



NOTICE OF ANNUAL MEETING

MERCER GROUP LIMITED

Notice is given that the annual meeting of shareholders of Mercer Group Limited (the "**Company**") convened by the Board, will be held on 18 October 2016 commencing at 3.00 pm (New Zealand time) at The George Hotel, 50 Park Terrace in Christchurch.

BUSINESS TO BE TRANSACTED

1. To receive and consider the financial statements and directors' report for the financial year ended 30 June 2016.
2. To consider and, if thought fit, pass the following ordinary resolutions (each a "**Resolution**" and together the "**Resolutions**"), which are resolutions to be passed by a simple majority of the votes of shareholders entitled to vote and voting on the Resolution:
 - (a) That Paul Smart be re-elected as a director of the Company.
 - (b) That the directors reappoint Deloitte as auditors of the Company and the directors be authorised to fix the auditors' fees for the coming year.
 - (c) Pursuant to rule 7(c) of the Takeovers Code ("**Code**"), to authorise and approve the *in specie* distribution of 4,975,118 ordinary shares and 1,658,375 ordinary shares in the Company from the Murray Capital Rakaia Fund Limited Partnership ("**Rakaia Fund**") to Asset Management Limited ("**Asset Management**") and National Mortgage Underwriters Limited ("**National Mortgage**") respectively on the terms and conditions described in the explanatory notes to these Resolutions (the "**Distribution**").
 - (d) Pursuant to rule 7(d) of the Code and rule 9.2.1 of the NZX Limited Main Board Listing Rules ("**Listing Rules**") and subject to the approval of Resolutions 2(e) and 2(f), to authorise and approve the issue by the Company of up to 701,933,504 ordinary shares (on the basis of 2.25 new ordinary shares for every one existing ordinary share) at \$0.01 per share, on the terms and conditions described in the explanatory notes to these Resolutions ("**Rights Issue**").
 - (e) Pursuant to rule 7(d) of the Code and Listing Rules 7.5.1 and 9.2.1 and subject to the approval of Resolution 2(d) and 2(f), to authorise and approve the underwrite of the Rights Issue by Asset Management of up to a maximum of 701,933,504 ordinary shares in the Company on the terms and conditions described in the explanatory notes to these Resolutions ("**Underwrite**").
 - (f) Pursuant to Listing Rule 9.2.1 and subject to the approval of Resolutions 2(d) and 2(e), to authorise and approve the payment to Asset Management of the underwriting fee of \$280,773.40 plus GST (if any) (the "**Underwriting Fee**").

Please refer to the explanatory notes and the appraisal and independent adviser's report that accompany this notice of meeting.

By order of the board of directors

John Dennehy

Chairman

3 October 2016

EXPLANATORY NOTES TO THE RESOLUTIONS

1. RESOLUTION 2(A) - RE-ELECTION OF DIRECTOR

- 1.1 Listing Rule 3.3.11 and the Company's Constitution require that at least one third of the directors retire at each annual general meeting of the Company. The directors to retire at each annual general meeting are those that have been longest in office since they were last elected or deemed elected.
- 1.2 The Company currently has three directors, and, of the three directors of the Company, Paul Smart has been longest in office since he was last elected. Accordingly, Paul is required to retire as a director by rotation pursuant to Listing Rule 3.3.11 and the Company's Constitution and, being eligible, offers himself for re-election.
- 1.3 Paul is a professional director and an experienced finance professional. He is also a Chartered Accountant and a long-standing member of the Institute of Directors. He is currently a director of Intercity Group, Solarcity and a number of other private companies, and has been a director of the Company since 31 July 2012. Paul has had executive experience in start-ups, public companies, multi nationals and a state owned enterprise.
- 1.4 The Board considers that Paul would qualify as an independent director.

2. RESOLUTION 2(C) - AUTHORISATION FOR DISTRIBUTION

- 2.1 Rakaia Fund currently holds 6,633,493 ordinary shares (the "**Rakaia Fund Shares**") in the Company (being 2.13%). The Rakaia Fund is a private equity fund structured as a limited partnership. The general partner of the Rakaia Fund is Murray Capital General Partner Limited ("**Rakaia Fund General Partner**").
- 2.2 Prior to 2 September 2016, Rakaia Fund was the Company's largest shareholder, holding 100,000,000 ordinary shares in the Company. On 2 September 2016, the Rakaia Fund made an *in specie* distribution of 93,366,507 ordinary shares in the Company (being 29.93%) to 38 of its limited partners for nil consideration.
- 2.3 Rakaia Fund is now planning on doing an *in specie* distribution of the Rakaia Fund Shares (being the remaining ordinary shares in the Company held by the Rakaia Fund) for nil consideration to Asset Management and National Mortgage (the "**Distribution**"), subject to resolution 2(c) being passed by shareholders (see paragraphs 2.8 to 2.10 for an explanation for why shareholders need to approve the Distribution by way of an ordinary resolution). The Distribution will occur as soon as practicable following approval by shareholders of resolution 2(c).
- 2.4 Humphry John Davy Rolleston ("**Humphry Rolleston**") is a director of the Rakaia Fund General Partner and is also a director and major shareholder of Asset Management and National Mortgage. Please see section 1.2 of the independent adviser's report and appraisal report ("**Report**") prepared by Simmons Corporate Finance Limited and attached to this notice of meeting for further information about Humphry Rolleston and his relationship with the Company.

