assumed surplus cash[3]	3.1
Implied equity value	21.1

Note:
1 Relates to a contingent asset held by Mnemon.
2 Includes $2.5 million cash not considered surplus given DDG's net working capital deficiency at the time.
3 Net cash held by Mnemon post the acquisition of TopBuy less the $2.5 million included in the DDG transaction.

Capital raising at $1.20 per share

126 In January 2014 Mnemon raised $6 million through the issue of 5 million new shares to sophisticated and institutional investors and the public at $1.20 per share, concurrent with the reverse acquisition of DDG. As these shares were purchased by sophisticated and institutional investors, in our view, they provide a relevant valuation benchmark for a minority interest in Mnemon. As set out below, these share allotments imply a value for Mnemon of $23.9 million[21]:

21 Based on the current number of outstanding shares (refer paragraph 87) and excluding the $1.20 options.

Mnemon – value implied by the capital raising at $1.20 per share	
Capital raising per share price ($)	1.20
Number of shares on issue (million) (excluding options)	19.92
Implied equity value ($m)	23.9

Value implied by recent share prices

127 The VWAP and liquidity in Mnemon shares based on trading on the ASX over one, three and six month periods to 1 August 2014 (i.e. the last day of trading prior to the announcement of the merger with Grays) is set out below:

Mnemon – liquidity in shares

Period	Start date	End date	No of shares traded 000	Implied level of liquidity Period[1] %	Annual[2] %	VWAP $
1 month	2 Jul 14	1 Aug 14	494	2.59	31.05	1.43
3 months	2 May 14	1 Aug 14	1,789	9.38	37.53	1.48
6 months	2 Feb 14	1 Aug 14	5,593	29.53	59.06	1.59

Note:
1 Number of shares traded during the period divided by the weighted average number of outstanding shares (WANOS) during relevant period.
2 Implied annualised figure based upon implied level of liquidity for the period.

128 While there have been a relatively high number of shares traded since the reverse acquisition of DDG and subsequent recapitalisation of the company, the dollar value of the actual trades has been low, which largely reflects the small size of the company. Notwithstanding this, the value implied for Mnemon based on the fully diluted number of shares on issue and the closing Mnemon share price as at 1 August 2014 as well as the one month VWAP prior to 1 August 2014, is set out below:

Mnemon – value implied by VWAP

	Low	High
VWAP (1 month VWAP and closing price on 1 August 2014) ($)	1.43	1.46
Number of shares on issue (million) (includes in the money options)	20.75	20.75
Implied equity value ($m)	29.7	30.3

Conclusion on Mnemon share value

129 In respect of the above, we note that at the time of the DDG transaction and associated capital raising, the DDG business was loss making and was in the process of employing a strategy to turn the business around (as reflected in the losses reported by Mnemon for FY14). The business is now in a better financial position with stronger earnings prospects than at the time of the DDG transaction. Further, the acquisition of TopBuy has added scale and provided synergy benefits. Therefore in our opinion more weighting should be placed on the recent traded share prices of Mnemon.

130 Having regard to these factors, we consider a value range of $27.0 million to $30.0 million for Mnemon is appropriate for valuation purposes.

Mnemon – valuation summary	Low $m	High $m
Value implied by recent transactions	21.1	21.1
Value implied by the capital raising at $1.20 per share(1)	23.9	23.9
Value implied by recent share prices(1)	29.7	30.3
Adopted	**27.0**	**30.0**

Note:
1 These values reflect portfolio interests in Mnemon.

VIII Relativities of the Proposed Transaction

Overview of combined businesses

131 Under the Proposed Transaction, the newly combined business will be renamed Grays eCommerce Group (GEG) and will create Australia's leading and largest integrated, multi disciplined e-commerce retailer, with an established brand, platform and best in class infrastructure that is scalable. While the oo.com.au and the dealsdirect.com.au businesses have a similar product offering, the brands attract slightly different segments of the market and as such there is limited customer overlap.

132 Based on available data GEG will have the highest number of average online monthly visits for an Australian retail company (noting that Ebay is the market leader is this category), with combined annual traffic for the Grays and Mnemon businesses of some 83 million visits. It will also have a combined customer database of 6.2 million potential customers, with 2.9 million email subscribers and 0.88 million active customers.

Relative ownership of the merged entity

133 In our view, a key consideration for Grays shareholders should be whether the Proposed Transaction appropriately reflects the value contributed by both Grays and Mnemon to the merged entity.

134 Under the terms of the Proposed Transaction, Grays shareholders (in aggregate) will receive 73.2 million new shares in Mnemon as consideration for their Grays shares. In addition, Grays shareholders who hold on the date that is 12 months after completion that number of Mnemon shares that is not less than 75% of their new Mnemon shares (ignoring any Mnemon shares they hold prior to completion) will be issued one additional Mnemon share for every two shares held (Bonus Shares).

135 Excluding the Bonus Shares, Grays shareholders will own 78% of the enlarged issued capital of Mnemon post the Proposed Transaction. If all the Bonus Shares entitlements are taken up, Grays shareholders will own 84% of the then issued capital of Mnemon.

136 Based on our respective valuations of the Grays and Mnemon businesses (refer Sections VI and VII), the Grays business will contribute approximately 75% of the relative value of the combined GEG business, determined as follows:

GEG – value contribution[1]	Low	Mid-point	High
LEA assessed equity value			
Grays ($m)	80.0	85.0	90.0
Mnemon ($m)	27.0	28.5	30.0
Total ($m)	107.0	113.5	120.0
Proportional value contribution to GEG			
Grays (%)	74.8	75.0	74.9
Mnemon (%)	25.2	25.0	25.1
Total (%)	100.0	100.0	100.0

Note:

1 The value of Mnemon has been primarily assessed based on prices reflecting recent share market trading in the company. This trading represents portfolio interests in Mnemon. The application of a control premium reflecting the extent to which (if any) parties seeking to acquire the Mnemon business would be prepared to pay above our assessed range of values would enhance the relative value contribution benefit from the perspective of Grays shareholders.

137 Accordingly the merger ratio favours Grays shareholders as they will receive at least 78% of GEG, and potentially up to 84% of GEG if all the Bonus Shares are issued. These percentages are higher than the proportional value contribution the Grays business provides to GEG, which is approximately 75% of the combined entity.

Revenue and cost synergies

138 In addition we note that the Proposed Transaction is expected to lead to the realisation of significant revenue and cost synergies over time[22]. Increased scale is expected to result in greater buying power, freight and logistics improvements (i.e. through a combination of the Sydney facilities for Grays and Mnemon), while the rationalisation of back office functions such as management, finance and marketing are also expected to provide material savings. In addition the ability to cross market each businesses databases and other related initiatives are expected to provide meaningful revenue synergies.

139 These revenue and cost synergies are expected to further increase the value proposition for Grays shareholders (and Mnemon shareholders as well). Due to the size of expected synergies, the value of GEG is likely to exceed the combined value of both companies on a standalone basis.

22 While some of the synergies are likely to be unique to a Grays / Mnemon business combination, in our view, a large proportion of the expected annual synergies could be generated by other online retail companies (particularly those with an existing warehouse operation).

IX Evaluation of the Proposed Transaction

Best interests

140 As stated in Section II, in our opinion, there is no requirement to provide an opinion on whether the Proposed Transaction is 'fair' and 'reasonable' to Grays shareholders (as this regulatory assessment is only applicable to change in control transactions). Further, in our opinion, an 'in the best interests' opinion is more appropriate given the nature of the Proposed Transaction.

141 There is no legal definition of the expression "in the best interests". However, RG 111 states that a transaction may be *"in the best interests of the members of the company"* if there are sufficient reasons for securityholders to vote in favour of the transaction in the absence of a superior proposal.

142 Our report has therefore focused on the advantages and disadvantages of the Proposed Transaction from the perspective of Grays shareholders. If the advantages of the Proposed Transaction outweigh the disadvantages then, in our view, the Proposed Transaction will be in the best interests of Grays shareholders in the absence of a superior proposal.

Advantages

Grays shareholders are receiving consideration above our relative value assessment

143 As set out in Section VIII, Grays shareholders are to receive at least 78% of GEG and potentially up to 84% of GEG if all the Bonus Shares are issued (which is dependent on the number of shares Grays shareholders hold one year post completion of the Proposed Transaction). These percentages are higher than the proportional value contribution the Grays business provides to GEG, which is approximately 75% of the combined entity. Accordingly, Grays shareholders are receiving a higher proportion of the GEG entity than our relative assessed values of the Grays and Mnemon businesses would suggest.

Liquidity event

144 Trading in Grays shares is very illiquid because Grays shares are not listed on a stock exchange. Further, Grays shares are currently subject to pre-emptive rights and restrictions on the quantum and recipient of shares to be transferred, all of which reduce the liquidity of the shares in Grays. The Proposed Transaction therefore provides all shareholders in Grays with the opportunity to realise their shares for cash on the ASX post the expiry of the escrow restrictions[23].

Grays shareholders will participate in the future growth of the business

145 If the Proposed Transaction is approved, existing shareholders will continue to own an interest in Grays and will therefore benefit from any future growth achieved by Grays in its listed form as GEG (i.e. including the attainment of any of the identified synergy benefits noted in paragraph 138).

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[23] Under the Proposed Transaction Grays shareholders will enter into escrow arrangements to retain:
(a) 100% of issued Mnemon shares until one week following the announcement by Mnemon on the ASX of its interim results for the half year ending December 31 2014; and
(b) 50% of issued Mnemon shares until one week following the announcement by Mnemon on ASX of its full year results for FY15.

Impact on ownership interests

146 Alfred Street Nominees, currently holds Grays shares as nominee on behalf of Caledonia Investments, associates of Caledonia Investments and clients of Caledonia Investments. Through Alfred Street Nominees, clients of Caledonia Investments currently hold a 19.9% beneficial interest in Grays, whilst Caledonia Investments and its associates hold a 6.8% beneficial interest. Alfred Street Nominees 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 Proposed Transaction.

147 Caledonia Investments may ultimately end up with an interest in Grays anywhere between 6.8% and 25.1%[24], given the underwriting of the Entitlement Offer and Liquidity Offer. Caledonia Investments' ownership level in Grays prior to the Proposed Transaction is thus dependent on the level of take-up of the Entitlement Offer, as well as the number of Grays shareholders who tender their shares under the Liquidity Offer (both of which are unknown at this time).

Disadvantages

Potential dilution

148 In aggregate Grays shareholders will end up with at least 78% of the GEG shares and potentially up to 84% if all the Bonus Shares are issued. Accordingly any dilution to the collective interest of Grays shareholders is likely to be modest, and would be more than offset by the proportional value contribution (refer above) which is in Gray's shareholders favour.

Conclusion

149 We summarise below the advantages and disadvantages of the Proposed Transaction:

Advantages	Disadvantages
• Under the Proposed Transaction, Grays shareholders receive aggregate interests equivalent to at least 78% and potentially up to 84% of the GEG business, which is higher than the proportional value contribution of the Grays business to GEG of some 75% • The Proposed Transaction provides all shareholders in Grays the opportunity to realise their shares for cash post the expiry of the escrow restrictions (i.e. liquidity) • Existing shareholders will continue to own an interest in Grays and will therefore benefit from any future growth achieved by Grays in its listed form as GEG (including the realisation of the identified synergy benefits)	• Grays shareholders will face modest dilution of their collective interest in the Group

150 Based on the above, in our opinion, the advantages of the Proposed Transaction outweigh the disadvantages. We therefore consider the Proposed Transaction is in the best interests of Grays shareholders.

[24] Post the Proposed Transaction a 25.1% interest in Grays equates to a shareholding of no more than 19.9% of the enlarged share capital of Mnemon.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The *Corporations Act 2001 (Cth)* authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to Mnemon shareholders in connection with the Proposed Transaction.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $70,000 plus GST.

9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

LONERGAN EDWARDS & ASSOCIATES LIMITED

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared many hundred independent expert's reports.

2 This report was prepared by Mr Edwards and Mr Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 20 years and 28 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

3 This report has been prepared at the request of the Directors of Grays to accompany the Notice of Meeting and Explanatory Statement to be sent to Grays shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is in the best interests of Grays shareholders.

Interests

4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Proposed Transaction. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 In November 2013, LEA prepared an IER in connection with the acquisition of DDG for the benefit of Mnemon shareholders. Other than this report, LEA has had no prior business or professional relationship with Mnemon or Grays.

