



20 October 2014

ASX Market Announcements
Australian Securities Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

2014 NOTICE OF ANNUAL GENERAL MEETING

Emerchants Limited (**ASX: EML**) advises that the Notice of Annual General Meeting, Explanatory Memorandum, Independent Expert Report and Proxy Form will be despatched to Emerchants' shareholders today in relation to its Annual General Meeting which will be held at 11:30 am (Sydney time) on Wednesday, 20 November 2014, at The Westin Sydney, 1 Martin Place, Sydney, New South Wales.

Copies of the above documents are attached to this announcement and are also available on Emerchants' website at www.emerchants.com.au

Emerchants' 2014 Annual Report has also been mailed to Emerchants' shareholders who have elected to receive a printed copy. The 2014 Annual Report was previously lodged with ASX and is available on Emerchants' website.

For further information please contact:

Louise Bolger, Company Secretary
T: (07) 3607 0100

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Emerchants Limited ACN | 104 757 904

www.emerchants.com.au

Notice of annual general meeting

Emerchants Limited ACN 104 757 904

Notice is given that the annual general meeting of Emerchants Limited (**Company**) will be held at:

Location	The Westin Sydney, 1 Martin Place, Sydney, New South Wales, 2000
Date	Wednesday, 19 November 2014
Time	11.30 am (Sydney time)

Ordinary business

Financial statements and reports

To receive and consider the Company's financial reports and the reports of the Directors and the auditor for the financial year ended 30 June 2014.

Directors' remuneration report

To consider and, if in favour, to pass the following resolution under section 250R(2) *Corporations Act 2001* (Cth) (**Corporations Act**):

- 1 'That the remuneration report of the Directors for the financial year ended 30 June 2014 be adopted.'

Note: This resolution will be decided as if it were an ordinary (majority) resolution, but under section 250R(3) *Corporations Act* the vote is advisory only and does not bind the directors of the Company. Key Management Personnel (**KMP**) whose remuneration details are contained in the remuneration report (and their closely related parties) are restricted from voting on this resolution under section 250R(4) *Corporations Act*.

Re-election of directors

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 2 'That Peter Martin, who retires from office under rule 3.6(c) of the Constitution, and being eligible, be re-elected as a director of the Company.'

Note: Information about the candidate appears in the Explanatory Memorandum.

Special business

Approval to acquire the SFUK Shares from a related party

To consider and, if in favour, pass the following resolution as an ordinary resolution:

- 3 'That, subject to resolutions 4 and 5 being passed, for the purpose of Listing Rule 10.1, Shareholders approve the Company acquiring the SFUK Shares from SFS World on the terms set out in the Explanatory Memorandum.'

Approval for the issue of Emerchant Shares to a related party

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 4 'That, subject to resolutions 3 and 5 being passed, and for the purposes of Chapter 2E of the Corporations Act, Listing Rule 10.11 and the requirements of ASX, Shareholders approve the issue of 24,900,000 Emerchants Shares to SFS World or its nominees as detailed in the Explanatory Memorandum.'

Note: A detailed summary of the proposed issue is contained in the Explanatory Memorandum. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Approval of proposed issue of Emerchants Shares

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 5 'That, subject to resolutions 3 and 4 being passed, for the purposes of Listing Rule 7.1, and for all other purposes, Shareholders approve the issue of 28,000,000 Emerchants Shares by the Company at an issue price of \$0.50 per share to institutional and sophisticated investors other than the Participating Directors, as a part of the Conditional Placement on the terms set out in the Explanatory Memorandum.'

Approval for the issue of Emerchants Shares to a related party

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 6 'That, subject to resolutions 3 to 5 being passed, for the purpose of Listing Rule 10.11 and the requirements of the ASX, Shareholders approve the issue of 100,000 Emerchants Shares to Thomas Cregan under the Conditional Placement on the terms set out in the Explanatory Memorandum.'

Note: A detailed summary of the proposed terms of the issue is contained in the Explanatory Memorandum. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Approval for the issue of Emerchants Shares to a related party

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 7 'That, subject to resolutions 3 to 5 being passed, for the purpose of Listing Rule 10.11 and the requirements of the ASX, Shareholders approve the issue of 50,000 Emerchants Shares to Robert Browning under the Conditional Placement on the terms set out in the Explanatory Memorandum.'

Note: A detailed summary of the proposed terms of the issue is contained in the Explanatory Memorandum. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Approval for the issue of Emerchants Shares to a related party

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 8 'That, subject to resolutions 3 to 5 being passed, for the purpose of Listing Rule 10.11 and the requirements of the ASX, Shareholders approve the issue of 30,000 Emerchants Shares to Tony Adcock under the Conditional Placement on the terms set out in the Explanatory Memorandum.'

Note: A detailed summary of the proposed terms of the issue is contained in the Explanatory Memorandum. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Approval for the issue of Emerchants Shares to a related party

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 9 'That, subject to resolutions 3 to 5 being passed, for the purpose of Listing Rule 10.11 and the requirements of the ASX, Shareholders approve the issue of 200,000 Emerchants Shares to David Liddy under the Conditional Placement on the terms set out in the Explanatory Memorandum.'

Note: A detailed summary of the proposed terms of the issue is contained in the Explanatory Memorandum. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Approval for the issue of Emerchants Shares to a related party

To consider and, if in favour, to pass the following resolution as an ordinary resolution:

- 10 'That, subject to resolutions 3 to 5 being passed, for the purpose of Listing Rule 10.11 and the requirements of the ASX, Shareholders approve the issue of 100,000 Emerchants Shares to Peter Martin under the Conditional Placement on the terms set out in the Explanatory Memorandum.'

Note: A detailed summary of the proposed terms of the issue is contained in the Explanatory Memorandum. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

Approval of additional capacity to issue shares under Listing Rule 7.1A

To consider and, if in favour, to pass the following resolution as a special resolution:

- 11 'For the purposes of Listing Rule 7.1A and for all other purposes, Shareholders approve the Company having the additional capacity to issue equity securities under Listing Rule 7.1A, on the terms set out in the Explanatory Memorandum.'

Dated: 20 October 2014

By order of the board



Louise Bolger
Company secretary

Notes

- (a) A Shareholder who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.
- (b) The proxy need not be a Shareholder of the Company. A Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
- (c) If you wish to appoint a proxy and are entitled to do so, then complete and return the **attached** proxy form.

- (d) KMP (or their closely related parties) (as defined in the Corporations Act) appointed as a proxy must not vote on a resolution connected directly or indirectly with the remuneration of KMP if the proxy is undirected unless:
 - (i) the proxy is the person chairing the meeting; and
 - (ii) the proxy appointment expressly authorises the person chairing the meeting to vote undirected proxies on that resolution.
- (e) If the proxy form specifies the way the proxy is to vote on a particular resolution the proxy need not vote on a show of hands but if the proxy does so, it must vote as specified in the proxy form.
- (f) If the proxy has two or more appointments that specify different ways to vote on the resolution the proxy must not vote on a show of hands.
- (g) If the proxy is the chair of the meeting, the proxy must vote on a poll or must vote the way specified in the proxy form.
- (h) If the proxy is not the chair of the meeting the proxy need not vote on the poll, but if the proxy does so, the proxy must vote as specified in the proxy form.
- (i) If the proxy form specifies the way the proxy is to vote on a particular resolution and the proxy is not the chair of the meeting and a poll is demanded and either:
 - (j) the proxy is not recorded as attending; or
 - (i) the proxy does not vote,
 - (ii) the chair of the meeting is deemed the proxy for that resolution.
- (k) A corporation may elect to appoint a representative, rather than appoint a proxy, under the Corporations Act in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.
- (l) The Company has determined under regulation 7.11.37 Corporations Regulations 2001 that for the purpose of voting at the meeting or adjourned meeting, securities are taken to be held by those persons recorded in the Company's register of shareholders as at 7pm on Monday, 17 November 2014.
- (m) If you have any queries on how to cast your votes call Louise Bolger on 07 3607 0100 during business hours.

Voting restrictions

Corporations Act

Resolution 1 - The Company will disregard votes cast by or on behalf of a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report, or a closely related party of such a member, in contravention of section 250R or 250BD Corporations Act. Restrictions also apply to votes cast as proxy unless exceptions apply.

Resolutions 3 – The Company will disregard votes cast by SFS World and Thomas Cregan or their respective associates in contravention of section 224 of the Corporations Act. Restrictions also apply to votes cast as proxy unless exceptions apply.

Listing Rules

Under ASX Listing Rule 14.11, the Company will disregard any votes cast:

Resolution 1 – Directors Remuneration Report	by or on behalf of a member of the Key Management Personnel or a closely related party of the Key Management Personnel unless: (a) the person does so as a proxy appointed under the proxy voting form; and (b) the vote is not cast on behalf of a member of the Key Management Personnel or a closely related party of the Key Management Personnel. If you are a member of Key Management Personnel or closely related relative of a member of Key Management Personnel (or acting on behalf of them) and purport to cast a vote that will be disregarded by the Company, you may be liable for an offence for breach of voting restrictions that apply to you under the Corporations Act.
Resolution 3 – Approval to acquire SFUK Shares from SFS World	by SFS World, Thomas Cregan and their respective associates.
Resolution 4 – Approval of the issue of Emerchants Shares to a related party	by SFS World, Thomas Cregan and their respective associates.

Resolution 5 – Approval to issue of shares for the purposes of Listing Rule 7.1	by any person who participated in the issue and any of their associates.
Resolution 6 – Approval of the issue of shares to a related party	by Mr Thomas Cregan and any of his associates.
Resolution 7– Approval of the issue of shares to a related party	by Robert Browning and any of his associates
Resolution 8– Approval of the issue of shares to a related party	by Tony Adcock and any of his associates.
Resolution 9– Approval of the issue of shares to a related party	by David Liddy and any of his associates.
Resolution 10 – Approval of the issue of shares to a related party	by Peter Martin and any of his associates.
Resolution 11 - Approval of additional capacity to issue shares under Listing Rule 7.1A	by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, or an associate of that person.

However, the Company need not disregard a vote if it is cast by:

- (a) a person as proxy for a person who is entitled to vote, under the directions on the proxy voting form; or
- (b) the person chairing the meeting as proxy for a person who is entitled to vote, under a direction on the proxy form to vote as the proxy decides.

Explanatory memorandum

Emerchants Limited ACN 104 757 904

This Explanatory Memorandum accompanies the notice of Annual General Meeting of the Company to be held at The Westin Sydney, 1 Martin Place, Sydney, New South Wales on Wednesday, 19 November 2014 at 11.30am (Sydney time).

The Explanatory Memorandum has been prepared to assist Shareholders in determining how to vote on the resolutions set out in the Notice of Meeting and is intended to be read in conjunction with the Notice of Meeting.

Part A – Ordinary business

Ordinary business

Financial statements and reports

- 1 The Corporations Act requires that the report of the Directors, the auditor's report and the financial report be laid before the annual general meeting. In addition the Constitution provides for these reports to be received and considered at the meeting.
- 2 Apart from the matters involving remuneration which are required to be voted upon, neither the Corporations Act nor the Constitution requires a vote of shareholders at the annual general meeting on the financial statements and reports.
- 3 Shareholders will be given reasonable opportunity at the meeting to raise questions and make comments on these reports.
- 4 In addition to asking questions at the meeting, Shareholders may address written questions to the chairman about the management of the Company or to the Company's auditor Deloitte Touche Tohmatsu if the question is relevant to:
 - (a) the content of the auditor's report; or
 - (b) the conduct of its audit of the annual financial report to be considered at the meeting.

Note: Under section 250PA(1) Corporations Act a shareholder must submit the question to the Company no later than the fifth business day before the day on which the Annual General Meeting is held.

- 5 Written questions for the auditor must be delivered by 5.00pm on Wednesday, 12 November 2014. Please send any written questions for Deloitte Touche Tohmatsu to:

The Company Secretary
Emerchants Limited
Level 2, 26 Commercial Road
Newstead, Queensland, 4006

Resolution 1: Directors' Remuneration Report

- 6 The Corporations Act requires that the section of the Directors' report dealing with the remuneration of each member of the KMP of the Company (**Remuneration Report**) be put to the vote of shareholders for adoption.
- 7 The resolution of Shareholders is advisory only and is not binding on the Company.
- 8 The Remuneration Report is in the Annual Report. It is also available on the Emerchants' website (<http://investor.emerchants.com.au/investors>). It:
- (a) explains the Board's policies on the nature and level of remuneration paid to directors, company secretaries and senior executives within the Emerchants group;
 - (b) discusses the link between the Board's policies and Emerchants' performance;
 - (c) sets out the remuneration details for each Director and for each member of Emerchants' senior executive management team; and
 - (d) makes clear that the basis for remunerating non-executive directors is distinct from the basis for remunerating executives, including executive directors.
- 9 The chairman will give Shareholders a reasonable opportunity to ask questions about, or to make comments on, the Remuneration Report.

Directors' Recommendation

- 10 The Directors recommend you vote for this resolution.

Note: If you appoint a director or member of the Key Management Personnel as your proxy for this resolution, you MUST direct your proxy how to vote, otherwise your vote will not be counted. Follow the instructions on the proxy form to direct your proxy how to vote.

Resolution 2: Re-election of Mr Peter Martin, non-executive Director

- 11 Rule 3.6(c) of the Constitution requires that an election of Directors occur at each annual general meeting. Pursuant to Rule 3.7 of the Constitution the Directors have decided that Mr Martin will retire and stand for re-election as a non-executive director of the Company at the Annual General Meeting.
- 12 Mr Peter Martin holds a MBA from Harvard Business School and a Bachelor of Civil Engineering from Monash University. Mr Martin was formerly the chief executive officer of Rothschild Australia Asset Management (**Rothschild**) and was a director of a number of Rothschild boards in Australia and overseas, as well as being instrumental in the sale of the Rothschild to Westpac Banking Corporation. Mr Martin has 35 years international commercial experience in marine construction, finance and investment management.

Directors' recommendation

- 13 The Directors (with Mr Peter Martin abstaining) recommend the re-election of Mr Peter Martin to the Board.

Part B - Special business

Background and the proposed acquisition

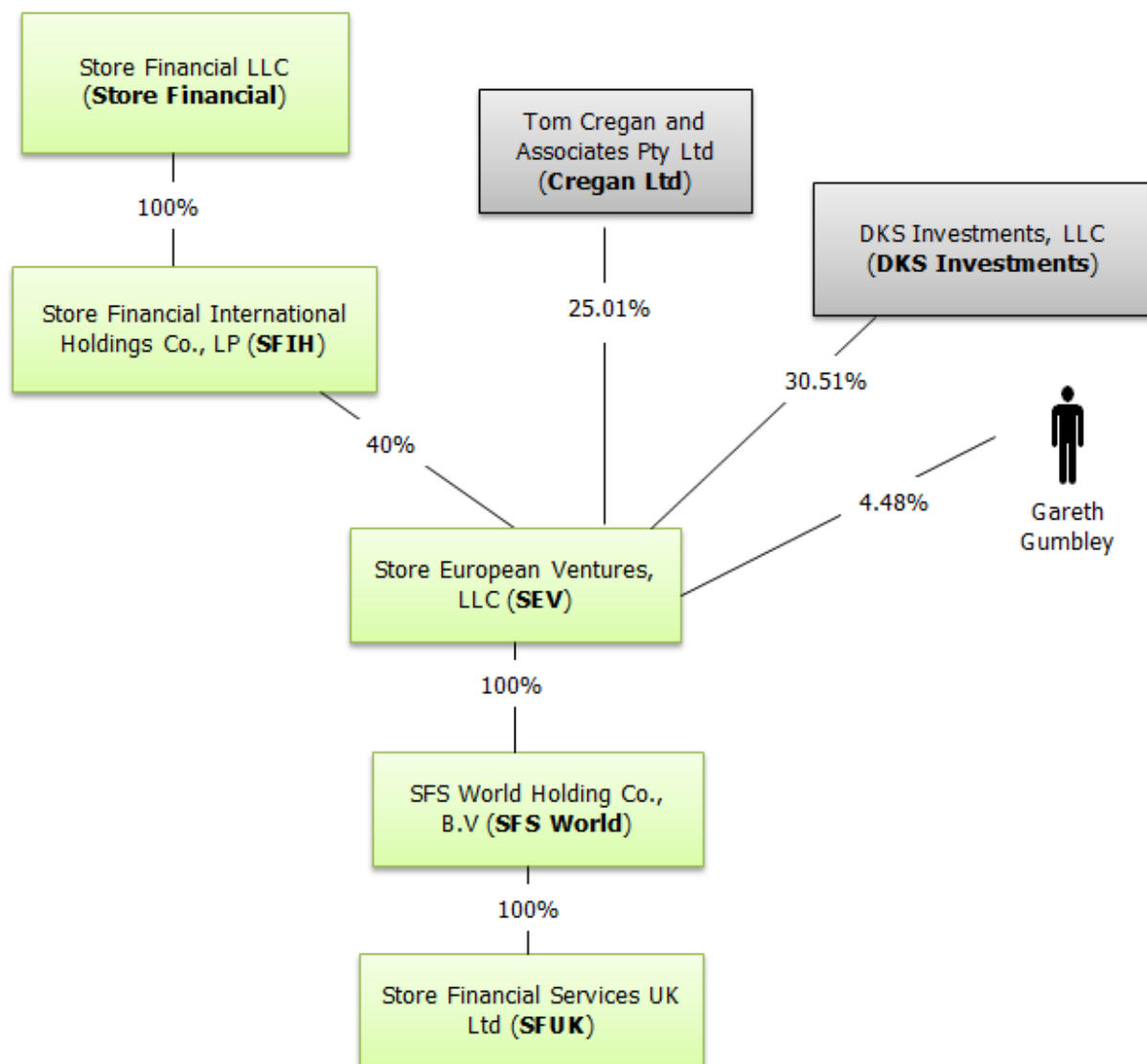
Acquisition of Store Financial UK Services Ltd

- 14 Emerchants has entered into a share sale agreement with SFS World and other related parties for the purchase of all of the issued share capital in SFUK, the completion of which is subject to obtaining Shareholder approval under this Notice of Meeting (**SFUK Share Sale Agreement**).
- 15 The proposed purchase price for SFUK is AU\$24,900,000 and consists of two parts:
- (a) **(Cash Component)** – AU\$12,450,000 paid to the SFUK Shareholders; and
 - (b) **(Equity Component)** – Emerchants Shares to the value of AU\$12,450,000.
- 16 The issue price for the Emerchants Shares issued to satisfy the Equity Component is \$0.50 per Emerchants Share. Therefore, the Company proposes to issue 24,900,000 Emerchants Shares as the Equity Component of the purchase price under the SFUK Share Sale Agreement (**Equity Component Shares**).

