ANNUAL REPORT 2016

graysonline.com graysMINING.com graysasset services Grays wine.com.au

graysecommercegroup

GRAYS ECOMMERCE GROUP LIMITED

ABN 94 125 736 914

Grays eCommerce Group (ASX:GEG) is Australia's largest online auction marketplace.

Grays eCommerce Group is well positioned to be the leading online international auctioneer.

Contents

ABOUT GRAYS ECOMMERCE GROUP

BUSINESS DIVISIONS

Australia's Leading Online Auctioneer

GraysOnline offers over 80 categories in consumer, industrial & commercial goods direct from the manufacturer and distributors. A collection of brand new, refurbished, end-of-line and excess stock are available. Most auctions start from $9 where customers can enjoy big savings of up to 80% off RRP.

Asset Management Solution

Asset Management Solution provides equipment valuation & commercial advice to financiers, insolvency companies as well as government departments and multinational companies.

Mining Assets One-Stop Shop

GraysMINING provides extensive experience in all mining sectors. It offers a wide range of disposal options plus a strategic partnership with Iron Planet which enables Australia & NZ sellers to reach a larger buyer base internationally.

Worth Every Drop

GraysWine offers over 2,000 quality wines from talented winemakers from Australia and abroad. Our consumers have the opportunity to name their price at auction or buy now at competitive fixed prices. Whether on a desktop or mobile site, GraysWine offers a simple and convenient way to discover and buy wine at a smart price.

BUSINESS OVERVIEW

HIGHLIGHTS

Grays eCommerce Group: Australia's largest online auction marketplace.

Largest **B2B online auctioneer** specialising in commercial assets, plant and equipment

Market leading consumer auctions in wine, homewares, electronics and more

$622m Gross Sales

38.5m annual visits

2.1m customer database

750k email subscribers

10% member growth

40% growth in new registrations

CHAIRMAN & CEO'S REPORT

JONATHAN PINSHAW AND MARK BAYLISS

On behalf of the Board we are pleased to report on a successful year of transformation for Grays eCommerce Group Limited and deliver a strong result from an operational and financial perspective.

Dear Shareholders,
Over the 2016 financial year, the company transitioned from a mix of online retail and auction businesses to a predominantly Business to Business (B2B) auction focus.

Sale of Fixed Price Retail enables focus on B2C auctions
Having exited the fixed price retail business in November 2015, we refocused our Business to Consumer (B2C) business on auctions. We developed new sourcing strategies to encourage quality supply, improve vendor yield and lift average sale price. Our initiatives included a new distribution channel in key consumer categories with the launch of an eBay store during the second half. This, combined with a reduction in warehouse space and other costs will assist us in optimising the B2C auction business and underpin further profitable growth.

Continued focus on growing B2B
In line with our B2B growth strategy, we invested in new facilities, systems and people. We also expanded our B2B offering into the key agriculture segment with the acquisition of the leading agribusiness machinery auction house in Australia, DMS Davlan. This acquisition was successfully integrated in the first half, and earnings accretive in the second half of the 2016 financial year.

We saw an opportunity to leverage our experience in new markets, expanding our successful B2B offering into South-East Asia, where we are pleased to already have a growing pipeline of sales opportunities. Overall, our growth initiatives in B2B resulted in a substantial lift in revenue and earnings for this business division.

Strong financial performance for Continuing Operations
Overall the business has met the expectations of Directors in its first full year as a listed entity.

The B2B business experienced excellent growth in revenue, up 30.7% to $73.4 million, delivering earnings before interest, tax, depreciation and amortisation (EBITDA) of $16.5 million, up 27.7% on last year.

The B2C business, experienced a 4.3% reduction in revenue as major event sales in 2015 were not repeated, having refocused on product categories and vendors with growth potential and favourable margins. In relation to costs in this division however, savings were realised from warehouse and logistics efficiency measures, totalling 11.5%. Overall, this division reported EBITDA of $2.1 million, slightly lower than FY15.

Focussing on Continuing Operations[1], revenue was up 13.7% to $124.9 million, and EBITDA was up 32.8% to $14.3 million.

Costs relating to the sale of the Fixed Price Retail business amounted to $25.3 million of significant items, which drove a statutory net loss after tax of $20.0 million. A detailed review of the Group's performance is included in the Operating and Financial Review in the Directors' Report.

Initiation of dividend policy
Reflecting the company's strong balance sheet, increasing earnings from Continuing Operations, and attractive growth outlook, the Board is pleased to announce a dividend policy, linked to growth in earnings per share with an expected dividend payout ratio around 40% of net profit after tax. It is anticipated dividends would commence following the release of H1 FY17 results and be fully franked.

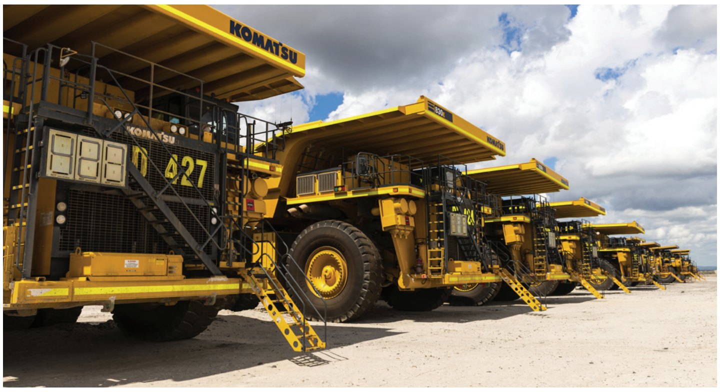
Positive outlook for continued growth
Overall we believe that the strong growth in revenue and underlying earnings achieved over the 2016 financial year, driven by our core B2B division, has us well positioned to continue building momentum and growth in the 2017 financial year. Accordingly, we expect solid growth in EBITDA from Continuing Operations in FY17 compared to FY16.

1 Continuing Operations represent Grays' Industrial B2B and its B2C Auction businesses. Its Fixed Price Retail ("FPR") business is designated as Disposed Operations.

CHAIRMAN & CEO'S REPORT

JONATHAN PINSHAW AND MARK BAYLISS

continued



Board change

Having joined the Board of Grays eCommerce (following her previous role as Chair of Mnemon Limited) to provide counsel through the merger with Mnemon and integration of multiple online retail businesses, Ms Naseema Sparks announced her resignation as a Director on 28 July 2016. With Grays having sold its fixed price online retail business, Ms Sparks decided it was an appropriate time to pursue other opportunities. On behalf of the Board we would like to thank Ms Sparks for her counsel and wish her well in her future endeavours.

A process to appoint a new non-executive Director in light of the company's focus on B2B online auctions has commenced. Ms Sparks will remain with Grays eCommerce Group until a suitable replacement is found.

Finally, we would like to thank all of our shareholders, staff, customers and suppliers for their ongoing loyalty and support. We look forward to another strong year of growth and success.

Jonathan Pinshaw
Chairman

Mark Bayliss
CEO

BOARD OF DIRECTORS

PROFILES

Jonathan Pinshaw

Independent Non-Executive Chairman

Bachelor of Business Science (Hons) from the University of Cape Town and a Bachelor of Commerce (Hons) from the University of South Africa

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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.

Mark Bayliss

Executive Director and Chief Executive Officer

Bachelor of Science (Econ) from the London School of Economics and member of the Institute of Chartered Accountants in England and Wales

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Mark is a senior executive with over 25 years' experience in international and publicly listed companies, including leveraged buy-outs, private equity turn-arounds and all aspects of strategic, operational and financial management. His previous positions include Group Chief Executive at Quick Service Restaurants, Partner at Anchorage Capital Partners, Executive Chairman at Antares Restaurant Group and Chief Financial Officer at Fairfax media.

Naseema Sparks

Independent Non-Executive Director

Bachelor of Pharmacy; Master of Pharmacy (Pharmacol); Marketing Research and Strategy, Swinburne University; MBA, Melbourne Business School; Fellow of the Australian Institute of Company Directors

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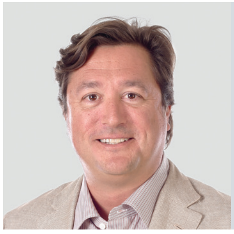
Naseema is an experienced director with strong experience in technology driven businesses disrupting traditional sectors. Her expertise is future focused and includes business strategy, marketing, media – traditional and digital, e-commerce and mobile payments platforms. She was previously the Australian Managing Director and a global partner of communications agency M&C Saatchi.



Will Vicars

Non-Executive Director

Bachelor of Arts, majoring in Economics, from the University of Sydney

—

Will is Chief Investment Officer at Caledonia (Private) Investments Pty Limited and sits on the board of directors of Caledonia, DFO Investments and The Caledonia Foundation. He 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, he worked as a Senior Portfolio Manager at NRMA investments and at Bankers Trust.

Bernie Campbell

Independent Non-Executive Director

Master of Applied Finance from Macquarie University and completed Advanced Management Program at INSEAD

—

Bernie has more than 35 years' experience in the finance industry. He is the Managing Director, Asset Finance at Pepper Group Limited, a diversified finance group with offices in Australia, UK, Ireland Spain, Hong Kong, China and Korea. He was previously Managing Director, Asset Finance at St George Bank, one of Australia’s leading retail and business banking brands following the bank’s acquisition of Capital Finance in 2013. Bernie was Managing Director of Capital Finance Australia, a financier of vehicles and heavy commercial equipment from 2008 to 2013, after initially joining the Group in 1995.

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Grays eCommerce Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2016

Directors

The following persons were directors of Grays eCommerce Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Jonathan Pinshaw – Chairman

Mark Bayliss

Naseema Sparks

Will Vicars

Bernie Campbell

Bernard Stanton – Alternate Director

Principal activities

During the financial year, the principal activities of the consolidated entity consisted of the provision of online auctioneering and valuation services in the Business to Business ('B2B') sector together with online auctioneering and online fixed price retail services in the Business to Consumer ('B2C') sector. During the first half of the financial year the online fixed price retail businesses were sold (refer to 'Significant changes in the state of affairs') and hence this business activity was progressively scaled down to the point where it was immaterial in the second half of the financial year.

Significant changes in the state of affairs

Disposal of the Group's fixed price retail businesses

On 23 November 2015, the Group completed the sale of its fixed price retail ('FPR') businesses to MySale Group plc ('MySale') for $5,200,000. MySale acquired the assets of the FPR businesses (including trademarks, domain names, customer databases etc.) operated under the oo.com.au, dealsdirect.com.au and topbuy.com.au websites.

Acquisition of DMS Davlan Pty Limited's business assets

On 3 July 2015, the Group acquired the business assets of DMS Davlan Pty Limited ('DMS Davlan') for an initial consideration of $3,097,000 of which $2,697,000 was paid in cash and $400,000 via the issue of GEG ordinary shares. Additionally, earn-out provisions linked to earnings before interest, tax, depreciation and amortisation contributions by DMS Davlan for the years ending 30 June 2016 and 30 June 2017 are in place. DMS Davlan is a leader in the sale by auction of agricultural machinery and brings recognised expertise in the transport and civil construction industries. DMS Davlan operates through a national network with 15 branches throughout Australia including 7 key regional locations. The acquisition has complemented the existing B2B segment.

There were no other significant changes in the state of affairs of the Group during the financial year.

Dividends

There were no other dividends paid, recommended or declared during the current financial year.

Prior to the reverse acquisition transaction that occurred on 7 November 2014, Grays (Aust) Holdings Pty Limited, which is the accounting acquirer of the Group, paid a fully franked special dividend totalling $3,594,000 on 22 September 2014 relating to a buy-back of that company's share capital.