Indemnification

6 As a condition of LEA's agreement to prepare this report, Grays agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Grays which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

7 LEA consents to the inclusion of this report in the form and context in which it is included in Grays Notice of Meeting and Explanatory Statement.

Appendix C

Glossary

Term	Meaning
Alfred Street Nominees	Alfred Street Nominees Pty Limited, a company associated with Caledonia Investments
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Bonus Shares	Grays shareholders who hold on the date that is 12 months after completion that number of Mnemon shares that is not less than 75% of their new Mnemon shares (ignoring any Mnemon shares they hold prior to completion) will be issued one additional Mnemon share for every two shares held
Caledonia Investments	Caledonia (Private) Investments Pty Limited & Associates
CEO	Chief Executive Officer
Consumer Division	Covers business to consumer sales and includes both auction (through the GraysOnline website) as well as oo.com.au, a fixed price website offering
DCF	Discounted cash flow
DDG	DealsDirect Group Pty Limited
Ebay	Ebay Inc
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax depreciation and amortisation
Entitlement Offer	Grays is in the process of undertaking a pro-rata 1 for 3.39 rights issue to existing shareholders at a price of $505 per Gray share which is expected to raise $13.2 million. This will be sent to Grays shareholders on 29 September 2014 and is underwritten by Caledonia Investments
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GEG	Grays eCommerce Group
GFC	Global Financial Crisis
Grays or the Group	Grays (Aust) Holdings Pty Ltd
IER	Independent expert's report
Industrial Division	The Industrial Division covers business to business sales and generally works alongside receivers and banks
IT	Information Technology
LEA	Lonergan Edwards & Associates Limited
Liquidity Offer	The Entitlement Offer is accompanied by a buyout offer for existing shareholders wanting to sell a further 25% of their shares to Caledonia Investments at the same price as the Entitlement Offer
Mnemon	Mnemon Limited
Mr Bayliss	Mr Mark Bayliss
NPV	Net present value
OHS	Occupational health and safety
PE	Price earnings
Proposed Transaction	The sale of all the shares in Grays to Mnemon
RG 111	Regulatory Guide 111 – *Content of expert reports*
TopBuy	TopBuy Australia Pty Ltd
Trade Me	Trade Me Group Ltd
US	United States
VWAP	Volume weighted average price
WANOS	Weighted average number of outstanding shares

PART B

INFORMATION ABOUT THE TRANSACTION

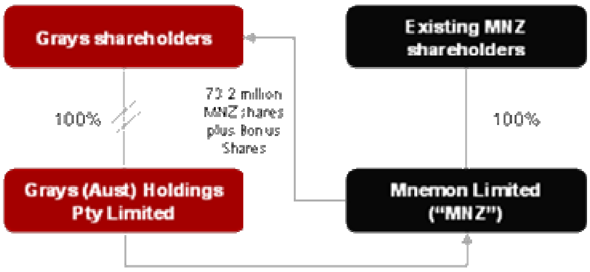
1. Important information about the Transaction

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 Booklet before you decide how to vote on the Resolutions.

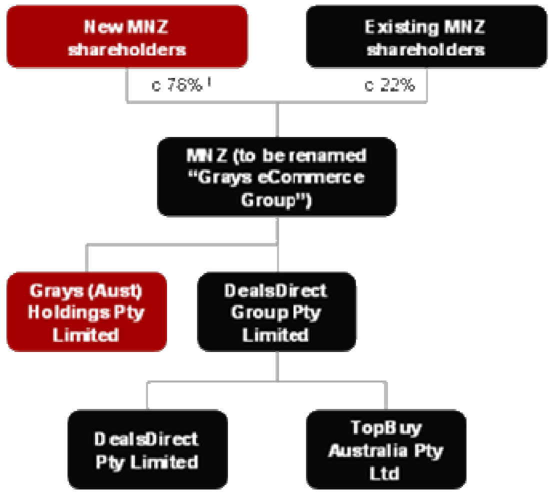
Information about the Transaction

Figure 1

Transaction overview



Combined Group after completion



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 Part B – Section 7.8 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.
What are the components of the Transaction?	The Transaction features a number of components, the main ones being the Grays Capital Raising and the MNZ Offer. • **Grays Capital Raising**: 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. • **MNZ Offer**: 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.
What will happen to the MNZ Shares if the Transaction proceeds?	Nothing will happen to the MNZ Shares held by existing MNZ Shareholders under the Transaction. However, MNZ will issue New MNZ Shares to Grays Shareholders under the Transaction. See Part B – Section 7.8 for the dilutionary impact the Transaction will have on existing MNZ Shareholders.
How will the structure of MNZ's ownership change if the Transaction proceeds?	Under the Transaction, approximately 73,244,952 MNZ Shares will be issued to the Grays Shareholders. As a result, after completion of the Transaction, the existing MNZ Shareholders (who as at the date of this Booklet 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). 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 MNZ. 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.
Will MNZ remain listed on the ASX if the Transaction proceeds?	Yes, subject to the issue of the Prospectus and MNZ's re-compliance with the admission requirements of ASX pursuant to Chapters 1 & 2 of the ASX Listing Rules, MNZ will remain listed on the ASX after completion of the Transaction.
What are the conditions to the Transaction?	Completion of the Transaction occurs when the MNZ Offer completes. Completion of the MNZ Offer is subject to MNZ Shareholders passing the MNZ Resolutions at the MNZ Shareholder Meeting, and the Merger Implementation Agreement not being terminated. The Merger Implementation Agreement may be terminated if the following conditions are not satisfied or waived: • Each of the MNZ Board and the Grays Board continuing to unanimously endorse the Transaction. • Grays raising not less than $13.2 million in cash under the

	Grays Capital Raising. • 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 (on a fully diluted basis). • No material adverse change occurring to MNZ or Grays. See Part B – Section 11.2 for a summary of the key terms and conditions of the Merger Implementation Agreement.
What will happen if the Transaction does not proceed?	If the MNZ Resolutions are not passed by MNZ Shareholders, or the other conditions are not satisfied or waived, the Transaction will not proceed. If the Transaction does not proceed, MNZ will not acquire any Grays Shares and no new MNZ Shares will be issued to Grays Shareholders. In those circumstances, the MNZ Board intends to continue to focus on the operation and growth of MNZ's existing businesses.
What is the Merger Implementation Agreement?	The Merger Implementation Agreement was signed by Grays and MNZ on 5 August 2014. It sets out MNZ's and Grays' obligations in connection with the implementation of the Transaction. See Part B – Section 11.2 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: • 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 Part B – Section 3.1 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 Part B – Section 3.2(e) and the potential economy of scale opportunities described in Part B – Section 3.2(f). • There will be risks inherent in an investment in the Combined Group and you may consider that these risks outweigh the potential advantages of the Transaction. See Part B – Section 9 for more information on significant risk factors. See Part B – Section 3.3 for more information on significant risks and potential disadvantages associated with the Transaction and the Combined Group.
What is the MNZ Directors' recommendation?	The MNZ Directors unanimously recommend that MNZ Shareholders who are not excluded from voting, vote in favour of all Resolutions at the MNZ Shareholder Meeting. Each MNZ Director intends to vote his or her MNZ Shares in favour of each of the Resolutions proposed at the MNZ Shareholder Meeting, to the extent that he or she is not excluded from voting in favour of that Resolution.

Information about the Grays Capital Raising	
What is the Grays Capital Raising?	The Grays Capital Raising is being made by Grays as a requirement under the Transaction, so that the Combined Group can be appropriately funded. 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. 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. 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. The Grays Capital Raising does not involve MNZ or MNZ Shareholders. New Grays Shares that are issued under the Grays Capital Raising will then be eligible to participate in the MNZ Offer.
How does the Grays Capital Raising relate to the MNZ Offer?	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. 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.
Will I be able to participate in the Grays Capital Raising?	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.
What are the conditions to the Grays Capital Raising taking effect?	The Grays Capital Raising is conditional on the MNZ Resolutions being passed by MNZ Shareholders at the MNZ Shareholder Meeting, and to the Merger Implementation Agreement not being terminated. See page 20 above and Part B – Section 11.2 for a summary of the key terms and conditions of the Merger Implementation Agreement.
What will the proceeds of the Grays Capital Raising be used for?	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 Part B – Section 7.9 for further details.

Transaction timetable		
What is the indicative timetable for the Transaction?	Date of this Booklet	29 September 2014
	Results of Grays Capital Raising known	12.00pm on 30 October 2014
	Time and date of the MNZ Shareholder 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

2. Investment overview

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
What is 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 will have sales operations in the Australian online consumer auction and fixed price retail (B2C) and online industrial auction (B2B) markets. 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 though 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. The Combined Group's businesses had aggregated 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	Part B – Section 7.1.

Topic	Summary	For more information
	and other events occurring before completion of the Transaction such as the Grays Capital Raising). Please see Part B – Section 8.5 for pro forma financial information about the Combined Group.	
What will be the strategy of the Combined Group?	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. 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. 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. 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. The expansion of the core business, and its extension into adjacent segments, also relies on merger and acquisition opportunities. 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. 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	Part B – Section 7.4.

Topic	Summary	For more information
	organically and through merger and acquisition and joint venture opportunities.	
What are the strengths of the Combined Group's business?	• A 'pure play' e-commerce retail group, bringing together recognised e-commerce brands in DealsDirect, TopBuy, GraysOnline and OO.com.au. • 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.	Part B – Section 3.1.
What are the key risks for the Combined Group?	• **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 market may deteriorate**: 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. • **Growth of internet penetration and online migration may decline**: 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. • **Increased competition**: The Combined Group's competitive position may deteriorate as a result of factors including actions by existing competitors, the entry of new	Part B – Section 9.

Topic	Summary	For more information
	competitors or a failure by the Combined Group to continue to position itself successfully as the online retail environment changes. • **Technology obsolescence**: 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. • **Disruption to information systems**: 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. • **Disruption to internet services**: 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. • **Payment systems disruption risks**: 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. • **Loss of intellectual property**: 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. • **Loss of key personnel**: The success of the Combined Group will be dependent on the retention of key personnel, in particular those individuals discussed at Sections 7.10 and 7.12. The loss of those key personnel, and an inability to recruit or retain suitable replacement or additional personnel, may	

Topic	Summary	For more information
	adversely affect the Combined Group's future financial performance. • **Disruptions to logistics, warehouse and fulfilment capabilities**: The Combined Group has warehousing and fulfilment capabilities, which are potentially exposed to disruption from a variety of sources and events. • **Litigation risk**: 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. • **Adverse changes in foreign exchange rates**: Adverse movements in exchange rates may have a material adverse effect on the Combined Group's future financial performance.	
In which industry will the Combined Group operate?	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. 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. 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.	Part B – Section 4.

Topic	Summary	For more information
What is the Combined Group's aggregated historical performance?	**Combined Group – Aggregated historical performance** **FY2014** — **$ (million)** Net operating revenue — 122.4 EBITDA pre significant items — 2.8 EBITDA post significant items (loss) — (2.8) EBIT (loss) — (6.8) 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 Part B – Section 8.5, including the assumptions, management discussion and analysis.	Part B – Section 8.5.
Where can I find more financial information about the Combined Group?	Part B – Section 8.5 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 Part B – Section 8.5(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 Part B – Sections 8.5 (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 Part B – Section 8.5(c). Significant accounting policies upon which that information is based are included in Part B – Section 8.5(d).	Part B – Section 8.5
What is the Combined Group's dividend policy?	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.	Part B – Section 7.16.

<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>Who will sit on the Combined Group Board after the Transaction is completed?</td><td>On completion of the Transaction, MNZ’s Board (which will be the Board of the Combined Group) will comprise:

Jonathan Pinshaw – Non-Executive Chairman
Mark Bayliss – Executive Director and Chief Executive Officer
Naseema Sparks – Non-Executive Director
Will Vicars – Non-Executive Director

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.</td><td>Part B – Section 7.10.</td></tr>
<tr><td>Who will manage the Combined Group after the Transaction is completed?</td><td>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
</td><td>Part B – Section 7.12.</td></tr>
<tr><td>What significant benefits are payable to the Combined Group Directors and other persons connected to the Transaction, and what significant interests do they hold?</td><td colspan="2">
<table>
<tr><th>Key people</th><th>Interest or benefit</th><th>For more information</th></tr>
<tr><td>MNZ Directors</td><td>Directors’ interests
Agreements or arrangements with MNZ Directors</td><td>Part B – Section 5.4.</td></tr>
<tr><td>MNZ Management</td><td>MNZ management interests
Agreements or arrangements with MNZ management</td><td>Part B – Section 5.4.</td></tr>
<tr><td>Existing Grays Shareholders</td><td>Ownership of Grays Shares
Ownership of MNZ</td><td>Part B – Section 6.5.</td></tr>
</table>
</td></tr>
</table>

Topic	Summary		For more information
		Shares	
	Grays Directors	• Grays Directors' interests • Agreements or arrangements with Grays Directors	Part B – Section 6.9.
	Grays Management	• Grays management interests • Agreements or arrangements with Grays management	Part B – Section 6.9.
	Combined Group Directors	• Combined Group Directors' interests • Agreements or arrangements with Combined Group Directors • Combined Group Directors' fees	Part B – Section 7.11.
	Combined Group Management	• Combined Group management interests • Agreements or arrangements with Combined Group management • Employee incentive arrangements	Part B – Sections 7.11 and 7.14.
	Combined Group Management	• Remuneration	Part B – Section 7.13.
	Advisers and other service providers	• Fees for services	Part B – Section 11.9.