Relationship between SFS World and the Company

- 17 The Directors consider that SFS World is a related party of the Company for the purposes of the Listing Rules and the Corporations Act. SFS World is 100% owned by Store European Ventures, LLC (**SEV**). Store Financial Services, LLC (**Store**) owns 40% of SEV and the remaining 60% is owned by the directors of SEV being Thomas Cregan, David Shewmaker and Gareth Gumbley or their controlled entities. Specifically, Cregan Ltd (an entity controlled by Thomas Cregan) owns 25.01%, DKS Investments (an entity controlled by David Shewmaker) owns 30.51% and Gareth Gumbley owns 4.48%.

18 Below is a structure diagram illustrating the ownership of SFUK.



- 19 Thomas Cregan is a director of both SEV and SFUK and by virtue of his directorships and being a shareholder in SEV, has the capacity to control SFS World. Thomas Cregan is also a director of the Company. Therefore, the Independent Directors (being all of the Directors other than Thomas Cregan) consider that SFS World is a related party of the Company for the purposes of Listing Rule 10.1 and section 228(4) of the Corporations Act.
- 20 Based on the negotiations the Company understands that SFS World intends to nominate Cregan Ltd, DKS Investments, Gareth Gumbley and Store Financial to be issued with the Equity Component Shares in proportion to their respective holdings in SEV. The details of the Equity Component Shares, which will be held by the SFS World nominees, is provided at paragraph 42.
- 21 Approval to acquire all of the issued share capital in SFUK from SFS World is sought under resolution 3. Approval for the issue of the 24,900,000 Emerchants Shares (**Equity Component Shares**) to SFS World or its nominees is sought under resolution 4.

- 22 The sale and purchase of the SFUK Shares and the issue of the Equity Component Shares will not occur until the Company obtains the approval of Shareholders for the resolutions set out in this Notice of Meeting and the SFUK Share Sale Agreement is completed.
- 23 The acquisition (and the Equity Component Shares to be issued) is structured to reflect the 'value' of SFUK as at 25 September 2014.

Conditional Placement

- 24 As announced to the market on 26 September 2014 the Company entered into agreements with sophisticated and institutional investors for the placement of Emerchants Shares at the issue price of \$0.50 per Emerchants Share, subject to Shareholder approval of:
 - (a) the acquisition of SFUK Shares from SFS World;
 - (b) the issue of Emerchants Shares to SFS World or its nominees; and
 - (c) approval be given to issue the Emerchants Shares under Listing Rule 7.1

(Conditional Placement).

- 25 Approval to issue the Conditional Placement Shares to non-related parties is sought under resolution 5. Approval for the issue of Conditional Placement Shares to the Participating Directors, being Thomas Cregan, Robert Browning, Tony Adcock, David Liddy and Peter Martin under Listing Rule 10.11 is sought under Resolutions 6 to 10 respectively.

Description of the business of SFUK

- 26 SFUK is an international prepaid card program manager and payment processor, largely focused on gift cards for shopping malls in the UK and Europe. SFUK originated from the European operations of Store Financial, a US based prepaid card company. In April 2011, Store Financial transferred 60% of its European operations to the management team of SFUK enabling the separate business to focus on growth in Europe. Store remained a significant shareholder in SFUK and continued to provide platform and processing technology via a 10 year licence agreement, with seven years remaining (**Transaction Processing Agreement**).
- 27 SFUK's operations in Europe date back to 2008 and it now operates over 100 prepaid programs in nine countries across the UK and continental Europe, including England, Ireland, Germany, Netherlands, Austria, Portugal, Italy, Spain and Belgium, with a launch in France planned for 2015. Its business is underpinned by multi-year contractual arrangements with its customers, resulting in the development of relatively strong and embedded relationships.
- 28 SFUK is a leading provider of restricted authorisation network (**RAN**) gift cards. It focuses mainly on gift cards that are restricted for use at certain shopping centres, as well as other closed loop gift card programs, processing solutions and program management services. Approximately 85% of funds loaded are derived from shopping centres located primarily in the UK.
- 29 SFUK provides specialty prepaid solutions to various markets through an assortment of products and services which are directly analogous to the services and products currently provided by the Company in the Australian market. SFUK's major products include:
 - (a) closed loop (private label) – cards are issued by a Mastercard® member and the design can be customised to meet client's preferences. Since it is authorised on Mastercard®'s network, cards are accepted by existing point of sale hardware wherever Mastercard® is accepted. Private label programs can be limited to a single retailer or affiliated groups;

- (b) open-loop – Mastercard® branded card programs provide the freedom of globally; recognised network;
 - (c) RAN gift cards – allows unaffiliated retailer groups to engage in closed network program by restricting card spending to a particular group; and
 - (d) Virtual gift cards – purchased online, offering multiple design options and compatible for use on smartphones.
- 30 With each of the above product offerings, SFUK has the ability to provide value-adding services to support effective and efficient processing. This includes services such as payment processing, card design, manufacturing and distribution. Services offered by SFUK that support its product include:
- (a) Program manager and implementation – SFUK is a certified third party network processor and program manager. SFUK provides services and can facilitate all aspects of a gift card program including ordering cards, providing the required activation software, reporting and client support services such as multilingual support, training of software features, lost/stolen card assistance and balance enquiries.
 - (b) Payment processing solutions – SFUK's processing solutions are underpinned by technology that ensures cards funds are utilised in accordance with pre-determined set of rules, for example partial authorisation which is a point of sale function that prevents the processing of transactions when the balance on a gift card is less than the purchase amount.
 - (c) Reporting – SFUK is able to provide detailed accounting and settlement reporting in real time including card history, retailer redemption information and processing.
- 31 SFUK generated sales of £3.2 million and EBITDA of £0.5 million for the latest 12 month period ending 30 June 2014. A breakdown of the revenue streams of SFUK is provided on page 18 of the Independent Expert's Report.

SFUK's key customers

- 32 SFUK's revenue stream is underpinned by its key customers through generally long-term contracts. SFUK's key customers include:
- (a) Kleppierre (Spain, Portugal and Italy);
 - (b) Devimo (Belgium);
 - (c) Lend Lease Portfolio;
 - (d) Land Securities Portfolio;
 - (e) McArthur Glen Portfolio (six countries);
 - (f) Corio (Germany);
 - (g) Gentalia (Spain);
 - (h) British Land Portfolio;
 - (i) Regent Street;

- (j) Standard Life Portfolio;
- (k) BTWShiells Portfolio;
- (l) RELAM Portfolio;
- (m) Pandora;
- (n) Etsy;
- (o) The Horticultural Trade Association; and
- (p) Liverpool Football Club.



Terms of the SFUK Share Sale Agreement

- 33 On completion of the SFUK Share Sale Agreement, the Company will acquire the SFUK Shares from SFS World. Emerchants will also issue 24,900,000 Emerchants Shares to SFS World or its nominees as the Equity Component. The issuance of 24,900,000 Emerchants Shares to SFS World or its nominees will equate to approximately 14.02% of the Emerchants Shares on issue following completion of the SFUK Share Sale Agreement and the Conditional Placement.

34 In addition to the terms described in paragraph 14, under the terms of the SFUK Share Sale Agreement:

- (a) the purchase price will also be adjusted by the customary completion adjustments (such as working capital);
- (b) the parties have also agreed that 20% of the Equity Component (being 10% of the purchase price) will be held in escrow for a period of 12 months following completion of the agreement to satisfy any claims made by Emerchants in relation to a claim for breach of warranty which remains outstanding 12 months following completion of the agreement;
- (c) completion is conditional on David Shewmaker and several other key employees entering into executive services agreements with the Company;
- (d) SEV will novate its rights and obligations under the Transaction Proceeding Agreement to SFUK;
- (e) SEV or SFIH will repay or forgive any existing debt owed by SFUK;
- (f) SFUK is required to:
 - (i) carry on its business following the ordinary and usual practice; and
 - (ii) refrain from incurring certain liabilities or expenditure, encumbering its assets or terminating or altering the terms of engagement of employees, consultants or directors;
- (g) SFS World must inform the Company of any material change to the SFUK Business or value of the SFUK Shares and any event that may result in an inaccuracy in any warranty given by SFS World, and it is a condition precedent of the SFUK Share Sale Agreement that a material adverse change does not affect SFUK at completion of the SFUK Share Sale Agreement;
- (h) the SFUK Shareholders have provided:
 - (a) warranties to the Company in relation to SFUK and the SFUK Business; and
 - (b) an indemnity in favour of the Company in relation to a breach of warranty, tax liability, and any event that occurs before completion that was not disclosed in the accounts of SFUK provided to the Company (capped to a maximum liability of liability of \$2,490,000 with a time limit of 12 months) which is guaranteed by Store, DKS Investments, Cregan Ltd, SEV and SFIH;
- (i) the Company has provided:
 - (i) that it will apply for quotation of the Equity Component Shares;
 - (ii) warranties in relation to the Equity Component Shares, the business of the Company and information provided by the Company to SFS World; and
 - (iii) an indemnity in favour of SFS World in relation to a breach of warranty (capped at a maximum liability of \$24,900,000 with a time limit of 12 months for a breach of warranty, other than a warranty in relation to the Equity Component Shares); and

- (j) the SFS World, Store, SFIH, DKS Investments, Cregan Ltd and Gareth Gumbley are bound by a restraint of trade clause following completion of the SFUK Share Sale Agreement.
- 35 It is also a term of the SFUK Share Sale Agreement that David Shewmaker and other SFUK employees will be entitled to be issued with additional Emerchants Shares if he meets certain performance targets (**Bonus Shares**), as set out below:
- (a) In the event that Hammerson is secured as a client he will be entitled to the issue of approximately 2,119,929 Bonus Shares (which is based on three times the estimated EBTIDA target for calendar year 2016 and an estimated issue price of AUD\$0.70 per Share); and
- (b) In the event that MFI is secured as a client he will be entitled to the issue of approximately 3,124,124 Bonus Shares (which is based on three times the estimated EBITDA target for calendar year 2016 and an estimated issue price of [AUD\$0.70]).
- 36 The actual issue price will be determined based on the VWAP of Emerchants Shares five days prior to the implementation of the contract. The Bonus Shares will be placed in escrow until the first anniversary of the date at which the client contract is implemented.
- 37 The SFUK executives who are retained following the acquisition will also be issued with up to 1.5 million Emerchants Shares, vesting in equal tranches subject to service and performance conditions, including SFUK achieving EBITDA forecasts.

Balance sheet position

- 38 The data contained below illustrates the consolidated balance sheet for the proposed transaction on a current and post acquisition basis, using the Company's audited balance sheet as at 30 June 2014, and the unaudited management accounts of SFUK as at 30 June 2014.
- 39 The data forms a consolidated picture and draws no forecasts. The balance sheet is not a valuation of the entity post transaction.

Emerchants Limited (EML) pro forma post acquisition balance sheet at 30 June 2014

\$000's AUD	Post Acquisition June 2014	Current (EML) June 2014
Assets		
Current Assets (EML)	5,811,931	5,811,931
+ SFUK Current Assets	1,000,000	Nil
Non Current Assets (EML)	12,660,874	12,660,874
+ Purchase Price Allocation *	24,900,000	Nil
+ Additional Capital raised **	500,000	Nil
+ SFUK Non Current Assets	50,000	Nil
Total Assets	44,922,805	18,472,805
Liabilities		
Current Liabilities (EML)	1,457,396	1,457,396
+ SFUK Current Liabilities	1,000,000	
Non Current Liabilities (EML)	308,971	308,971
+ SFUK Non Current Liabilities	50,000	
Total Liabilities	2,816,367	1,766,367

* Purchase price allocation refers to the allocation of the \$24,900,000 purchase price paid by the Company for the equity of SFUK to the acquired net assets of SFUK. As the acquired net assets of SFUK are approximately neutral, this will result in an increase in net assets expected to comprise predominantly of intangible assets. Under the accounting standards, Emerchants has one year to complete this assessment and for the purposes of this document has allocated this all to intangible assets.

** The Company raised an approximate additional amount of \$500,000 net of capital raising costs and transaction fees for working capital purposes.

Annual profit and revenue

- 40 The data contained below illustrates the consolidated income statement for the proposed transaction on a current and post acquisition basis. In particular, it highlights the projected annual profit and the projected annual revenue on a consolidated basis.
- 41 The income statement is not a valuation of the entity post transaction.

Pro forma income statement for the 12 months to 30 June 2014

	Post Acquisition	Current (EML)
\$000's AUD	Pro-forma 12 months to 30 June 2014	12 months to 30 June 2014
Revenue (EML)	5,184,092	5,184,092
+ SFUK Revenue	5,842,811	Nil
Total Revenue	11,026,903	5,184,092
Expenses (EML)	11,032,546	11,032,546
+ SFUK Expenses	4,968,367	Nil
Total Expenses	16,000,913	11,032,546
Profit / (loss) before income tax	(4,974,010)	(5,848,454)
Income tax expense/(benefit)	(436,096)	(436,096)
Profit / (loss) attributable to members	(4,537,914)	(5,412,358)

Impact on capital structure of proposed Acquisition and Conditional Placement

- 42 The table below sets out Emerchants' capital structure following the proposed Acquisition and completion of the Conditional Placement.

	<u># Shares</u>	<u>% post</u>
Emerchants Shares before transaction	124,668,047	70.21 %
Shares issued for Conditional Placement	28,000,000	15.77%

Thomas Cregan	\$100,000	100,000	0.06%
David Liddy	\$50,000	200,000	0.11%
Peter Martin	\$50,000	100,000	0.06%
Tony Adcock	\$15,000	30,000	0.02%
Robert Browning	\$25,000	50,000	0.03%
Other persons participating in the Conditional Placement	\$13,760,000	27,520,000	15.49%

Emerchants Shares issued to vendors (nominees of SFS World)	100.00 %	24,900,000	14.02 %
Gareth Gumbley	4.48%	1,115,520.00	0.63%
Store Financial, LLC	40.00%	9,960,000.00	5.61%
Tom Cregan and Associates Pty Ltd	25.01%	6,227,490.00	3.51%
DKS Investments, LLC	30.51%	7,596,990.00	4.28%

Emerchants Shares post transaction		177,568,047	100.00 %
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Independent Expert report

- 43 A copy of the Independent Expert's report is set out in full in Annexure A. The Independent Expert concludes that the proposed Acquisition is both fair and reasonable to non-associated Shareholders. The Independent Expert considered the following in assessing whether the proposed Acquisition was reasonable:
- (a) the strategic rationale for the proposed Acquisition and Emerchants' intention with respect to SFUK;
 - (b) the liquidity of and prices at which Emerchants Shares have recently traded at on the ASX;
 - (c) the existence of alternatives to the proposed Acquisition and the consequences for Shareholders;
 - (d) the likely impact on Emerchants share price in the event that the proposed Acquisition is not approved;
 - (e) qualitative factors which we believe represent either advantages or disadvantages to the non-associated Shareholders.
- 44 Further, the Independent Expert opined that *'as the fair market value of the consideration is consistent with, and in fact lower than our valuation of SFUK, on a controlling basis, we consider the [proposed Acquisition] to be fair to the non-associated shareholders of Emerchants.'*

Advantages of the proposed Acquisition

- 45 The Independent Directors have identified a number of advantages to the proposed Acquisition, including that it:
- (a) provides an established, profitable business in Europe, affiliated with one of the worlds premier providers of gift card programs, and with the ongoing involvement and commitment of SFUK's experienced management team, each of whom have strong incentives to drive the future growth of SFUK's business;

- (b) establishes Emerchants' service offering in a market estimated to be ten times the size of Australia's and forecast to grow in excess of twenty percent per annum for a market size of approximately €150 billion by 2017;
- (c) accelerates Emerchants towards profitability, with the acquisition to be immediately earnings accretive¹, with SFUK anticipated to contribute profit and cash in financial year 2015;
- (d) opportunity to leverage Emerchants' reloadable payment applications onto SFUK's existing business, taking advantage of SFUK's existing banking, regulatory and operational relationships and expertise to significantly accelerate market entry, with modest incremental investment required;
- (e) broaden Emerchants' revenue base and lessen reliance on key Australian customer relationships; and
- (f) represents limited integration risks from a technical and operational perspective. SFUK's founder and chief executive officer, Mr David Shewmaker, has committed to remaining with the business for three years and has significant incentives to grow the business, as do other key members of the SFUK management team.