Review of operations

The loss for the Group after providing for income tax amounted to $20,019,000 (30 June 2015: $1,205,000).

Operating and financial review

The Group's primary business is that of an online auctioneer with diversified sales operations in the online B2B and B2C market segments. In FY2016 the Group processed sales through its various websites in excess of $600m and earned revenues of $180m. The Group operates primarily through its flagship website graysonline.com and additionally grayswine.com.au. During FY2016 the Group sold its fixed price retail businesses with their associated websites (refer to significant changes in the state of affairs) dealsdirect.com.au, oo.com.au and topbuy.com.au. Grays operates in every state in mainland Australia, in the Northern Territory and New Zealand.

The two operating segments are:

- **B2B:** This is predominantly an auction site 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. This division also provides valuation and workplace health and safety consulting service to business customers; and
- **B2C:** This comprises both auction and buy now sales of wine, homewares, electronics, jewellery, brown goods and white goods through the websites graysonline.com and grayswine.com.au. Until 31 January 2016 this segment included operations through the websites dealsdirect.com.au, oo.com.au and topbuy.com.au.

Management assesses business performance on the basis of earnings before interest, tax, depreciation, amortisation and significant costs ('EBITDA') which are incurred beyond the ordinary course of business. Significant costs incurred in FY2016 include the following disposal, merger and acquisition integration expenses:

— loss on disposal of the fixed price retail businesses;
— costs associated with the sale and disposal of the fixed price retail businesses; and
— costs associated with the acquisition of the DMS Davlan business.

Significant costs in FY2015 include transaction associated costs of the legal acquisition of Grays (Aust) Holdings Pty Limited and related integration and consolidation costs of distribution facilities, back office and support functions.

To assist the interpretation of the underlying performance of the Group, further information is presented below:

	Consolidated	
	2016 $'000	**2015 $'000**
EBITDA* before costs of disposals, mergers and acquisition integrations from:		
– B2B	**16,548**	12,958
– B2C (excluding fixed price retail)	**2,072**	2,273
– Corporate	**(4,278)**	(4,431)
EBITDA* before costs of disposals, mergers and acquisition integrations from continuing operations**	**14,342**	10,800
EBITDA* from disposed operations**	**(9,718)**	(3,928)
EBITDA* before costs of disposals, mergers and acquisition integrations	**4,624**	6,872
Depreciation and amortisation	**(2,538)**	(2,632)
Interest income	**250**	477
Interest and financing costs	**(371)**	(88)
Acquisition and merger integration costs	**(288)**	(6,491)
Loss on disposal of fixed price retail business assets and associated costs	**(24,989)**	–
Income tax benefit	**3,293**	657
Profit/(loss) after income tax	**(20,019)**	(1,205)

* EBITDA is a non-IFRS measure and represents earnings from continuing operations before interest, tax, depreciation, amortisation, impairment of assets and significant items in the form of disposal, acquisition and merger integration costs.

** Continuing and Disposed Operations are non-IFRS measures. Continuing Operations describes the Group excluding the fixed price retail operations which were sold during the current financial year. Disposed Operations represents the financials results of the fixed price retail operations.

FY2016 revenue (Continuing Operations) has grown by 13.7% to $124.9m and EBITDA from Continuing Operations has grown by 32.8% to $14.3m after a very strong performance by the B2B division.

The B2B division generated EBITDA growth of 27.7% to $16.5m with revenue growth of 30.7% to $73.4m. The growth in revenue was underpinned by initiatives implemented in key segments including Automotive, Transport and Mining. Banking, Insolvency and Finance and Major Corporate sales activity grew during the second half, while the integration of DMS Davlan also resulted in growth in the agricultural vertical. In line with B2B growth strategies, the Group has also invested in new facilities, systems and people.

With the sale of the fixed price retail businesses to MySale in November 2015, the Group refocussed B2C Continuing Operations on auctions. In FY2016 both revenue and EBITDA of B2C Continuing Operations declined by 4.3% and 8.8% respectively. The reduction in B2C revenue comes as major event sales were not repeated in FY2016 coupled with a refocus on product categories and vendors with growth potential and favourable margins. New sourcing strategies were developed to encourage quality supply, improve vendor yield and lift average sale price. Initiatives included a new distribution channel in key consumer categories with the launch of an eBay store during the second half. This, combined with a reduction in warehouse space and other costs will assist in optimising the B2C business and underpin further profitable growth.

Significant items of $25.3 million (pre-tax) relating to the sale of the fixed price retail businesses drove a statutory net loss after tax of $20.0 million.

Group strategy

The Board has developed a strategic direction around a Vision and Values framework, the major themes of which are to:

— Expand the business utilising our core strengths especially in our B2B division;
— Grow into natural adjacent market segments;
— Optimise the business through operational efficiencies; and
— Continue to improve the B2C business following the sale of the fixed price retail businesses.

This strategic framework underpins the executional plans of the business on an ongoing basis.

Material business risks

The group faces various potential risks that have the potential to materially affect the performance of the consolidated entity. These are listed below.

— Market and competitor risk

The Group has an exposure to market and competitor forces. The risk may be changes in macro drivers of the B2B and B2C segments or exposure to the activities of existing or new market participants. The Group actively monitors its performance in each of the segments that it operates in. This monitoring ensures the Group is well positioned to understand market changes and to develop appropriate responses to those changes. Whilst the actions of competitors are an uncontrollable risk, the Group mitigates this risk by ensuring that the delivery of its products and services are performed in the most efficient and cost effective manner available while also providing a level of customer service expected by the Group's customers.

— IT infrastructure and systems risk

As a predominantly online eCommerce business, the performance of our online and operating system platforms and the availability of the internet underpin the Group's ability to transact on a daily basis. To manage this risk, the group deploys a variety of physical and virtual redundancies across both the infrastructure and operating networks of the business. Ongoing management of the environment is the responsibility of a direct report of the CEO, the Executive General Manager – IT.

— Loss of key management personnel

The loss of key management personnel could have a negative impact on the ability of the Group to deliver on its executional and strategic plans with a consequential risk on the financial performance of the business. The risk is mitigated through a combination of preventative and responsive measures. As a preventative measure, the remuneration packages of key management personnel have been developed with the support of external remuneration consultants. These package structures incorporate a combination of base remuneration together with short and long term incentive plans. These are in place and are subject to regular review to ensure they remain market competitive. As a responsive measure, succession plans for key risk roles are in place to minimise the disruption associated with staff departures.

— Supply of saleable products

The auction sales channel within B2B and B2C relies upon suitable product being available for auction. It is a supply driven business. To reduce this risk the Group has a wide variety of vendors and an appropriately remunerated group of business development managers that source the products. The Group also supplements this supply of consignment products by purchasing certain category ranges required by its customers, thereby reducing this specific risk.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Having delivered strong growth in revenue and underlying earnings in FY2016, driven by our core B2B division, the Group is well positioned to continue building momentum and growing over FY2017.

B2B growth opportunities are diverse, with pleasing preliminary results from measured expansion into South-East Asia. Furthermore, Banking Insolvency and Finance business continues to have a strong pipeline of opportunities. The agriculture category is well placed to continue to grow following the successful integration of DMS Davlan, while investments made in new facilities, people and technology will allow the Group to take advantage of opportunities in the Automotive space. In relation to Mining and Transport, there is a vast quantity of equipment and vehicles around Australia, providing ample growth opportunities for the B2B segment, which has a leading position in these auction markets.

The sale of our fixed price retail businesses has allowed management to focus on our core auction business in B2C. The B2C business will continue to grow via grayswine.com.au and its strategic expansion in core categories.

Overall, Continuing Operations should show solid growth in FY2017 over the FY2016 result and the Directors are confident that the initiatives which have been put in place will drive that growth.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	**Jonathan Pinshaw**
Title:	Independent Non-Executive Chairman
Qualifications:	Bachelor of Business Science (Hons) from the University of Cape Town and a Bachelor of Commerce (Hons) from the University of South Africa
Experience and expertise:	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), Australia 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.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Audit and Risk Committee and member of Remuneration and Nomination Committee
Interests in shares:	818,235 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

Name:	**Mark Bayliss**
Title:	Executive Director and Chief Executive Officer
Qualifications:	Bachelor of Science (Econ) from the London School of Economics and member of the Institute of Chartered Accountants in England and Wales
Experience and expertise:	Mark is a senior executive with over 25 years of experience in international and publicly listed companies, including leveraged buy-outs, private equity turn-arounds and all aspects of strategic, operational and financial management. His previous positions include Group Chief Executive at Quick Service Restaurants, Partner at Anchorage Capital Partners, Executive Chairman at Antares Restaurant Group and Chief Financial Officer of Fairfax Media.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	3,928,773 ordinary shares
Interests in options:	1,117,318 performance rights over ordinary shares
Contractual rights to shares:	None

Name:	**Naseema Sparks**
Title:	Independent Non-Executive Director
Qualifications:	Bachelor of Pharmacy; Master of Pharmacy (Pharmacol); Marketing Research and Strategy, Swinburne Institute; MBA, Melbourne Business School; Fellow of the Australian Institute of Company Directors
Experience and expertise:	Naseema is an experienced director with strong experience in technology driven businesses disrupting traditional sectors. Her expertise is future focused and includes business strategy, marketing, media – traditional and digital, e-commerce and mobile payments platforms. She was previously the managing director of global communications agency M&C Saatchi.
Other current directorships:	Melbourne IT Ltd, PMP Ltd, Australian Vintage Ltd, Ingogo and AIG Australia. She is also Deputy Chairman of Racing NSW and a Trustee of Sydney Living Museums
Former directorships (last 3 years):	Shadforth Financial Group (SFG Ltd)
Special responsibilities:	Chairman, Remuneration and Nominations Committee, Member, Audit and Risk Committee
Interests in shares:	4,604 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

DIRECTORS' REPORT

continued

Name:	**Will Vicars**
Title:	Non-Executive Director
Qualifications:	Bachelor of Arts, majoring in Economics, from the University of Sydney
Experience and expertise:	Will is Chief Investment Officer at Caledonia (Private) Investments Pty Limited* and sits on the board of directors of Caledonia, DFO Investments and The Caledonia Foundation. He 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, he worked as a Senior Portfolio Manager at NRMA Investments and at Bankers Trust.
Other current directorships:	OrotonGroup Ltd (ASX: ORL)
Former directorships (last 3 years):	None
Special responsibilities:	Member of Audit and Risk Committee and member of Remuneration and Nomination Committee
Interests in shares:	11,048,816*
Interests in options:	None
Contractual rights to shares:	None

Name:	**Bernie Campbell**
Title:	Independent Non-Executive Director
Qualifications:	Master of Applied Finance from Macquarie University and completed Advanced Management Program at INSEAD
Experience and expertise:	Bernie has more than 35 years' experience in the finance industry. He is the Managing Director, Asset Finance at Pepper Group Limited, a diversified finance group with offices in Australia, UK, Ireland, Spain, Hong Kong, China and Korea. He was previously Managing Director, Asset Finance at St George Bank, one of Australia's leading retail and business banking brands following the bank's acquisition of Capital Finance in 2013. Bernie was Managing Director of Capital Finance Australia, a financier of vehicles and heavy commercial equipment from 2008 to 2013, after initially joining the Group in 1995.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of Audit and Risk Committee
Interests in shares:	58,037 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

* Caledonia (Private) Investments Pty Limited is a major shareholder of the Company. Details are included under the Shareholder information section of the Annual Report.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretaries

Ms Leanne Ralph (Bachelor of Business, Certified Practicing Accountant (CPA)) is a member of the Governance Institute of Australia and the Australian Institute of Company Directors. She is a principal of Boardworx Australia Pty Limited which supplies outsourced company secretarial services to a number of listed and unlisted companies.