3. Transaction rationale

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.

3.1 Overview and MNZ Directors' recommendation

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 Part B – Section 3 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.

The MNZ Directors unanimously recommend that MNZ Shareholders who are not excluded from voting, vote in favour of all Resolutions at the MNZ Shareholder Meeting.

Each MNZ Director intends to vote his or her MNZ Shares in favour of each of the Resolutions proposed at the MNZ Shareholder Meeting, to the extent that he or she is not excluded from voting in favour of that Resolution.

3.2 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[2].

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

[2] Based on simple aggregation ignoring any duplication. The actual number (net of any duplication) will be less.

Figure 2: Combined Group's key brands[1]

	Grays		MNZ	
	graysonline.com	oo.com.au	DealsDirect	TOPBUY.com.au
TRADING MECHANISM	Online Auctioneer	Online Department Store (Fixed Price)	Online Department Store (Fixed Price)	Online Department Store (Fixed Price)
VALUE PROPOSITION CUSTOMERS	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
VALUE PROPOSITION VENDORS	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
TAGLINE	The smartest bargains are just a click away	The Joy of Shopping Online	Australia's online department store	TOP Brands! TOP Service! TOP Prices!
BRAND ATTRIBUTES	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
CUSTOMER PERSONAS WHO SHOPS?	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 Part B – Section 7.9 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[1]

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

1. Source: Grays Management

See Part B – Sections 6 and 7 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 Part B – Section 3.2(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[3], 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[1]

Revenue opportunities	▪ Opportunities to cross-sell with ~21% crossover in customers ▪ Over 880,000 Active Customers (Grays + OO + DealsDirect + TopBuy) ▪ Over 2.9m in email database (Grays + OO + DealsDirect + TopBuy) ▪ Data driven analysis refines product and service offering across all platforms
Infrastructure leverage and rationalisation	▪ Improved customer service operational efficiencies ▪ Scale advantages in warehouse facilities
Operational efficiencies	▪ Freight and logistics efficiencies ▪ Savings in marketing, IT and back-office functions ▪ Increased buying power
Best of breed	▪ Complementary capacity in e-commerce and priority categories ▪ Compatible management team and style

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.

[3] 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[1]

Function	***Benefits of Scale***
▪ 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 Part B – Sections 7.10 and 7.12 for further information on the proposed Board and management team of the Combined Group.

3.3 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 MNZ Shareholder Meeting.

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

There will be risks inherent in an investment in the Combined Group. Part B – Section 9 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. Part B – Section 9 also outlines significant risks associated with the Transaction. MNZ Shareholders should read Part B – Section 9 carefully in its entirety before making any decision on how to vote on the Resolutions.

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.

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 Booklet 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 Part B – Section 3.2(e) and the potential economy of scale opportunities described in Part B – Section 3.2(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 Part B – Section 7.5 for further details on the integration plan for the Combined Group.

4. Industry Overview

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

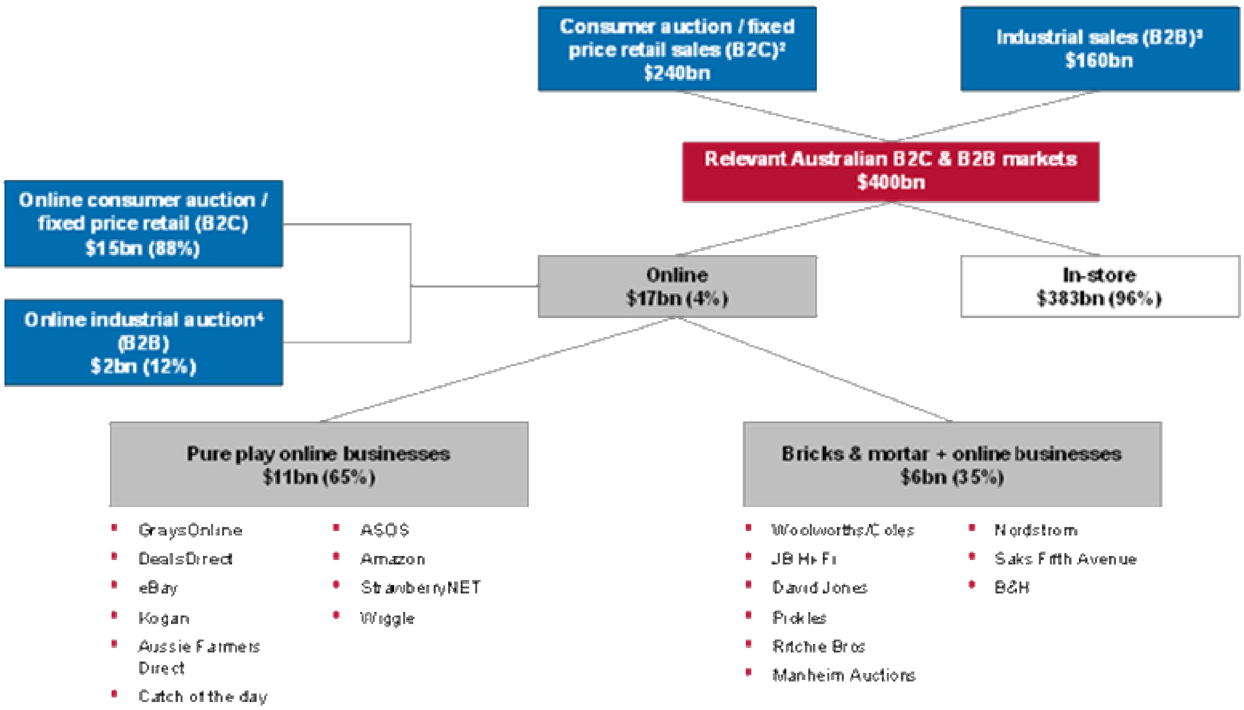
4.1 Market overview

(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[1]



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[1]

	Description	Breadth of Range	Example Products	Main End User
Consumer auction and fixed price retail (B2C) market	▪ Broad category of mass market merchandise or other item of common or regular use, ordinarily bought by individuals or households for private consumption	Extremely wide range of products	▪ Sporting goods ▪ Apparel ▪ Jewellery ▪ Toys ▪ Furniture ▪ Food	Consumers ('B2C')
Industrial auction (B2B) market	▪ Products purchased for use in the production of other goods or services, in the operation of a business, or for resale to other consumers	Smaller range of products, however more specialist	▪ Tools ▪ Vehicles ▪ Machinery ▪ Drilling Rigs ▪ Excavators ▪ Forklifts	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.

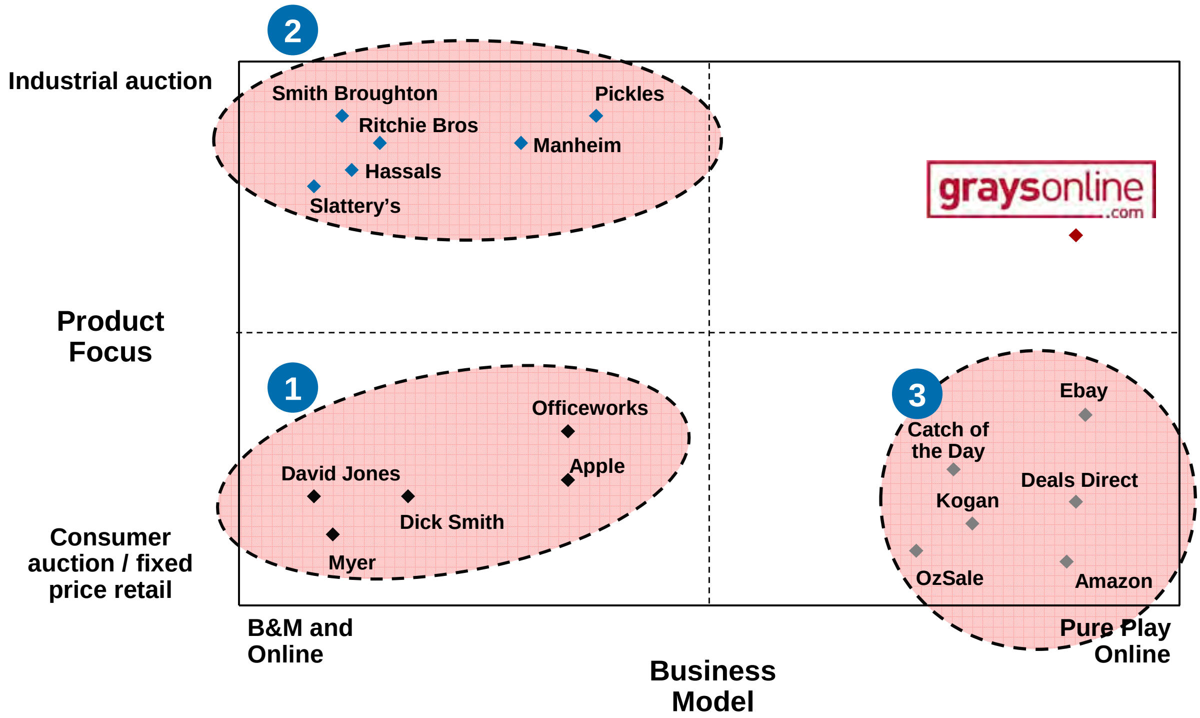
Grays management estimate that Grays (through graysonline.com and OO.com.au) has a 2.1% market share of the total Australian online market based on gross sales by dollar value in the 2014 financial year, and Grays management estimate that MNZ (through DealsDirect and TopBuy), has a 0.4% market share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

4.2 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[1]



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[1]

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

4.3 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.

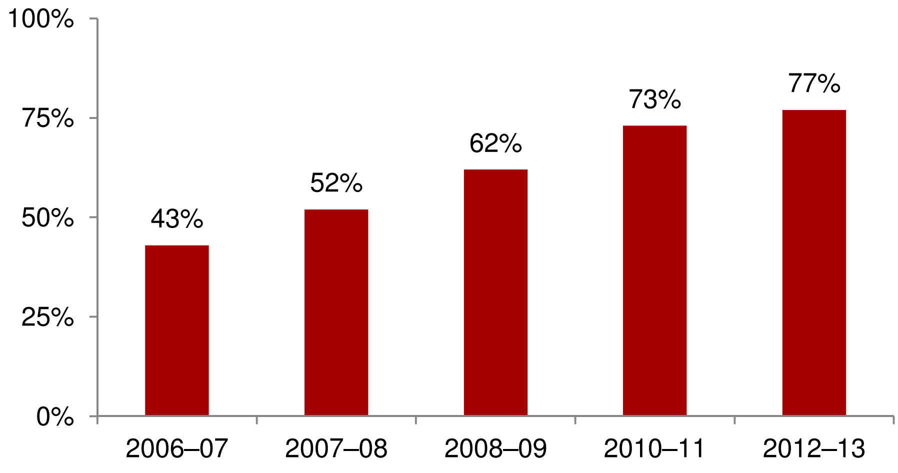
The ongoing transition of the Australian economy from a manufacturing base to a service industry base provides ongoing opportunities in the online industrial (B2B) market segment. For instance, Grays management expect that closures at major automotive manufacturers through to 2017 will generate product 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

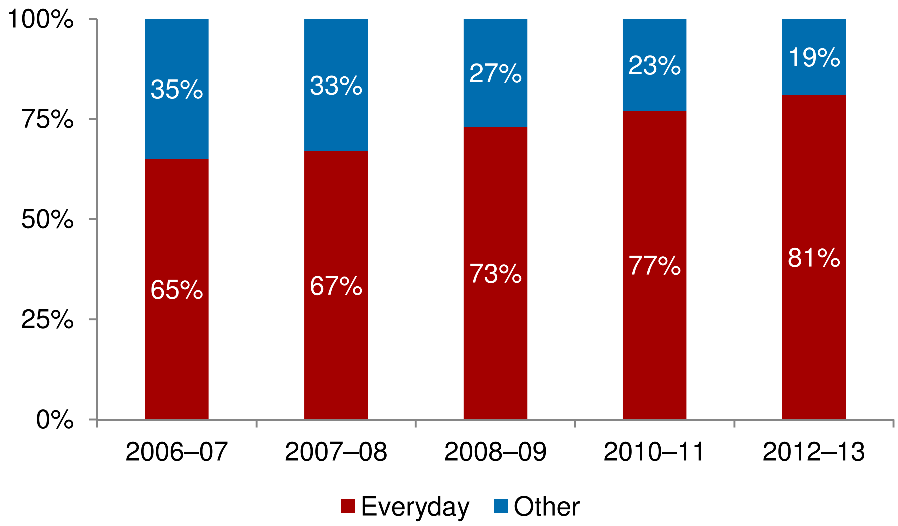
Australia's internet penetration generally, and in particular penetration of high-speed and broadband internet services, has grown (See Figures 11 and 12 below), facilitating increased access to the Australian online market for a number of consumers, particularly in regional areas where the online experience 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[1]



1. Source: Australian Bureau of Statistics data.

Figure 12: Australian households frequency of internet access[1]



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.