Disadvantages of the proposed Acquisition

- 46 The Independent Directors have also identified a number of disadvantages of the proposed Acquisition, including that:
- (a) the Acquisition may distract the Company from its upcoming programs. However, on the basis that SFUK will standalone, the Company does not anticipate that integration will be either time or resource intensive.
 - (b) SFUK will continue to use Store Financial as its processor for gift cards, so there is a risk that the Company will be reliant on the Store Financial system. It may also take SFUK some time to establish a meaningful revenue stream from reloadable products.
 - (c) the Acquisition will be dilutive to existing shareholders.

Resolution 3 – Approval under Listing Rule 10.1 to acquire the SFUK Shares from SFS World

Acquisition

- 47 The Company seeks approval for the acquisition of all the issued share capital in SFUK from SFS World.

Why is shareholder approval required?

- 48 Listing Rule 10.1 provides that the Company cannot acquire a substantial asset from a related party without the approval of Shareholders, either for the Acquisition or to enter into an agreement for the Acquisition.

¹ Before intangibles amortisation, transaction costs and integration costs associated with the acquisition, capital raising, retention of share grant and bonus share grants.

- 49 SFS World is a related party of Emerchants for the purpose of the Listing Rules due to its relationship with the Company described in paragraphs 19 and 20, and summarised in the table at paragraph 58.
- 50 Under Listing Rule 10.2 an asset is substantial if its value is 5% or more of the equity interest of the Company in the latest accounts provided to ASX under the Listing Rules. The Independent Directors have determined that the SFUK Shares are a substantial asset for the purpose of Listing Rule 10.2.

What does the Independent Expert say about the proposed Acquisition?

- 51 A copy of the Independent Expert's report is set out in full in Annexure A. A summary of the Independent Expert's conclusion is set out in paragraph 43.

What majority of votes is required for approval of resolution 3?

- 52 Resolution 3 requires an ordinary resolution which requires it to be passed by a simple majority of the votes cast by Shareholders entitled to vote on the resolution.

Who can vote on resolution 3?

- 53 All Shareholders can vote other than Thomas Cregan, SFS World or any other person who might obtain a benefit if resolution 3 is passed and any associate of those persons. A description of whether a party will be an associate is set out in paragraph 64.

Directors' recommendation

- 54 The Independent Directors recommend that Shareholders vote in favour of resolution 3 because:
- (a) the Independent Expert has concluded that the proposed Acquisition is both fair in terms of the consideration to be paid and reasonable from the point of value to Shareholders going forward; and
 - (b) the Acquisition itself also has key advantages as outlined at paragraph 45.

Resolution 4 – Approval for the issue of Emerchants Shares to SFS World

The issue of Ordinary Shares

- 55 The Company seeks approval to issue 24,900,000 Emerchants Shares to SFS World or its nominees.

Why is Shareholder approval required?

- 56 SFS World is a related party for the purpose of Chapter 2E of the Corporations Act and Listing Rule 10.11 because Thomas Cregan, a director of the Company, has the capacity to control SFS World as set out in the table in paragraph 58
- 57 The issue of Emerchants Shares to SFS World will constitute the giving of a financial benefit to a related party under section 229(3)(e) of the Corporations Act and consequently, approval under section 208 of the Corporations Act is sought by the Company. Listing Rule 10.11 also requires the approval of Shareholders before Emerchants Shares can be issued to a related party. The Company seeks the approval of Shareholders to issue Emerchants Shares to SFS World under both Chapter 2E and Listing Rule 10.11.

- 58 The nature of SFS World's relationship with the Company and the financial benefit proposed to be given is set out in the following table:

Related party and its associates	Nature of relationship	Nature of financial benefit
SFS World Holding Co., B.V	SEV owns 100% of the issued share capital in SFS World. Thomas Cregan is a director of SEV and owns 25.01% of the issued share capital in SEV through his controlled entity Cregan Ltd. Thomas Cregan is considered to have the capacity to control SFS World. Thomas Cregan is a director of the Company and therefore, SFS World is an entity which is controlled by a related party of Emerchants.	The issue of 24,900,000 Emerchants Shares

- 59 For the purposes of section 219(1)(e) of the Corporations Act, the dilutive impact of the issue of the Emerchants Shares to SFS World is set out in paragraph 33. On this point we also note that if approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.
- 60 The Independent Expert's report, which is provided at Annexure A of this Notice of Meeting, also provides that based on the valuation methodology the purchase price is on the lower end of its valuation of SFUK.
- 61 The following information is provided in accordance with Listing Rule 10.13 in relation to the Emerchants Shares that are proposed to be issued to Tom Cregan and Associates under the SFUK Share Sale Agreement:

Name of person to whom securities will be issued	SFS World or its nominees
Maximum number of securities to be issued	24,900,000 Emerchants Shares
Date the Company will issue the securities	On completion of the SFUK Share Sale Agreement, which is anticipated to be 8 December 2014 or otherwise no later than one month from the date of the Annual General Meeting
Relationship to Company	As set out in the table in paragraph 58
Issue price of the securities	Nil cash consideration. The Emerchants Shares are to be issued as consideration for the acquisition of the SFUK Shares under the SFUK Share Sale Agreement
Terms of issue	Ordinary shares which will rank equally with all existing ordinary shares then on issue and the Company will seek quotation of the shares on ASX, subject to a 12 month voluntary escrow period over 4,980,000 of the Emerchants Shares.

Intended use of funds	No funds will be raised from the issue
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What majority of votes is required?

62 A simple majority of Shareholders is required to pass the resolution.

Who can vote on this resolution?

63 All Shareholders can vote other than SFS World and its associates.

64 Associates include:

- (a) any person who is a director or secretary;
- (b) a related body corporate of the person or a director or secretary of a related body corporate;
- (c) any person with whom a party has an agreement, arrangement or understanding, whether or not formal, in writing or enforceable:
 - (i) because of which one of those persons has or will have power to exercise control or substantially influence the exercise of voting power attached to Emerchants Shares for the purpose of controlling or influencing the composition of the board or the conduct of its affairs;
 - (ii) under which one of those persons will or may acquire or be required by the other to acquire Emerchants Shares in which the other has a relevant interest;
 - (iii) under which one of those persons may be required to dispose of Emerchants Shares at the other's discretion; or
 - (iv) is acting in concert with the party or proposing to become associated with them.

Directors' recommendation and interests

65 Thomas Cregan has an interest in the outcome of resolution 4. Because of his interest in the outcome, he does not make a recommendation in relation to resolution 4.

66 Each of the Independent Directors recommend that Shareholders vote in favour of resolution 4 because they consider that the advantages of the proposed Acquisition set out in paragraph 45 outweigh the disadvantages outlined in paragraph 46.

Resolution 5 – Approval to issue shares under Listing Rule 7.1

67 Listing Rule 7.1 provides, subject to certain exceptions, that prior approval of shareholders is required for an issue of securities if the securities will, when aggregated with the securities issued by the entity during the previous 12 months, exceed 15% of the number of ordinary securities on issue at the commencement of that 12 month period.

68 The purpose of resolution 5 is for Shareholders to approve the issue of up to 28,000,000 Emerchants Shares to sophisticated and institutional investors who participated in the Conditional Placement, other than the Participating Directors, subject to resolutions 3 and 4 being passed. The effect of such approval is that any such Emerchants Shares will not be counted towards the 15% threshold under Listing Rule 7.1 when calculating how many equity securities can be issued without Shareholder approval.

- 69 The following information is provided in accordance with Listing Rule 7.3 in relation to the Emerchants Shares that are proposed to be issued to the institutional and sophisticated investors who participated in the Conditional Placement (excluding the Participating Directors) should the proposed acquisition of SFUK proceed under the SFUK Share Sale Agreement.

Persons to whom securities will be issued	Institutional and sophisticated investors, other than the Participating Directors, who have agreed to participate in the Conditional Placement
Maximum number of securities to be issued	28,000,000 Emerchants Shares
Date the Company will issue the securities	On completion of the SFUK Share Sale Agreement which is anticipated to be 8 December 2014 or otherwise no later than one month from the date of the Annual General Meeting
Issue price of the securities	\$0.50 per Emerchants Share
Terms of issue	Ordinary shares which will rank equally with all existing ordinary shares then on issue and the Company will seek quotation of the shares on ASX
Intended use of funds	The funds will be used towards the Cash Component of the purchase price under the SFUK Share Sale Agreement, capital raising costs, transaction costs and to contribute to working capital of the Company

What majority of votes is required for approval of resolution 5?

- 70 Resolution 5 requires an ordinary resolution which requires it to be passed by a simple majority of the votes cast by Shareholders entitled to vote on the resolution.

Who can vote on resolution 5?

- 71 All Shareholders can vote other than those who participated in the Conditional Placement or any other person who might obtain a benefit if resolution 5 is passed and any associate of those persons. A description of whether a party will be an associate is set out in paragraph 64.

Directors Recommendation

- 72 Each of the Directors recommend that you vote to approve resolution 5.

Resolution 6 – Approval of issue of Emerchants Shares to a related party

The issue of securities

- 73 The Company seeks approval to issue 100,000 Emerchants Shares to Thomas Cregan under the terms of the Conditional Placement.

Why is shareholder approval required?

- 74 Listing Rule 10.11 requires the approval of shareholders before securities can be issued to a related party. A director is a 'related party' for the purposes of Listing Rule 10.11. Thomas Cregan, who is a director of the Company, is a related party.

- 75 The following information is given under Listing Rule 10.13 on the securities that are proposed to be issued to Thomas Cregan under the Conditional Placement:

Related party	Thomas Cregan
Maximum number of securities to be issued	100,000 Emerchants Shares
Date the Company committed to issue the securities	As announced to the market on 26 September 2014 the Company entered into agreements with institutional and sophisticated investors (including the Participating Directors) between 24 and 25 September 2014, for the issue Emerchants Shares at an issue price of \$0.50 per Emerchants Share, subject to approval being obtained under this Notice of Meeting.
Date the Company will issue the securities	On completion of the SFUK Share Sale Agreement which is anticipated to be 8 December 2014 or otherwise no later than one month from the date of the Annual General Meeting.
Relationship to Company	Director
Issue price of the securities	\$0.50 per Emerchants Share
Terms of issue	Ordinary shares which will rank equally with all existing ordinary shares then on issue and the Company will seek quotation of the shares on ASX
Intended use of funds	The funds will be used towards the Cash Component of the purchase price under the SFUK Share Sale Agreement, capital raising costs, transaction costs and to contribute to working capital of the Company.

- 76 The purpose of resolution 6 is for Shareholders to approve the issue of 100,000 Emerchants Shares to Thomas Cregan subject to resolutions 3 to 5 being passed. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

What majority of votes is required?

- 77 A simple majority of Shareholders is required to pass the resolution.

Who can vote on this resolution?

- 78 All Shareholders can vote other than Thomas Cregan and his associates. A description of whether a party will be an associate is set out in paragraph 64.

Directors' interest and recommendation

- 79 Thomas Cregan has an interest in the outcome of resolution 6. Because of his interest in the outcome, he does not make a recommendation in relation to resolution 6.
- 80 Each of the Independent Directors recommend that Shareholders vote in favour of resolution 6.

Resolution 7 – Approval of issue of Emerchants Shares to a related party

The issue of securities

- 81 The Company seeks approval to issue 50,000 Emerchants Shares to Robert Browning under the terms of the Conditional Placement.

Why is shareholder approval required?

- 82 Listing Rule 10.11 requires the approval of shareholders before securities can be issued to a related party. A director is a 'related party' for the purposes of Listing Rule 10.11. Robert Browning, who is a director of the Company, is a related party.
- 83 The following information is given under Listing Rule 10.13 on the securities that are proposed to be issued to Robert Browning under the Conditional Placement:

Related party	Robert Browning
Maximum number of securities to be issued	50,000 Emerchants Shares
Date the Company committed to issue the securities	As announced to the market on 26 September 2014 the Company entered into agreements with institutional and sophisticated investors (including the Participating Directors) between 24 and 25 September 2014, for the issue Emerchants Shares at an issue price of \$0.50 per Emerchants Share, subject to approval being obtained under this Notice of Meeting.
Date the Company will issue the securities	On completion of the SFUK Share Sale Agreement which is anticipated to be 8 December 2014 or otherwise no later than one month from the date of the Annual General Meeting.
Relationship to Company	Director
Issue price of the securities	\$0.50 per Emerchants Share
Terms of issue	Ordinary shares which will rank equally with all existing ordinary shares then on issue and the Company will seek quotation of the shares on ASX
Intended use of funds	The funds will be used towards the Cash Component of the purchase price under the SFUK Share Sale Agreement, capital raising costs, transaction costs and to contribute to the working capital of the Company

- 84 The purpose of resolution 7 is for Shareholders to approve the issue of 50,000 Emerchants Shares to Robert Browning subject to resolutions 3 to 5 being passed. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

What majority of votes is required?

- 85 A simple majority of Shareholders is required to pass the resolution.

Who can vote on this resolution?

- 86 All Shareholders can vote other than Robert Browning and his associates. A description of whether a party will be an associate is set out in paragraph 64.

Directors' interest and recommendation

- 87 Robert Browning has an interest in the outcome of resolution 7. Because of his interest in the outcome, he does not make a recommendation in relation to resolution 7.
- 88 Each of the Directors (other than Robert Browning) recommend that Shareholders vote in favour of resolution 7.

Resolution 8 – Approval of issue of Emerchants Shares to a related party

The issue of securities

- 89 The Company seeks approval to issue 30,000 Emerchants Shares to Tony Adcock under the terms of the Conditional Placement.

Why is shareholder approval required?

- 90 Listing Rule 10.11 requires the approval of shareholders before securities can be issued to a related party. A director is a 'related party' for the purposes of Listing Rule 10.11. Tony Adcock, who is a director of the Company, is a related party.
- 91 The following information is given under Listing Rule 10.13 on the securities that are proposed to be issued to Tony Adcock under the Conditional Placement:

Related party	Tony Adcock
Maximum number of securities to be issued	30,000 Emerchants Shares
Date the Company committed to issue the securities	As announced to the market on 26 September 2014 the Company entered into agreements with institutional and sophisticated investors (including the Participating Directors) between 24 and 25 September 2014, for the issue Emerchants Shares at an issue price of \$0.50 per Emerchants Share, subject to approval being obtained under this Notice of Meeting.
Date the Company will issue the securities	On completion of the SFUK Share Sale Agreement which is anticipated to be 8 December 2014 or otherwise no later than one month from the date of the Annual General Meeting
Relationship to Company	Director
Issue price of the securities	\$0.50 per Emerchants Share
Terms of issue	Ordinary shares which will rank equally with all existing ordinary shares then on issue and the Company will seek quotation of the shares on ASX

Intended use of funds	The funds will be used towards the Cash Component of the purchase price under the SFUK Share Sale Agreement, capital raising costs, transaction costs and to contribute to the working capital of the Company
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- 92 The purpose of resolution 8 is for Shareholders to approve the issue of 30,000 Emerchants Shares to Tony Adcock subject to resolutions 3 to 5 being passed. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

What majority of votes is required?

- 93 A simple majority of Shareholders is required to pass the resolution.

Who can vote on this resolution?

- 94 All Shareholders can vote other than Tony Adcock and his associates. A description of whether a party will be an associate is set out in paragraph 64.

Directors' interest and recommendation

- 95 Tony Adcock has an interest in the outcome of resolution 8. Because of his interest in the outcome, he does not make a recommendation in relation to resolution 8.
- 96 Each of the Directors (other than Tony Adcock) recommends that Shareholders vote in favour of resolution 8.