David Grbin was appointed company secretary on 2 November 2015 and holds the role jointly with Leanne Ralph. David holds a Bachelor of Economics (Hons) from the University of Adelaide and is a Chartered Accountant in Australia and New Zealand. He is an experienced CFO who has previously held CFO and Executive Management roles with The Trust Company and Adsteam Marine.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee		Nomination and Remuneration Committee	
	Attended	**Held**	**Attended**	**Held**	**Attended**	**Held**
Jonathan Pinshaw	13	13	5	5	1	2
Mark Bayliss	13	13	–	–	–	–
Naseema Sparks	11	13	5	5	2	2
Will Vicars	11	13	3	5	1	2
Bernie Campbell	12	13	5	5	2	2
Bernard Stanton	1	1	2	2	1	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations. This information has been audited, pursuant to section 308(3C) of the Corporations Act 2001.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the non-executive directors and the executive director (who is also the chief executive officer ('CEO')).

Pursuant to AASB 3 'Business Combinations', financial information for the comparative year, in which the reverse acquisition was completed, represents a continuation of the financial statements of the legal subsidiary (or deemed acquirer for accounting purposes) Grays (Aust) Holdings Pty Limited. Financial information contained within this remuneration report is prepared in a manner which is consistent with these accounting principles and includes additional information relating to the legal parent (Grays eCommerce Group Ltd) as required.

The remuneration report is set out under the following main headings:

— Remuneration governance and principles used to determine the nature and amount of remuneration
— Details of remuneration
— Executive contracts
— Share-based compensation
— Additional disclosures relating to KMP

Remuneration governance and principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency;
- capital management; and
- has achievement of economic profit as a core consideration.

Nomination and Remuneration Committee ('NRC')

The NRC is a Board committee comprising all four non-executive directors and is Chaired by Naseema Sparks. The NRC is responsible for making recommendations to the Board on remuneration arrangements for its directors and executives, the remuneration framework, and the operation of any incentive plan. Specifically, the Board approves the remuneration arrangements of the CEO and other executives and all awards made under incentive plans, following recommendations from the NRC. The Board also sets the maximum aggregate remuneration of all non-executive directors, which is then subject to shareholder approval, and their fee levels. The NRC approves, having regard to the recommendations made by the CEO, the level of the Group's short-term incentive pool.

The NRC meets regularly throughout the financial year. The CEO attends NRC meetings by invitation and provides management input. The CEO is not present during any discussions related to his own remuneration arrangements.

Principles and strategy

The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the NRC operates an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

In following these principles, the Remuneration Committee strives to align to both shareholder and participant interests as follows:

Alignment to shareholders' interests:

- via underlying earnings as a core component of any plan design;
- focuses on sustained growth in shareholder wealth; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remuneration are separate.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the NRC which makes a recommendation to the Board. The NRC may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

In particular, the non-executive directors:

- remuneration is in the form of a base fee, which is inclusive of statutory superannuation;
- do not have any remuneration at risk;
- do not participate in any employee incentive schemes;
- do not participate in performance-based remuneration;
- may be allowed to receive their fees in the form of Grays eCommerce Group Limited shares, subject to shareholder approval under, and/or any necessary waiver of, the ASX Listing Rules; and
- are entitled to be reimbursed for all reasonable out of pocket expenses incurred in connection with the performance of their duties as a director of the Company.

ASX listing rules require the aggregate non-executive directors remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 27 November 2014, where the shareholders approved a maximum aggregate remuneration pool of $600,000 per annum.

Executive remuneration

The Group aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

The remuneration of executives includes a fixed component comprising base salary and employer superannuation contributions. The CEO's fixed remuneration is reviewed annually by the NRC relative to his individual performance and the relative comparative compensation in the market, for which independent advice is sought.

The CEO reviews at least annually the individual performance of all other KMP and makes recommendations to the NRC in relation to their fixed remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The short-term incentive ('STI') program is designed to align the targets of the business units with the targets of those executives responsible for meeting those targets. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved.

For the financial year ended 30 June 2016, STI payments were made to Executives as detailed in the remuneration tables below.

The NRC has established a STI program for the year ending 30 June 2017 ('FY2017') in which participants are eligible to receive an annual cash bonus if pre-determined operational, safety, strategic and individual performance targets are met. Personal KPI's are as agreed between the CEO and the Board (for the CEO) and the CEO and other executives (for other executives). Specific measures include earnings before interest, tax depreciation and amortisation ('EBITDA') and total recordable injury frequency rate ('TRIFR'), as follows:

Criteria	**Bonus allocation**
Group EBITDA before acquisitions equal or exceed 95% of FY17 budgeted EBITDA*	70%
10% reduction in TRIFR	15%
Personal KPI's	15%

* The EBITDA element of the STI operates on a variable basis. Where EBITDA is below 95%, no STI is payable. The maximum STI payable is capped when EBITDA reaches 110% of budget.

The long-term incentive ('LTI') comprises a share-based performance rights plan. Performance rights may be awarded to executives under the employee incentive scheme known as the Grays eCommerce Group Limited Performance Rights Plan ('PRP'). The PRP rules were posted on the ASX on 12 December 2014, with the first grant of performance rights made on 7 March 2015.

The PRP provides eligible personnel (including executive directors and eligible employees) with an opportunity to share in the growth in value of the Group and to encourage them to improve the long-term performance of the Group and its returns to shareholders. The PRP is also intended to attract and retain skilled and experienced senior employees and provide them with an incentive to have a greater involvement with and focus on the long-term goals of the Group.

There is no ability for the Company to provide any cash equivalent on vesting of the performance rights. Eligibility to participate in the PRP and the number of performance rights offered to each individual participant is at the discretion of the Board.

Performance conditions must be satisfied in order for the performance rights to vest. Vesting occurs over a 3 year period subject to two performance hurdles – total shareholder return ('TSR') and earnings per share ('EPS') – which are independently tested annually. These two measures have been adopted to link remuneration to the growth in shareholder wealth and performance against objective benchmarks. Vesting of the performance rights are also subject to continued service by the relevant executive over the relevant performance period or, upon cessation of employment, the vesting of performance rights may be determined at the absolute discretion of the Board.

TSR is a measure of the return on investment in a Company's shares, including dividends and all other returns to shareholders notionally invested over the relevant performance period. The Group's TSR over the performance period is assessed against companies within the ASX300 (excluding metals, mining and energy companies and property trusts) at the start of the financial year in which the performance rights are awarded.

Upon the satisfaction of the vesting conditions, each performance right will convert to a number of shares based on the terms of issue. Performance rights granted to employees, including executive directors, will typically convert on a one-for-one basis.

The percentage of performance rights that vest, if any, will be determined by reference to the TSR and EPS vesting schedules, summarised as follows:

TSR performance relative to ASX300	**% of TSR performance rights that become exercisable**
Less than the 51st percentile	Nil
Greater than 51st percentile but less than 75th percentile	Straight-line pro-rata vesting between 50% and 100%
Greater than or equal to 75th percentile	100%

CAGR* of EPS over the performance year	**% of EPS options that become exercisable**
Less than 12%	Nil
Between 12% and 18%	Straight-line pro-rata vesting between 50% and 100%
Above 18%	100%

* Compound Annual Growth Rate

Group performance and link to remuneration
FY2017 remuneration for Executives is directly linked to the performance of the Group. A portion of cash bonus and incentive payments are dependent on defined targets being met, as detailed above. The remaining portion of the cash bonus and incentive payments are at the discretion of the NRC.

Use of remuneration consultants
During FY2016, the NRC did not seek independent external remuneration advice from remuneration consultants. The NRC had previously agreed that advice on the remuneration mix and benchmarking of the CEO and Executive remuneration would be sought on a two-year basis (next due October 2016).

Voting and comments made at the Company's 2015 Annual General Meeting ('AGM')
At the 25 November 2015 AGM, 99.83% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2015. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

The remuneration disclosures for the KMP contained in the following remuneration tables are as follows:

- The 2016 disclosures represent 12 months of the Group.
- The 2015 disclosures represents 8 months (the period from 7 November 2014 to 30 June 2015) of the Group and 4 months (the period from 1 July 2014 to 7 November 2014) of the KMP of Grays (Aust) Holdings Pty Limited.

The KMP of the Group consisted of the following directors of Grays eCommerce Group Limited:

- Jonathan Pinshaw – Independent Non-Executive Chairman
- Mark Bayliss – Executive Director and Chief Executive Officer
- Naseema Sparks – Independent Non-Executive Director
- Will Vicars – Non-Executive Director
- Bernie Campbell – Independent Non-Executive Director

And the following persons:

- David Grbin – Chief Financial Officer (appointed 2 November 2015)
- Adam Scharer – Executive General Manager – B2B
- Mark Cox – Executive General Manager – People and Culture
- Mark Lawson – Executive General Manager – Consumer (appointed 1 March 2016)
- David Sharp – Executive General Manager – Consumer and Marketing (resigned 16 March 2016)
- Julie Starley – Executive General Manager – Operations (resigned 15 April 2016)
- Mark Kehoe – Executive General Manager – B2C (position made redundant 31 July 2015)
- Emmanuel Zammit – Chief Financial Officer (resigned 31 August 2015)
- John Martin – Former Chief Financial Officer (resigned 28 February 2015)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments***	
2016	**Cash salary and fees $**	**Cash bonus $**	**Termination/ resignation payments $**	**Super-annuation $**	**Employee leave $**	**Equity-settled rights $**	**Total $**
Non-Executive Directors:							
J. Pinshaw	150,000	–	–	13,125	–	–	163,125
N. Sparks	84,155	–	–	7,995	–	–	92,150
W. Vicars	84,155	–	–	7,995	–	–	92,150
B. Campbell	84,155	–	–	7,995	–	–	92,150
Executive Directors:							
M. Bayliss	691,148	100,000	–	19,308	–	61,709	872,165
Other Key Management Personnel:							
D. Grbin*	253,795	–	–	14,481	–	17,427	285,703
A. Scharer	285,467	–	–	29,114	20,997	58,855	394,433
M. Cox	275,000	–	–	26,125	–	29,427	330,552
M. Lawson	220,000	61,872	–	22,028	–	–	303,900
D. Sharp**	197,280	–	3,105	18,742	–	–	219,127
J. Starley**	180,892	–	15,177	17,185	–	–	213,254
M. Kehoe**	25,227	–	225,832	2,397	–	–	253,456
E. Zammit**	66,667	–	6,328	3,218	–	–	76,213
	2,597,941	161,872	250,442	189,708	20,997	167,418	3,388,378

* Remuneration from date of appointment as KMP

** Remuneration to date of resignation as KMP

*** Represents PRP expense recognised within the statement of profit or loss and other comprehensive income.

KMP have not received any other employments benefits such as non-monetary benefits, pension benefits or shares.