4.4 Industry outlook

With the increase in the number of households having access to internet connections (see Part B – Section 4.3), 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.

4.5 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. Beaches 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.

5. Information about MNZ

This section provides information on MNZ.

5.1 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 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, 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. 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, 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 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.

5.2 Current MNZ Director profiles

	Director	Expertise, experience and qualifications
	**Naseema Sparks** Independent Non-Executive Chairman Age: 61	Ms Sparks is the Non-Executive Chairman of MNZ. Ms Sparks is deputy Chairman of Racing NSW, non-executive director of Melbourne IT, AIG Australia and PMP. Ms Sparks was previously the managing director of M&C Saatchi and has extensive experience in traditional and digital marketing. Ms Sparks holds an MBA from the Melbourne Business School and is a fellow of the Australian Institute of Company Directors.
	David Leslie Non-Executive Director Age: 41	Mr Leslie is a non-executive director of MNZ. 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. 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. Mr Leslie has a degree in Economics and Finance from the Royal Melbourne Institute of Technology.

	Director	Expertise, experience and qualifications
	Elliott Kaplan Independent Non-Executive Director Age: 64	Mr Kaplan is a non-executive director of MNZ. Mr Kaplan is a Chartered Accountant with extensive experience in senior financial and chief executive officer roles in both private and public listed companies. Mr Kaplan's experience, from both an investor and investee perspective, spans a diverse range of industries including manufacturing, environmental, distribution and services. 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. Mr Kaplan is a Chartered Accountant and holds a Bachelor of Accounting.

5.3 Current MNZ senior management profiles

	Executive	Expertise, experience and qualifications
	**Michael Rosenbaum** Chief Executive Officer Age: 33	Mr Rosenbaum co-founded DealsDirect in 2004. 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. Together with co-founder Paul Greenberg, Mr Rosenbaum founded DealsDirect in 2004 as a standalone online retail destination.
	**Mark Tayler** Chief Financial Officer Age: 33	Mr Tayler is the Chief Financial Officer of MNZ. 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. Mr Tayler is a Certified Practising Accountant, with a Bachelor of Commerce (Accounting) from the University of Western Sydney.

5.4 Interests and benefits of MNZ Directors and senior management

This Part B – Section 5.4 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 Booklet no director, proposed director or senior manager of MNZ holds at the date of this Booklet an interest in or material to the Transaction.

(a) MNZ Directors and senior management interests

As at the date of this Booklet, the number of MNZ Shares owned or controlled by the MNZ Directors and the MNZ senior management listed in Part B – Section 5.3 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.

5.5 MNZ capital structure and ownership

(a) Shares and options on issue

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

As at the date of this Booklet, the top 20 MNZ Shareholders held approximately 64.10% of all issued MNZ Shares. As at the date of this Booklet, 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 Booklet, 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 Booklet, 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 Booklet, 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 Booklet 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

Holder	Number and type of securities escrowed	Escrow end date
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

5.6 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) and MNZ's website (www.mnemon.com.au) list announcements issued by MNZ.

6. Information about Grays

This section provides information on Grays.

6.1 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.

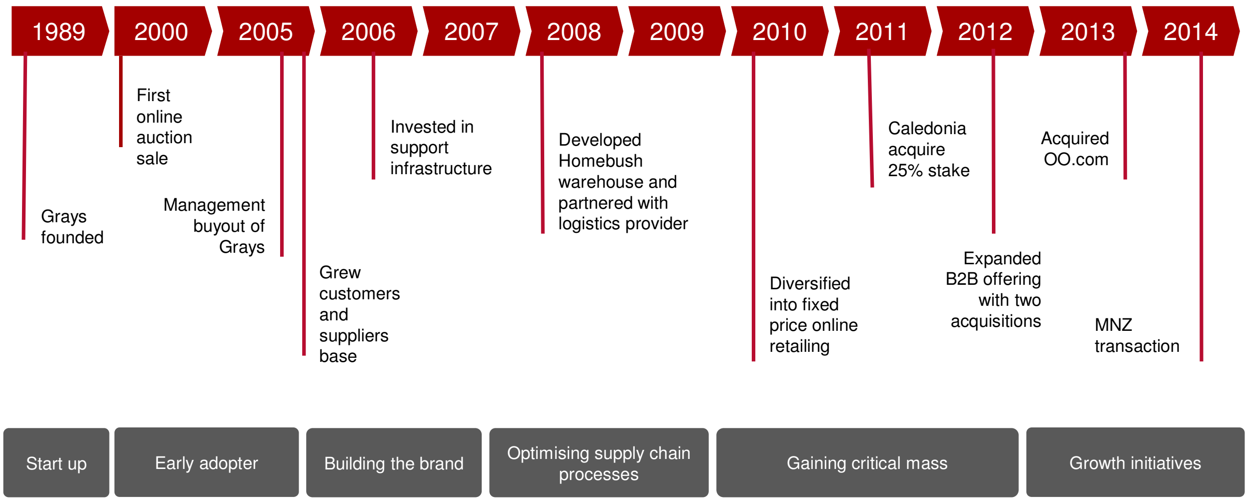
Between 2008 and 2009, Grays management noted there was a consumer trend in the Australian online market towards fixed price sales away from auctions. In particular, this was being driven by eBay globally. In response to this trend, a new improved website was launched for graysonline.com, with fixed 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[1]



1. Source: Grays management

6.2 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[1]

Sales Channel:	B2B		B2C	
Sale Type:	Online Asset Sales	Industrial Services	Online Retail Sales	
	Auction	Service Fees	Auction	Fixed Price
Description:	▪ Auction based sales of industrial and commercial equipment	▪ Valuation and other project management functions of industrial equipment sales ▪ WH&S consulting services	▪ Auction based retail sales of products	▪ Fixed price retail sales of products
Products:	▪ Manufacturing and engineering ▪ Auto, trucks and marine ▪ Mining, construction and agriculture ▪ Forklifts ▪ Warehousing and pallet racking	▪ Valuations ▪ Stock takes ▪ Tenders ▪ Asset Inspections	▪ Wine & liquor ▪ IT and consumer electronics electronic goods ▪ Homewares & domestics appliances ▪ Cosmetics, fragrances and toiletries ▪ Jewellery & watches ▪ Furniture ▪ Sporting goods & toys	
Brands:	graysonline.com	graysasset services	graysonline.com	graysonline.com oo.com.au

1. Source: Grays management

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

6.3 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.

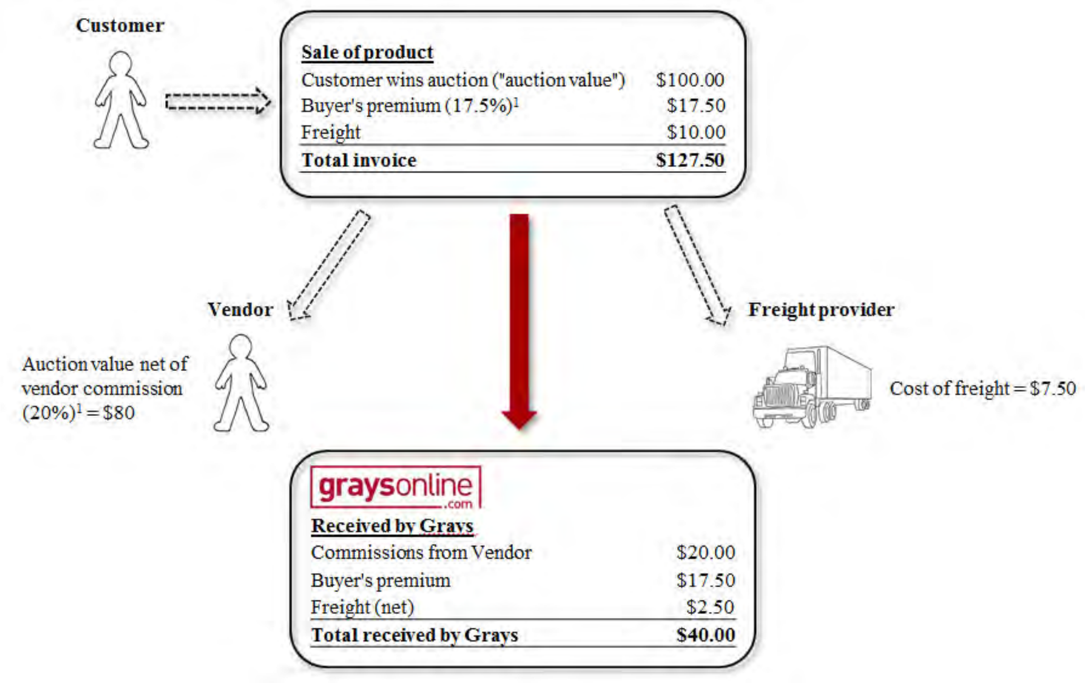
Consignment inventory sales

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)[1]



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 Part B – Section 6.10 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.

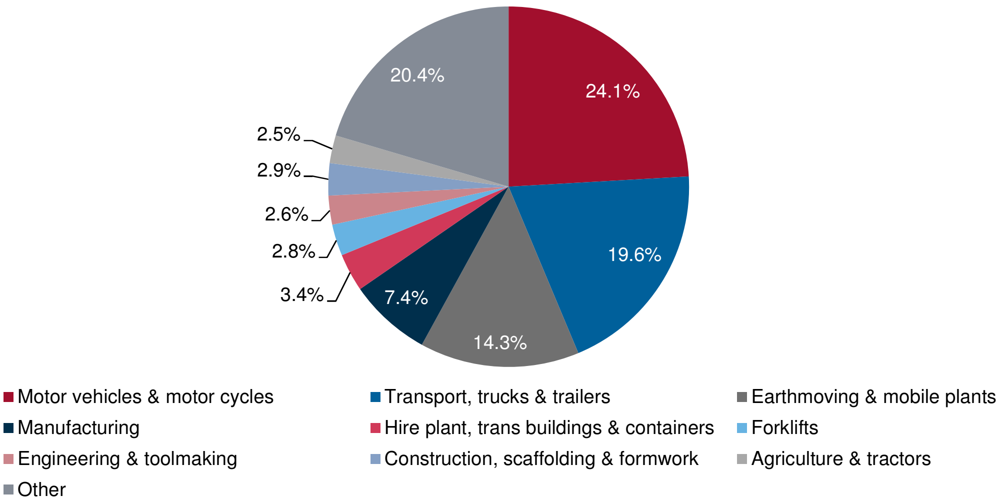
Online asset sales

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[1]



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 6.3(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 – expertise in mobile mining and large civil equipment;
- Equipnet – www.equipnet.com – expertise in pharmaceutical, bio, laboratory and chemical production equipment; and
- Hilco Industrial – 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, 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, and on certain products offered on 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.