Resolution 9 – Approval of issue of shares to a related party

The issue of securities

- 97 The Company seeks approval to issue 200,000 Emerchants Shares to David Liddy under the terms of the Conditional Placement.

Why is shareholder approval required?

- 98 Listing Rule 10.11 requires the approval of shareholders before securities can be issued to a related party. A director is a 'related party' for the purposes of Listing Rule 10.11. David Liddy who is a director of the Company, is a related party.
- 99 The following information is given under Listing Rule 10.13 on the securities that are proposed to be issued to David Liddy under the Conditional Placement:

Related party	David Liddy
Maximum number of securities to be issued	200,000 Emerchants Shares

Date the Company committed to issue the securities	As announced to the market on 26 September 2014 the Company entered into agreements with institutional and sophisticated investors (including the Participating Directors) between 24 and 25 September 2014, for the issue Emerchants Shares at an issue price of \$0.50 per Emerchants Share, subject to approval being obtained under this Notice of Meeting.
Date the Company will issue the securities	On completion of the SFUK Share Sale Agreement which is anticipated to be 8 December 2014 or otherwise no later than one month from the date of the Annual General Meeting
Relationship to Company	Director
Issue price of the securities	\$0.50 per Emerchants Share
Terms of issue	Ordinary shares which will rank equally with all existing ordinary shares then on issue and the Company will seek quotation of the shares on ASX
Intended use of funds	The funds will be used towards the Cash Component of the purchase price under the SFUK Share Sale Agreement, capital raising costs, transaction costs and to contribute to the working capital of the Company.

- 100 The purpose of resolution 9 is for Shareholders to approve the issue of 200,000 Emerchants Shares to David Liddy subject to resolutions 3 to 5 being passed. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

What majority of votes is required?

- 101 A simple majority of Shareholders is required to pass the resolution.

Who can vote on this resolution?

- 102 All Shareholders can vote other than David Liddy and his associates. A description of whether a party will be an associate is set out in paragraph 64.

Directors' interest and recommendation

- 103 David Liddy has an interest in the outcome of resolution 9. Because of his interest in the outcome, he does not make a recommendation in relation to resolution 9.
- 104 Each of the Directors (other than David Liddy) recommend that Shareholders vote in favour of resolution 9.

Resolution 10 – Approval of issue of Emerchants Shares to a related party

The issue of securities

- 105 The Company seeks approval to issue 100,000 Emerchants Shares to Peter Martin under the terms of the Conditional Placement.

Why is shareholder approval required?

- 106 Listing Rule 10.11 requires the approval of shareholders before securities can be issued to a related party. A director is a 'related party' for the purposes of Listing Rule 10.11. Peter Martin, who is a director of the Company, is a related party.
- 107 The following information is given under Listing Rule 10.13 on the securities that are proposed to be issued to Peter Martin under the Conditional Placement:

Related party	Peter Martin
Maximum number of securities to be issued	100,000 Emerchants Shares
Date the Company committed to issue the securities	As announced to the market on 26 September 2014 the Company entered into agreements with institutional and sophisticated investors (including the Participating Directors) between 24 and 25 September 2014, for the issue Emerchants Shares at an issue price of \$0.50 per Emerchants Share, subject to approval being obtained under this Notice of Meeting
Date the Company will issue the securities	On completion of the SFUK Share Sale Agreement which is anticipated to be 8 December 2014 or otherwise no later than one month from the date of the Annual General Meeting
Relationship to Company	Director
Issue price of the securities	\$0.50 per Emerchants Share
Terms of issue	Ordinary shares which will rank equally with all existing ordinary shares then on issue and the Company will seek quotation of the shares on ASX
Intended use of funds	The funds will be used towards the Cash Component of the purchase price under the SFUK Share Sale Agreement, capital raising costs, transaction costs and to contribute to the working capital of the Company

- 108 The purpose of resolution 10 is for Shareholders to approve the issue of 100,000 Emerchants Shares to Peter Martin subject to resolutions 3 to 5 being passed. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

What majority of votes is required?

- 109 A simple majority of Shareholders is required to pass the resolution.

Who can vote on this resolution?

- 110 All Shareholders can vote other than Peter Martin and his associates. A description of whether a party will be an associate is set out in paragraph 64.

Directors' interest and recommendation

- 111 Peter Martin has an interest in the outcome of resolution 10. Because of his interest in the outcome, he does not make a recommendation in relation to resolution 10.
- 112 Each of the Directors (other than Peter Martin) recommend that Shareholders vote in favour of resolution 10.

Resolution 11 – Approval of additional capacity to issue shares under Listing Rule 7.1A

- 113 If passed resolution 11 would give the Company additional capacity to issue a number of equity securities equal to 10% of the number of ordinary securities on issue (at the time of the issue), in addition to the 15% permitted under Listing Rule 7.1 without Shareholder approval (**Additional Placement Facility**).
- 114 As at the date of this Notice of Meeting, the Company has on issue 124,668,047 Shares. As the Company announced on 3 August 2014 following the release of Shares from escrow, the Company has:
- (a) 18,700,207 remaining issue capacity under Listing Rule 7.1; and
 - (b) 12,466,804 remaining issue capacity under Listing Rule 7.1A.
- 115 If all the resolutions are approved by Shareholders at the meeting, the Company will have the capacity to issue:
- (a) 26,635,207 equity securities under Listing Rule 7.1; and
 - (b) subject to Shareholders approving this resolution, 12,466,805 Shares under Listing Rule 7.1A.
- 116 The information below provides more background on Listing Rule 7.1A and the disclosure required by Listing Rule 7.3A.

Additional Placement Facility

- 117 Under Listing Rule 7.1A, an eligible entity may seek approval from members by a special resolution at its annual general meeting to have the Additional Placement Facility to issue equity securities.
- 118 If approved, the Additional Placement Facility will allow the Company for a period of 12 months from the date of the Annual General Meeting to issue equity securities equal to 10% of the number of ordinary securities on issue on a non pro rata basis. The Company currently believes that it has sufficient capital for the foreseeable future and does not have specific plans to raise additional capital, but considers it prudent to maintain such flexibility.

Eligible entity

- 119 Under the Listing Rules, an 'eligible entity' is an entity which, as at the date of the relevant resolution, is not included in the S&P/ASX 300 Index and has a market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) equal to or less than \$300 million. The Company is an eligible entity as at the date of this Notice of Meeting.

Special resolution

- 120 The Additional Placement Facility requires Shareholder approval by way of a special resolution. This requires at least 75% of the votes cast in favour of the resolution by Shareholders entitled to vote.

Securities which may be issued under the Additional Placement Facility

Type of securities

- 121 Under the Additional Placement Facility, the Company must issue equity securities belonging to an existing quoted class of the Company's equity securities. As at the date of this Notice of Meeting, the Company has on issue the following quoted classes of equity securities, of which only the ordinary shares are quoted:

Security	Number on issue
Ordinary shares	124,668,047
Unlisted options	19,362,121

**Unlisted options do not belong to an existing quoted class of securities*

10% limit

- 122 The Additional Placement Facility allows the Company to issue, or agree to issue, during the 12 months following member approval, a number of equity securities calculated in accordance with the following formula:

(A x D) – E

A = The number of fully paid ordinary securities on issue 12 months before the date of the issue or agreement,

- (i) plus the number of fully paid ordinary securities issued in the 12 months under an exception in Listing Rule 7.2,
- (ii) plus the number of partly paid ordinary securities that became fully paid in the 12 months,
- (iii) plus the number of fully paid ordinary securities issued in the 12 months with approval of holders of ordinary securities under Listing Rule 7.1 or Listing Rule 7.4. This does not include an issue of fully paid shares under the Company's 15% placement capacity without Shareholder approval,
- (iv) less the number of fully paid ordinary securities cancelled in the 12 months.

D = 10%

E = The number of equity securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of ordinary securities under Listing Rule 7.1 or Listing Rule 7.4.

Information required for Listing Rule 7.3A

What is the minimum issue price?

- 123 The issue price of each security issued under the Additional Placement Facility must be no less than 75% of the volume weighted average price (**VWAP**) for the securities of that class. The VWAP is to be calculated over the 15 trading days on which trades in that class were recorded immediately before:
- (a) the date on which the price, at which the securities are to be issued, is agreed under the Additional Placement Facility; or
 - (b) if the securities are not issued within five trading days of the date in paragraph (a), the date on which the securities are issued.
- 124 The Company will disclose this information when equity securities are issued under the Additional Placement Facility.

What is the date by which the Company may issue equity securities?

- 125 Under Listing Rule 7.1A.1, the approval for the Additional Placement Facility must be for a period (**Additional Placement Period**) commencing on the date of the annual general meeting and expiring no the earlier of:
- (a) the date that is 12 months after the date of the annual general meeting (being 20 November 2015); or
 - (b) if the Company receives an approval for a proposed transaction under Listing Rule 11.1.2 (significant change to the nature or scale of activities) or Listing Rule 11.2.
- 126 The Company will only issue the equity securities during the Additional Placement Period. The approval under resolution 11 for the issue of equity securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 or Listing Rule 11.2.

Dilution risks

- 127 If equity securities are issued under the Additional Placement Facility, there is a risk of economic and voting dilution of existing members, including the following risks:
- (a) the market price for shares may be significantly lower on the issue date than on the date of the approval under Listing Rule 7.1A; and
 - (b) the equity securities may be issued at a price that is at a discount to the market price for the shares on the issue date,
- which may have an effect on the amount of funds raised by the issue of the equity securities.
- 128 The table below shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for the variable 'A' calculated in accordance with the formula in Listing Rule 7.1A.2, on the basis that resolutions 3 to 10 are passed and no further issues.
- 129 The table also shows:
- (a) two examples where variable 'A' has increased, by 50% and 100% Variable 'A' is based on the number of ordinary securities the Company has on issue and that it will have on

issue if resolutions 3 to 10 inclusive are approved. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro rata entitlement offer or securities issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and

- (b) two examples of where the issue price of ordinary securities has decreased by 50% and increased by 100% as against the current market price.

Variable 'A' in ASX Listing Rule 7.1A.2		Dilution		
		\$0.2475 50 % decrease in issue price	\$0.495 issue price	\$0.99 100 % increase in issue price
Current Variable A 177,568,047 Emerchants Shares	10 % Voting Dilution	17,756,804 Emerchants Shares	17,756,804 Emerchants Shares	17,756,804 Emerchants Shares
	Funds raised	\$4,394,809	\$8,789,618	\$17,579,236
50 % increase in current Variable A 266,352,070 Emerchants Shares	10 % Voting Dilution	26,635,207 Emerchants Shares	26,635,207 Emerchants Shares	26,635,207 Emerchants Shares
	Funds raised	\$6,592,214	\$13,184,427	\$26,368,855
100 % increase in current Variable A 355,136,094 Emerchants Shares	10 % Voting Dilution	35,513,609 Emerchants Shares	35,513,609 Emerchants Shares	35,513,609 Emerchants Shares
	Funds raised	\$8,789,618	\$17,579,236	\$35,158,473

130 The table has been prepared on the assumptions set out below.

- (a) The Company issues the Shares for cash under the Additional Placement Facility and other types of quoted securities.
- (b) The Company issues the maximum number of Shares allowed under the Additional Placement Facility (being 10% of the number of the Company's Shares on issue).
- (c) No options are exercised to convert into shares before the date of the issue of the shares available under Listing Rule 7.1A.
- (d) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- (e) The Company issues Shares under the Additional Placement Facility to new investors who have previously held no interests in the Company's securities (i.e the table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the Additional Placement Facility, based on that Shareholder's holding at the date of the meeting).

- (f) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of share issue under Listing Rule 7.1A, based on that Shareholder's holding at the date of this Notice of Meeting.
- (g) The table shows only the effect of issues of equity securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
- (h) Other than as indicated in the table, the Company does not issue any additional equity securities during the Additional Placement Period.
- (i) The issue price is \$0.495, being the closing price of the shares on ASX on Friday 3 October 2014.

For what purpose will the Company issue equity securities?

- 131 Although no such plans exist at this time, the Company seeks to maintain some flexibility in its capital raising ability so that it may issue equity securities under the Additional Placement Facility for the following purposes:
- (a) to provide non-cash consideration for new asset purchases or investments; or
 - (b) to raise cash to fund:
 - (i) continuing increases to the Company's information technology development capacity;
 - (ii) the increase in marketing spend to build brand awareness and increase future sales pipelines of reloadable pre-paid opportunities;
 - (iii) continued expenditure on the Company's assets;
 - (iv) new acquisitions or investments (including their associated expenses); and
 - (c) general working capital.
- 132 The Company will comply with the disclosure obligations under the Listing Rules 7.1A.4 and 3.10.5A upon issue in reliance on Listing Rule 7.1A of any equity securities. If equity securities provide a valuation of the non-cash consideration, that demonstrates that the issue price of the securities are at or above the minimum issue price, in accordance with the note to Listing Rule 7.1A.3. The Company intends to have the ability to issue securities under Listing Rule 7.1A for non-cash consideration.

What is the allocation policy?

- 133 The Company's allocation policy and the identity of the allottees of the equity securities under the Additional Placement Facility will be determined on a case-by-base basis at the time of issue.
- 134 No decision has been made in relation to an issue of equity securities under the Additional Placement Facility as to whether the Company will engage with new investors or existing members of the Company, and if so whom.
- 135 However, determination of the allocation policy and the identity of the allottees will have regard to the following considerations:
- (a) the financial situation and solvency of the Company;

- (b) impacts of the placement on control;
- (c) other methods of raising capital; and
- (d) advice from corporate, financial and broking advisers (if applicable).

136 Allottees may include existing Shareholders or new investors, but no persons who are related parties or associates of related parties of the Company. If the issue is made in connection with the acquisition of assets, the allottees may be the sellers of those assets.

Details of approvals under Listing Rule 7.1A previously obtained by the Company

137 The Company obtained Shareholder approval for an Additional Placement Facility under Listing Rule 7.1A at the 2012 annual general meeting held on 13 November 2012 and at the 2013 annual general meeting held on 13 November 2013.

Information under ASX Listing Rule 7.3A.6(b)

138 The table below sets out specific details for each issue of equity securities that has taken place in the 12 month period before the date of the AGM. None of the unlisted options provided below have vested since the 2013 AGM.

Date of issue and number issued	9 December 2013 – 1,212,121 unlisted options
Class and type of equity security	Unlisted options issued under the employee share option plan as approved by Shareholders at the 2013 Annual General Meeting.
Summary of terms	(a) Each option is, subject to vesting, an option to acquire one ordinary share in the Company for nil consideration, which is only exercisable in the period between 1 September 2016 and 30 September 2016 inclusive. Any option that is not exercised before 5.00pm (Sydney time) on 30 September 2016 will automatically expire. (b) The options will not vest and be capable of exercise until the Performance Hurdles set out below or have been met and the Board determines in its absolute discretion to allow the options to vest; (c) The options will only vest and become exercisable if the following Performance Hurdles are satisfied as at the date the Company's 2016 annual report is published (expected to be during September 2016): (i) Mr Cregan has not resigned as Chief Executive Officer and Managing Director of the Company on or before 1 September 2016 (or otherwise is terminated as a "Bad Leaver" for the purposes of the Company's

	Employee Share Option Plan (ESOP)); and (ii) the Company has achieved three or more of the Performance Hurdles set out below (one of which must be either the performance hurdle in sub-section (v) or (vi)): (iii) total loads for the financial year ending 30 June 2016 (FY16) exceeding \$450,000,000; (iv) gross margin percentage for FY16 in excess of 85%; (v) total active accounts at the end of FY16 in excess of 1,100,000; (vi) earnings before interest, tax, depreciation and amortisation (EBITDA) for FY16 being equal to or greater than \$4,480,000; and (d) earnings before tax (EBT) for FY16 being equal to or greater than \$2,940,000, together the “Performance Hurdles”. However, should any of the three applicable Performance Hurdles not be fully achieved, the options will be pro rata vested on a sliding scale, provided the total percentage of the three Performance Hurdles achieved is greater than 90% of the target amounts.
Names of persons who received securities or basis on which those persons were determined	Thomas Cregan
Price	Nil, unlisted option issued under ESOP.
Discount to market price (if any)	Not applicable
<i>For cash issues</i>	
Total cash consideration received	Not applicable
Amount of cash consideration spent	Not applicable
Use of cash consideration	Not applicable
Intended use for remaining amount of cash (if any)	Not applicable
<i>For non-cash issues</i>	
Non-cash consideration paid	Consideration was services as options issued under the ESOP.
Current value of that non-cash consideration	Price calculated at time of the exercise of the options with reference to market price at the time of exercise.