DIRECTORS' REPORT

continued

2015	Short-term benefits Cash salary and fees $	Cash bonus $	Termination/ resignation payments $	Post-employment benefits Super-annuation $	Long-term benefits Employee leave $	Share-based payments*** Equity-settled rights $	Total $
Non-Executive Directors:							
J. Pinshaw*	97,083	–	–	9,223	–	–	106,306
N. Sparks*	35,065	–	–	3,331	–	–	38,396
W. Vicars*	35,065	–	–	3,331	–	–	38,396
B. Campbell*	26,426	–	–	2,511	–	–	28,937
Executive Directors:							
M. Bayliss	577,883	–	–	18,783	–	15,232	611,898
Other Key Management Personnel:							
C. Poolman**	58,978	–	67,199	6,964	14,329	–	147,470
E. Zammit*	196,923	–	–	9,500	–	1,745	208,168
J. Martin**	190,749	91,324	8,452	26,797	–	–	317,322
D. Sharp	236,427	–	–	22,461	–	872	259,760
A. Scharer	287,433	150,000	–	28,069	8,029	1,745	475,276
J. Starley	219,317	–	–	20,835	–	872	241,024
M. Kehoe	296,395	–	–	28,759	6,332	–	331,486
M. Cox	183,333	–	–	17,417	–	872	201,622
	2,441,077	**241,324**	**75,651**	**197,981**	**28,690**	**21,338**	**3,006,061**

* Remuneration from date of appointment as KMP

** Remuneration to date of resignation as KMP

*** Represents PRP expense recognised within the statement of profit or loss and other comprehensive income.

KMP have not received any other employments benefits such as non-monetary benefits, pension benefits or shares.

In addition to the above two tables, the Corporations Act 2001 requires the remuneration of the directors and other KMP of the Company, prior to the combination with Grays (Aust) Holdings Pty Limited to be disclosed. Grays eCommerce Group Limited (formerly Mnemon Limited) paid remuneration for the period 1 July 2014 to 7 November 2014, which is as follows:

— Naseema Sparks: Salary and fees of $19,011 and superannuation of $1,806, total of $20,817
— David Leslie: Salary and fees of $7,921, superannuation of $711, total of $8,632
— Elliott Kaplan: Salary and fees of $8,654 and superannuation of $nil, total of $8,654
— Michael Rosenbaum: Salary and fees of $83,612, superannuation of $7,204, total of $90,816
— Mark Tayler: Salary and fees of $66,890, superannuation of $6,355, total of $73,244

Non-executive directors' salaries are 100% fixed. The fixed proportion and the proportion of remuneration linked to performance of executive directors and other KMP are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Executive Directors:						
M. Bayliss	82%	97%	11%	–	7%	3%
Other Key Management Personnel:						
D. Grbin	94%	–	–	–	6%	–
A. Scharer	85%	68%	–	32%	15%	–
M. Cox	91%	100%	–	–	9%	–
M. Lawson	80%	–	20%	–	–	–
D. Sharp	100%	100%	–	–	–	–
J. Starley	100%	100%	–	–	–	–
M. Kehoe	100%	100%	–	–	–	–
E. Zammit	100%	99%	–	–	–	1%

The proportion of the cash bonus paid/payable or forfeited is as follows:

	Cash bonus paid/payable		Cash bonus forfeited	
Name	**2016**	**2015**	**2016**	**2015**
Executive Directors:				
Mark Bayliss	100%	–	–	–
Other Key Management Personnel:				
A. Scharer	–	100%	–	–
M. Lawson	100%	–	–	–
J. Martin	–	100%	–	–

Executive contracts

Remuneration and other terms of employment for KMP are formalised in executive service agreements. Details of these agreements are as follows:

Name:	**Mark Bayliss**
Title:	Executive Director and Chief Executive Officer
Term of agreement:	On going
Details:	Mark receives a base salary including superannuation of $700,000 and is eligible for a maximum STI opportunity for FY2017 of $260,000 and is eligible to participate in the PRP. Mark may terminate his employment contract by giving six months' notice in writing. The Company may terminate the contract 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, the Company may terminate his employment contract immediately by notice in writing and without payment in lieu of notice. Upon the termination of the employment contract, Mark is subject to a restraint of trade equal to his notice period. On termination as a "good leaver" (as defined in the PRP), LTI vested rights may be exercised during the 30 day period following the date of cessation of employment, after which those vested rights will automatically lapse. The treatment of unvested rights will be at Board discretion. In all other cases, all rights will lapse unless the Board determines otherwise. STI payments will not normally be paid on termination unless the Board determines otherwise.

All other KMP have entered into ongoing employment contracts with the Group. These contain all remuneration, performance and confidentially obligations on the part of the employer and employee.

These contracts stipulate a range of three to six month resignation periods. The Group may terminate an employment contract without cause by providing written notice or making payment in lieu of notice, based on the individual's annual salary component together with a redundancy payment of the individual's fixed salary component calculated based on service in accordance with legislation. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Group can terminate employment at any time. Non-compete restrictions apply in the event of a termination. On termination as a "good leaver" (as defined in the PRP), LTI vested rights may be exercised during the 30 day period following the date of cessation of employment, after which those vested rights will automatically lapse. The treatment of unvested rights will be at Board discretion. In all other cases, all rights will lapse unless the Board determines otherwise. STI payments will not normally be paid on termination unless the Board determines otherwise.

Share-based compensation

Issue of shares

There were no shares issued to directors and other KMP as part of compensation during the year ended 30 June 2016.

Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

Name and grant date	Vesting/ exercise/ expiry date	Number of rights granted	Fair value per right at grant date
Mark Bayliss			
7 March 2015	30 June 2017	139,665	$0.11
7 March 2015	30 June 2017	139,665	$0.36
7 March 2015	30 June 2018	139,665	$0.17
7 March 2015	30 June 2018	139,665	$0.40
7 March 2015	30 June 2019	279,330	$0.23
7 March 2015	30 June 2019	279,330	$0.44
David Grbin			
9 November 2015	30 June 2017	27,933	$0.36
9 November 2015	30 June 2017	27,933	$0.46
9 November 2015	30 June 2018	27,933	$0.43
9 November 2015	30 June 2018	27,933	$0.59
9 November 2015	30 June 2019	55,866	$0.48
9 November 2015	30 June 2019	55,866	$0.63
Adam Scharer			
1 June 2015	30 June 2017	55,866	$0.09
1 June 2015	30 June 2017	55,866	$0.34
1 June 2015	30 June 2018	55,866	$0.15
1 June 2015	30 June 2018	55,866	$0.38
1 June 2015	30 June 2019	111,732	$0.21
1 June 2015	30 June 2019	111,732	$0.42
Mark Cox			
1 June 2015	30 June 2017	27,933	$0.09
1 June 2015	30 June 2017	27,933	$0.34
1 June 2015	30 June 2018	27,933	$0.15
1 June 2015	30 June 2018	27,933	$0.38
1 June 2015	30 June 2019	55,866	$0.21
1 June 2015	30 June 2019	55,866	$0.42

No amounts were required to be paid by recipients on grant of rights. Rights are exercisable as from the date of vesting. There have been no alterations to the terms or conditions of the grant since grant date of during the financial year.

There were no performance rights over ordinary shares vested by directors and other key management personnel as part of compensation during the year ended 30 June 2016.

Performance rights granted carry no dividend or voting rights.

Additional disclosures relating to KMP

Shareholding

The number of shares in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
J. Pinshaw	545,490	–	272,745	–	818,235
N. Sparks	4,604	–	–	–	4,604
W. Vicars	6,863,347	–	4,185,469	–	11,048,816
B. Campbell	–	–	58,037	–	58,037
M. Bayliss	3,119,182	–	1,559,591	(750,000)	3,928,773
A. Scharer	5,267,362	–	2,633,681	(2,500,000)	5,401,043
J. Starley	82,940	–	41,470	(124,410)	–
M. Kehoe	3,249,230	–	1,624,615	(3,696,941)	1,176,904
M. Cox	–	–	35,655	–	35,655
	19,132,155	**–**	**10,411,263**	**(7,071,351)**	**22,472,067**

Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted as remuneration	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
M. Bayliss	1,117,318	–	–	–	1,117,318
D. Grbin	–	223,464	–	–	223,464
A. Scharer	446,928	–	–	–	446,928
M. Cox	223,464	–	–	–	223,464
D. Sharp	223,464	–	–	(223,464)	–
J. Starley	223,464	–	–	(223,464)	–
E. Zammit	446,928	–	–	(446,928)	–
	2,681,566	**223,464**	**–**	**(893,856)**	**2,011,174**

This concludes the remuneration report, which has been audited.

Shares under performance rights

There were no unissued ordinary shares of Grays eCommerce Group Limited under performance rights outstanding at the date of this report.

Shares issued on the exercise of performance rights

There were no ordinary shares of Grays eCommerce Group Limited issued on the exercise of performance rights during the year ended 30 June 2016 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 26 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

— all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

— none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 follows this report.

Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Jonathan Pinshaw
Chairman

22 August 2016
Sydney

AUDITOR’S INDEPENDENCE DECLARATION

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Auditor’s Independence Declaration to the Directors of Grays eCommerce Group Limited

As lead auditor for the audit of Grays eCommerce Group Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Grays eCommerce Group Limited and the entities it controlled during the financial year.

Ernst & Young

Christopher George
Partner
22 August 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated 2016 $'000	2015 $'000
Revenue	5	**181,529**	192,930
Expenses			
Changes in inventory and finished goods		**(63,862)**	(71,032)
Freight and transport		**(18,844)**	(22,314)
Marketing and advertising		**(9,678)**	(10,512)
Depreciation and amortisation expense	6	**(2,538)**	(2,632)
Occupancy costs		**(12,523)**	(11,747)
Employment related costs	6	**(54,996)**	(53,227)
Finance and borrowing costs	6	**(371)**	(88)
Merchant fees and bank charges		**(3,670)**	(3,558)
Acquisition and merger integration costs	7	**(288)**	(6,491)
Disposal of fixed price retail business assets and associated costs	7	**(24,989)**	–
Other expenses		**(13,082)**	(13,191)
Loss before income tax benefit		**(23,312)**	(1,862)
Income tax benefit	8	**3,293**	657
Loss after income tax benefit for the year attributable to the owners of Grays eCommerce Group Limited		**(20,019)**	(1,205)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		**(20)**	(1)
Other comprehensive income for the year, net of tax		**(20)**	(1)
Total comprehensive income for the year attributable to the owners of Grays eCommerce Group Limited		**(20,039)**	(1,206)

	Note	Cents	Cents
Basic earnings per share	36	**(17.40)**	(1.57)
Diluted earnings per share	36	**(17.40)**	(1.57)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

		Consolidated	
	Note	2016 $'000	2015 $'000
Assets			
Current assets			
Cash and cash equivalents	9	**2,796**	6,989
Trade and other receivables	10	**5,961**	7,472
Inventories	11	**7,926**	15,288
Income tax refund due		**59**	–
Prepayments		**5,062**	2,549
Total current assets		**21,804**	32,298
Non-current assets			
Property, plant and equipment	12	**3,231**	3,542
Intangibles	13	**17,482**	30,471
Deferred tax	14	**9,827**	6,285
Total non-current assets		**30,540**	40,298
Total assets		**52,344**	72,596
Liabilities			
Current liabilities			
Trade and other payables	15	**15,107**	22,474
Income tax		**–**	1,107
Provisions	16	**8,827**	6,767
Total current liabilities		**23,934**	30,348
Non-current liabilities			
Payables	17	**1,050**	–
Borrowings	18	**2,447**	–
Provisions	19	**4,750**	3,219
Total non-current liabilities		**8,247**	3,219
Total liabilities		**32,181**	33,567
Net assets		**20,163**	39,029
Equity			
Issued capital	20	**45,563**	44,627
Reserves	21	**(6,907)**	(7,124)
Retained profits/(accumulated losses)		**(18,493)**	1,526
Total equity		**20,163**	39,029

The above statement of financial position should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