2.5 Accordingly, Asset Management and National Mortgage are associated with, and effectively controlled by, Humphry Rolleston through his ownership and directorship of both entities and the Rakaia Fund is associated with Humphry Rolleston through his directorship of the Rakaia Fund General Partner. Humphry Rolleston is also associated with each the following shareholders in the Company:

- (a) Humphry Rolleston and Graham William Riley;
- (b) Asset Trading Limited; and
- (c) Victoria Mansions Limited,

(together with Humphry Rolleston, the Rakaia Fund, National Mortgage and Asset Management, the "**Rolleston Associates**" and each a "**Rolleston Associate**"). See paragraph 8 below for further discussion of *associates*.

2.6 As at the date of this notice of meeting:

- (a) Asset Management holds 14.34% of all voting rights in the Company
- (b) National Mortgage holds 0.00% of all of the voting rights in the Company;
- (c) the other Rolleston Associates hold 13.78% of all voting rights in the Company; and
- (d) shareholders not associated with the Rolleston Associates ("**Non-Associated Shareholders**") hold 71.88% of all voting rights in the Company

2.7 If resolution 2(c) is not passed by shareholders, the Distribution will not occur and the Rakaia Fund will continue to hold 6,633,493 ordinary shares in the Company.

Application of Takeovers Code to the Distribution

2.8 The Takeovers Code ("**Code**") applies to code companies. The Company is a code company.

2.9 Rule 6(1)(b) of the Code provides that a person who (together with their associates) holds or controls 20% or more of the voting rights in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company. This is known as the "**Fundamental Rule**". Unless an exception applies, the Distribution will result in Asset Management and National Mortgage breaching Rule 6(1)(b) of the Code as the Rolleston Associates currently hold more than 20% of the voting rights in the Company and Asset Management and National Mortgage will increase their holding of voting rights in the Company pursuant to the Distribution.

2.10 Rule 7(c) of the Code is an exception to the Fundamental Rule. Rule 7(c) of the Code provides that a person may become the holder or controller of an increased percentage of the voting rights in a code company if the acquisition of voting rights by that person is approved by an ordinary resolution of the code company in accordance with Rules 15 and 17 to 19A of the Code. Therefore, if the Distribution is approved at the meeting of Shareholders by an ordinary resolution (resolution 2(c) above), the Distribution will be permitted under Rule 7(c) of the Code (as an exception to the Fundamental Rule).

Maximum number and percentages after completion of Distribution

2.11 After the completion of the Distribution, the particulars of the maximum number and percentage of voting securities to be distributed to, and maximum percentage to be held or controlled by, the Rolleston Associates and Non-Associated Shareholders are:

Party	Number of voting securities currently held	Number of voting securities being distributed	% of total voting securities (including all voting securities being distributed) that the number of voting securities being distributed represents	% of all voting securities that will be held or controlled after completion of the Distribution	% of voting securities that will be held or controlled together with all associates after completion of the Distribution
Rakaia Fund	6,633,493	(6,633,493)	(2.13%)	0.00%	28.12%
Asset Management	44,737,879	4,975,118	1.59%	15.94%	28.12%
Humphry Rolleston and Graham William Riley	35,687,988	0	0%	11.44%	28.12%
National Mortgage	0	1,658,375	0.53%	0.53%	28.12%
Asset Trading Limited	612,567	0	0%	0.20%	28.12%
Humphry Rolleston	26,482	0	0%	0.01%	28.12%
Victoria Mansions Limited	21,599	0	0%	0.01%	28.12%
Non-Associated Shareholders	224,250,432	0	0%	71.88%	71.88%

3. RESOLUTIONS 2(D), 2(E) AND 2 (F) - AUTHORISATION FOR RENOUNCEABLE RIGHTS ISSUE AND UNDERWRITE

Rights Issue

- 3.1 The Company is seeking to raise additional equity capital of up to a maximum of \$7,019,335 by issuing up to 701,933,504 ordinary shares in the Company pursuant to a renounceable rights issue in the ratio of 2.25 rights for every 1 existing ordinary share. The rights will be issued for no consideration and each right will entitle (but will not oblige) the holder of the right to subscribe for 1 new ordinary share ("**New Ordinary Share**") at the issue price of \$0.01 per New Ordinary Share. Each New Ordinary Share will rank *pari passu* in all respects with all existing ordinary shares in the Company.
- 3.2 The record date, being the date for determining the extent of each of the Company's shareholder's ("**Shareholders**") entitlement to rights pursuant to the Rights Issue, will be 5:00pm on Monday 31 October 2016 ("**Record Date**"). The date by when applications for New Ordinary Shares are to be received (and when the New Ordinary Shares must be paid for in full) is proposed to be 5:00pm on Monday 21 November 2016 ("**Application Date**").

Underwrite and Underwriting Fee

- 3.3 Subject to Shareholder approval (pursuant to resolutions 2(e) and 2(f)) and the Rights Issue being approved (pursuant to resolution 2(d)):
- (a) the Rights Issue is to be underwritten by Asset Management so that, to the extent that 701,933,504 New Ordinary Shares are not subscribed for pursuant to the Rights Issue, Asset Management will subscribe for the shortfall ("**Shortfall Shares**"); and
 - (b) Asset Management will:
 - (i) subscribe and pay for the Shortfall Shares; and
 - (ii) be paid the Underwriting Fee of \$280,773.40 plus GST (if any) (based on 4.0% of the \$7.019 million of capital that is to be raised under the Rights Issue),on 30 November 2016.