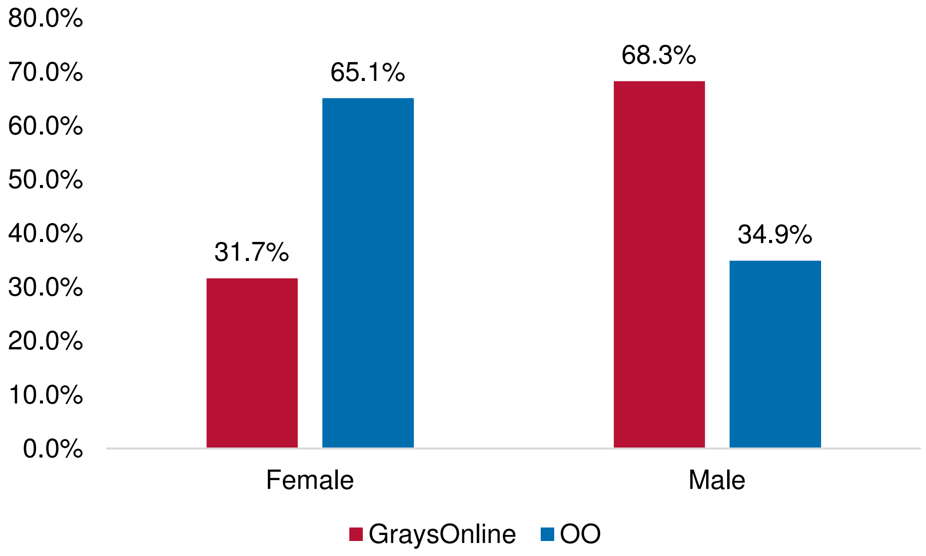
For the graysonline.com website, the Grays' consumer and retail (B2C) division relies on the availability of specific inventory categories which it sources from an extensive network of over 1,000 merchants. For the OO.com.au website, the Grays' consumer and retail (B2C) division relies on a range of 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

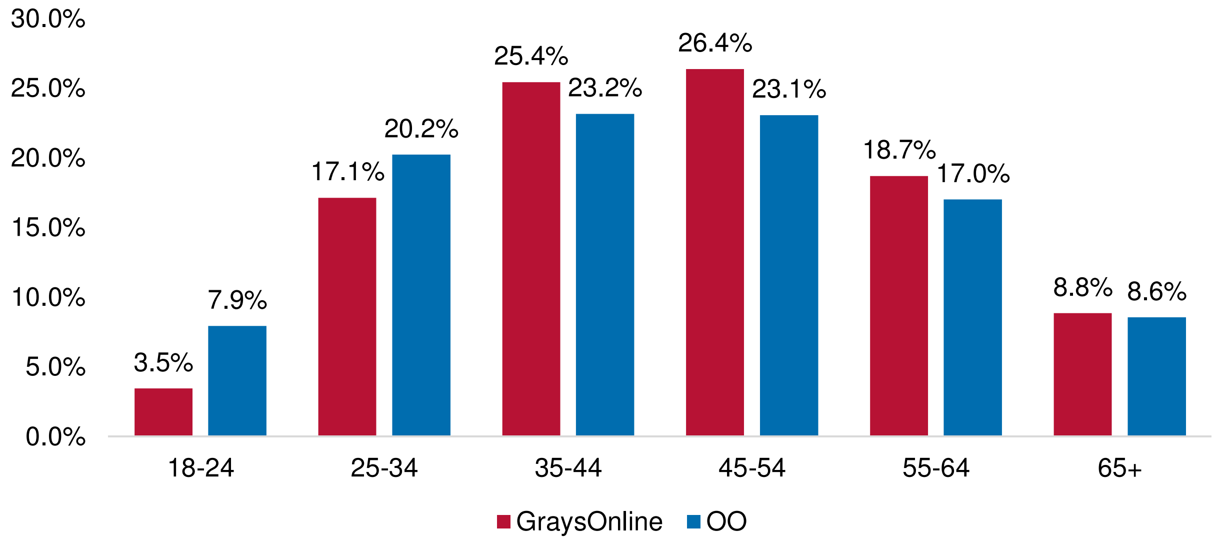
The Grays' consumer and retail (B2C) division has access to Grays' database of over 450,000 Active Customers.

Figure 17: Unique visits to Grays' websites per month in FY14 by gender[1]



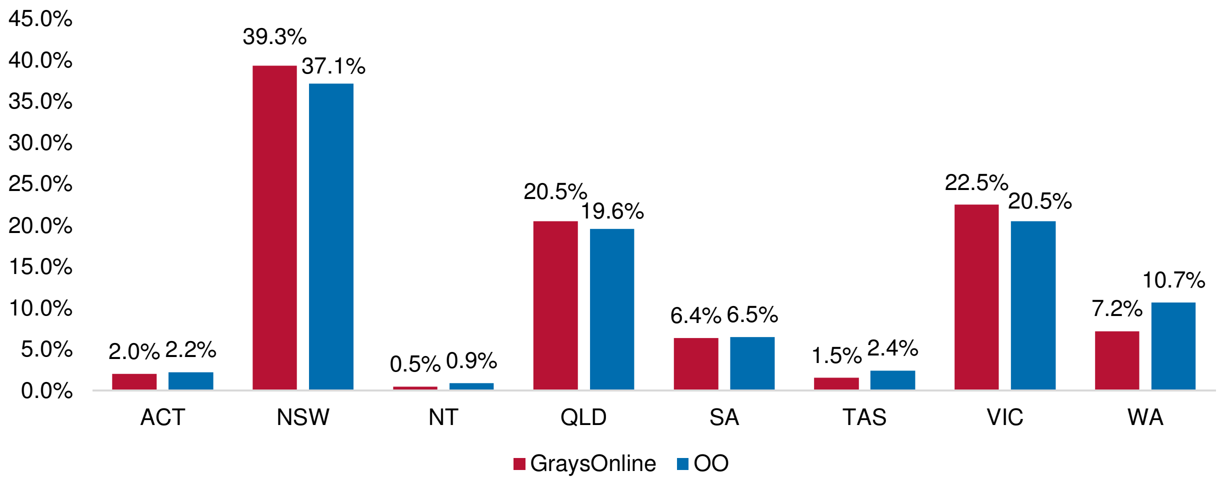
1. Source: Grays management

Figure 18: Unique visits to Grays' websites per month in FY14 by age group[1]



1. Source: Grays management

Figure 19: Unique visits to Grays' websites per month in FY14 by state[1]



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.

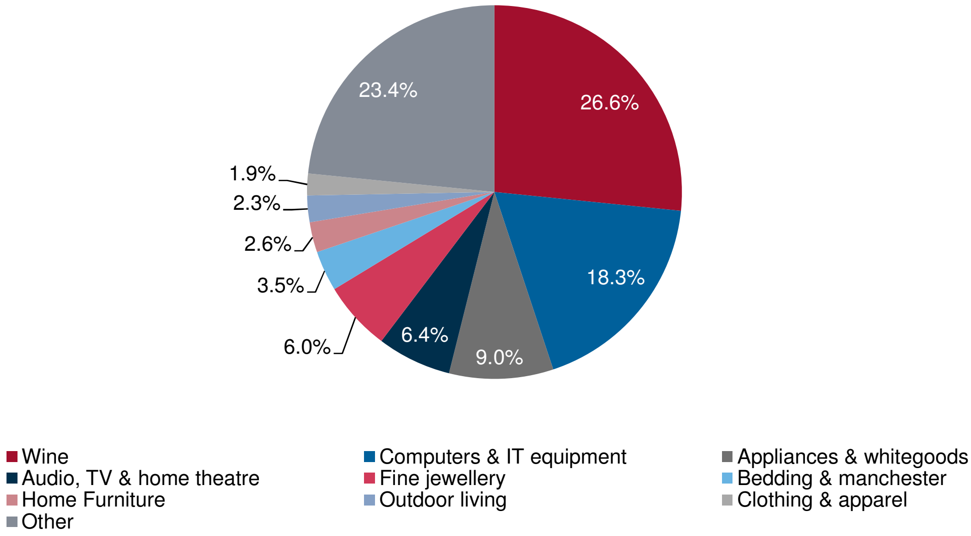
Grays' consumer and retail (B2C) division provides good quality wines at affordable prices. Often wine is the first product category that is purchased by new customers to the graysonline.com website, providing a strong leverage point for sales on the graysonline.com website in other product categories.

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

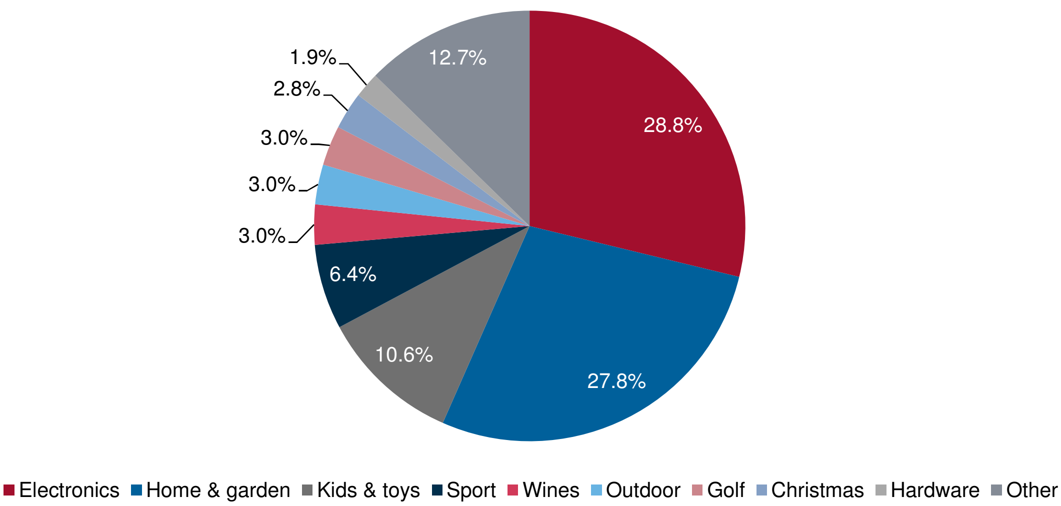
In addition to wine, Grays' consumer and retail (B2C) division sells a wide variety of product categories through both the graysonline.com and OO.com.au websites. The following charts show Grays' Transacted Sales by product categories made on the graysonline.com and OO.com.au websites in FY14.

Figure 20: Transacted Sales by product category in FY14 on graysonline.com[1]



1. Source: Grays management

Figure 21: Transacted Sales by product category in FY14 on OO.com.au[1]



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.

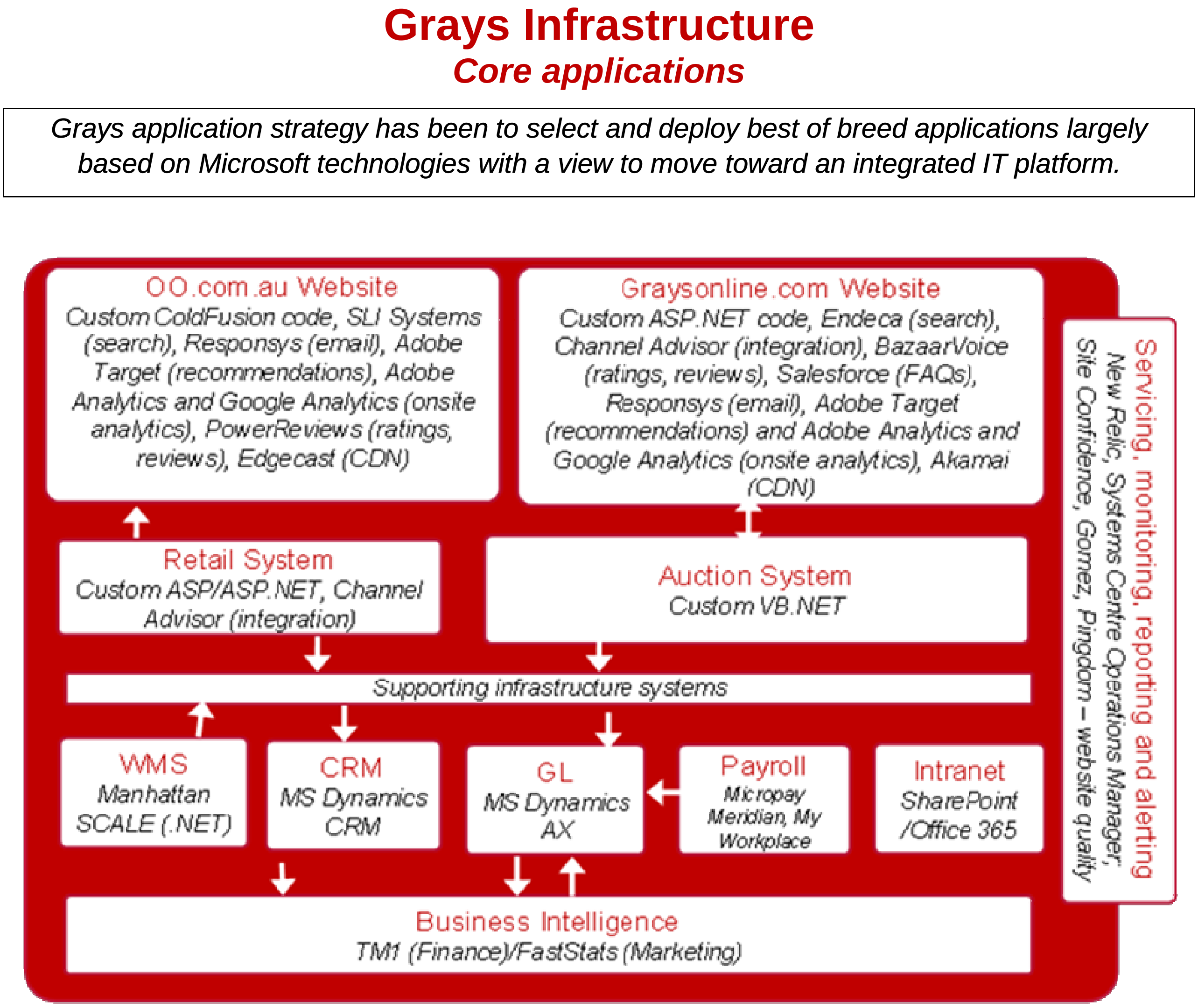
Grays has found that its most effective marketing is to the established customer base of GraysOnline and OO.com.au. Grays optimises both its email marketing campaigns and its websites to be product and category specific to customer preferences determined from previous customer user behaviour.