Consolidated	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2014	9,292	(7,145)	6,325	8,472
Loss after income tax benefit for the year	–	–	(1,205)	(1,205)
Other comprehensive income for the year, net of tax	–	(1)	–	(1)
Total comprehensive income for the year	–	(1)	(1,205)	(1,206)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (Note 20)	35,335	–	–	35,335
Share-based payments (Note 37)	–	22	–	22
Dividends paid (Note 22)	–	–	(3,594)	(3,594)
Balance at 30 June 2015	44,627	(7,124)	1,526	39,029

Consolidated	Issued capital $'000	Reserves $'000	Retained profits/ (accumulated losses) $'000	Total equity $'000
Balance at 1 July 2015	44,627	(7,124)	1,526	39,029
Loss after income tax benefit for the year	–	–	(20,019)	(20,019)
Other comprehensive income for the year, net of tax	–	(20)	–	(20)
Total comprehensive income for the year	–	(20)	(20,019)	(20,039)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (Note 20)	936	–	–	936
Share-based payments (Note 37)	–	237	–	237
Balance at 30 June 2016	**45,563**	**(6,907)**	**(18,493)**	**20,163**

The above statement of changes in equity should be read in conjunction with the accompanying notes

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated 2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**197,442**	212,061
Payments to suppliers (inclusive of GST)		**(202,959)**	(214,022)
		(5,517)	(1,961)
Interest received		**250**	477
Interest and other finance costs paid		**(371)**	(88)
Income taxes refunded/(paid)		**(1,286)**	(664)
Net cash used in operating activities	35	**(6,924)**	(2,236)
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	31	**(2,697)**	–
Net cash received from purchase of subsidiary	31	**–**	5,867
Payments for acquisition and merger integration costs		**(288)**	(6,491)
Payments for property, plant and equipment	12	**(1,031)**	(1,206)
Payments for intangibles	13	**(900)**	(1,385)
Proceeds from disposal of business		**5,200**	–
Proceeds from disposal of property, plant and equipment		**–**	46
Proceeds from disposal of intangibles		**–**	4
Net cash from/(used in) investing activities		**284**	(3,165)
Cash flows from financing activities			
Proceeds from issue of shares	20	**–**	17,006
Buy back of shares	20	**–**	(3,466)
Proceeds from borrowings		**2,447**	–
Repayment of bank borrowings		**–**	(4,500)
Loans repaid from/(made to) shareholders		**–**	5,456
Dividends paid to shareholders	22	**–**	(3,594)
Net cash from financing activities		**2,447**	10,902
Net increase/(decrease) in cash and cash equivalents		**(4,193)**	5,501
Cash and cash equivalents at the beginning of the financial year		**6,989**	1,488
Cash and cash equivalents at the end of the financial year	9	**2,796**	6,989

The above statement of cash flows should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Note 1. General information

The financial statements cover Grays eCommerce Group Limited as a Group consisting of Grays eCommerce Group Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Grays eCommerce Group Limited's functional and presentation currency.

Grays eCommerce Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Homebush Corporate Park
29-33 Carter Street
Lidcombe NSW 2141

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 August 2016. The directors have the power to amend and reissue the financial statements.

Reverse acquisition

On 7 November 2014, Grays eCommerce Group Limited (formerly Mnemon Limited), acquired 100% of the issued securities of Grays (Aust) Holdings Pty Limited and its controlled entities ('GAH'). For accounting purposes, the business combination was treated as a reverse acquisition, representing the continuation of the existing group previously controlled by GAH. Refer to the 'business combinations' accounting policy in Note 2 for further details.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business.

The financial results for the year ended 30 June 2016 were impacted by the sale of the fixed price retail business (refer to Note 7). The Group incurred a loss after income tax of $20,019,000 (30 June 2015: loss of $1,205,000), was in a net current liability position of $2,130,000 (30 June 2015: net current asset position of $1,950,000) and had net cash outflows from operating activities of $6,924,000 (30 June 2015: net cash outflows $2,236,000).

The directors believe the Group is a going concern due to the expected future financial performance of the group and unutilised interchangeable financing facilities of $17,000,000 which are available to the Group at 30 June 2016.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 30.

Note 2. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Grays eCommerce Group Limited ('Company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Grays eCommerce Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Grays eCommerce Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Sale of goods revenue 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 goods docket indicates that there has been a transfer of the risks and rewards of ownership. Amounts disclosed as revenue are net of sales returns and trade discounts.

Commissions

Commissions including handling, buyers' premiums and valuation fees are recognised once the auction or valuation has been completed.

Interest

Interest 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.

Recovery of expenses

Recovery of expenses are recognised, to the extent that they are recoverable once the auction or valuation has been completed.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or 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 nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Grays eCommerce Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime, effective 7 November 2014. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in 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 tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Note 2. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 180 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification.

Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	over the lease term
Plant and office equipment	three to five years
Electronic equipment	three to five years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

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.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Where the operating lease obligation is expected to exceed the economic benefit to be received, the present value of the estimated costs, net of any sub-lease revenue, that will be incurred until the end of the lease terms is charged to profit or loss.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Website development

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of ten years.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between three and five years.

Other intangible assets

Other intangible assets comprise of customer contracts and brand names acquired in a business combination and are amortised on a straight-line basis over the period of their expected benefit, being their finite life of between three and five years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 2. Significant accounting policies
(continued)

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions
Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of performance rights, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitles the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum, an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and assumes that the transaction will take place either in the principal market or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital
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.

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Reverse acquisition - Grays eCommerce Group Limited & Grays (Aust) Holdings Pty Limited
On 7 November 2014, Grays eCommerce Group Limited (formerly Mnemon Limited), acquired 100% of the issued securities of Grays (Aust) Holdings Pty Limited and its controlled entities ('GAH').

Note 2. Significant accounting policies (continued)

Under the principles of AASB 3 'Business Combinations', GAH is the accounting acquirer in the business combination and therefore, the transaction has been accounted for as a reverse acquisition. Accordingly the financial statements are a continuation of GAH and as such:

- The assets and liabilities recognised and measured in the consolidated financial statements are at the carrying amounts of GAH rather than their fair value;
- The retained earnings and other equity balances recognised in the consolidated financial statements represent the retained earnings and other equity balances of GAH;
- The amount recognised for issued share capital includes the value of shares issued to the vendors of GAH. Such shares were measured at the fair value of the share capital of Grays eCommerce Group Limited on issue immediately prior to the reverse acquisition; and
- The comparatives presented are that of GAH.

Refer to Note 31 for further details of the business combinations effected during the current financial year.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Grays eCommerce Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments are applicable to annual reporting periods beginning on or after 1 January 2016. AASB 2014-4 amends AASB 116 and AASB 138 to clarify that depreciation and amortisation should be based on the expected pattern of consumption of an asset, that the use of revenue based methods to calculate depreciation is not appropriate, and that there is a rebuttable presumption that revenue is an inappropriate basis for measuring the consumption of the economic benefit embodied in an intangible asset. The adoption of these amendments from 1 July 2016 will not have a material impact on the Group.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers.

For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the Group.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in Note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Onerous lease provision

A provision has been made for onerous lease contracts. The provision is calculated based on an estimate of the lease space under contract that is surplus to requirements, less any amounts receivable under a sub-lease agreement.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into two operating segments:

- Business to business ('B2B'); and
- Business to consumer ('B2C').

These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM') in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (earnings before interest, tax, depreciation, amortisation and other items which are determined to be outside of the control of the respective segments). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Major customers

No single customer contributed 10% or more to the Group's external revenue during the financial years ended 30 June 2016 and 30 June 2015.

Operating segment information

Consolidated - 2016	B2B $'000	B2C $'000	Other segments $'000	Total $'000
Revenue				
Sales to external customers	73,407	107,529	343	181,279
Interest revenue	124	4	122	250
Total revenue	73,531	107,533	465	181,529
EBITDA before costs of disposals, mergers and acquisition integrations	16,548	(7,646)	(4,278)	4,624
Depreciation and amortisation				(2,538)
Interest revenue				250
Finance costs				(371)
Acquisition and merger integration costs				(288)
Disposal of fixed price retail business assets and associated costs				(24,989)
Loss before income tax benefit				(23,312)
Income tax benefit				3,293
Loss after income tax benefit				(20,019)

Note 4. Operating segments (continued)

Consolidated - 2015	B2B $'000	B2C $'000	Other segments $'000	Total $'000
Revenue				
Revenue from external customers	56,162	136,060	231	192,453
Interest revenue	158	46	273	477
Total revenue	56,320	136,106	504	192,930
EBITDA before costs of disposals, mergers and acquisition integrations	12,958	(1,655)	(4,431)	6,872
Depreciation and amortisation				(2,632)
Interest revenue				477
Finance costs				(88)
Acquisition and merger integration costs				(6,491)
Loss before income tax benefit				(1,862)
Income tax benefit				657
Loss after income tax benefit				(1,205)

All assets and liabilities, including taxes are not allocated to the operating segments as they are managed on an overall group basis.

Note 5. Revenue

	Consolidated	
	2016 $'000	**2015 $'000**
Sales revenue		
Sale of goods	**80,924**	97,440
Commissions	**66,437**	56,418
	147,361	153,858
Other revenue		
Interest	**250**	477
Recovery of expenses	**26,646**	32,836
Other revenue	**7,272**	5,759
	34,168	39,072
Revenue	**181,529**	192,930

Note 6. Expenses

	Consolidated 2016 $'000	2015 $'000
Loss before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	**568**	443
Plant and equipment	**578**	339
Electronic equipment	**342**	355
Total depreciation	**1,488**	1,137
Amortisation		
Website development	**218**	439
Software	**714**	815
Other intangible assets	**118**	241
Total amortisation	**1,050**	1,495
Total depreciation and amortisation	**2,538**	2,632
Finance costs		
Interest and finance charges paid/payable	**371**	88
Rental expense relating to operating leases		
Minimum lease payments	**9,304**	8,672
Employee benefits expense		
Defined contribution superannuation expense	**3,444**	3,466
Share-based payments expense	**237**	22
Employee benefits expense excluding superannuation and share-based payments	**51,315**	49,739
Total employee benefits expense	**54,996**	53,227

Note 7. Significant items

Significant items incurred during the years ended 30 June 2016 and 30 June 2015 are costs which include the following acquisition, merger, integration and business disposal related expenses:

- transaction associated costs of the reverse acquisition of Mnemon Ltd;
- transaction associated costs of the acquisition of the DMS Davlan business;
- integration and consolidation costs of distribution facilities, back office and support functions; and
- net loss on disposal of the fixed price retail business and associated costs.