Dilutionary Impact of Capital Raise Transactions

- 3.4 If the transactions contemplated by Resolutions 2(d), 2(e) and 2(f) (being the Rights Issue, the Underwrite and payment of the Underwriting Fee) (the "**Capital Raise Transactions**") are approved, those Shareholders who do not subscribe for New Ordinary Shares to which they are entitled under the Rights Issue, will have their proportionate shareholdings in the Company diluted. The dilutionary impact will differ depending on the extent to which Shareholders subscribe for New Ordinary Shares to which they are entitled under the Rights Issue.
- 3.5 Please see page 4 of the Report (under the heading "Rights Issue and Underwriting Arrangements") for further information on the dilutionary impact of the Capital Raise Transactions.

Positive and Negative Features of Capital Raise Transactions

- 3.6 The Report set out a number of positive and negative features of the Capital Raise Transactions and concludes that, after having regard to all relevant factors, on balance the positive aspects of the Capital Raise Transaction and the allotment of New Ordinary Shares to Asset Management (under the Underwrite) outweigh the negative aspects from the perspective of the Non-Associated Shareholders. Please refer to section 3 of the Report for a detailed analysis of the merits of the Capital Raise Transactions and, in particular, section 3.2 for a detailed description of the positive and negative aspects of the Capital Raise Transactions.

Parties

- 3.7 The parties involved in the Capital Raise Transactions (together the "**Parties**") are the Rolleston Associates (for a further discussion of the relationship between the Parties, see paragraph 8 below).

General application of the Takeovers Code to the Capital Raise Transactions

- 3.8 The Rights Issue and Underwrite require the approval of the Shareholders by way of an ordinary resolution pursuant to the Code. Shareholder approval is required because the Rights Issue and the Underwrite may result in Asset Management and the other Rolleston Associates (as associates) becoming the holder or controller of an increased percentage of the voting rights in the Company (above 20%) in breach of the Fundamental Rule.
- 3.9 Rule 7(d) of the Code is an exception to the Fundamental Rule. Rule 7(d) of the Code provides that a person may become the holder or controller of an increased percentage of the voting rights in a code company if the allotment is approved by an ordinary resolution of the code company in accordance with Rules 16 to 19B of the Code.
- 3.10 Provided that the Rights Issue and the Underwrite are each approved at the meeting of Shareholders by an ordinary resolution (resolutions 2(d), 2(e) and 2(f) above), the Rights Issue and the Underwrite will be permitted under Rule 7(d) of the Code (as an exception to the Fundamental Rule).

General application of the Listing Rules to the Capital Raise Transactions

- 3.11 Under the Listing Rules (Listing Rule 7.3.1), the Company cannot issue any equity securities (including rights and/or ordinary shares) without the approval of shareholders by an ordinary resolution, unless the issue of equity securities falls within one of the exceptions set out in Listing Rules 7.3.4 to 7.3.11.
- 3.12 The Rights Issue and Underwrite each come within an exception in Listing Rule 7.3.4. However, the Rights Issue, Underwrite and Underwriting Fee each require the approval of the Company's Shareholders by way of an ordinary resolution (resolutions 2(d), 2(e) and 2(f) above) pursuant to the Listing Rules because:
- (a) there is a significant likelihood that the Underwrite will result Asset Management and its associated persons materially increasing their effective control of the Company, which, if not approved by ordinary resolution of Shareholders, would be in breach of Listing Rule 7.5.1 (see paragraph 8 below for further discussion of *associated persons* under the Listing Rules);

- (b) the Rights Issue and Underwrite are a series of transactions which, together, will be a Material Transaction with a Related Party (each as defined in the Listing Rules), which, if not approved by ordinary resolution of Shareholders, would be in breach of Listing Rule 9.2.1 (see paragraph 11 below for further discussion of the application of the Listing Rules); and
- (c) the Underwriting Fee payable to Asset Management exceeds one percent of the Company's Average Market Capitalisation, and is therefore a Material Transaction with a Related Party which, if not approved by ordinary resolution of Shareholders, would be in breach of Listing Rule 9.2.1 (see paragraph 11 below for further discussion of the application of the Listing Rules).

Maximum number and percentages after completion of all Capital Raise Transactions

3.13 After the completion of all of the Capital Raise Transactions, the particulars of the maximum number and percentage of voting securities to be allotted to, and maximum percentage to be held or controlled by, the Rolleston Associates are:

Party	Maximum number of voting securities that could be allotted	% of total voting securities (including all voting securities that could be allotted) that the maximum number to be allotted represents	Maximum % of voting securities that could be held or controlled	Maximum % of voting securities that could be held or controlled together with associates (excluding exempt associates¹)	Maximum % of voting securities that could be held or controlled together with all associates
Rakaia Fund	0	0%	0%	77.88%	77.88%
Asset Management	616,417,729	60.80%	65.70%	65.70%	77.88%
Humphry Rolleston and Graham William Riley	80,297,973	7.92%	11.44%	11.44%	77.88%
National Mortgage	3,731,343	0.37%	0.53%	0.53%	77.88%
Asset Trading Limited	1,378,276	0.14%	0.20%	0.20%	77.88%
Humphry Rolleston	59,585	0.01%	0.01%	0.01%	77.88%
Victoria Mansions Limited	48,598	0.00%	0.01%	0.01%	77.88%

3.14 The disclosures made in the above table are based on the assumptions that:

- (a) the Distribution has occurred;

¹ An exempt associate is a Party that is an associate of another Party that is relying on the exception ("**Exception**") in Rule 7(d) of the Takeovers Code in respect of a Transaction and is itself relying on the Exception in relation to that Transaction. The Exception and the Transaction in relation to which the Parties will rely on the Exception are set out in paragraphs 10.4 and 10.5 below.