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[1]



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.

6.4 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.

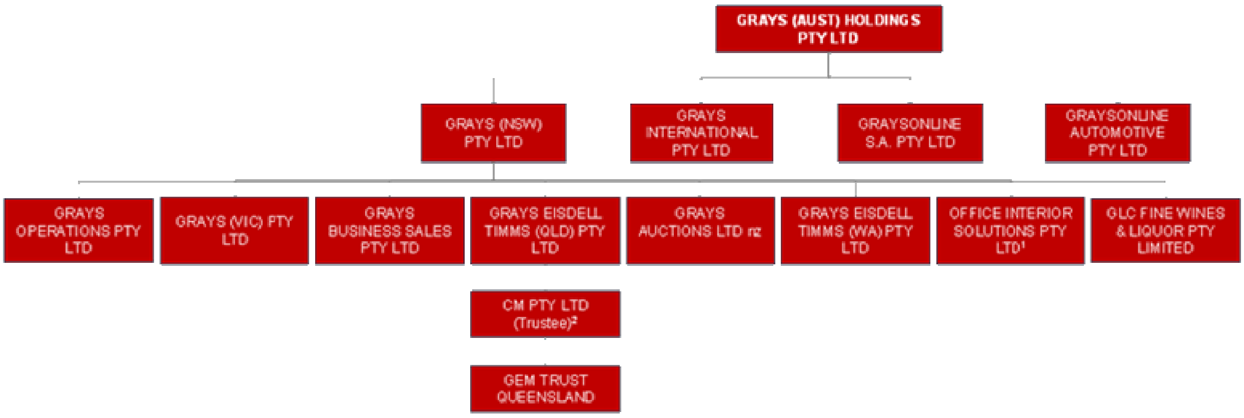
Grays’ fixed price strategy has been to grow sales and customer bases through acquisitions of companies and businesses, and thereby increase profitability through better and more fulsome utilisation of its largely fixed cost infrastructure (warehouses, supply-chain, merchandising and marketing capabilities). 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.

6.5 What is Grays' capital and ownership structure?

(a) Corporate Structure of the Grays Group

Figure 23:[1]



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 Booklet, 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 Booklet, 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 Booklet, 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[1]:				
Caledonia (Private) Investments Pty Limited and associates	6,041	6.8%	28,862	25.1%[2]
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.

6.6 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 Part B – Section 6.10 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
Net total Indebtedness	3.0
Total equity	8.5
Total capitalisation and indebtedness	**11.5**

6.7 Who are the Grays Directors?

	Director	Expertise, experience and qualifications
	**Will Vicars** Non-Executive Director and Chairman Age: 48	Will is Chief Investment Officer at Caledonia and sits on the board of directors of Caledonia, DFO Investments and The Caledonia Foundation. Will is Vice-Chairman and a non-executive director of St Luke's Hospital Foundation, a non-executive director of Oroton Group and Oneview. Prior to Caledonia, Will worked as a Senior Portfolio Manager at NRMA Investments and at Bankers Trust. Will holds a Bachelor of Arts, majoring in Economics, from the University of Sydney.
	**Mark Bayliss** Executive Director and Chief Executive Officer Age: 53	Mark joined Grays in May 2014 as an Executive Director and the new Chief Executive Officer. 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. Mark's previous positions include Group Chief Executive at Quick Service Restaurants, Partner at

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

	Director	Expertise, experience and qualifications
	**Michael Messara** Non-Executive Director Age: 33	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. 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. Michael attended Bond University on a Business School Scholarship and completed a Bachelor of Commerce in 2001, majoring in Finance, Accounting and Economics.

6.8 Who are the Grays senior management?

	Executive	Expertise, experience and qualifications
	**Mark Bayliss** Executive Director and Chief Executive Officer Age: 53	See Part B – Section 6.7.
	**John Martin** Chief Financial Officer Age: 59	John was appointed Chief Financial Officer of Grays in 2007. John has over 16 years of Chief Financial Officer level experience (eight of which were in a listed company environment). John's retail experience includes roles at David Jones and the Nuance Group, one of the world's largest international duty free retail groups. 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.
	**Adam Scharer** Head of B2B Age: 44	See Part B – Section 6.7.
	**Mark Kehoe** Head of B2C Age: 47	See Part B – Section 6.7.

	Executive	Expertise, experience and qualifications
	**Stephen Charlesworth** Chief Information Officer Age: 58	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. Stephen came to Grays in 2001 following a successful consulting career in database driven application development. Stephen holds a Bachelor of Arts from Melbourne University and a Graduate Diploma of Computing from Monash University.
	**David Sharp** Head of Marketing Age: 46	David has over 21 years' experience in the Australian data driven marketing, credit and property decision science industries. David was formerly with Sharp & 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. David joined Grays in 2010 as Group Marketing Manager and has also been responsible for the OO.com.au retail business. David has a Bachelor Applied Science (Mathematics & Computer Science) from Swinburne University (Melb).
	**Julie Starley** Head of Supply-chain Age: 41	Julie joined Grays in 2009 leading operational excellence in customer service, logistics and warehousing. Julie has over 16 years' experience in the fast-paced online retail and information communications technology industries. Previously, Julie held international roles in Vodafone Group with experience in marketing, business and segment growth strategies, customer experience and change management.

6.9 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 Booklet, 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 Part B – Section 7.11(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.

6.10 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 Part B – Section 6.3(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.

(c) Distribution warehouse lease

As noted earlier in this Part B – Section 6, 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.

(d) 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.

(e) 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.

6.11 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.

6.12 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 Booklet 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 Booklet. 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).

7. Information about the Combined Group

This Section provides information about the Combined Group.

7.1 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 though 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.

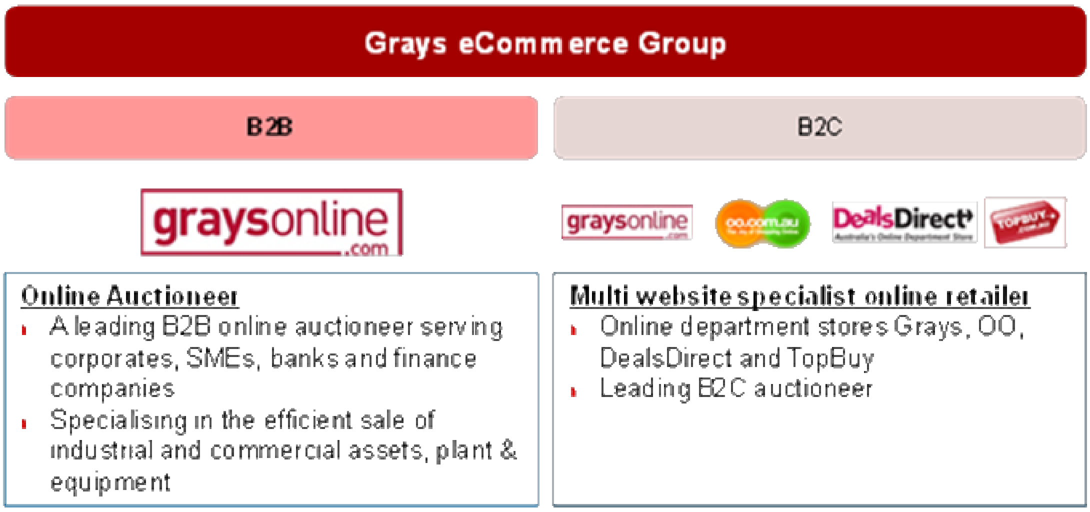
In the short to medium term, the GraysOnline operations will continue to be based at the Homebush, NSW distribution centre and satellite distribution centres and offices in Queensland, Victoria, South Australia, Northern Territory, Western Australia and New Zealand. The DealsDirect operations will continue to be based at 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.

7.2 How will the Combined Group be structured?

In line with Grays' current operational structure as described in Part B – Section 6.2, 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[1]



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.

7.3 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 Part B – Section 6.3 for further details on Grays' business model and Part B – Section 5.1 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 Part B – Section 6.3(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.

7.4 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 Part B – Section 6.4. That is, the Combined Group will to 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[4].

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 are not generally serviced by the 'bricks and mortar' retailers, such as reverse logistics services and the

[4] Based on simple aggregation ignoring any duplication. The actual number (net of any duplication) will be less.

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.

7.5 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.

7.6 What are the other intentions for the Combined Group?

The statements set out in this Part B – Section 7.6 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 Part B – Section 7.6 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 Part B – Section 7.6 are based on information concerning the MNZ and Grays businesses that is known to the Combined Group Directors as at the date of this Booklet, 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 Part B – Section 7.6 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 Resolutions are passed, it is expected that official quotation of MNZ Shares will be suspended immediately following the conclusion of the MNZ Shareholder 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 Part B – Section 7.12.

(d) Business continuity / major changes

The intended strategy for the business of the Combined Group is discussed in Part B – Section 7.4.

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

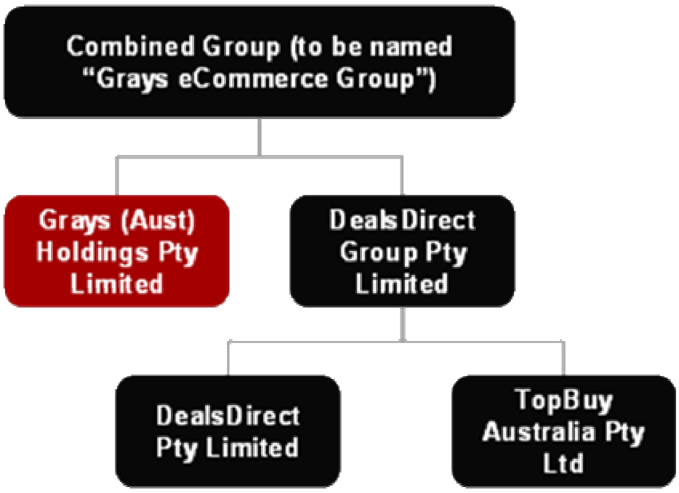
It is intended that the terms of employment of the members of the Combined Group's senior management team who remain with the Combined Group after completion of the Transaction will remain substantially the same as their existing employment terms as described in Part B – Section 7.13, other than in respect 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-terms incentive plans (both cash based and equity based).