	Consolidated	
	2016 $'000	**2015 $'000**
Acquisition and merger integration costs		
Costs related to acquisition of Mnemon Ltd	**195**	6,491
Costs related to acquisition of DMS Davlan	**93**	–
Total acquisition and merger integration costs	**288**	6,491

	Consolidated	
	2016	**2015**
Loss on disposal of fixed price retail business assets and associated costs		
Loss on disposal of fixed price retail business assets*	**13,051**	–
Recognition of onerous lease contracts upon disposal	**6,605**	–
Provision for inventory liquidation	**1,526**	–
Other costs including employment terminations	**3,807**	–
Loss on disposal of fixed price retail business assets and associated costs	**24,989**	–

	Consolidated	
	2016 $'000	**2015 $'000**
***Loss on disposal of fixed price retail business assets comprises of the following:**		
Proceeds on sale	**5,200**	–
Goodwill associated with the fixed price retail business sold	**(16,060)**	–
Intangibles sold (customer database and software)	**(1,526)**	–
Assets sold (capitalised web development and software)	**(665)**	–
Loss on disposal of fixed price retail business assets	**(13,051)**	–

Note 8. Income tax benefit

	Consolidated 2016 $'000	2015 $'000
Income tax benefit		
Current tax	**223**	1,853
Deferred tax - origination and reversal of temporary differences	**(3,393)**	(2,505)
Adjustment recognised for prior periods	**(123)**	(5)
Aggregate income tax benefit	**(3,293)**	(657)
Deferred tax included in income tax benefit comprises:		
Increase in deferred tax assets (Note 14)	**(3,393)**	(2,505)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	**(23,312)**	(1,862)
Tax at the statutory tax rate of 30%	**(6,994)**	(559)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	**104**	78
Legal expenses	**–**	10
Loss on sales of retail business	**3,806**	–
Deductible research and development	**–**	(150)
Sundry items	**12**	(36)
	(3,072)	(657)
Adjustment recognised for prior periods	**(123)**	(5)
Temporary difference arising on business sale and business combinations	**(315)**	–
Temporary difference on overseas tax losses not recognised	**212**	–
Difference in overseas tax rates	**5**	5
Income tax benefit	**(3,293)**	(657)

Note 9. Current assets - cash and cash equivalents

	Consolidated 2016 $'000	2015 $'000
Cash at bank	**2,796**	6,989

Note 10. Current assets - trade and other receivables

	Consolidated 2016 $'000	2015 $'000
Trade receivables	**5,888**	7,347
Less: Provision for impairment of receivables	**(138)**	(170)
	5,750	7,177
Other receivables	**211**	295
	5,961	7,472

Impairment of receivables

The Group has recognised a loss of $14,000 (2015: $12,000) in respect of impairment of receivables for the year ended 30 June 2016.

The ageing of the impaired receivables provided for above are as follows:

	Consolidated 2016 $'000	2015 $'000
Over 6 months overdue	**138**	170

Movements in the provision for impairment of receivables are as follows:

	Consolidated 2016 $'000	2015 $'000
Opening balance	**170**	158
Additional provisions recognised	**95**	181
Receivables written off during the year as uncollectable	**(45)**	–
Unused amounts reversed	**(82)**	(169)
Closing balance	**138**	170

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to $95,000 as at 30 June 2016 ($201,000 as at 30 June 2015).

The Group did not consider that there are any incurred losses on these balances.

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2016 $'000	**2015 $'000**
0 to 3 months overdue	**56**	63
3 to 6 months overdue	**39**	138
	95	201

Note 11. Current assets - inventories

	Consolidated	
	2016 $'000	**2015 $'000**
Finished goods - at the lower of cost and net realisable value	**7,926**	15,288

Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2016 $'000	**2015 $'000**
Leasehold improvements - at cost	**3,767**	3,118
Less: Accumulated depreciation	**(1,882)**	(1,412)
	1,885	1,706
Plant and equipment - at cost	**3,535**	3,385
Less: Accumulated depreciation	**(2,894)**	(2,384)
	641	1,001
Electronic equipment - at cost	**4,196**	3,978
Less: Accumulated depreciation	**(3,491)**	(3,143)
	705	835
	3,231	3,542

Note 12. Non-current assets - property, plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements $'000	Plant and equipment $'000	Electronic equipment $'000	Total $'000
Balance at 1 July 2014	1,706	774	902	3,382
Additions	437	490	279	1,206
Additions through business combinations (Note 31)	11	146	9	166
Disposals	(5)	(70)	–	(75)
Depreciation expense	(443)	(339)	(355)	(1,137)
Balance at 30 June 2015	1,706	1,001	835	3,542
Additions	747	72	212	1,031
Additions through business combinations (Note 31)	–	146	–	146
Depreciation expense	(568)	(578)	(342)	(1,488)
Balance at 30 June 2016	1,885	641	705	3,231

Note 13. Non-current assets - intangibles

	Consolidated	
	2016 $'000	**2015 $'000**
Goodwill - at cost	**16,243**	26,891
Website development - at cost	**5,178**	5,683
Less: Accumulated amortisation	**(4,831)**	(4,905)
	347	778
Software - at cost	**4,947**	4,750
Less: Accumulated amortisation	**(4,187)**	(3,566)
	760	1,184
Other intangible assets - at cost	**278**	1,864
Less: Accumulated amortisation	**(146)**	(246)
	132	1,618
	17,482	30,471

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Website development $'000	Software $'000	Other intangible assets $'000	Total $'000
Balance at 1 July 2014	4,995	804	961	115	6,875
Additions	–	413	818	154	1,385
Additions through business combinations (Note 31)	21,896	–	220	1,594	23,710
Disposals	–	–	–	(4)	(4)
Amortisation expense	–	(439)	(815)	(241)	(1,495)
Balance at 30 June 2015	26,891	778	1,184	1,618	30,471
Additions	–	480	391	29	900
Additions through business combinations (Note 31)	5,412	–	–	–	5,412
Disposals	(16,060)	(693)	(101)	(1,397)	(18,251)
Amortisation expense	–	(218)	(714)	(118)	(1,050)
Balance at 30 June 2016	**16,243**	**347**	**760**	**132**	**17,482**

Impairment testing

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units ('CGUs') that are expected to benefit from the synergies of the business combination. A CGU level summary of goodwill allocation is as follows:

	Consolidated 2016 $'000	Consolidated 2015 $'000
B2B	**10,407**	4,995
B2C	**5,836**	21,896
	16,243	26,891

Note 13. Non-current assets - intangibles (continued)

Key assumptions used for value-in-use calculations:
The Group tests whether goodwill has suffered any impairment on at least an annual basis. The recoverable amount of a CGU is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a one year period. Estimated growth rates and other reasonable assumptions are utilised to further calculate cash flows out to five years from balance date. Cash flows beyond the five year period are extrapolated into perpetuity using estimated terminal growth rates shown below. The B2B CGU terminal growth rate is approximately in line with historical Australian inflationary rates. The B2C CGU terminal growth rate does not exceed the long term average growth rate for the industries in which it operates.

The following table sets out the key assumptions used for value-in-use calculations:

Two to five year growth rates
B2B - 5% (2015: 5%)
B2C - 3.7% (2015: 3.7%)

Long term growth rate
B2B - 3% (2015: 3%)
B2C - 3% (2015: 3%)

Pre-tax discount rate
B2B - 13.5% (2015: 15.0%)
B2C - 14.8% (2015: 14.3%)

Post-tax discount rate
B2B - 10.5% (2015: 11.3%)
B2C - 11.5% (2015: 11.3%)

Post-tax discount rates used in performing the value-in-use calculations for each CGU are disclosed above. The discount rates reflect specific risks relating to the CGU's and the industries in which they operate.

No impairment charge:
Based on the value-in-use calculation methodology and assumptions stated above, the carrying amount of each CGU at balance date does not exceed its recoverable amount.

Impact of possible changes in assumptions:
A reasonable possible change in the key assumptions above would not cause the carrying amount of either CGU to exceed its recoverable amount.

Note 14. Non-current assets - deferred tax

	Consolidated 2016 $'000	2015 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	**3,931**	1,481
Impairment of receivables	**41**	50
Property, plant and equipment	**266**	225
Employee benefits	**2,159**	1,486
Stock revaluation	**–**	1,011
Intangible assets – customer database and software	**–**	(464)
Accrued expenses	**131**	231
Other provisions	**1,145**	1,130
Acquisition and merger integration costs	**948**	1,135
Onerous lease	**1,206**	–
Deferred tax asset	**9,827**	6,285
Movements:		
Opening balance	**6,285**	2,904
Credited to profit or loss (Note 8)	**3,393**	2,505
Additions through business combinations (Note 31)	**149**	876
Closing balance	**9,827**	6,285

Note 15. Current liabilities - trade and other payables

	Consolidated 2016 $'000	2015 $'000
Trade payables	**8,779**	12,922
Other payables and accruals	**6,328**	9,552
	15,107	22,474

Refer to Note 23 for further information on financial instruments.

Note 16. Current liabilities - provisions

	Consolidated 2016 $'000	2015 $'000
Employee benefits	**6,512**	6,243
Deferred lease incentives	**524**	524
Onerous lease	**1,791**	–
	8,827	6,767

Refer to Note 19 for further information.

Note 17. Non-current liabilities - payables

	Consolidated	
	2016 $'000	**2015 $'000**
Other payables and accruals	**1,050**	–

Refer to Note 23 for further information on financial instruments.

Note 18. Non-current liabilities - borrowings

	Consolidated	
	2016 $'000	**2015 $'000**
Bank loans	**2,447**	–

Refer to Note 23 for further information on financial instruments.

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2016 $'000	**2015 $'000**
Bank loans	**2,447**	–

Assets pledged as security
The bank loans are secured by guarantees over the Group's assets.

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2016 $'000	**2015 $'000**
Total facilities		
Interchangeable facilities	**17,000**	2,000
Bank loans	**3,000**	3,000
Guarantee facility	**5,319**	5,000
	25,319	10,000
Used at the reporting date		
Interchangeable facilities	**–**	–
Bank loans	**2,447**	–
Guarantee facility	**5,319**	4,325
	7,766	4,325
Unused at the reporting date		
Interchangeable facilities	**17,000**	2,000
Bank loans	**553**	3,000
Guarantee facility	**–**	675
	17,553	5,675

Note 19. Non-current liabilities - provisions

	Consolidated 2016 $'000	Consolidated 2015 $'000
Employee benefits	**551**	646
Deferred lease incentives	**1,532**	2,056
Lease make good	**437**	517
Onerous lease	**2,230**	–
	4,750	3,219

Deferred lease incentives
The provision represents operating lease incentives received. The incentives are allocated to profit or loss in such a manner that the rent expense is recognised on a straight-line basis over the lease term.

Lease make good
The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Onerous lease
The provision represents the present value of the estimated costs, net of any sub-lease revenue, that will be incurred until the end of the lease terms where the obligation is expected to exceed the economic benefit to be received.

Movements in provisions
Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

Consolidated - 2016	Deferred lease incentive $'000	Lease make good $'000	Onerous lease $'000
Carrying amount at the start of the year	2,580	517	–
Additional provisions recognised	–	19	6,401
Additions through business combinations (Note 31)	–	14	–
Amounts used	(524)	–	(2,380)
Payments	–	(3)	–
Unused amounts reversed	–	(110)	–
Carrying amount at the end of the year	2,056	437	4,021

Note 20. Equity - issued capital

	Consolidated			
	2016 Shares	**2015 Shares**	**2016 $'000**	**2015 $'000**
Ordinary shares - fully paid	**127,477,311**	92,849,622	**45,563**	44,627

Movements in ordinary share capital

Details	**Date**	**Shares**	**Issue price**	**$'000**
Balance	1 July 2014	57,882,550		9,292
Buy-back of ordinary shares in GAH	29 September 2014	(1,588,620)	$0.00	(413)
Issue of ordinary shares in GAH	29 September 2014	255,200	$0.00	202
Buy-back of ordinary shares in GAH	31 October 2014	(3,855,895)	$0.00	(3,053)
Issue of ordinary shares in GAH	31 October 2014	20,551,717	$0.00	16,268
Acquisition of Grays eCommerce Group Limited (Note 33)	7 November 2014	19,287,806	$0.00	21,795
Issue of ordinary shares in Grays eCommerce Group Limited	6 May 2015	316,864	$0.00	536
Balance	30 June 2015	92,849,622		44,627
Issue of shares	1 July 2015	476,037	$0.84	400
Issue of bonus shares	9 November 2015	33,203,168	$0.00	–
Issue of bonus shares	13 November 2015	631,620	$0.00	–
Issue of shares	25 February 2016	316,864	$1.69	536
Balance	30 June 2016	127,477,311		45,563

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Bonus shares issued

As part of the merger between Grays eCommerce Group Limited (formerly Mnemon Ltd) and Grays (Aust) Holdings Pty Limited on 7 November 2014, shareholders of Grays (Aust) Holdings Pty Limited were entitled to receive additional bonus shares should they have 75% (collectively) or more of the original shares issued at the first year anniversary date of the merger i.e. 7 November 2015.