- (b) all of the Rolleston Associates take up all of their rights under the Rights Issue (noting that Rakaia Fund will have no rights as it will have distributed all of the Rakaia Fund Shares) and no other Shareholder takes up their rights;
- (c) Asset Management is required to subscribe for the remainder of New Ordinary Shares being 504,563,472 New Ordinary Shares, under the Underwrite (as further described in paragraph 3.3); and
- (d) all of the Rolleston Associates are exempt associates (as that term is defined in paragraphs 10.4 and 10.5 below) in respect of the Rights Issue.

4. TRANSACTIONS ARE CONTINGENT

- 4.1 Entry into the Capital Raise Transactions is contingent on each of the Resolutions in paragraphs 2(d), 2(e) and 2(f) being passed. This means that if the Shareholders do not approve (by ordinary resolution) any of those Resolutions, the Company will not enter into any of the Capital Raise Transactions.

5. PURPOSES OF TRANSACTIONS

Distribution

- 5.1 The Rakaia Fund has already made an *in specie* distribution of 93,366,507 of the 100,000,000 ordinary shares it held in the Company to 38 of its limited partners ("***In Specie Distribution***"). The Distribution represents the *in specie* distribution of the remaining 6,633,493 ordinary shares it holds in the Company to the two remaining limited partners (Asset Management and National Mortgage) on the same terms and conditions as the *In Specie Distribution*. The Rakaia Fund cannot distribute the remaining 6,633,493 ordinary shares until shareholders of the Company approve the Distribution by way of an ordinary resolution for the purposes of rule 7(c) of the Code.
- 5.2 The Rakaia Fund is constrained by its investment guidelines from participating in the Rights Issue. The purpose of the *in specie distribution* (including the Distribution) is to enable the Rakaia Fund to fully distribute its holding of ordinary shares in the Company to its limited partners by way of an *in specie* distribution so that each of them can make their own decision as to whether to participate in the Rights Issue.

Capital Raise Transactions

- 5.3 The Company's total borrowings amounted to \$10,950,000 as at 12 August 2016 comprising the following loans:
- (a) **Bank of New Zealand:** \$7,450,000; and
 - (b) **Gresham Finance Limited:** \$3,500,000.
- 5.4 The Bank of New Zealand funding matures, and is due for repayment, at different times as follows:
- (a) \$3,500,000 matures on 31 October 2017;
 - (b) \$1,900,000 matures in June 2019;

- (c) \$1,000,000 is provided by way of an overdraft facility with no fixed maturity date; and
- (d) \$1,000,000 is provided by way of an overdraft facility – this facility is intended to be repaid from the proceeds of the Capital Raise Transaction (see paragraph 5.6 below).

5.5 The Gresham Finance Limited loan must be repaid by March 2017.

5.6 The purposes of entry into the Capital Raise Transactions (the "**Purposes**") are to:

- (a) reduce the Company's debt by:
 - (i) partially repaying Bank of New Zealand Limited's loan to reduce it to \$6,450,000;
 - (ii) fully repaying Gresham Finance Limited's loan;
- (b) fund general working capital requirements after the debts and costs referred to in paragraphs 5.4(a) and 5.4(c) to (e) are paid;
- (c) pay all costs associated with undertaking the Capital Raise Transactions, including the Company's advisers' fees;
- (d) pay Asset Management's advisers' fees and disbursements in respect of the Underwrite up to a maximum of \$15,000 (plus GST if any); and
- (e) pay the Underwriting Fee to Asset Management.

6. IMPLICATIONS IF RESOLUTIONS FOR CAPITAL RAISE TRANSACTIONS NOT APPROVED

6.1 If the Shareholders do not approve the Resolutions to authorise and approve each of the Capital Raise Transactions and, therefore, the Company is unable to undertake the Capital Raise Transactions, it will not have the required equity to achieve the Purposes. Specifically, the Company will be unable to reduce the debts outlined in paragraph 5.6(a) above. If the Company is unable to reduce these debts, the Company will have inadequate capital to operate and will need to obtain capital from alternative sources, seek a further extension of its loans or look to refinance its debt.

7. RECOMMENDATION

7.1 The directors recommend that the Shareholders approve the Distribution, Rights Issue, Underwrite and Underwriting Fee as described in the Resolutions.

7.2 The directors' reasons for recommending the Distribution are that the Distribution will not affect Humphry Rolleston's, or the Rolleston Associates', control over the Company nor will it have any impact on the Company share price or the liquidity of the Company's shares.

7.3 The directors' reason for this recommendation in relation to the Capital Raise Transactions is that the amount of additional equity capital that will be raised through the Capital Raise Transactions is required by the Company for the Purposes.