7.7 What will the Combined Group capital and ownership structure be?

(a) Combined Group corporate structure

Figure 25:[1]



1. Source: Grays management

(b) Shares and options on issue after completion

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

Issued share capital	Number of MNZ Shares
Existing MNZ Shares on issue as at the date of this Booklet[1]	19,287,806
New MNZ Shares issued to Grays Shareholders on completion of the Transaction	73,244,952
Pro forma MNZ Shares on issue immediately after completion of the Transaction	**92,532,758**
MNZ Options on issue immediately after completion of the Transaction[2]	833,333
Additional MNZ Shares to be issued after completion of the Transaction in relation to the TopBuy acquisition[3]	633,728
Total pro forma (fully diluted) MNZ Shares on issue immediately after completion of the Transaction	**93,999,819**

1. Includes 423,338 existing MNZ Shares that are subject to (escrow) restrictions on trading. See Part B – Section 5.5(e) for further details.
2. See Part B – Section 5.5(a) for further details.
3. See Part B – 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:

Issued share capital		Number of MNZ Shares
Pro forma (fully diluted) MNZ Shares on issue immediately after completion of the Transaction		93,999,819
	Minimum	**Maximum**
Bonus MNZ Shares (to be issued 12 months after completion of the Transaction)	Nil	36,622,476
Total pro forma (fully diluted) MNZ Shares on issue 12 months after completion of the Transaction[1]	93,999,819	130,622,295

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 Part B – Section 6.5(b)), and the expected capital structure of the Combined Group immediately after completion of the Transaction, it is expected that the Combined Group's substantial holders (excluding nominee holders) immediately after completion of the Transaction will be as follows:

	Number of MNZ Shares held immediately after completion	% of all MNZ Shares immediately after completion
Caledonia (Private) Investments Pty Limited and associates	18,413,956[1]	19.9%
Clients of Caledonia (Private) Investments Pty Limited[2]	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 Part B – Section 6.5(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 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:

Percentage of MNZ Shares subject to escrow	Number of MNZ Shares subject to escrow	Duration of escrow period
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

Percentage of MNZ Shares subject to escrow	Number of MNZ Shares subject to escrow	Duration of escrow period
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 Part B – Section 11.5 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 Part B – Section 5.5(d), will continue to apply following completion of the Transaction in accordance with their existing terms.

7.8 What is the impact of MNZ Shares issued under the Transaction 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 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 Booklet, remain to be issued in connection with MNZ's acquisition of TopBuy.

	Before completion of the Transaction		Immediately after completion of the Transaction		Following issue of Bonus MNZ Shares – Maximum[1]	
	No. of MNZ Shares	% of all MNZ Shares on issue	No. of MNZ Shares	% of all MNZ Shares on issue	No. of MNZ Shares	% of all MNZ Shares on issue
Existing MNZ Shareholders	20,754,867	100%	20,754,867	22.1%	20,754,867	15.9%
Existing Grays Shareholders	Nil	Nil	73,244,952	77.9%	109,867,428	84.1%
Total	**20,754,867**	**100%**	**93,999,819**	**100%**	**130,622,295**	**100%**

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.

7.9 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 Part B – Sections 6.6 and 6.10(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 Booklet.

(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:

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

Note: See Part B – Section 8.5 for detail of Pro Forma Adjustments relating to the Combined Group's pro forma balance sheet as at 30 June 2014.

7.10 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:

Director	Role	Committees[1]
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

Director	Role	Committees[1]
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

	Director	Expertise, experience and qualifications
	**Jonathan Pinshaw** Non-Executive Chairman	Jonathan is an experienced board director and business leader. 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. 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. 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.
	**Mark Bayliss** Executive Director and Chief Executive Officer Age: 53	See Part B – Section 6.7.

	Director	Expertise, experience and qualifications
	**Naseema Sparks** Non-Executive Director Age: 61	See Part B – Section 5.2.
	**Will Vicars** Non-Executive Director Age: 48	See Part B – Section 6.7.

(c) Combined Group Directors' disclosures

No proposed Combined Group Director listed in this Part B – Section 7.10 has been subject of any legal or disciplinary action that is less than 10 years old.

No proposed Combined Group Director listed in this Part B – Section 7.10 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.

7.11 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 Part B – Section 6.5(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 Transaction will be as follows:

	No. of MNZ Shares immediately after completion	% of all MNZ Shares on issue immediately after completion
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 Part B – Section 6.5(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 Part B – Section 6.5(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 Part B – Section 6.5(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 Booklet, 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 he 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 Part B – Section 7.13(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.

7.12 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

	Executive	Expertise, experience and qualifications
	**Mark Bayliss** Executive Director and Chief Executive Officer Age: 53	See Part B – Section 6.7.
	**John Martin** Chief Financial Officer Age: 59	See Part B – Section 6.8.
	**Adam Scharer** Head of B2B Age: 44	See Part B – Section 6.7.

	Executive	Expertise, experience and qualifications
	**Mark Kehoe** Head of B2C Age: 47	See Part B – Section 6.7.
	**Michael Rosenbaum** GM – DealsDirect Age: 33	See Part B – Section 5.2.
	**Stephen Charlesworth** Chief Information Officer Age: 58	See Part B – Section 6.8.
	**David Sharp** Head of Marketing Age: 46	See Part B – Section 6.8.
	**Julie Starley** Head of Supply-chain Age: 41	See Part B – Section 6.8.

(c) Combined Group senior management disclosures

No proposed senior manager of the Combined Group listed in this Part B – Section 7.12:

- 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.

7.13 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 Transaction will be as follows:

	No. of MNZ Shares immediately after completion	% of all MNZ Shares on issue immediately after completion
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 Part B – Section 7.12 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 Booklet (see Part B – Section 7.7(f) and Part B – Section 11.5).

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 Part B – Section 7.6(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 Part B – Section 7.6(e).

7.14 Employee incentive arrangements

As at the date of this Booklet, 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 Booklet, 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. Following the proposed review of remuneration and incentive arrangements described in Part B – Section 7.6(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.

7.15 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' 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.

7.16 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.

7.17 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 Part B – Section 7.4.

7.18 Material contracts of the Combined Group

Other than the material contracts of Grays as summarised in Part B – Section 6.10, 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.

7.19 Related party transactions of the Combined Group

As at the date of this Booklet, 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 Part B – Section 5.4(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 Booklet, none of MNZ and any of its subsidiaries is party to any other material related party arrangements.

8. Financial information

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

8.1 Introduction

This Part B – Section 8 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.

8.2 Overview and basis of preparation

(a) MNZ overview

Part B – Section 8.3 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 Part B – Section 8.3(a);
- The historical consolidated Statement of Cash Flows for the year ended 30 June 2014, as set out in Part B – Section 8.3(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Part B – Section 8.3(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) and MNZ's website (www.mnemon.com.au) list announcements issued by MNZ.

(b) Grays overview

Part B – Section 8.4 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 Part B – Section 8.4(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 Part B – Section 8.4(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Part B – Section 8.4(e),

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

Significant accounting policies upon which the Historical Financial Information – Grays is based are included in Part B – Section 8.4(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 Booklet 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

Part B – Section 8.5 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 Part B – Section 8.5(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 Part B – Sections 8.5(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 Part B – Section 8.5(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 Part B – Section 8.5(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 Part B – Section 10.

The information set out in Part B – Sections 8.3, 8.4 and 8.5 should be read together with:

- Management's discussion & analysis set out in Part B – Sections 8.3(b), 8.3(d), 8.4(b) and 8.4(d);
- The risk factors described in Part B – Section 9;
- The Investigating Accountant's Report set out in Part B – Section 10; and

- Any other relevant information contained in this Booklet.

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 Booklet 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.

8.3 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.

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

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 Booklet, 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 Booklet, 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:

MNZ – Net operating revenue reconciliation	
	FY2014
	$m
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
Net operating revenue per Part B – Section 8.3(a)	**25.9**

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.

MNZ - historical consolidated Statement of Cash Flows	
	FY2014 **$m**
Cash flows from operating activities	
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)
Net cash used in operating activities	**(1.4)**
Cash flows from investing activities	
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)
Net cash provided by investing activities	**4.4**
Cash flows from financing activities	
Proceeds from issue of ordinary shares	2.6
Cost of ordinary share issues	(0.9)
Net cash provided by financing activities	**1.7**
Net increase in cash and cash equivalents	4.7
Cash and cash equivalents at the beginning of the year	1.1
Cash and cash equivalents at the end of the year	**5.8**

(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 Part B – Section 8.3(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
Total current assets	**13.5**
Property, plant and equipment	0.5
Intangible assets	2.6
Deferred tax asset	0.9
Total non current assets	**4.0**
Total assets	**17.5**
Trade and other payables	(10.8)
Provisions	(0.4)
Total current liabilities	**(11.2)**
Trade and other payables	(0.6)
Provisions	(0.4)
Total non current liabilities	**(0.9)**
Total liabilities	**(12.2)**
Net assets	**5.3**
Equity	
Issued capital	26.0
Reserves	0.3
Accumulated losses	(20.9)
Total equity	**5.3**

8.4 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 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.

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)
EBITDA pre significant items		**4.3**	**5.9**	**3.7**
Significant items		-	(0.4)	(4.8)
EBITDA post significant items		**4.3**	**5.5**	**(1.1)**
Depreciation and amortisation		(2.5)	(2.9)	(3.7)
EBIT		**1.8**	**2.6**	**(4.8)**
Net interest revenue	1	0.2	0.4	0.2
Profit before tax		**2.0**	**3.0**	**(4.6)**
Income tax (expense)/benefit		(0.4)	(0.9)	0.6
Profit after tax		**1.6**	**2.1**	**(4.0)**

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.

Net operating revenue

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

For the purposes of the Booklet, 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:

Grays – Net operating revenue reconciliation			
	FY2012	**FY2013**	**FY2014**
	$m	**$m**	**$m**
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)
Net operating revenue per Part B – Section 8.4(a)	**80.0**	**88.5**	**96.5**

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.

Grays - historical consolidated Statements of Cash Flows			
	FY2012 $m	**FY2013 $m**	**FY2014 $m**
Cash flows from operating activities			
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)
Net Cash flows from operating activities	**6.0**	**4.9**	**4.4**
Cash flows from investing activities			
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)	-
Net Cash flows from investing activities	**(2.5)**	**(6.7)**	**(3.0)**
Cash flows from financing activities			
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)	-
Net Cash flows from (used in) financing activities	**(5.7)**	**2.1**	**(2.1)**
Net increase (decrease) in cash and cash equivalents	**(2.2)**	**0.3**	**(0.7)**
Cash and cash equivalents at beginning of period	4.1	1.9	2.2
Cash and cash equivalents at end of period	**1.9**	**2.2**	**1.5**

(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 Part B – Section 8.4(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
Total current assets	**22.2**
Other financial assets	5.5
Deferred tax assets	2.9
Property, plant and equipment	3.4
Intangible assets and goodwill	6.9
Total non current assets	**18.6**
Total assets	**40.8**
Trade and other payables	(22.6)
Interest-bearing loans and borrowings	(4.5)
Provisions	(4.1)
Total current liabilities	**(31.2)**
Provisions	(1.1)
Total non current liabilities	**(1.1)**
Total Liabilities	**(32.3)**
Net assets	**8.5**
Equity	
Contributed equity	9.3
Retained earnings	6.3
Reserves	(7.1)
Total equity	**8.5**

(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 Part B – Section 8.5(c).

8.5 Pro Forma Financial Information – Combined Group

(a) Combined Group – aggregated Statement of Profit & Loss

The table below reflects aggregated information sourced from Part B – 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.

Combined Group - aggregated Statement of Profit & Loss			
	Grays FY2014 $m	**MNZ FY2014 $m**	**Aggregated FY2014 $m**
Net operating revenue	96.5	25.9	122.4
Operating expenses	(92.8)	(26.8)	(119.6)
EBITDA pre significant items	**3.7**	**(0.9)**	**2.8**
Significant items	(4.8)	(0.8)	(5.6)
EBITDA post significant items	**(1.1)**	**(1.7)**	**(2.8)**
Depreciation and amortisation	(3.7)	(0.3)	(4.0)
EBIT	**(4.8)**	**(2.0)**	**(6.8)**
Net interest revenue/(expense)	0.2	(0.1)	0.1
Loss before tax	**(4.6)**	**(2.1)**	**(6.7)**
Income tax benefit/(expense)	0.6	(0.2)	0.4
Loss after tax	**(4.0)**	**(2.2)**	**(6.3)**

(b) Combined Group – pro forma Statement of Cash Flows

The Combined Group's pro forma Statement of Cash Flows has been sourced from Part B – 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.