Share buy-back

There is no current on-market share buy-back of the Company.

Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group may look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

Note 21. Equity - reserves

	Consolidated	
	2016 $'000	**2015 $'000**
Foreign currency translation reserve	**(26)**	(6)
Share-based payments reserve	**259**	22
Share equity reserve	**(7,140)**	(7,140)
	(6,907)	(7,124)

Foreign currency translation reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Share equity reserve

The share equity reserve is a result of accounting for an historical transaction in accordance with AASB 3 'Business Combinations'.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	**Foreign currency translation $'000**	**Share-based payments $'000**	**Share equity $'000**	**Total $'000**
Balance at 1 July 2014	(5)	–	(7,140)	(7,145)
Foreign currency translation	(1)	–	–	(1)
Share-based payments	–	22	–	22
Balance at 30 June 2015	(6)	22	(7,140)	(7,124)
Foreign currency translation	(20)	–	–	(20)
Share-based payments	–	237	–	237
Balance at 30 June 2016	(26)	259	(7,140)	(6,907)

NOTES TO THE FINANCIAL STATEMENTS

continued

Note 22. Equity - dividends

Dividends

There were no other dividends paid, recommended or declared during the current financial year.

Prior to the reverse acquisition transaction that occurred on 7 November 2014, Grays (Aust) Holdings Pty Limited, which is the accounting acquirer of the Group, paid a fully franked special dividend totalling $3,594,000 on 22 September 2014 relating to a buy-back of that company's share capital.

Franking credits

	Consolidated	
	2016 $'000	**2015 $'000**
Franking credits available for subsequent financial years based on a tax rate of 30%	**3,985**	3,925

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

— franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
— franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
— franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 23. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group may use derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Market risk

Foreign currency risk

The Group is not exposed to any significant foreign currency risk.

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	2016		2015	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank loan	**3.24%**	**2,447**	–	–
Net exposure to cash flow interest rate risk		**2,447**		–

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

For the Group, bank loans outstanding total $2,447,000 (2015: $nil). An official increase/decrease in interest rates of 100 (2015: 100) basis points would have an adverse/favourable effect on profit before tax of $24,000 (2015: $nil) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits.

The Group has no significant credit risk exposure and the maximum exposure at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

Liquidity risk
Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated	
	2016 $'000	**2015 $'000**
Interchangeable facilities	**17,000**	2,000
Bank loans	**553**	3,000
Guarantee facility	**–**	675
	17,553	5,675

During the reporting period the Group refinanced its borrowing facilities.

The interchangeable facilities may be drawn at any time and are provided on an on-demand basis.

The bank loan facility has a 3 year term with no fixed repayment schedule.

The guarantee facility is a revolving facility.

Each facility is subject to periodic review with the financier, the next such review date falling within the 2019 financial year.

The interchangeable and bank loan facilities are subject to bank covenants which are tested on a quarterly basis against the Group's EBITDA and on an ongoing basis against any distributions made by the Group.

Remaining contractual maturities
The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Note 23. Financial instruments (continued)

Consolidated - 2016	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	8,779	–	–	–	8,779
Other payables	–	3,757	1,050	–	–	4,807
Interest-bearing - variable						
Bank loans	3.24%	–	–	2,447	–	2,447
Total non-derivatives		12,536	1,050	2,447	–	16,033

Consolidated - 2015	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	12,922	–	–	–	12,922
Other payables	–	3,677	–	–	–	3,677
Total non-derivatives	–	16,599	–	–	–	16,599

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 24. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2016	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Liabilities				
Contingent consideration*	–	–	2,100	2,100
Total liabilities	–	–	2,100	2,100

* Contingent consideration relates to the acquisition of DMS Davlan Pty Limited's business assets and is included in other payables and accruals as at 30 June 2016. Refer to Note 31 for further information.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 2 and level 3
The fair value of the contingent consideration has been valued using a discounted cash flow model.

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Contingent consideration $'000	Total $'000
Balance at 1 July 2014	–	–
Balance at 30 June 2015	–	–
Additions	2,100	2,100
Balance at 30 June 2016	**2,100**	**2,100**

Note 25. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2016 %	**2015 %**
Short-term employee benefits	**2,759,813**	2,682,401
Post-employment benefits	**189,708**	197,981
Long-term benefits	**20,997**	28,690
Termination benefits	**250,442**	75,651
Share-based payments	**167,418**	21,338
	3,388,378	3,006,061

Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company:

	Consolidated	
	2016 %	**2015 %**
Audit services - Ernst & Young		
Audit or review of the financial statements	**278,825**	345,390
Other services - Ernst & Young		
Other audit services	**35,370**	19,000
Tax compliance services	**67,850**	33,200
Acquisition and merger integration taxation services	**–**	201,180
	103,220	253,380
	382,045	598,770

Note 27. Contingent liabilities

The Group has given bank guarantees as at 30 June 2016 as follows:

	Consolidated	
	2016 $'000	**2015 $'000**
Bank guarantees	**5,319**	4,325

As at 30 June 2016 $5,319,000 of the bank guarantee facility has been utilised (2015: $4,325,000) and $nil was unused (2015: $675,000)

During the course of its business the Group may issue to its customers guarantees relating to the future financial outcomes of auction sales events. The Group has internal controls in place and a Board review process to ensure that there are no potential future losses arising from these guarantees. At the end of the financial year, the maximum exposure is $15,000,000 of guarantee commitments of this nature on issue, all of which are expected to be settled within 12 months from balance date. The Group does not expect that any of these guarantees will result in losses.

Note 28. Commitments

	Consolidated	
	2016 $'000	**2015 $'000**
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	**8,626**	9,857
One to five years	**25,313**	28,207
More than five years	**3,815**	4,422
	37,754	42,486

Operating lease commitments includes contracted amounts for various motor vehicles, equipment and buildings. The leases have an average life of between one and eight years. There are no restrictions placed upon the lessee by entering into these leases. The leases have various escalation clauses. On renewal, the terms of the lease are renegotiated.

Note 29. Related party transactions

Parent entity
Grays eCommerce Group Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in Note 32.

Key management personnel
Disclosures relating to key management personnel are set out in Note 25 and the remuneration report included in the directors' report.

Transactions with related parties
There were no transactions with related parties at the current and previous reporting date.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2016 $'000	**2015 $'000**
Loss after income tax	**(15,582)**	(2,247)
Total comprehensive income	**(15,582)**	(2,247)

Statement of financial position

	Parent	
	2016 $'000	**2015 $'000**
Total current assets	**129**	30
Total assets	**91,450**	103,731
Total current liabilities	**17**	99
Total liabilities	**2,465**	99
Equity		
Issued capital	**111,063**	110,128
Share-based payments reserve	**259**	259
Accumulated losses	**(22,337)**	(6,755)
Total equity	**88,985**	103,632

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity is a party to a deed of cross guarantee (refer Note 33), under which it guarantees the debts of its subsidiaries as at 30 June 2016.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 and 30 June 2015 other than those noted in Note 27.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2015.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in Note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 31. Business combinations

Acquisition of DMS Davlan Pty Limited's business assets
On 3 July 2015, the Group acquired the business assets of DMS Davlan Pty Limited ('DMS Davlan'). DMS Davlan is a leader in the sale by auction of agricultural machinery and brings recognised expertise in the transport and civil construction industries. The acquisition has been accounted for using the acquisition method.

The consolidated statement of profit or loss and comprehensive income includes the acquired business from acquisition date.

Details of the acquisition of DMS Davlan Pty Limited's business assets are as follows:

	Fair value $'000
Property, plant and equipment	146
Deferred tax asset	149
Provisions	(510)
Net liabilities acquired	(215)
Goodwill	5,412
Acquisition-date fair value of the total consideration transferred	5,197
Representing:	
Cash paid or payable to vendor	2,697
Grays eCommerce Group Limited shares issued to vendor	400
Fair value of contingent consideration	2,100
	5,197
Acquisition and merger integration costs expensed to profit or loss	93
Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	5,197
Less: contingent consideration	(2,100)
Less: shares issued by Company as part of consideration	(400)
Net cash used	2,697

The assets and liabilities of DMS Davlan were integrated into disparate geographic operations of the Group's B2B segment. As such, due to the integration of DMS Davlan employees, locations and sales force, the Group is unable to accurately extract separate DMS Davlan revenue or profit information.

If the combination had taken place at the beginning of the financial year (1 July 2015) revenue and profit would not have been materially affected.

The goodwill is attributed to the expected synergies and other benefits combining the activities of DMS Davlan to the Group. The values identified in relation to the acquisition of the business are final as at 30 June 2016.

Grays (Aust) Holdings Pty Limited
On 7 November 2014, the Company acquired 100% of the issued securities of Grays (Aust) Holdings Pty Limited, an unlisted company based in Australia, operating in online retail, auctioneering and valuation services.

The acquisition of Grays (Aust) Holdings Pty Limited is considered a reverse acquisition in accordance with AASB 3 'Business Combinations', with Grays (Aust) Holdings Pty Limited deemed the parent for reporting purposes and the accounting subsidiary being Mnemon Limited.

Details of the acquisition of Grays eCommerce Group Limited (formerly Mnemon Limited) are as follows:

	Fair value $'000
Cash and cash equivalents	5,867
Trade receivables	1,040
Inventories	10,558
Property, plant and equipment	166
Other intangible assets	1,814
Deferred tax asset	876
Trade payables	(16,768)
Contingent liabilities	(1,152)
Provisions	(2,502)
Net liabilities acquired	(101)
Goodwill	21,896
Acquisition-date fair value of the total consideration transferred	21,795
Representing:	
Grays eCommerce Group Limited shares issued to vendor	21,795
Acquisition costs expensed to profit or loss	6,491

	Consolidated	
	2016 %	**2015 %**
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	–	21,795
Less: cash and cash equivalents	–	(5,867)
Less: scrip-for-scrip issued by as part of consideration	–	(21,795)
Net cash received	–	(5,867)

The goodwill is attributed to the expected synergies and other benefits combining the activities of Mnemon Limited to the Group. The values identified in relation to the acquisition of the company are final as at 30 June 2016.

Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

Name	Principal place of business/ Country of incorporation	Ownership interest 2016 %	Ownership interest 2015 %
Grays (Aust) Holdings Pty Limited	Australia	**100.00%**	100.00%
Graysonline S.A. Pty Limited	Australia	**100.00%**	100.00%
Grays (NSW) Pty Limited	Australia	**100.00%**	100.00%
Grays Eisdell Timms (WA) Pty Limited	Australia	**100.00%**	100.00%
Grays (Vic) Pty Limited	Australia	**100.00%**	100.00%
Grays Eisdell Timms (Qld) Pty Limited	Australia	**100.00%**	100.00%
Grays Auctions Limited	New Zealand	**100.00%**	100.00%
GLC Fine Wines & Liquor Pty Limited	Australia	**100.00%**	100.00%
CM Pty Limited	Australia	**100.00%**	100.00%
GEM Trust	Australia	**100.00%**	100.00%
GEG No.1 Pty Ltd (formerly DealsDirect Group Pty Limited)	Australia	**100.00%**	100.00%
GEG No.2 Pty Ltd (formerly DealsDirect Pty Limited)	Australia	**100.00%**	100.00%
GEG No.3 Pty Ltd (formerly TopBuy Australia Pty Limited)	Australia	**100.00%**	100.00%

Note 33. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Grays eCommerce Group Limited

GEG No.1 Pty Ltd (formerly DealsDirect Group Pty Limited)

GEG No.2 Pty Ltd (formerly DealsDirect Pty Limited)

GEG No.3 Pty Ltd (formerly TopBuy Australia Pty Limited)

Grays (Aust) Holdings Pty Limited

Graysonline S.A. Pty Limited

Grays (NSW) Pty Limited

Grays Eisdell Timms (WA) Pty Limited

Grays (Vic) Pty Limited

Grays Eisdell Timms (Qld) Pty Limited

GLC Fine Wines & Liquor Pty Limited

CM Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and a directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Grays eCommerce Group Limited, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position of the Closed Group are substantially the same as the Group's and therefore have not been separately disclosed.