8. RELATIONSHIP BETWEEN THE PARTIES

Associates under the Code

- 8.1 For the purposes of the Code (Rule 4), a person is an *associate* of another person if:
- (a) the persons are acting jointly or in concert; or
 - (b) the first person acts, or is accustomed to act, in accordance with the wishes of the other person; or
 - (c) the persons are related companies; or
 - (d) the persons have a business relationship, personal relationship, or an ownership relationship such that they should, under the circumstances, be regarded as associates; or
 - (e) the first person is an associate of a third person who is an associate of the other person (in both cases under any of paragraphs 8.1(a) to (d)) and the nature of the relationships between the first person, the third person, and the other person (or any of them) is such that, under the circumstances, the first person should be regarded as an associate of the other person.
- 8.2 As at the date of this notice of meeting, all of the Rolleston Associates are associates within the meaning of Rule 4 of the Code because:
- (a) these parties might be considered to be acting jointly or in concert;
 - (b) each Rolleston Associate (other than the Rakaia Fund) acts, or is accustomed to act, in accordance with the wishes of Humphry Rolleston;
 - (c) Humphry Rolleston is a director of the Rakaia Fund General Partner; and
 - (d) each Rolleston Associate (other than the Rakaia Fund) has an ownership relationship with Humphry Rolleston such that each Rolleston Associate (other than the Rakaia Fund) should, under the circumstances, be regarded as associates.

Associated Person under the Listing Rules

- 8.3 For the purposes of the Listing Rules, a person (the "**first person**") is an *Associated Person* of another person (the "**second person**") if, in making a decision or exercising a power affecting an issuer, the first person could be influenced as a consequence of an arrangement or relationship existing between, or involving, the first person and the second person. The definition of an *Associated Person* includes where:
- (a) the first person is a company and the second person is a director of the first person;
 - (b) the first person and second person are acting jointly or in concert; or
 - (c) one first person is a company and the second person is the subsidiary or holding company of the first person.
- 8.4 As at the date of this notice of meeting, each of the Rolleston Associates are Associated Persons because:
- (a) these parties might be considered to be acting jointly or in concert;

- (b) Humphry Rolleston is a director of Asset Management, National Mortgage, Asset Trading Limited and Victoria Mansions Limited;
- (c) Humphry Rolleston is the beneficial shareholder of Asset Management, National Mortgage, Asset Trading Limited and Victoria Mansions Limited;
- (d) Humphry Rolleston is a director of the Rakaia Fund General Partner; and
- (e) Asset Management and National Mortgage are limited partners of the Rakaia Fund.

Related Parties under the Listing Rules

8.5 For the purposes of the Listing Rules, *Related Party* is defined in Listing Rule 9.2.3 and includes any person who, at the time of a Material Transaction, is or was at any time within six months before a Material Transaction:

- (a) a director of the issuer;
- (b) the holder of 10% or more of the issuer's voting shares; or
- (c) an *Associated Person* of the issuer or of a director or executive officer of the issuer or any person referred to in paragraphs 8.5(a) and (b).

8.6 As at the date of this notice of meeting, each of the Rolleston Associates are Related Parties of the Company because, during the 6 month period prior to the Rights Issue and Underwrite:

- (a) Humphry Rolleston was a director of the Company (Humphry Rolleston ceased being a director of the Company on 12 July 2016);
- (b) Asset Management held more than 10% of the Company's voting shares; and
- (c) each of the Rolleston Associates are Associated Persons.

9. GENERAL

Voting

9.1 Under the Code and Listing Rules:

- (a) any person, and their associates, that may be allotted voting securities pursuant to the Distribution and/or Capital Raise Transactions;
- (b) any person, and their associates, that is likely to materially increase their control over the Company pursuant to the Distribution and/or Capital Raise Transactions; and
- (c) any Related Party of the Company that is, or is likely to become, party to the Rights Issue or Underwrite,

is disqualified from voting on the Resolutions to approve the relevant transaction. This includes each of the Rolleston Associates.

No arrangement

9.2 Humphry Rolleston, Humphry Rolleston and Graham William Riley, Asset Trading Limited, Victoria Mansions Limited, Asset Management and the Rakaia Fund confirm that there is no agreement or

arrangement (whether legally enforceable or not) that has been, or is intended to be, entered into between them and any other person relating to the allotment, holding, or controlling of the voting securities to be allotted, or to the exercise of voting rights in the Company.

Independent adviser's report and appraisal report

- 9.3 Rule 18 of the Code requires that an independent adviser's report addressing the merits of the Distribution, Rights Issue and Underwrite accompany this notice of meeting.
- 9.4 Under Listing Rules 6.2.2, an appraisal report in respect of the Underwrite must accompany this notice of meeting and under Listing Rule 9.2.5(b), an appraisal report in respect of the related party implications of the Rights Issue, Underwrite and Underwriting Fee must accompany this notice of meeting.
- 9.5 The independent adviser's report required by the Code has been combined with the appraisal report required by the Listing Rules (together the "**Report**"). The Report has been prepared by Simmons Corporate Finance Limited and is attached to this notice of meeting.
- 9.6 The Report addresses the merits of the Distribution, Rights Issue and Underwrite (for the purposes of the Code requirements) and also the related party implications of the Underwrite and Underwriting Fee (for the purposes of the Listing Rules, see pages 12 to 23 of the Report). However, the Company has applied for, and has been granted, a waiver from NZX Limited from the requirement of Listing Rule 9.2.5(b) to the extent that this rule requires the Company to prepare an appraisal report addressing the related party implications of the Rights Issue. The implication for shareholders of this waiver is that the Report does not address the related party implications of the Rights Offer. However, the Report does address the Rights Issue and Underwrite under Listing Rule 7.5 and Listing Rule 9.2 to the extent that the waiver does not apply. The waiver decision can be viewed at www.nzx.com and also gives the reasons for that decision.