Combined Group - pro forma Statement of Cash Flows FY2014

	Grays $m	MNZ $m	Pro Forma Adjustments $m	Pro Forma $m
Cash flows from operating activities				
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)
Cash flows from operating activities	4.4	(1.4)	-	3.0
Cash flows from investing activities				
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)
Cash flows from investing activities	(3.0)	4.4	-	1.4
Cash flows from financing activities				-
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)
Cash flows from financing activities	(2.1)	1.7	6.3	5.9
				-
Net increase (decrease) in cash	(0.7)	4.7	6.3	10.3
Cash at beginning of period	2.2	1.1	-	3.3
Cash at end of period	**1.5**	**5.8**	**6.3**	**13.6**

See Part B – Section 8.5(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 $m	MNZ $m	Pro Forma Adjustments $m	Pro Forma $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
Total current assets		**22.2**	**13.5**	**6.3**	**42.0**
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
Total non current assets		**18.6**	**4.0**	**16.6**	**39.4**
Total assets		**40.9**	**17.5**	**22.9**	**81.4**
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	-
Total current liabilities		**(31.2)**	**(11.2)**	**4.8**	**(37.8)**
Trade and other payables		-	(0.6)	-	(0.6)
Employee and other provisions		(1.1)	(0.4)	-	(1.5)
Non current liabilities		**(1.1)**	**(1.0)**	**-**	**(2.1)**
Total liabilities		**(32.3)**	**(12.2)**	**4.8**	**(39.8)**
Net assets		**8.5**	**5.4**	**27.6**	**41.5**
Equity					
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)
Total equity	**4**	**8.5**	**5.4**	**27.6**	**41.5**

Pro Forma Adjustments

The following transactions and events contemplated in this Booklet, 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 30 June 2014 $m	**As at 30 June 2014 $m**	**As at 30 June 2014 $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
Balance prior to Step 4. below	**11.8**	**-**	**17.8**

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.

	Cash $m	Total equity $m
	As at 30 June 2014 $m	**As at 30 June 2014 $m**
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)
Balance per pro forma Statement of Financial Position	**13.6**	**41.5**

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:

	Provisional accounting	Useful life
	Pro Forma As at 30 June 2014 $m	
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 Part B – Section 8.4(f) are the significant accounting policies as they relate to Grays and which form the basis of the Pro Forma Financial Information – Combined Group.

8.6 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 Part B – Sections 5, 6 and 7 for an overview of the business operations and strategy of MNZ, Grays and the Combined Group, as well as Part B – Section 9 for an overview of risk factors that may impact the business operations and strategy of MNZ, Grays and the Combined Group.

9. Risk Factors

Before deciding how to vote on the Resolutions, you 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 MNZ Shareholders.

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.

9.1 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 Part B – Section 9 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.

9.2 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 MNZ Resolutions at the MNZ Shareholder Meeting, and the Merger Implementation Agreement not being terminated.

The Merger Implementation Agreement may be terminated if the conditions summarised in Part B – Section 11.2 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 Booklet, 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 MNZ Shareholder 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 section 664A(3) of 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 Part B – Section 11.5. 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.

9.3 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.

9.4 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 Part B – Section 6.2(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.

9.5 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 Part B – Sections 7.10 and 7.12. 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.

9.6 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 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 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.

10. Investigating Accountant's Report

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.

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10 October 2014

The Directors
Grays (Aust) Holdings Pty Limited
Homebush Corporate Park
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The Directors
Mnemon Limited
5 Inglish Road
Ingleburn NSW 2565

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 the MNZ Offer Booklet (the "Booklet") 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 Booklet 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 Part B - Section 8.3(a);
- The historical consolidated Statement of Cash Flows for the year ended 30 June 2014, as set out in Part B - Section 8.3(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Part B - Section 8.3(e).

(Collectively "Historical Financial Information – MNZ")

In association with

A & M

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 Part B - Section 8.4(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 Part B - Section 8.4(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Part B - Section 8.4(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 Booklet 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 Part B - Section 8.5(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 Part B - Sections 8.5(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 Part B - Section 8.5(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 Part B - Section 8.5(c) of the Booklet. 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 Part B - Section 8.5(c) of the Booklet, 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 Part B - Section 8.3 of the Booklet, and comprising:

- The historical consolidated Statement of Profit & Loss for the year ended 30 June 2014, as set out in Part B - Section 8.3(a);
- The historical consolidated Statement of Cash Flows for the year ended 30 June 2014, as set out in Part B - Section 8.3(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Part B - Section 8.3(e),

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Part B - Section 8.2(d) of the Booklet.

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 Part B - Section 8.4 of the Booklet, 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 Part B - Section 8.4(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 Part B - Section 8.4(c); and
- The historical consolidated Statement of Financial Position as at 30 June 2014, as set out in Part B - Section 8.4(e),

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Part B - Section 8.2(d) of the Booklet.

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 Part B - Section 8.5(a);
- A pro forma Statement of Cash Flows of the Combined Group for the year ended 30 June 2014, as set out in Part B - Section 8.5(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 Part B - Section 8.5(c).

is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Part B - Section 8.2(d) of the Booklet.

Restriction on use

Without modifying our conclusions, we draw attention to Part B - Section 8.1 of the Booklet, 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 Booklet. 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 Booklet 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 Booklet.

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 Part B - Section 11.9. 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. 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. Further details may be obtained from 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

11. Additional Information

This section provides you with additional information regarding the Transaction.

11.1 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.

Part B – Sections 11.2 to 11.6 set out a summary of the material terms of each of these agreements.

11.2 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 Booklet 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 Booklet 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' as described above, 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 Part B – Section 11.4 below for a summary of the Warranty Deed).

11.3 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 Part B – Section 11.2(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 Part B – Section 11.5 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.

(d) 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.

(e) 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. MNZ intendcd to obtain warranty insurance prior to the date of the MNZ Offer, so that the sole recourse in respect of a breach of a warranty given by MNZ would be against the warranty insurer. However, MNZ decided that the cost of such warranty insurance was not justified, and no such insurance was obtained.

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 by MNZ are also subject to and qualified by facts, matters or circumstances that have been fairly disclosed by MNZ to Grays in a specified set of due diligence material and certain publicly accessible information.

11.4 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. Grays intended to obtain warranty insurance prior to the date of the MNZ Offer, so that the sole recourse in respect of a breach of a warranty given by Grays would be against the warranty insurer. However, due to MNZ's decision that the cost of such warranty insurance in respect of the warranties given by MNZ under the MNZ Offer was not justified, it was not possible for Grays to obtain such cover itself on economic terms. Accordingly, no such insurance was obtained.

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.

11.5 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.

11.6 Underwriting Deed

Grays and Caledonia have entered into a deed dated on or about 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 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 offer 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.

11.7 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 MNZ Shareholder 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 by MNZ with ASIC of a prospectus on or about the date of this Booklet will satisfy ASX Listing Rule 1.1 (Condition 3).

11.8 Consents and disclaimers

The following persons have given and have not, before despatch of this Booklet, withdrawn their consent to be named in this Booklet in the form and context in which they are named:

Role	Person
MNZ's legal adviser	Minter Ellison, Melbourne
MNZ's auditor	Ernst & Young
Grays' auditor	Ernst & Young
Tax adviser to Grays in respect of MNZ Offer	PwC

In addition to consenting to be named in this Booklet, the following persons have given and have not, before despatch of this Booklet, withdrawn their consent to the inclusion in this Booklet of the following statements and references to those statements in the form and context in which they are included:

Person	Statement
Grays	Grays Information
PwC	Tax information reproduced in Part A – Section 2.
McGrathNicol Transaction Advisory Pty Ltd	Investigating Accountant's Report reproduced in Part B – Section 10.

11.9 Transaction costs

(a) Costs borne by MNZ

The persons named in this Booklet as performing a function for MNZ in a professional or advisory capacity up to the date of this Booklet in connection with the Transaction 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 Booklet 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
Financial adviser	Moelis Australia Advisory Pty Ltd	No more than $2,000,000
Tax adviser in respect of 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

Role	Adviser / Provider	Fees
Independent Expert in respect of the MNZ Offer	Lonergan Edwards & Associates Limited	$70,000

Glossary

In this Booklet, unless otherwise indicated:

$,** A**$, **dollars**, or **cents** or **¢** means Australian currency.

Acceptance Form –MNZ Offer means the acceptance form that accompanies this Booklet under which Offerees can accept the MNZ Offer.

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 Booklet.

ASIC means the Australian Securities and Investments Commission.

ASX Listing Rules means the Listing Rules of the ASX or financial market conducted by it, as applicable.

ASX means ASX Limited ACN 008 624 691.

ATO means Australian Taxation Office.

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.

Booklet means this booklet.

Business Day means a day that is not a Saturday, Sunday, public holiday or bank holiday in Sydney, Australia.

Business Hours means from 9.00am to 5.00pm on a Business Day.

Caledonia means Caledonia (Private) Investments Pty Limited ACN 003 977 115.

CGT means Capital Gains Tax.

Combined Group Board means the board of directors of MNZ from time to time following completion of the Transaction.

Combined Group Directors means the directors of MNZ from time to time following completion of the Transaction, and on completion of the Transaction being those persons referred to in Part B – Section 7.10.

Combined Group means the combined MNZ and Grays entities once Grays becomes a wholly-owned subsidiary of MNZ (ie. following completion of the Transaction).

Company means Grays (Aust) Holdings Pty Ltd ACN 114 615 780.

Corporations Act means the ***Corporations Act 2001*** (Cth), as amended from time to time.

Corporations Regulations means Corporations Regulations 2001 (Cth).

Drag Along Notice means the drag along notice given by the Majority Drag Shareholders on or about 10 October 2014, for the purposes of clause 8.1 of the Grays Shareholders Agreement, which requires all other Grays Shareholders to join in the sale of the all the Grays Shares to MNZ under the terms of the MNZ Offer.

Entitlement Offer has the same meaning as Grays Capital Raising.

Grays Board means the board of directors of Grays at the date of this Booklet.

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 Booklet.

Grays means Grays (Aust) Holdings Pty Ltd ACN 114 615 780.

Grays NSW means Grays (NSW) Pty Ltd, which is a wholly-owned subsidiary 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.

Grays Shares means fully paid ordinary shares in the capital of Grays.

Independent Expert means Lonergan Edwards & Associates Limited.

Independent Expert's Report means the report prepared by the Independent Expert, providing an opinion as to whether the MNZ Offer is in the best interests of Grays Shareholders, reproduced in Part A – Section 5, and includes any update on that report by the Independent Expert.

Invoiced Sales means:

(a) 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

(b) 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.

Liquidity Offer means the offer by Caledonia to acquire certain Grays Shares held by each other Grays Shareholder in return for cash consideration of $505 per Grays Share.

Majority Grays Shareholders means those Grays Shareholders who executed the Drag Along Notice, being Grays Shareholders who hold, or have a beneficial interest in, more than 75% of the issued Grays Shares.

Merger Implementation Agreement means the merger implementation agreement between MNZ and Grays dated 5 August 2014.

MIA Conditions Precedent means the conditions precedent set out in the Merger Implementation Agreement, details of which are set out in Part B – Section 11.2 of this Booklet.

MNZ Board means the board of directors of MNZ at the date of this Booklet.

MNZ Chairman means Ms Naseema Sparks, the Chairman of MNZ.

MNZ Directors means the directors of MNZ at the date of this Booklet.

MNZ means Mnemon Limited ACN 125 736 914.

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, on the terms set out in this Booklet.

MNZ Option means an option to be issued an MNZ Share.

MNZ Resolutions means resolutions of the MNZ Shareholders necessary to approve the Transaction.

MNZ Share means a fully paid ordinary share in the capital of MNZ.

MNZ Shareholder means a holder of one or more MNZ Shares.

MNZ Shareholder Meeting means the general meeting of MNZ to be convened to approve the MNZ Resolutions.

MNZ Shareholders means holders of MNZ Shares.

Notice of Meeting means the notice of general meeting to which the Explanatory Statement is annexed.

Post-CGT Shares means shares acquired on or after 20 September 1985.

Record Date means 7.00pm (Sydney time) on 31 October 2014.

Tax Law means the Income Tax Assessment Act 1997 (Cth) and the Income Tax Assessment Act 1936 (Cth).

Transacted Sales means:

(a) in respect of items sold by auction on graysonline.com – the final ‘hammer prices’ (auction prices) of those items; and

(b) 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.

VWAP means the Volume-Weighted Average Price.

Your Shareholder Loan means any moneys you borrowed from Grays for the purposes of acquiring any Grays Shares, where any amount relating to those borrowed moneys are still outstanding and repayable to Grays (whether now or in the future), whether the outstanding amount relates to any principal amount or any interest (including accrued and capitalised interest).