Note 34. Events after the reporting period

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 35. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2016 $'000	**2015 $'000**
Loss after income tax benefit for the year	**(20,019)**	(1,205)
Adjustments for:		
Depreciation and amortisation	**2,538**	2,632
Net loss on disposal of property, plant and equipment	**–**	29
Foreign exchange differences	**(20)**	–
Net loss on disposal of business	**13,051**	–
Acquisition and merger integration costs	**288**	6,491
Share-based payments	**237**	22
Change in operating assets and liabilities:		
Decrease in trade and other receivables	**1,511**	875
Decrease in inventories	**7,362**	4,978
Increase in income tax refund due	**(59)**	–
Increase in deferred tax assets	**(3,393)**	(2,505)
Increase in prepayments	**(2,513)**	(1,516)
Decrease in trade and other payables	**(7,881)**	(12,866)
Increase/(decrease) in provision for income tax	**(1,107)**	1,107
Increase/(decrease) in provisions	**3,081**	(278)
Net cash used in operating activities	**(6,924)**	(2,236)

Note 36. Earnings per share

	Consolidated	
	2016 $'000	**2015 $'000**
Loss after income tax attributable to the owners of Grays eCommerce Group Limited	**(20,019)**	(1,205)

	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	**115,058,617**	76,831,724
Weighted average number of ordinary shares used in calculating diluted earnings per share	**115,058,617**	76,831,724

	Cents	**Cents**
Basic earnings per share	**(17.40)**	(1.57)
Diluted earnings per share	**(17.40)**	(1.57)

2,811,173 performance rights outstanding as at 30 June 2016 (2015: 2,400,000) have been excluded from the above calculations, as they were anti-dilutive.

Note 37. Share-based payments

Grays eCommerce Group Limited Performance Rights Plan ('PRP')

The PRP was adopted by the Board on 12 December 2014 and was established to reward, retain and motivate senior executives. Participation in the PRP is at the Board's discretion and no individual has a contracted right to participate in the PRP or to receive any guaranteed benefits. Further details are provided in the Remuneration Report section of the Directors' Report.

Each employee performance right converts into one ordinary share of Grays eCommerce Group Limited on exercise. No amounts are paid or payable by the recipient of the performance right. The performance rights carry neither rights to dividends nor voting rights.

Performance Rights will vest to the extent that the applicable performance, service, or other vesting conditions specified at the time of the grant are satisfied (collectively the 'Performance Criteria'). Performance Criteria include conditions relating to continuous employment or service, the individual performance of the participant and the Group's performance. Typically, the Performance Criteria must be satisfied within a predetermined performance period. Both the Performance Criteria and the performance period are set by the Board at its absolute discretion.

The Board has set the following Performance Criteria for the performance period for the Performance Rights granted to each executive during the years ended 30 June 2016 and 30 June 2015:

— 50% of the Performance Rights granted will vest subject to an earnings per share ('EPS') performance hurdle over the relevant vesting period; and
— the remaining 50% of the Performance Rights granted will vest subject to a relative total shareholders return ('TSR') performance hurdle over the relevant vesting period.

The percentage of rights that vest, if any, will be determined by reference to the TSR and EPS vesting schedules, as summarised in the Remuneration report section of the Directors' report.

Share-based payments expense for the financial year was $237,000 (2015: $22,000)

Note 37. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

2016

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
07/03/2015	30/06/2017	279,330	–	–	–	279,330
07/03/2015	30/06/2018	279,329	–	–	–	279,329
07/03/2015	30/06/2019	558,659	–	–	–	558,659
01/06/2015	30/06/2017	391,062	–	–	(223,464)	167,598
01/06/2015	30/06/2018	391,062	–	–	(223,464)	167,598
01/06/2015	30/06/2019	782,124	–	–	(446,929)	335,195
09/11/2015	30/06/2017	–	74,488	–	–	74,488
09/11/2015	30/06/2018	–	74,488	–	–	74,488
09/11/2015	30/06/2019	–	74,488	–	–	74,488
24/11/2015	09/11/2017	–	200,000	–	–	200,000
24/11/2015	09/11/2018	–	200,000	–	–	200,000
24/11/2015	09/11/2019	–	400,000	–	–	400,000
		2,681,566	1,023,464	–	(893,857)	2,811,173

2015

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
07/03/2015	30/06/2017	–	279,330	–	–	279,330
07/03/2015	30/06/2018	–	279,329	–	–	279,329
07/03/2015	30/06/2019	–	558,659	–	–	558,659
01/06/2015	30/06/2017	–	391,062	–	–	391,062
01/06/2015	30/06/2018	–	391,062	–	–	391,062
01/06/2015	30/06/2019	–	782,124	–	–	782,124
		–	2,681,566	–	–	2,681,566

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 3 years (2015: 3 years).

Note 37. Share-based payments (continued)

For the performance rights granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
09/11/2015	30/06/2017	$1.02	40.00%	–	1.97%	$0.36
09/11/2015	30/06/2017	$1.02	40.00%	–	1.97%	$0.46
09/11/2015	30/06/2018	$1.02	40.00%	–	2.04%	$0.43
09/11/2015	30/06/2018	$1.02	40.00%	–	2.04%	$0.59
09/11/2015	30/06/2019	$1.02	40.00%	–	2.15%	$0.48
09/11/2015	30/06/2019	$1.02	40.00%	–	2.15%	$0.63
24/11/2015	30/06/2017	$1.13	40.00%	–	2.02%	$0.51
24/11/2015	30/06/2017	$1.13	40.00%	–	2.02%	$0.59
24/11/2015	30/06/2018	$1.13	40.00%	–	2.11%	$0.57
24/11/2015	30/06/2018	$1.13	40.00%	–	2.11%	$0.65
24/11/2015	30/06/2019	$1.13	40.00%	–	2.20%	$0.61
24/11/2015	30/06/2019	$1.13	40.00%	–	2.20%	$0.70

The weighted average fair value of the performance rights granted during the financial year is $0.59. The performance rights have features akin to options, except that there is no exercise price payable. The performance rights were valued based on the underlying price of the Company's shares, adjusted for the impact of expected dividends.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2016

In the directors' opinion:

— the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
— the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 2 to the financial statements;
— the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
— there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
— at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 33 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Jonathan Pinshaw
Chairman

22 August 2016
Sydney

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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Sydney NSW 2000 Australia
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Independent auditor's report to the members of Grays eCommerce Group Limited

Report on the financial report

We have audited the accompanying financial report of Grays eCommerce Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

INDEPENDENT AUDITOR'S REPORT

continued

Opinion

In our opinion:

a. the financial report of Grays eCommerce Group Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 13 to 23 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Grays eCommerce Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Christopher George
Partner
Sydney
22 August 2016

SHAREHOLDER INFORMATION

FOR THE YEAR ENDED 30 JUNE 2016

The shareholder information set out below was applicable as at 8 August 2016.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	% of issued capital	Number of ordinary shares	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	0.17	216,400	2,194	–
1,001 to 5,000	0.66	841,075	311	–
5,001 to 10,000	1.07	1,359,176	168	–
10,001 to 100,000	6.63	8,455,873	266	11
100,001 and over	91.47	116,604,787	95	4
	100.00	127,477,311	3,034	15
Holding less than a marketable parcel	0.05	65,659	376	–

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	**% of total shares issued**
Alfred Street Nominees Pty Limited	16,247,946	12.75
HSBC Custody Nominees (Australia) Limited	13,682,380	10.73
UBS Nominees Pty Ltd	12,905,714	10.12
Gold Fields House Nominees Pty Ltd	9,965,241	7.82
J P Morgan Nominees Australia Limited	6,900,856	5.41
Citicorp Nominees Pty Limited	4,682,465	3.67
Mark Bayliss	3,928,773	3.08
Adam Scharer	3,737,793	2.93
Geoffrey Kelvin Gray	3,588,750	2.82
Michael Hayes + Tanya Melnychenko (The Hayes Family A/C)	2,796,450	2.19
Alfred Street Nominees Pty Limited (IDD Caledonia A/C)	2,792,526	2.19
Man Holdings Pty Limited (The Nelson Hybrid A/C)	2,792,526	2.19
Fenton Paul Healy (Cheeky Monkey A/C)	2,498,149	1.96
ACK Pty Ltd (J Markoff Family A/C)	2,000,000	1.57
Bernanne Pty Ltd	1,663,250	1.30
Denis Matthews Pty Ltd (Denis Matthews Family A/C)	1,276,000	1.00
ACN 167 316 109 PTY Limited	1,263,240	0.99
Mr Craig Anthony Hillman	1,071,250	0.84
Asia Union Investments Pty Ltd	900,000	0.71
Alceon Liquid Strategies Pty Ltd (ALS A/C)	872,128	0.68
	95,565,437	74.95

Unquoted equity securities

	Number on issue	Number of holders
Performance rights over ordinary shares	2,811,171	15

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Caledonia (Private) Investments Pty Limited	15,266,445	11.98
Perpetual Limited	9,353,087	7.34
SG Hiscock & Company Limited	6,940,165	5.44

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

Restricted Securities

The Company had no restricted securities on issue as at 8 August 2016.

On-Market Buy-Backs

There is no current on-market buy-back in relation to the Company's securities.

CORPORATE DIRECTORY

Directors	Jonathan Pinshaw (Chairman) Mark Bayliss (Executive Director and Chief Executive Officer) Naseema Sparks (Non-Executive Director) Will Vicars (Non-Executive Director) Bernie Campbell (Non-Executive Director)
Alternate director	Bernard Stanton (Alternate to Will Vicars)
Company secretary	Leanne Ralph David Grbin
Notice of annual general meeting	The details of the annual general meeting of Grays eCommerce Group Limited are: Thursday 28 November 2016 at 11am at the offices of Minter Ellison Level 40, Governor Macquarie Tower 1 Farrer Place Sydney NSW 2000
Registered office	Homebush Corporate Park 29-33 Carter Street Lidcombe NSW 2141 Tel: +61 2 9741 9600 Fax: +61 2 9741 9680
Principal place of business	Homebush Corporate Park 29-33 Carter Street Lidcombe NSW 2141
Share register	Computershare Investor Services Pty Limited Level 4, 60 Carrington Street Sydney NSW 2000 Tel: 1300 787 272 Fax: +61 2 8235 8150
Auditor	Ernst & Young Level 34, The EY Centre 200 George Street Sydney NSW 2000
Solicitors	Minter Ellison Level 40, Governor Macquarie Tower 1 Farrer Place Sydney NSW 2000
Stock exchange listing	Grays eCommerce Group Limited shares are listed on the Australian Securities Exchange (ASX code: GEG)
Website	www.graysecommercegroup.com.au
Corporate Governance Statement	The Corporate Governance Statement was approved by the Board of Directors on 22 August 2016 and can be found on the Investor Relations page at www.graysecommercegroup.com.au

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