Ordinary resolution

- 9.7 An *ordinary resolution* is a resolution that is approved by a simple majority of the votes of those Shareholders entitled to vote and voting on the question.

Approval of notice of meeting

- 9.8 This notice of meeting has been approved by NZX Limited in accordance with Listing Rule 6.1, however NZX takes no responsibility for the content of this notice of meeting. The Company has sent a copy of this notice of meeting to the Takeovers Panel.

Attendance of Meeting and Proxies

- 9.9 Shareholders are entitled to attend the meeting in person, or to appoint a proxy to attend and vote in their place. If Shareholders do not wish to, or are unable to attend the meeting in person and wish to appoint a proxy, a proxy form is enclosed. This form must be completed and returned to Link Market Services Limited (address details set out below) no later than 3.00pm on 17 October 2016 for an appointment of a proxy to be effective. The person appointed as your proxy does not need to be a Shareholder in the Company.

10. TAKEOVERS CODE

10.1 As at the date of this notice of meeting:

- (a) Asset Management holds 14.34% of all voting rights in the Company;
- (b) National Mortgage holds 0.00% of the voting rights in the Company; and
- (c) the other Rolleston Associates hold 13.78% of all voting rights in the Company.

10.2 National Mortgage may receive voting rights under the Distribution as set out above.

10.3 Therefore, the Distribution and the subscription for New Ordinary Shares under the Rights Issue and Underwrite may result in the Rolleston Associates becoming the holders or controllers of an increased percentage of the voting rights in the Company. Unless an exception applies, such an increase would breach the Fundamental Rule.

Reliance on Exception

10.4 The Parties are relying on exceptions to the Fundamental Rule in the Code in respect of the Distribution, Rights Issue and Underwrite are as follows:

- (a) Asset Management and National Mortgage are relying on the exception to the Fundamental Rule set out in Rule 7(c) in respect of the Distribution;
- (b) each Rolleston Associate (other than the Rakaia Fund) is relying on the exception to the Fundamental Rule set out in Rule 7(d) in respect of the Rights Issue; and
- (c) Asset Management is relying on the exception to the Fundamental Rule set out in Rule 7(d) in respect of the Underwrite,

(together, the "**Exceptions**").

10.5 Each Party ("**First Party**") that is an associate of another Party ("**Second Party**") that is relying on an Exception in respect of the Distribution or the Rights Issue and is itself relying on that Exception in relation to the Distribution or the Rights Issue will be deemed to be an "**exempt associate**" of the Second Party in respect of that transaction. Asset Management and National Mortgage will rely on an Exception in respect of the Distribution and will be deemed exempt associates in respect of the Distribution. Each Rolleston Associate (other than the Rakaia Fund) will rely on an Exception in respect of the Rights Issue and will be deemed exempt associates in respect of the Rights Issue.

Calculation basis

10.6 The maximum number and percentages set out below are calculated on the basis:

- (a) of the number of voting securities in the Company on issue at the date of this notice of meeting; and
- (b) that there are no changes to the share capital of the Company (other than as a result of the relevant transaction).

The Fundamental Rule applies to the Distribution, the Rights Issue and the Underwrite as further set out in paragraphs 10.7 to 10.12 below.

Application of the Code to the Distribution

10.7 The particulars of the number and percentage of voting securities to be allotted to, and percentage to be held or controlled by, the Parties after the completion of the Distribution are:

Party	Number of voting securities being distributed	% of total voting securities (including all voting securities being distributed) that the number of voting securities being distributed represents	% of all voting securities that will be held or controlled after completion of the distribution	Maximum % of voting securities that will be held or controlled together with all associates
Rakaia Fund	(6,633,493)	(2.13%)	0%	28.12%
Asset Management	4,975,118	1.59%	15.94%	28.12%
Humphry Rolleston and Graham William Riley	0	0.00%	11.44%	28.12%
National Mortgage	1,658,375	0.53%	0.53%	28.12%
Asset Trading Limited	0	0.00%	0.20%	28.12%
Humphry Rolleston	0	0.00%	0.01%	28.12%
Victoria Mansions Limited	0	0.00%	0.01%	28.12%

Application of the Code to the Rights Issue

10.8 The particulars of the maximum number and percentage of voting securities to be allotted to, and maximum percentage to be held or controlled by, the Parties after the completion of the Rights Issue are:

Party	Maximum number of voting securities that could be allotted	% of total voting securities (including all voting securities that could be allotted) that the maximum number to be allotted represents	Maximum % of voting securities that could be held or controlled	Maximum % of voting securities that could be held or controlled together with associates (excluding exempt associates)	Maximum % of voting securities that could be held or controlled together with all associates
Rakaia Fund	0	0%	0%	55.97%	55.97%
Asset Management	111,854,257	21.96%	31.72%	31.72%	55.97%
Humphry Rolleston and Graham William Riley	80,297,973	15.77%	22.77%	22.77%	55.97%
National Mortgage	3,731,343	0.73%	1.06%	1.06%	55.97%
Asset Trading Limited	1,378,276	0.27%	0.39%	0.39%	55.97%
Humphry Rolleston	59,585	0.01%	0.02%	0.02%	55.97%
Victoria Mansions Limited	48,598	0.01%	0.01%	0.01%	55.97%

10.9 The disclosures made in the above table are based on the assumptions that:

- (a) the Distribution has occurred;
- (b) each of the Shareholders listed in the table:

- (i) takes up all of its rights under the Rights Issue; and
- (ii) does not subscribe for any additional shares under the Rights Issue;
- (c) no other Shareholder takes up its rights; and
- (d) all of the Rolleston Associates (other than the Rakaia Fund) are exempt associates.