Date of issue and number issued	10 December 2013 – 2,500,000 unlisted options
Class and type of equity security	Unlisted options issued to non-executive directors in lieu of director's fees payable to them for the period 1 March 2013 to 30 June 2014 as approved by Shareholders at the AGM on 13 November 2013.
Summary of terms	(a) Each option is an option to acquire one ordinary share in the Company on payment of an exercise price of \$0.10 per option and is only exercisable during the period from 1 March 2016 to 31 March 2016 inclusive. (b) The options are subject to voluntary escrow from their issue date until February 2016 (inclusive) (Escrow Period). This means that Non-Executive Directors will not be able to transfer the options during the Escrow Period without the Company's consent. (c) Subject to the relevant non-executive director remaining a director of the Company, the options will vest in 7 tranches over the period from 31 December 2013 to the end of the relevant period from 31 December 2013 to the end of the relevant period, being 30 June 2014 (Vesting Period). Tranche 1 will vest on 31 December 2013 and will comprise 524,017 options. The remaining 6 tranches of options will vest in equal tranches on the last day of each month over the remaining Vesting Period and each tranche will comprise one sixth of the remaining 1,975,983 options. Tranche 7 will vest on 30 June 2014. (d) An option, even though issued, will not be capable of exercise until it has vested. Once vested, each option is only exercisable by the relevant non-executive director during the period from 1 March 2016 to 31 March 2016 (inclusive). Any option that is not exercised before 5.00pm (Sydney time) on 31 March 2016 will automatically expire. (e) While the options are not being granted under the Company's ESOP to the extent that the rules of the ESOP are capable of applying to the options, the options are also subject to the terms

	and conditions of the ESOP. For the avoidance of doubt, the good leaver/bad leaver provisions of the ESOP do not apply to the options.
Names of persons who received securities or basis on which those persons were determined	David Liddy Mr Robert Barrett Browning & Mrs Nancy Jean Browning and Plan B Trustees Limited Tony Adcock Peter Martin John Toms
Price	Nil
Discount to market price (if any)	Not applicable
<i>For cash issues</i>	
Total cash consideration received	Not applicable
Amount of cash consideration spent	Not applicable
Use of cash consideration	Not applicable
Intended use for remaining amount of cash (if any)	Not applicable
<i>For non-cash issues</i>	
Non-cash consideration paid	Consideration was services as options issued under the ESOP.
Current value of that non-cash consideration	Price calculated at time of the exercise of the options with reference to market price at the time of exercise.

Directors' recommendation

139 The Directors recommend that you vote for this resolution.

Definitions

140 A number of capitalised terms are used throughout this notice of meeting and explanatory memorandum. Except to the extent the context otherwise requires those capitalised terms have the meaning set out below:

Term	Definition
Acquisition	means the proposed acquisition of the SFUK Shares from the SFUK Shareholders (including the Related Parties) under the SFUK Share Sale Agreement.
Additional Placement Facility	has the meaning set out in paragraph 113.
Additional Placement Period	has the meaning set out in paragraph 125.
Annual General Meeting	means the Company's annual general meeting the subject of this Notice of Meeting.
Annual Report	means the 2014 Annual Report of the Company.
ASIC	means Australian Securities and Investments Commission.
ASX	means ASX Limited ACN 008 624 691.
Board	means the board of directors of the Company.
Bonus Shares	means the Emerchants Shares to be issued to David Shewmaker on achievement of certain performance targets.
Company or Emerchants	means Emerchants Limited ACN 104 757 904.
Conditional Placement	means the placement of Emerchants Shares to sophisticated and professional investors undertaken by the Company on 24 and 25 September 2014 which is conditional on resolutions 3 to 5 of this Notice of Meeting being passed.
Conditional Placement Shares	means the Emerchants Shares agreed to be issued under the terms of the Conditional Placement.
Control	has the meaning given to it under the Corporations Act.
Constitution	means the constitution of the Company.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Cregan Ltd	means Tom Cregan and Associates Pty Ltd ACN 086 824 222.
Directors	means the directors of the Company.
DKS Investments	means DKS Investments, LLC (company number 45-1073850).
EBITDA	means earnings before, income tax, depreciation and amortization.
Emerchants Shares	means fully paid ordinary shares in the capital of the Company.
Equity Component Shares	means 24,900,000 Emerchants Shares which are proposed to be issued to the SFUK Shareholders on completion of the Acquisition as set out in the explanatory memorandum.
Hammerson	means the UK company which trades under the name Hammerson or a variation thereof or an affiliate thereof.

Term	Definition
Independent Directors	means each of the Directors other than Thomas Cregan.
Independent Expert	means Ernst & Young Transaction Advisory Services Limited.
Key Management Personnel or KMP	means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise).
Listing Rules	means the listing rules of ASX.
MFI	means the German company which trades under the name MFI (or a variation thereof) or an affiliate thereof.
Notice of Meeting	means this notice of meeting and includes the Explanatory Memorandum.
Participating Directors	means the Directors who participated in the Conditional Placement being Thomas Cregan, Tony Adcock, Peter Martin and David Liddy.
Remuneration Report	means the section of the Directors' report for the 2014 financial year that is included under section 300A(1) Corporations Act.
SEV	means Store European Ventures, LLC (company number 45-0920670)
SFIH	means SFS International Holdings Co., LP (company number 20-1613285).
SFUK	means Store Financial Services UK Ltd (company number 05852181).
SFUK Business	means the business carried on by SFUK described in this explanatory memorandum.
SFUK Share Sale Agreement	means a share sale agreement between the Company and the SFUK Shareholders for the acquisition of the SFUK Shares from SFS World described in the explanatory memorandum.
SFUK Shares	means the share capital of SFUK being all the fully paid ordinary shares in SFUK which will be acquired by the Company from SFS World under the SFUK Share Sale Agreement.
SFS World	means SFS World Holding Co B.V.
Store	means Store Financial Services, LLC (company number 72-1552943).
Shareholders	means a person who is a registered holder of Emerchants Shares.
VWAP	means the volume weighted average price.

Annexure A

Independent Expert's report

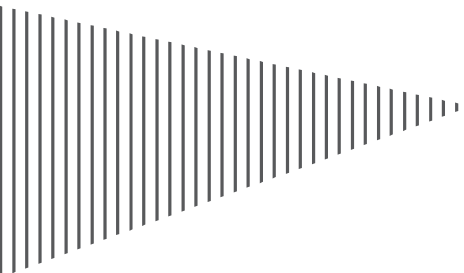
Independent Expert's Report and Financial Services Guide

Emerchants Limited

**Proposed acquisition of the entire issued share capital of
Store Financial Services UK Ltd for cash and scrip
consideration**

16 October 2014

*SUMMARY OF OPINION: ERNST & YOUNG TRANSACTION ADVISORY SERVICES
LIMITED CONSIDERS THE PROPOSED TRANSACTION TO BE FAIR AND
REASONABLE TO THE NON-ASSOCIATED SHAREHOLDERS OF EMERCHANTS
LIMITED*



PART 1 – INDEPENDENT EXPERT’S REPORT

Private and confidential

16 October 2014

The Independent Directors
Emerchants Limited
Level 2, 26 Commercial Road
NEWSTEAD QLD 4006

Dear Sirs

Independent expert’s report in relation to the proposed acquisition of the entire issued share capital of Store Financial Services UK Ltd by Emerchants Limited for cash and scrip consideration

Introduction

On 26 September 2014, Emerchants Limited (“EML”) announced that it had entered into a Share Sale Agreement to acquire the entire issued share capital of Store Financial Services UK Ltd (“SFUK”) for \$24.9¹ million, payable by cash and the issue of new EML shares (“Transaction”). SFUK is a provider of prepaid stored value card programs, operating across nine countries in the UK and Europe. SFUK is a wholly owned subsidiary of the ultimate parent company Store European Ventures, LLC (“SEV”). SEV itself is predominantly owned by SFUK’s Management team with the remaining 40% owned by a US company, Store Financial Services LLC.

Under the terms of the Transaction, if approved by EML’s shareholders, EML will acquire 100% of the shares in SFUK for a total purchase consideration of \$24.9 million comprised of the following:

- ▶ a cash component of \$12.45 million; and
- ▶ the allotment and issue of 24.9 million new EML shares at a price of \$0.50 per share.

In order to fund the cash component of the consideration, transaction costs and working capital, EML has undertaken a conditional share placement to institutional and sophisticated investors at a price of \$0.50 per share. The issuance of new EML shares is inter-conditional with the approval of the Transaction. The Transaction is subject to various conditions precedent, full details of which are set out in the accompanying Notice of Meeting.

One of the directors and shareholders of EML, Mr Tom Cregan, is also a director and 25.01% shareholder in SEV, the ultimate parent company of SFUK. Under ASX Listing Rule 10.1, a listed entity is prohibited from acquiring a substantial asset from a related party, without the approval of its shareholders. As Mr Tom Cregan is a director and shareholder of both EML and, via an indirect interest, of SFUK, he is considered a related, or associated, party of EML.

An asset is considered “substantial” for the purposes of ASX Listing Rule 10.1 if its value, or the value of the consideration being received, is 5% or more of the listed entity’s equity as set out in the latest accounts lodged with the ASX. The total consideration to be paid under the Transaction is \$24.9 million. The total consideration represents more than 5% of EML’s equity as set out in its annual financial accounts ended 30 June 2014 of \$16.7 million².

¹ The purchase price excludes transaction costs associated with the acquisition and capital raising, retention shares and bonus share issues

² Calculated in accordance with ASX Listing Rule 10.2.1, reflecting reported equity of A\$16.7 million

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution to be put to shareholders for the purposes of ASX Listing Rule 10.1, must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the Transaction is fair and reasonable to the non-associated shareholders of EML.

Consistent with this requirement, we have been appointed by the directors of EML not associated with SFUK (the "Independent Directors") to prepare an independent expert's report, the purpose of which is to provide an opinion as to whether or not the Transaction is fair and reasonable to the non-associated shareholders of EML. Our report is to accompany the Notice of Meeting containing a resolution being put to shareholders of EML for the purposes of ASX Listing Rule 10.1.

The ASX Listing Rules do not define the term "fair and reasonable" and provide no guidance on what should be considered when assessing whether or not a particular transaction is fair and reasonable for the purposes of ASX Listing Rule 10.1. ASIC has issued Regulatory Guide 111: *Content of expert reports* ("RG 111") which provides some direction as to what matters an independent expert should consider and how the term "fair and reasonable" should be interpreted in a range of circumstances.

In the circumstances of a transaction with persons in a position of influence (which by definition includes ASX Listing Rule 10.1 transactions), RG 111 provides that the determination of "fair and reasonable" should be undertaken by separately assessing whether the transaction is "fair" and whether it is "reasonable". A transaction involving the acquisition of an asset would be "fair" if the value of the consideration being provided is less than, or equal to, the value of the asset being acquired. A transaction is "reasonable" if it is "fair" or, despite being "not fair", there are sufficient reasons for the non-associated shareholders to approve the Transaction.

In assessing whether or not the Transaction is fair to the non-associated shareholders of EML, we have compared the fair market value of SFUK, on a controlling interest basis, to the value of the consideration being provided. Our assessed value of the consideration is based on the value of the cash component plus the value of the EML shares post the Transaction, i.e., on a notionally combined basis. This takes into consideration the potential dilutionary impact of shares to be issued as a result of the Transaction.

If the value of the consideration to be provided, comprising cash and EML shares, is equal to or less than the value of SFUK, then the proposed Transaction would be considered to be "fair". Consistent with RG 111, if "fair", the Transaction would also be "reasonable". In considering whether the Transaction is reasonable, we considered the following matters:

- ▶ The strategic rationale for the Transaction and EML's intention with respect to SFUK.
- ▶ The liquidity of and prices at which EML shares have recently traded at on the ASX.
- ▶ The existence of alternatives to the Transaction and the consequences for EML shareholders.
- ▶ The likely impact on EML's share price in the event that the Transaction is not approved.
- ▶ Qualitative factors which we believe represent either advantages or disadvantages to the non-associated shareholders.

We also compared the value of an EML share pre Transaction, to our assessed value on a notionally combined basis post the Transaction to further support our opinion.

Our opinion relates to the Transaction only and has not been prepared in any way in relation to the conditional placement undertaken.

Summary of opinion

In determining whether the Transaction is fair, we have compared the assessed value of SFUK, on a controlling interest basis, to our assessed fair market value of the consideration that will be paid by EML in the event that the Transaction is approved.

The table below shows a summary of the assessed value of SFUK and the consideration offered.

Fair market valuation of consideration being offered by EML for SFUK

<i>Currency: A\$millions</i>	Ref	Low	High
Fair market equity value of SFUK (on a controlling interest basis)	8.4	23.1	28.8
Fair market value of consideration	9.3	22.2	24.2

Source: EY analysis

Our assessed value range of SFUK is consistent with, albeit higher at the high end of, the assessed range of values for the consideration.

We also compared our assessed range of values for EML shares pre Transaction to the value ranges post Transaction. This analysis indicated that the value post Transaction is within, and slightly above, the range of values pre Transaction. We note that the value of EML on a notionally combined basis excludes any potential revenue growth opportunities in leveraging EML's reloadable payment applications into new growth markets. Any such revenue growth opportunities that may arise as a result of the Transaction have not been explicitly quantified and to the extent that such benefits arise in future, this would increase the value of the combined EML business post Transaction.

In our opinion, as the fair market value of the consideration is consistent with, and in fact at the lower end of our valuation of SFUK, on a controlling interest basis, we consider the Transaction to be fair to the non-associated shareholders of EML.

Other factors

Notwithstanding the above conclusion that the terms of the Transaction are fair and reasonable, we have also considered other factors that the non-associated shareholders of EML should consider in forming their views as to whether or not to approve the Transaction.

Certain of these factors may only be an advantage or disadvantage to the extent that an EML shareholder continues to hold their EML shares. Those shareholders who decide to sell their EML shares will not consider various of these factors to be advantages or disadvantages.

Advantages

EML will be a larger, more diversified business which is expected to be cash flow positive

Over the last three years, EML has generated negative earnings as it invests in its future growth strategy within the Australian market. On the other hand, SFUK currently generates positive cash flows and, based on Management's guidance, is projected to increase its cash flows, benefitting from a growing contracted customer base and economies of scale. The Transaction is therefore expected to result in the combined EML business becoming cash flow positive during the financial year to 30 June 2015 and reducing the requirement for EML to undertake further equity issuances in the short term.

Potentially increased liquidity of EML shares

Currently, EML shares are relatively illiquid. However, as a result of the Transaction, EML is expected to be a larger and more diversified business with a higher market capitalisation. While approximately 14% of the shares post the Transaction are expected to be held by Store Financial Services LLC and other employees of SFUK, and are subject to certain share trading restrictions, the larger size of the company may result in greater interest in its operations and coverage by analysts, resulting in improved demand for its shares.

Disadvantages

Costs associated with the Transaction

As set out in the Notice of Meeting, EML estimates that it will incur total transaction costs, inclusive of the costs associated with the inter-conditional placement, of approximately \$1.5 million. A proportion of these costs, in the order of \$0.3 million, have been incurred irrespective of whether the Transaction is ultimately implemented.

Other factors

Alternative opportunities for EML

EML management has been seeking opportunities for growth over at least the last twelve months, and considers the acquisition of SFUK meets its long term strategic goals. No superior alternatives were identified by Management.

The acquisition of SFUK provides EML the opportunity to quickly enter the UK and European markets, with complementary product and service offerings. In addition, the SFUK business is well known to EML particularly due to the common shareholder and directorship of Tom Cregan in both EML and SFUK.

Aligned interests of SFUK and EML management

Under the terms of the Transaction, shares in the combined EML group will be issued to Store Financial Services LLC, as well as key management team members of SFUK. Through this alignment of interests, these shareholders are incentivised to achieve the projected growth and expansion of the business, and therefore aligned with the interests of the non-associated shareholders of EML.

The combined group will operate in Australia, the UK and Europe, with processing operations based in the US

EML shareholders currently hold shares in an entity with Australian operations. If the Transaction is approved, EML shareholders would subsequently hold shares in an entity with global operations covering Australia, the UK and Europe and supporting ancillary processes based in the US. Depending on the perception and risk appetite of any existing individual EML shareholder, this may represent an advantage or disadvantage given the diversification of geographical exposure and associated risks and opportunities, including exchange rate movements. To the extent that some shareholders wish to cease holding their interest, they may sell their holding.

Potential synergistic benefits

While EML management have indicated that SFUK and EML's Australian operations will continue to operate relatively independently as at present, there may be the potential for certain synergistic benefits. While we understand that any cost savings that could be achieved by combining the businesses will be minimal, the Transaction is intended to enable the combined business to leverage EML's reloadable payment applications into new growth markets. As such, there is the potential for additional growth opportunities. However, any such revenue growth opportunities that may arise as a result of the Transaction have not been quantified and are not certain. To the extent that such benefits arise, this would be considered an advantage.

Conclusion

Taking into consideration the matters outlined above and detailed in the attached independent expert's report, in our opinion the Transaction is fair and reasonable for the non-associated EML shareholders.

Other

In preparing this independent expert's report, we have considered relevant regulatory guides issued by ASIC, with particular reference to Regulatory Guide 111 *Content of experts reports*, Regulatory Guide

112 *Independence of experts, Regulatory Guide 76 Related party transactions and APES 225 Valuation Services.*

This independent expert's report constitutes general financial product advice only. In forming our opinion we have considered the interests of EML shareholders as a whole, and we have not considered, nor is it practical or possible to consider, the individual circumstances of each EML shareholder. The decision to vote for or against the Transaction is a matter for individual shareholders. EML shareholders should consider the advice in the context of their own circumstances, including investment objectives, liquidity preferences, risk profiles, tax position and expectations of future market conditions. This report should be considered in conjunction with, and not independently of, the information set out in the Notice of Meeting prepared by the directors and management of EML. Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in EML. This is an investment decision upon which we do not offer an opinion and is independent of a decision to vote for or against the Transaction. Shareholders should consult their own professional advisers in this regard. Furthermore, our opinion relates to the Transaction only and has not been prepared in any way in relation to the placement undertaken.

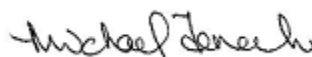
Our opinion is as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with, and not independently of, information set out in the remainder of this report, including the appendices.

Ernst & Young Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited



Julie Wolstenholme
Director and Representative



Michael Fenech
Director and Representative

Contents

1. Introduction	1
1.1 Overview of the proposed transaction.....	1
2. Scope of this report.....	3
2.1 Purpose of this report.....	3
2.2 Basis of evaluation	3
2.3 Fair market value.....	4
2.4 Limitations and reliance on information	4
2.5 Shareholders' decisions	5
3. Overview of Emerchants Limited	6
3.2 Financial performance.....	8
3.3 Financial position.....	10
3.4 Capital structure	11
3.5 EML share price performance	12
3.6 Trading volume	13
4. Australian prepaid and gift card industry	15
5. Overview of Store Financial Services UK Ltd.....	17
5.1 Company overview	17
5.2 Financial performance.....	19
5.3 Financial position.....	20
5.4 Capital structure	21
6. Overview of the prepaid and gift card industry in the UK and Europe.....	22
7. Valuation approach	25
7.1 Valuation methodology and approach.....	25
7.2 Control premium.....	26
8. Valuation of SFUK	27
8.1 Future maintainable earnings.....	27
8.2 Earnings multiples	29
8.3 Other assets and liabilities.....	32
8.4 Summary of valuation analysis.....	32
9. Valuation of the purchase consideration	33
9.1 Value of EML pre Transaction.....	33
9.2 Valuation of an EML share post Transaction	38
9.3 Comparison of value of SFUK to consideration offered.....	41
9.4 Comparison of value of an EML share pre and post Transaction	41
10. Evaluation of the Transaction	43
10.1 Approach	43
10.2 Fairness	43
10.3 Reasonableness.....	44
10.4 Other factors	44
10.5 Conclusions	45
Appendix A Qualifications and declarations	46
Appendix B Sources of information.....	48
Appendix C Valuation approaches	49
Appendix D Trading multiples and data.....	51
Appendix E Recent transactions	56
Appendix F Growth rates and margins	59
Appendix G Glossary	61
PART 2 – FINANCIAL SERVICES GUIDE	62

1. Introduction

1.1 Overview of the proposed transaction

Emerchants Limited (“EML” or the “Company”) is an Australian incorporated provider of reloadable and non-reloadable prepaid debit card solutions in Australia. EML is currently listed on the Australian Securities Exchange (“ASX”), and has a market capitalisation of around \$61 million³.

On 26 September 2014, EML announced that it had entered into a Share Sale Agreement to acquire the entire issued share capital of Store Financial Services UK Ltd (“SFUK”) for \$24.9⁴ million, payable by cash and the issue of new EML shares (“Transaction”). SFUK is a provider of prepaid stored value card programs, operating across nine countries in the UK and Europe. SFUK is a wholly owned subsidiary of the ultimate parent company Store European Ventures, LLC (“SEV”). SEV itself is predominantly owned by SFUK’s Management team with the remaining 40% owned by a US company, Store Financial Services LLC.

Under the terms of the Transaction, if approved by EML’s shareholders, EML will acquire 100% of SFUK for a total purchase consideration of \$24.9 million comprised of the following:

- ▶ a cash component of \$12.45 million; and
- ▶ the allotment and issue of 24.9 million new EML shares at a price of \$0.50 per share.

In order to fund the cash component of the consideration, transaction costs and working capital, EML has undertaken a conditional share placement to institutional and sophisticated investors at a price of \$0.50 per share. The issuance of new EML shares is inter-conditional with the approval of the Transaction. The Transaction is subject to various conditions precedent, full details of which are set out in the accompanying Notice of Meeting.

Other key terms of the Transaction include:

- ▶ A total of 20% of the shares issued to the ultimate shareholders of SFUK⁵ will be held in escrow for 12 months following completion of the Transaction. At this time, it is anticipated that these shares will be released from escrow on the basis that no warranty claims have been made by EML, or that any warranty claim(s) made have been settled.
- ▶ Select key members of SFUK management will be offered retention grants totalling 1.5 million EML shares, vesting in equal tranches over the 3 years subsequent to the completion date of the Transaction⁶. These will also be subject to service and performance conditions, including achievement of SFUK earnings forecasts.
- ▶ EML shares issued to one of the ultimate shareholders of SFUK, Store Financial Services LLC, as consideration will be subject to restrictions, including a requirement to provide 10 business days advance notice to EML of any proposed share sale, to enable EML the opportunity to effect an off-market transaction.
- ▶ Additional EML shares may be granted to key members of SFUK management in the event that two key contracts are subsequently awarded to SFUK. Based on the agreed terms, additional shares,

³ Based on EML’s share price as at 15 October 2014 of \$0.49 per share prior to the company going into a trading halt on 24 September 2014

⁴ The purchase price excludes transaction costs, retention shares and bonus share issues

⁵ This includes Tom Cregan and David Shewmaker, being employees of EML

⁶ Retention share grants will be distributed on a pro-rata basis over the three years such that 500,000 shares may be issued per year subject to certain EBITDA targets being met each year and continuity of service

of up to 5.3 million shares, may be issued, subject to agreed earnings contributions, and will be held in escrow for a period of 12 months post the date of the potential share grant⁷.

The Transaction is subject to the satisfaction or waiver of a number of conditions precedent which are set out in full in the accompanying Notice of Meeting. In summary, the key conditions include:

- ▶ No “material adverse change” that affects SFUK or EML as defined in the Share Sale Agreement.
- ▶ An independent valuation being obtained by the Board of EML that concludes on a value of SFUK that is satisfactory to the Board of EML.
- ▶ Approval of the Transaction by EML’s shareholders, ASIC and ASX (where applicable).
- ▶ Key employees of SFUK executing an Executive Services Agreement⁸.
- ▶ SFUK’s rights and obligations being novated under the Transaction Processing Agreement with Store Financial Services LLC on reasonable terms satisfactory to EML.
- ▶ A favourable opinion from an independent expert.
- ▶ Intercompany liabilities and/or debt owed by SFUK is forgiven by SFS International Holdings Co., LP (“SFIH”), a holding company of SFUK and supporting documentation is provided to EML confirming the completion of the debt forgiveness⁹.
- ▶ Taxation advice being obtained concluding that the sale of SFUK will not trigger any adverse tax consequences for SFUK.

Should the Transaction be approved, EML plans to retain the existing management team of SFUK, with SFUK becoming a wholly owned subsidiary of EML. The Transaction is intended to enable the combined business to leverage EML’s reloadable payment applications into new growth markets, as well as benefit from SFUK’s existing profitable business and affiliation with Store Financial Services LLC, an established provider of gift card programs. SFUK is well known to EML given one of the directors and shareholders of SFUK, also serves on the board of directors of, and is a shareholder of, EML.

The independent directors of EML have unanimously recommended that the EML shareholders vote in favour of the Transaction.

⁷ Estimated number of shares per Schedule 7 of the Share Sale Agreement based on a multiple of 3x being applied to the EBITDA contribution of the identified customers

⁸ Specifically David Shewmaker, Stuart Green, Alison Werrett and David Burchnell

⁹ This condition may be waived by the directors and instead adjusted through a reduction in the purchase price equal to the amount of the loan.

2. Scope of this report

2.1 Purpose of this report

Under ASX Listing Rule 10.1, a listed entity is prohibited from acquiring a substantial asset from a related party, without the approval of its shareholders. This is relevant in this instance as one of the directors and shareholders of EML, Tom Cregan, is also a director and 25.01% shareholder of SFUK via his same interest in SFUK's ultimate parent company, SEV, and therefore is considered a related, or associated, party.

An asset is considered "substantial" for the purposes of ASX Listing Rule 10.1 if its value, or the value of the consideration being received, is 5% or more of the listed entity's equity as set out in the latest accounts lodged with the ASX. The total consideration to be paid under the Transaction is \$24.9 million. The total consideration represents more than 5% of EML's equity as set out in its annual financial accounts ended 30 June 2014 of \$16.7 million¹⁰.

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution to be put to shareholders for the purposes of ASX Listing Rule 10.1, must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the proposed transaction is fair and reasonable to the non-associated shareholders of EML.

Consistent with this requirement, we have been appointed by the directors of EML not associated with SFUK (the "Independent Directors") to prepare an independent expert's report, the purpose of which is to provide an opinion as to whether or not the Transaction is fair and reasonable to the non-associated shareholders of EML. Our report is to accompany the Notice of Meeting containing a resolution being put to shareholders of EML for the purposes of ASX Listing Rule 10.1.

2.2 Basis of evaluation

The ASX Listing Rules do not define the term "fair and reasonable" and provide no guidance on what should be considered when assessing whether or not a particular transaction is fair and reasonable for the purposes of ASX Listing Rule 10.1. ASIC has issued Regulatory Guide 111: *Content of expert reports* ("RG 111") which provides some direction as to what matters an independent expert should consider and how the term "fair and reasonable" should be interpreted in a range of circumstances.

In the circumstances of a transaction with persons in a position of influence (which by definition includes ASX Listing Rule 10.1 transactions), RG 111 provides that the determination of "fair and reasonable" should be undertaken by separately assessing whether the transaction is "fair" and whether it is "reasonable". A transaction is "reasonable" if it is "fair" or, despite being "not fair", there are sufficient reasons for the non-associated shareholders to approve the Transaction.

In assessing whether or not the Transaction is fair to the non-associated shareholders of EML, we have compared the fair market value of SFUK, on a controlling interest basis, to the value of the consideration being provided. Our assessed value of the consideration is based on the value of the cash component plus the value of the EML shares post the Transaction, ie on a notionally combined basis. This takes into consideration the potential dilutionary impact of shares to be issued as a result of the Transaction.

If the value of the consideration to be provided, comprising cash and EML shares, is equal to or less than the value of SFUK, then the proposed Transaction would be considered to be "fair". Consistent with RG 111, if "fair", the Transaction would also be "reasonable". In considering whether the Transaction is reasonable, we considered the following matters:

- ▶ The strategic rationale for the Transaction and EML's intention with respect to SFUK.
- ▶ The liquidity of and prices at which EML shares have recently traded at on the ASX.

¹⁰ Calculated in accordance with ASX Listing Rule 10.2.1, reflecting reported equity of A\$16.7 million

- ▶ The existence of alternatives to the Transaction and the consequences for EML shareholders.
- ▶ The likely impact on EML's share price in the event that the Transaction is not approved.
- ▶ Qualitative factors which we believe represent either advantages or disadvantages to the non-associated shareholders.

We also compared the value of an EML share pre Transaction, to our assessed value on a notionally combined basis post the Transaction to further support our opinion.

Our assessment is based on the economic, political, social, market and other conditions prevailing at the date of this report. In undertaking our assessment of the Transaction, we have had regard to a number of references including ASIC Regulatory Guidelines, in particular RG 111, Regulatory Guide 112 *Independence of experts*, Regulatory Guide 76 *Related party transactions* and relevant market valuation guidelines and generally accepted practices in the preparation of expert reports. This report has also been prepared in accordance with APES 225 "*Valuation Services*" issued by the Accounting Professional & Ethical Standards Board in July 2008.

All amounts in this report are expressed in Australian dollars unless otherwise stated. A glossary detailing the abbreviations we have used in this report is contained in Appendix G – *Glossary*.

2.3 Fair market value

We have assessed the value of the consideration payable, and of the entire issued share capital of SFUK, on a fair market value basis. Fair market value in this context is considered to be "the amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length".

Fair market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding process, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

2.4 Limitations and reliance on information

We have considered a number of sources of information in preparing our report and arriving at our opinion. These sources of information are detailed in Appendix B – *Sources of information*.

This independent expert's report is based upon financial and other information provided to us by EML and SFUK. We have considered and relied upon this information. The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Transaction is fair and reasonable for the non-associated Shareholders of EML. We also held discussions with EML and SFUK management in relation to the Transaction, as well as the operations, financial position and operating results of EML and SFUK. However, we do not warrant that our enquiries have identified all of the matters that an audit, an extensive examination or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of EML or SFUK. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- ▶ Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed.
- ▶ The assessments by EML and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are complete and accurate.
- ▶ The information set out in the Notice of Meeting and accompanying documents to be sent by EML to EML shareholders is complete, accurate and fairly presented in all material respects.
- ▶ The publicly available information relied upon by us in our analysis was accurate and not misleading.
- ▶ The Transaction will be effected in accordance with its terms.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A – *Statement of qualifications and declarations* of this report.

Our assessment of the Transaction is based on economic, market and other conditions prevailing as at the date of this independent expert's report. As evidenced in recent years, these conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, our opinion could be different. Our opinion relates to the Transaction only and has not been prepared in any way in relation to the placement undertaken.

We provided draft copies of this independent expert's report to the directors and management of EML for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made to this independent expert's report as a result of this review by the directors and management of EML have not changed the conclusions reached by us.

2.5 Shareholders' decisions

This independent expert's report constitutes general financial product advice only. In forming our opinion we have considered the interests of EML shareholders as a whole, and we have not considered, nor is it practical or possible to consider, the individual circumstances of each EML shareholder. The decision to approve or not approve the Transaction is a matter for individual shareholders. EML shareholders should consider the advice in the context of their own circumstances, including investment objectives, liquidity preferences, risk profiles, tax position and expectations of future market conditions. Shareholders should also have regard to the Notice of Meeting prepared by the directors and management of EML. Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.

Similarly it is a matter for individual shareholders as to whether to buy, hold or sell shares in EML. This is an investment decision upon which we do not offer an opinion and is independent of a decision to vote for or against the Transaction. Shareholders should consult their own professional adviser in this regard.

Ernst & Young Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is included as Part 2 of this report.

3. Overview of Emerchants Limited

3.1 Company overview

Located in Newstead, Queensland, EML, as it is known today, was formed in 2001 and later acquired by Australasia Consolidated Ltd. (“AAO”) in July 2011. It was formerly known as Adept Solutions Limited, with the change of name occurring in November 2012.

EML is a key participant in the Australian prepaid financial card industry. It offers a variety of prepaid debit card products and services, including both non-reloadable and reloadable cards. While the majority of EML’s business is generated from non-reloadable cards, in recent years, its focus has shifted towards its reloadable business which predominantly services the not-for-profit, gaming and government sectors. EML offers products across all four segments of the Australian financial card industry as set out in the table below. The majority of its business is generated through long term contracts with its clients, including corporate and government organisations.

EML’s product offerings by segment

	Non – Reloadable	Reloadable
Open Loop	▶ Online purchase and disaster relief cards ▶ Welfare payments and remittances ▶ Works where Visa/Eftpos are accepted	▶ Corporate expense, payroll, transaction account cards ▶ Used for government disbursements ▶ Works where Visa/Eftpos are accepted
Closed Loop	▶ Single store gift cards ▶ Staff incentives and rewards cards ▶ Taxi vouchers and disaster relief cards ▶ Restricted access cards that cannot be reloaded	▶ Customer loyalty and rewards cards ▶ Insurance payout and fuel cards ▶ Restricted access, however funds can be reloaded and cards re-used

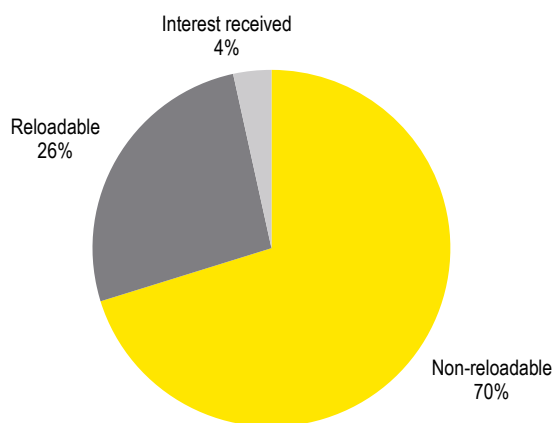
EML also offers a number of services that support and complement these products. Typically, EML provides the prepaid card product as well as the supporting processing capabilities and services. These services include various aspects from custom branding and marketing, controlled card issuance, instant funds disbursement, spend control management, locking and blocking of cards, and customised real time reporting and reconciliations. EML’s key competitive advantage is its secure account manager proprietary program that is used to manage the client programs and secure access for cardholders. This software can also be used to restrict the usage of cards to specific retailers and merchants, limit the value of transactions and/or limit the number of times cards may be used per day.