10.10 The potential maximum percentages given above are based on the assumption that the Rights Issue is transacted after the Distribution excluding the effect of the Underwrite. However, the Rights Issue is to be underwritten by Asset Management. This means that if Asset Management is required to subscribe for New Ordinary Shares under the Underwrite, the maximum potential percentage of voting securities in the Company that could be held or controlled by the Parties together will increase because the Rolleston Associates are associated. The Underwrite is discussed further below.

Application of the Code to the Underwrite

10.11 The particulars of the maximum number and percentage of voting securities to be allotted to, and maximum percentage to be held or controlled by, the Parties after the completion of the Underwrite are:

Party	Maximum number of voting securities that could be allotted	% of total voting securities on issue that the maximum number to be allotted represents	Maximum % of voting securities that could be held or controlled	Maximum % of voting securities that could be held or controlled together with associates (excluding exempt associates)	Maximum % of voting securities that could be held or controlled together with all associates
Rakaia Fund	0	0%	0%	77.88%	77.88%
Asset Management	701,933,504	69.23%	74.13%	77.88%	77.88%
Humphry Rolleston and Graham William Riley	0	0.00%	3.52%	77.88%	77.88%
National Mortgage	0	0.00%	0.16%	77.88%	77.88%
Asset Trading Limited	0	0.00%	0.06%	77.88%	77.88%
Humphry Rolleston	0	0.00%	0.00%	77.88%	77.88%
Victoria Mansions Limited	0	0.00%	0.00%	77.88%	77.88%

10.12 The number of New Ordinary Shares for which Asset Management will be required to subscribe under the Underwrite is unable to be determined as at the date of this notice of meeting. However, the disclosures made in the above table are based on the assumptions that:

- (a) the Distribution has occurred;
- (b) no Shareholder (including the Shareholders in the table) subscribing for the New Ordinary Shares to which they are entitled under the Rights Issue; and

- (c) Asset Management subscribes for all of the New Ordinary Shares, being 701,933,504, under the Underwrite (as further described in paragraph 3.3 above).

11. LISTING RULES

11.1 The following is a detailed analysis of the application of the Listing Rules to the Capital Raise Transactions. To enter into the Capital Raise Transactions, the Company is required to obtain the approval of its Shareholders, by way of an ordinary resolution, pursuant to the Listing Rules as described below.

Application of the Listing Rules to the Rights Issue and Underwrite

11.2 Listing Rules 7.5.1 and 9.2.1 require the issue of any New Ordinary Shares to Asset Management under the Underwrite to be approved by an ordinary resolution of Shareholders. Each of these Listing Rules is explained further below.

Listing Rule 7.5.1

11.3 Listing Rule 7.5.1 prohibits the Company from issuing securities to persons if there is a significant likelihood that the issue will result in any person or group of Associated Persons materially increasing their ability to exercise, or direct the exercise of, (either then or at any future time) effective control of the Company and that person or group of Associated Persons are entitled before the issue of the securities to exercise not less than 1% of the total votes attaching to securities of the Company, unless the precise terms and conditions of the issue have been approved by an ordinary resolution.

11.4 Prior to the Underwrite, the Rolleston Associates (being a group of Associated Persons under the Listing Rules) are entitled to exercise more than one percent of the Company's total voting securities. There is a significant likelihood that the subscription for New Ordinary Shares under the Underwrite may result in Asset Management and its Associated Persons materially increasing their ability to exercise, or direct the exercise of (either then or at any future time) effective control of the Company. Therefore, the precise terms and conditions of the issue of New Ordinary Shares under the Underwrite need to be approved by existing Shareholders, by way of an ordinary resolution.

Listing Rule 9.2.1

11.5 Listing Rule 9.2.1 prohibits the Company from entering into a Material Transaction with a Related Party, unless the Material Transaction is approved by an ordinary resolution. In this instance, the Rights Issue and Underwrite are a related series of transactions whereby the Company will issue New Ordinary Shares having a market value in excess of 10% of its Average Market Capitalisation (as defined in the Listing Rules), which is a Material Transaction for the purposes of Listing Rule 9.2.2. The Average Market Capitalisation of the Company (based on the Company's share price of \$0.024 as at 29 September 2016) is \$7,487,291, and the total market value of the New Ordinary Shares to be issued pursuant to the Rights Issue and the Underwrite (based on the Company's share price of \$0.024) is \$16,846,404, being 225% of the Average Market Capitalisation of the Company.

11.6 As the Rolleston Associates are Related Parties of the Company (as defined in Listing Rule 9.2.3 and further discussed at paragraphs 8.5 and 8.6 above) and are a direct party to the Rights Issue and Underwrite (being a Material Transaction), the Rights Issue and Underwrite require Shareholder approval, by way of an ordinary resolution, under Listing Rule 9.2.1.