The majority of EML’s revenue is derived from non-reloadable cards, which contributed 70% of revenues in FY14A. However, in recent years, EML has focused on reloadable cards, which currently contribute around 26% of revenues. During calendar year 2014, EML signed various new agreements with multiple online gaming companies for the provision of reloadable cards, including Ladbrokes, Sportsbet and Bet Easy¹¹. These contracts will allow consumers easy access to their funds and the ability to load funds directly into their betting accounts. This reflects a relatively new avenue of focus for EML, demonstrating greater breadth of the possible industries that may be serviced.

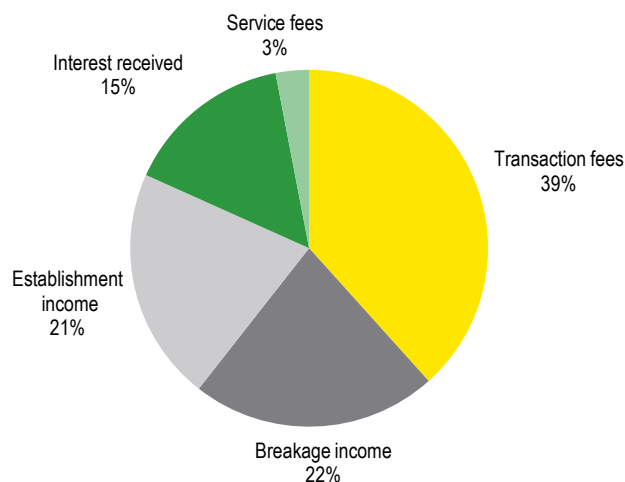
¹¹ ASX company announcements

The sources of revenue and contribution of each segment for FY14A are set out in the charts below.

Split of revenue for FY14A by segment



Split of revenue for FY14A



Source: EML 2014 Annual Report

As shown in the charts above, the largest contributor to revenues is transaction fees levied either when cardholders make purchases and/or based on a monthly fixed fee arrangement determined with reference to the funds loaded on a card. These transaction fees contributed 39% of revenues. A further 22% of revenue is generated from breakage income, being unspent funds on non-reloadable cards upon expiry, with 21% comprised of establishment income. Other sources of revenue include interest income and service fees.

3.2 Financial performance

3.2.1 Historical financial performance

The table below summarises EML's consolidated financial performance for the three years ended 30 June 2012 to 30 June 2014, based on audited financial statements.

<i>Currency: AUD \$ 000</i>	FY12A	FY13A	FY14A
Breakage income	n/a	984	1,152
Establishment income ¹	1,710	1,290	1,097
Transaction income	1,262	1,925	1,988
Interest income - host based stored value	533	586	613
Interest income - group funds	265	118	178
Services fees	-	130	156
Total revenue	3,771	5,034	5,184
Cost of sales	(372)	(667)	(1,135)
Gross profit	3,399	4,366	4,049
Other income	-	-	60
Employee benefits expense	(4,661)	(5,282)	(4,888)
Share-based payments	(1,329)	(1,441)	(1,403)
Depreciation and amortisation expense	(2,032)	(957)	(716)
Impairment of assets	(1,630)	-	-
Interest expense	(4)	-	-
Loss on disposal of fixed assets	-	(15)	-
Other expenses	(4,168)	(2,524)	(2,952)
Total expenses	(13,824)	(10,220)	(9,958)
Income / (loss) before income tax	(10,424)	(5,853)	(5,848)
Income tax benefit	397	494	436
Net income / (loss) for the year	(10,027)	(5,359)	(5,412)
Information only			
<i>One off adjustments</i>			
Recruitment expenses	(450)	-	-
Asset write downs upon acquisition	(1,630)	-	-
Amortisation expense relating to acquisition	(1,090)	-	-
Termination payment	(350)	-	-
Consultancy and advisory services relating to acquisition	(540)	-	-
Loss on disposal of fixed assets	-	(15)	-
Adjusted total expenses	(4,060)	(15)	-
Total expenses adjusted for one off expenses	(9,764)	(10,204)	(9,958)
Adjusted income / (loss) before income tax	(6,364)	(5,838)	(5,848)
<i>Funds loaded - reloadable</i>	<i>n/a</i>	<i>52,840</i>	<i>81,350</i>
<i>Funds loaded – non-reloadable</i>	<i>n/a</i>	<i>82,460</i>	<i>87,150</i>
Total funds loaded²	100,870	135,300	168,500

Source: EML Annual Reports FY12 to FY14

Notes to table:

1. FY12A establishment income includes both breakage income and establishment income as the Annual Report did not separately report these revenues for FY12A.
2. Annual Report does not separately report total funds loaded for reloadable and non-reloadable cards in FY12A.

In relation to the table on the previous page, we note:

- ▶ Total funds loaded increased by a compound annual growth rate of 29% over the period, with reloadable cards increasing at a significantly higher rate (54%) than non-reloadable cards (6%) between FY13A and FY14A. In FY14A, funds loaded on non-reloadable cards comprised 52% of total funds loaded, compared to 61% in FY13A.
- ▶ Revenues increased significantly in FY13A, with lower growth experienced in FY14A. The key drivers of growth are the number of new card holders which generate establishment fees, as well as the amount of funds loaded and volume of transactions, which drives transaction fees. These fees are based on a percentage of the amount spent on the cards, albeit there is generally a lag between the loading and usage of the cards.
- ▶ Costs of sales have increased in absolute terms over the last three years. However this is slightly offset by a decline in other operating expenses.
- ▶ Due to the acquisition of EML by AAO, significant one-off expenses were incurred in FY12, including recruitment expenses for the new leadership team, asset write downs of non-core assets previously held by AAO, amortisation expense arising upon acquisition, termination payments, and consultancy and advisory services. After adjusting for these one-off expenses, EML's total expenses remained relatively steady over the three year period.
- ▶ After considering the various one-off items in FY12A, EML's adjusted loss before income tax has been broadly flat at around \$5.8 million over the last two years.

3.2.2 FY15 financial performance

Based on year to date FY15 guidance provided to the market by EML management, we understand that EML has continued to secure new customers which are expected to support the growth of its revenue for the remaining period to 30 June 2015 and beyond. In this regard, we highlight the following key trading updates as presented in the accompanying Notice of Meeting:

- ▶ For the three months to 30 September 2014, total dollars loaded onto EML's prepaid cards has increased by approximately 98% over the prior corresponding period in 2013. The number of active accounts over the three months has increased by 8% while the number of revenue generating transactions increased by 58% over the prior corresponding period. These key metrics reflect both lead and lagging indicators of the growth trends for the business.
- ▶ Following the successful trial agreement signed with Cash Converters in October 2013, EML is due to launch the program in 24 retail stores in October 2014¹².
- ▶ As presented in section 3.5 of this report, EML signed multi-year agreements with the Queensland Government in November 2013 and Ladbrokes Digital in March 2014. More recently, EML has announced further new customers including Bet Easy, Sportsbet and MoneyMe. Given the nature of EML's business, there is a lag between the signing of customer contracts, the implementation of card programs and the generation of revenue as transactions occur. For example, Management expects the Sportsbet contract to result in 420,000 new card users with the program anticipated to be launched in October 2014 while the Bet Easy program is expected to launch in November 2014¹³. Therefore, these opportunities represent additional growth prospects for the company not yet captured within the FY14 or year to date FY15 results.

¹² EML trading update released 15 October 2014

¹³ EML FY14 full year results presentation

3.3 Financial position

The table below shows the financial position of EML as at 30 June 2013 and 30 June 2014, based on audited financial statements:

<i>Currency: AUD \$ 000</i>	30-Jun-13	30-Jun-14
Cash and cash equivalents	1,359	4,496
Other receivables (current)	233	343
Other assets	750	973
Total current assets	2,342	5,812
Other receivables (non-current)	507	474
Plant and equipment	609	964
Intangibles	11,505	11,223
Total non-current assets	12,621	12,661
Total assets	14,963	18,473
Trade and other payables	(756)	(712)
Employee benefits (current)	(274)	(314)
Provisions	-	(431)
Other current liabilities	(11)	-
Total current liabilities	(1,041)	(1,457)
Lease incentives	(269)	(217)
Deferred income	-	(41)
Employee benefits (non-current)	-	(51)
Total non-current liabilities	(269)	(309)
Total liabilities	(1,310)	(1,766)
Net assets	13,653	16,706
Issued capital	38,183	44,483
Reserves	2,282	4,448
Accumulated losses	(26,812)	(32,224)
Total equity	13,653	16,706

Source: EML Annual Reports FY13 to FY14

In relation to the financial position of EML, we note the following as at 30 June 2014:

- ▶ Cash and cash equivalents of \$4.5 million relate to cash on hand and at bank and short term deposits. The increase in the cash balance as at 30 June 2014 reflects the funds raised from a \$7.1 million share placement to sophisticated and institutional investors in August 2013, net of cash outflows associated with its investment in systems infrastructure and other outflows incurred in the ordinary course of business¹⁴.
- ▶ Other receivables (current) of \$0.3 million largely relate to interest receivable. No receivables are noted as being overdue as at 30 June 2014. Non-current receivables of \$0.5 million relate to security deposits with Cuscal Limited (a provider of banking, liquidity and capital management products), bank guarantee deposits and other receivables.
- ▶ Other current assets of \$1.0 million include accrued breakage fee, shortfall funding, prepaid insurance expenses and other current assets. Accrued breakage pertains to the portion of expired funds that EML expects to receive on expired non-reloadable cards. Shortfall funding represents funds provided by EML used to offset the delay in the receipt of funds from a distribution partner to ensure a particular customer's account is fully funded and operable upon issuance of the card.
- ▶ Plant and equipment of \$1.0 million relates to computers, leasehold improvements and office equipment.

¹⁴ EML FY14 results presentation, page 11 dated September 2014

- ▶ Intangibles of \$11.2 million include software licences, brand, customer lists and goodwill arising from the acquisition by AAO, net of accumulated amortisation and impairment. We note that the restraint of trade and customer contract intangible assets were fully amortised as at 30 June 2014.
- ▶ Provisions of \$0.4 million were recognised in FY14 reflecting Management's best estimate of the likely expenditure to be required to settle existing breakage payable and customer deposit obligations present at the reporting date.
- ▶ EML, as at 30 June 2014, had net assets of \$16.7 million. Shareholders' equity is comprised of issued capital of \$44.5 million, reserves of \$4.4 million including the grant and/ or issue of bonus shares and share based payments, and accumulated losses of \$32.2 million. As at 30 June 2014, there were 25,362,121 options on issue, reflecting a mix of performance and non-performance based options with expiry dates from July 2014 through to September 2016.

3.4 Capital structure

As at 15 October 2014, EML had on issue 124,668,047 fully paid ordinary shares. The top twenty shareholders hold approximately 56.5% of EML's equity capital. Details of the substantial shareholders of EML as at 15 October 2014 are set out in the table below:

Name of shareholder	No. of shares	% of shares held
Mr Tom Cregan	11,111,109	8.91%
Mr Peter Martin	9,486,320	7.61%
Milford Asset Management	8,665,696	6.95%
Other shareholders	95,404,922	76.53%
Total shares on issue	124,668,047	100.00%

Source: Management

Of these shareholders, we note that Mr Tom Cregan is also a director and shareholder of SEV.

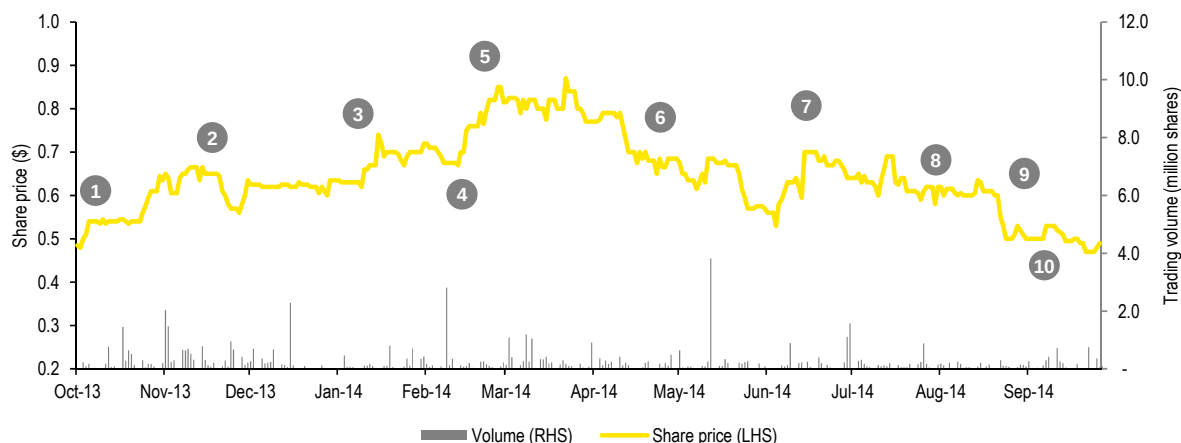
EML also has in place two employee share schemes, the Employee Share Option Plan ("ESOP 1") and the Employee Share Option Plan ("ESOP 2"). The key details regarding these arrangements are summarised below:

- ▶ ESOP 1 is an equity based compensation plan that was established for employees in December 2006. As approved by shareholders at annual general meetings, EML Directors may issue options to employees at an issue price determined by the market price of ordinary shares at the time the option is granted. Options vest at grant date and may be exercised at any time from their issue date until their expiry date. These options are not listed, carry no dividend rights and no voting rights. As at 30 June 2014, there were no share options under ESOP 1.
- ▶ ESOP 2 is an equity based compensation plan established for employees in June 2011. It is open to any full time or permanent part time employee or Director of EML or a related body corporate of EML. Options may not however be granted to a Director or his or her associates under ESOP 2 unless shareholders' approval is given in a general meeting in accordance with the requirements of the ASX Listing Rules. Under ESOP 2, the Board of EML has wide discretion with respect to the timing of making an offer to participate in ESOP 2, identifying people eligible to participate and the terms of issue of any option, inclusive of vesting conditions, if any. The share options are not listed, carry no dividend rights and no voting rights. As at 15 October 2014, there were 16,862,121 share options under ESOP 2 with expiry dates ranging from January 2015 through to September 2016. Given the terms of the options and vesting conditions, the options may not necessarily convert into the equivalent number of ordinary shares.

3.5 EML share price performance

EML's shares are listed on the ASX¹⁵. The following graph depicts the daily share price and trading volumes for EML shares for the period from 20 October 2013 to 15 October 2014:

EML share price and volume history



Source: CapitalIQ

EML's share price over this period has ranged from a low of \$0.47 per share on 10 October 2014 and a high of \$0.87 per share on 10 April 2014. The share price was \$0.50 per share on the day prior to the announcement of the proposed acquisition of SFUK.

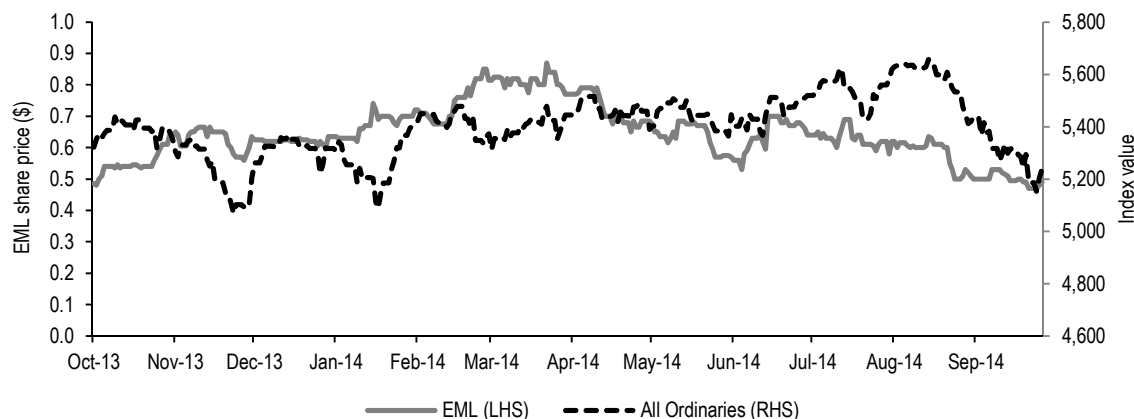
The table below summarises the key announcements that may have affected the share price and/or the volume traded of EML shares over the period.