Application of the Listing Rules to the Underwriting Fee

11.7 As noted in paragraph 0 above, Listing Rule 9.2.1 prohibits an issuer from entering into a Material Transaction with a Related Party, unless the Material Transaction is approved by an ordinary resolution. In this instance, the Material Transaction with a Related Party requiring Shareholder approval (by way of an ordinary resolution) is the Company obtaining services from Asset Management (by way of Asset Management agreeing to underwrite the Rights Issue) in respect of which the actual gross cost to the Company in any financial year is likely to exceed an amount equal to one percent of the Company's Average Market Capitalisation (Listing Rule 9.2.2(e)). The payment of the Underwriting Fee of \$280,773.40 plus GST (if any) is 3.74% of the Company's Average Market Capitalisation (which, as noted above, is \$7,487,291 based on the Company's share price of \$0.024 as at 29 September 2016).



LODGE YOUR PROXY

Online:

<https://investorcentre.linkmarketservices.co.nz/voting/MGL>

Scan & email:

meetings@linkmarketservices.co.nz

Mail:

Fax: +64 9 375 5990

Use the enclosed reply paid envelope or address to :

Deliver:

Link Market Services
Level 11, Deloitte Centre,
80 Queen Street, Auckland 1010

Link Market Services Limited
PO Box 91976
Auckland 1142

Scan this QR code with your smartphone and vote online

General Enquiries

+64 9 375 5998 | enquiries@linkmarketservices.co.nz

NOTICE OF PROXY

I/We, _____ of _____, being a shareholder of

Mercer Group Limited, hereby appoint:

_____ as my/our proxy for the

Meeting of the Company to be held on 18 October 2016 at 3.00 pm at The George Hotel, 50 Park Terrace, Christchurch and at any adjournment thereof.

I/We direct my/our proxy to vote in the following manner:

(Tick the box that applies)

Note – Entry into the Capital Raise Transactions contemplated by Resolutions 2(d) to 2(f) is contingent on each of those Resolutions being passed. This means that if the Shareholders do not approve (by ordinary resolution) any of Resolutions 2(d) to 2(f), none of Capital Raise Transactions contemplated by those Resolutions will be entered into.

		<i>For</i>	<i>Against</i>	<i>Abstain</i>	<i>Proxy Discretion</i>
2(a)	To re-elect Paul Smart (a retiring director). Paul Smart is required to retire by rotation and, being eligible, offers himself for re-election.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(b)	To reappoint by ordinary resolution Deloitte as auditors of Mercer Group Limited and to authorise the directors to fix the auditors' fees for the coming year.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(c)	To authorise and approve the in specie distribution of 4,975,118 ordinary shares and 1,658,375 ordinary shares in the Company from the Murray Capital Rakaia Fund Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

		<i>For</i>	<i>Against</i>	<i>Abstain</i>	<i>Proxy Discretion</i>
	Partnership to Asset Management Limited and National Mortgage Underwriters Limited respectively, on the terms and conditions described in the explanatory notes to the notice of meeting.				
2(d)	To authorise and approve the issue by the Company of up to 701,933,504 ordinary shares under the Rights Issue (on the basis of 2.25 new ordinary shares for every one existing ordinary share) at \$0.01 per share on the terms and conditions described in the explanatory notes to the notice of meeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(e)	To authorise and approve the underwrite by Asset Management Limited, up to a maximum of 701,933,504 ordinary shares in the Company, on the terms and conditions described in the explanatory notes to the notice of meeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2(f)	To authorise and approve the payment of the Underwriting Fee of \$280,773.40 plus GST (if any) to Asset Management Limited on the terms and conditions described in the explanatory notes to the notice of meeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed _____ Dated _____ 2016

Notes:

1. All shareholders are entitled to attend and vote at the meeting. Humphry John Davy Rolleston, Humphry John Davy Rolleston and Graham William Riley, Asset Trading Limited, Victoria Mansions Limited, Asset Management Limited, National Mortgage Underwriters Limited and Murray Capital Rakaia Fund Limited Partnership are prohibited from voting on Resolutions 2(c) to 2(f) inclusive above.
2. There are no voting restrictions on the chairman of the meeting.
3. A shareholder entitled to vote may appoint a proxy to attend and vote in their place.
4. This notice of proxy must be completed and returned to Link Market Services Limited (address details set out below) no later than 3.00pm on 17 October 2016 to be effective.
5. The person appointed as your proxy does not need to be a shareholder in the Company.
6. Humphry John Davy Rolleston, Humphry John Davy Rolleston and Graham William Riley, Asset Trading Limited, Victoria Mansions Limited, Asset Management Limited, National Mortgage Underwriters Limited and Murray Capital Rakaia Fund Limited Partnership and their Associated Persons are disqualified from acting as proxy if the proxy is permitted to exercise a discretion to vote for or against the resolutions referred to in resolutions 2(c) to 2(f) inclusive above.
7. The chairman of the meeting is willing to act as proxy if shareholders wish to appoint him.
8. If you return this form without directing the proxy how to vote on any particular matter, the proxy may vote as he or she thinks fit.
9. If the proxy is signed under a power of attorney, the power of attorney must be produced for noting by the Company, if not already noted. A declaration of non-revocation of the power of attorney must also be attached.
10. Companies appointing a proxy must do so either under the signature of two directors, or have an authority produced for noting by the Company.

Link Market Services Limited

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