Ref	Announcement date	Details
1	21 October 2013	EML signs trial agreement with Cash Converters
2	28 November 2013	EML signs 5 year agreement with the Queensland Government
3	29 January 2014	EML enters into an agreement in the sports betting industry
4	6 March 2014	EML signs a multi-year contract with Ladbrokes Digital
5	10 March 2014	Announcement of FY14 half year results
6	15 May 2014	EML signs agreement with Bet Easy
7	3 July 2014	EML signs agreement with Sportsbet.com.au
8	20 August 2014	Announcement of FY14 full year results
9	22 September 2014	EML signs 3 year agreement with MoneyMe
10	26 September 2014	Announcement of proposed acquisition of SFUK

Source: ASX website

¹⁵ Australasia Consolidated shares had traded under the ticker "AAO" prior to the acquisition. Subsequent to the July 2011 acquisition, the shares traded under "EML" following the official name change in November 2012

The chart below outlines EML's closing share price relative to the All Ordinaries index for the period from 20 October 2013 through to 15 October 2014.



As indicated, EML's share price has shown varied performance relative to the market over this period.

- ▶ From 20 October 2013 through to 25 September 2014, being one day prior to the announcement of the Transaction, the All Ordinaries index increased by 1.2%. Over the same period, EML's share price increased by 3.1%.
- ▶ EML's closing share price increased by 6.0% to \$0.53 one day following announcement of the Transaction.
- ▶ Since the first day following announcement of the Transaction, the share price of EML has declined to \$0.49 on 15 October 2014, with a low of \$0.47 during this period on 10 October 2014.

3.6 Trading volume

Our analysis of the movements in EML's share price and trading volumes indicates that its shares are relatively illiquid. Our analysis is supported by the following:

- ▶ EML is not a member of any index, other than the All Ordinaries and, as such many funds are not in effect required to or may be restricted from holding its stock.
- ▶ Further, EML has limited analyst coverage with therefore little external information available to shareholders in considering the performance of the company and its share price¹⁶.
- ▶ EML's free float is approximately 62%¹⁷, with the three largest shareholders owning 23% of the issued share capital.
- ▶ The average monthly volume of shares traded is around 5% per month, implying annual turnover of around 55% of total issued capital, or around 89% of the free float. Anecdotally, turnover of greater than 100% is commonly used as an indicator of relative liquidity. A comparison to EML's peers shows that annual turnover of issued share capital averages 170%. This indicates that EML is relatively illiquid when compared to its peers.
- ▶ The table on the following page summarises the monthly share price range, volume and liquidity in EML shares on the ASX over the 12 months prior to the announcement of the Transaction.

¹⁶ Covered by Baillieu Holst and Wilson HTM Investments

¹⁷ As per CapitalIQ

<i>\$ per share</i>	High	Low	Close	Monthly volume traded	
				Monthly volume traded (million shares)	as a % of total shares on issue
October 2013	0.67	0.48	0.54	5.97	4.8%
November 2013	0.67	0.54	0.67	10.81	8.7%
December 2013	0.67	0.56	0.63	6.46	5.2%
January 2014	0.67	0.60	0.67	3.61	2.9%
February 2014	0.74	0.67	0.68	5.93	4.8%
March 2014	0.85	0.67	0.80	7.37	5.9%
April 2014	0.87	0.76	0.76	4.11	3.3%
May 2014	0.73	0.62	0.69	7.47	6.0%
June 2014	0.69	0.53	0.64	3.22	2.6%
July 2014	0.70	0.60	0.66	6.50	5.2%
August 2014	0.69	0.58	0.60	2.46	2.0%
September 2014	0.64	0.50	0.52	4.25	3.4%

Source: CapitalIQ

4. Australian prepaid and gift card industry

The prepaid card industry incorporates a value chain that extends from card design and manufacturing, through to program management and payment processing, and the provision of supplementary support services for a range of clients¹⁸. EML operates across this sector, predominantly in the provision of non-reloadable cards. It also has the capability to provide a high level of customisation for clients using the secure account manager platform.

4.1 Competitive landscape

While there are a number of companies competing in the prepaid market in Australia, most of these focus on a niche product, such as retail or travel cards. EML, however, services a number of different sectors and continues to diversify its customer base.

EML is a key player within the overall Australian prepaid market, with their closest competitors including Indue Limited (“Indue”), Rev, Wright Express Australia Pty Ltd (“Wright Express”) and a relatively new entrant to Australia, i2c, Inc (“i2c”). All of these companies provide prepaid cards as well as payment processing services. Today, EML operates within three distinct aspects of the prepaid card value chain as an issuer, program manager and processor. These aspects are described further below:

- ▶ **Issuer:** EML is involved in the design, manufacture and programming of prepaid financial cards. Key competitors in this space in Australia include Indue, Travelex, Australia Post and the major banks. Indue offers a range of card products and is involved in the design of prepaid solutions. The major banks generally offer prepaid cards to consumers largely for travel purposes. EML does not directly compete in the travel market, rather it focuses on the consumer, government and corporate business-to-business markets.
- ▶ **Program manager:** EML provides management solutions for its clients. Program management extends to the marketing phase, including configuring card programs to meet client needs. EML directly competes with Rev, Indue and i2c in this area.
- ▶ **Processor:** EML is one of the only Australian non authorised deposit-taking institutions (“ADI”) that is engaged in transaction processing. When a card payment is processed, transaction data is captured, a request transmitted to EML’s proprietary software, and the transaction is then authorised. It is through this software, that EML is able to provide card utilisation data and immediate reporting to clients. In this aspect of the value chain, EML competes with Wright Express, Indue and i2c. However, while many of EML’s competitors offer this service, we understand that few are capable of offering the same functionality as EML.

4.2 Regulatory environment

Issuers of prepaid cards in Australia must comply with the regulatory requirements set out by the Competition and Consumer Act 2010 and the Corporations Act 2001. As these prepaid cards are generally considered financial products¹⁹, issuers are also required to hold an Australian Financial Services Licence. Key regulations governing the sector are described further below.

- ▶ Competition and Consumer Act 2010, Trade Practices Act 1974 and State fair trading laws provide protection to consumers in respect of gift cards that are considered to be a form of financial product. The general intention of the law is to facilitate the Australian Competition and Consumer Commission’s role to protect the interests and safety of consumers and support fair trading in markets²⁰.

¹⁸ Gift cards in the Australian market, report issued by the Australian Government, Treasury, July 2012

¹⁹ ANRA: Gift Card Inquiry, March 2012

²⁰ Australian Competition and Consumer Commission website, “About the ACCC” page

- ▶ Corporations Act 2001, with the sale of financial products being a regulated activity that is subject to licencing and disclosure requirements in line with the Corporations Act 2001 (“Corporations Act”).
- ▶ Payment Systems (Regulation) Act 1998 (“PSR Act”), overseen by the Reserve Bank of Australia (“RBA”) and the Australian Prudential Regulation Authority (“APRA”), regulates companies issuing financial products. The RBA has the power to establish various standards such as with respect to payments systems as well as interchange fees set for various card schemes. Under the PSR Act, only an ADI is authorised to make payments although exemptions may apply as is the case for EML, as noted earlier, which is a non-ADI. Other exemptions may relate to various loyalty schemes, electronic road toll devices, prepaid mobile phone accounts and limited value or limited participant products.

While the industry is subject to regulation, there are generally few barriers to entering the market beyond having sufficient technological capabilities and establishing the relevant relationships with ADIs, partners, distributors and resellers.

4.3 Industry performance and outlook

Prepaid cards have a number of uses in Australia including retail gift cards, loyalty rewards cards, corporate expense cards, point of sale rebate cards, government disbursement cards, travel cards and general purpose prepaid cards.

The prepaid card industry has rapidly grown in Australia since the mid 1990’s reflecting technological advancements in the payment processing space. The gift card segment of this industry is estimated to generate between \$1.5 billion and \$2.0 billion of revenue per year²¹. Innovations in this industry have forced a global shift from paper to plastic as consumers move away from traditional forms of cash, cheques and vouchers to more practical cards.

The key drivers of growth in the industry include:

- ▶ The size of the potential user base which is underpinned by the quantum of the population that is unbanked or underbanked, recipients of government disbursements, corporate users and retail shoppers.
- ▶ Retail environment and consumer confidence, as the popularity of gift cards is commonly linked with consumer sentiment and retail spending.
- ▶ Technological advancements to support the products and services, and strong innovation to retain and build a loyal customer base.

The current economic conditions in Australia are relatively subdued with a flow on impact on consumer confidence and retail spending. While this is likely to continue to remain weak, at least in the short term, industry dynamics continue to change with the growth of online shopping. In line with the shift to online retail, an increasing number of retailers now offer virtual cards through email and mobile technology. This trend is likely to strengthen as online sales platforms continue to develop and expand in the Australian market.

According to Blackhawk Network, a global gift card distributor, industry growth in the Australian gift card market has averaged an estimated 25% over the five years up to and including 2012²². Supporting this growth, between 2010 and 2017 MasterCard estimates that industry revenue is expected to grow at a CAGR of 26% in the Asia Pacific region²³.

²¹ Source: CCAAC Gift Card Market Report

²² “Gift cards in the Australian market”, July 2012 released by the Commonwealth Consumer Affairs Advisory Council

²³ “2012 Global prepaid sizing study, commissioned by MasterCard”, July 2012 released by MasterCard Worldwide

5. Overview of Store Financial Services UK Ltd

5.1 Company overview

SFUK is an international prepaid card program manager and payment processor, largely focused on gift cards for shopping malls in the UK and Europe. SFUK originated from the European operations of Store Financial Services LLC (“Store US”), a US based prepaid card company. In April 2011, Store US transferred 60% of its European operations to the management team thereof enabling the separate business to focus on growth in Europe.

Store US remains a significant shareholder in SFUK with a 40% interest in SFUK’s ultimate parent company, and continues to provide the platform and processing technology to SFUK via a 10 year licence agreement, with 7 years remaining. SFUK’s operations in Europe date back to 2008 and it now operates over 100 prepaid programs in nine countries across the UK and continental Europe, including England, Ireland, Germany, Netherlands, Austria, Portugal, Italy, Spain and Belgium with a launch in France planned for 2015. Its business is underpinned by multi-year contractual arrangements with its customers, resulting in the development of relatively strong and embedded relationships.

SFUK is a leading provider of restricted authorisation network (“RAN”) gift cards. It focuses mainly on gift cards that are restricted for use at certain shopping centres, as well as other closed loop gift card programs, processing solutions and program management services. Approximately 85% of funds loaded is derived from shopping centres located primarily in the UK²⁴.

Products offered by SFUK include the following:

- ▶ Closed loop (private label) gift cards – cards are issued by a MasterCard member and the design can be customised to meet clients’ preferences. Since it is authorised on MasterCard’s network, cards are accepted by existing point of sale hardware wherever MasterCard is accepted. Private label programs can be limited to a single retailer or affiliated groups
- ▶ Open loop gift cards – general prepaid gift cards that can be used at multiple branded stores within a selected shopping centre
- ▶ RAN gift cards – allows unaffiliated retailer groups to engage in a closed network programme by restricting card spending to a particular group
- ▶ Virtual gift cards - purchased online, offering multiple design options and compatible for use on smartphones

With each of the above product offerings, SFUK has the ability to provide value-adding services to support effective and efficient processing. This includes services such as payment processing, card design, manufacturing and distribution. Services offered by SEV that support its products include:

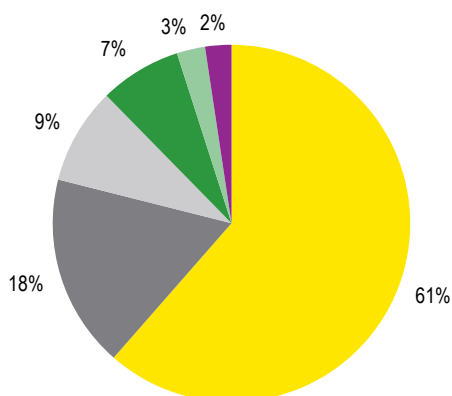
- ▶ Program management and implementation – SFUK is a certified third party network processor and program manager and can facilitate all management aspects of a gift card program i.e., from establishing the gift card program through to ordering cards, providing the required activation software, reporting and client support services such as multilingual support, training of software features, lost/ stolen card assistance and balance enquiries.
- ▶ Payment processing solutions – SFUK’s processing solutions are underpinned by technology that ensures card funds are utilised in accordance with a pre-determined set of rules e.g, partial authorisation which is a point of sale function that prevents the processing of transactions when the balance on a gift card is less than the purchase amount.

²⁴ In the EML acquisition of SFUK presentation released on 26 September 2014 it was noted that 85% of funds loaded were generated from closed-loop shopping mall card programs

- Reporting – SFUK is able to provide detailed accounting and settlement reporting in real time including card history, retailer redemption information and processing.

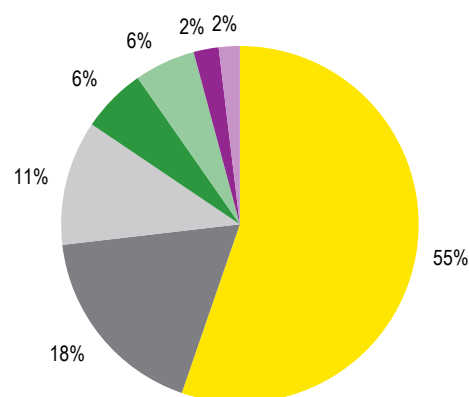
The sources of revenue and contribution of each segment for FY13A are set out in the charts below. As indicated, over 60% of card sales are currently generated from UK shopping malls, including centres such as Trafford Centre and Bluewater, with a further 18% from European malls. The contracts negotiated between SFUK and retail shopping centres are generally long term in nature, lasting between 5 to 7 years. Other key revenue streams include UK and European processing, with some key customers separately presented such as Pandora.

FY13A card sales by business



■ UK Malls
■ EU Malls
■ Pandora
■ EU Processing
■ Other UK Processing
■ HTA

FY13A revenue by type



■ Breakage/expiration funds
■ Card sales
■ MC interchange fees
■ Monthly fees
■ Card activation
■ Installation fees
■ Other

Source: SFUK Management

As shown in the charts above, the majority of SFUK's revenue is derived from breakage and expiration funds, being unspent funds on non-reloadable cards upon expiry. A further 18% of revenue is generated from card sales, while 11% is generated from MasterCard interchange fees, which are merchant service charges for accepting card payments. Other sources of revenue include card activation, installation fees and monthly fees.

5.2 Financial performance

5.2.1 Historical financial performance

The table below summarises SFUK's unaudited financial performance for the two years ended 31 December 2012 and 31 December 2013. The financial results for SFUK are presented in British pounds given the company is domiciled in the UK.

<i>Currency: £ 000</i>	FY12A	FY13A
Card sales	405	536
Installation fee	70	68
Activation fees	92	176
Management fees	144	165
Interchange revenue	194	339
Breakage (net)	1,105	1,652
Interest income	22	36
Other revenue	3	21
Total sales	2,035	2,992
Card sales fees	(173)	(150)
Interchange fees	(270)	(396)
SFS LLC processing fees	(93)	(103)
Other cost of sales	(532)	(831)
Total cost of sales	(1,068)	(1,479)
Gross profit	968	1,513
Salaries, wages and benefits	(499)	(596)
Travel	(91)	(101)
Professional and consultancy	(122)	(258)
Rent and equipment	(31)	(41)
Other expenses	(108)	(63)
Total overheads	(850)	(1,059)
EBITDA	117	454
Depreciation	(4)	(4)
Foreign exchange gain / (loss)	(6)	(1)
Profit before tax	107	450
Tax	-	(180)
Profit after tax	107	270

Source: SFUK unaudited management accounts FY12 to FY13

In relation to SFUK's historical financial performance, we note:

- ▶ Total revenue grew by 47% in FY13A across all revenue streams other than installation fees, which was broadly flat. The increase in revenue reflects its expansion in the UK and Europe as well as improving economic conditions, which resulted in a rise in card sales and activation fees.
- ▶ The increased card sales also led to a rise in the costs of sales, which increased by 39% in FY13A. This largely reflects the higher volumes, as reflected in interchange fees, Store US processing expenses and other cost of sales. The level of interchange fees payable to MasterCard is based on various Bank Identification Numbers ("BIN") classifications. SFUK's cards' BINs are classified as commercial BINs. There is however the potential that these may be classified as consumer BINs in the future which would decrease net interchange fees.
- ▶ Other overheads also increased and largely comprise salaries, as well as various professional and consultancy fees.
- ▶ As the business continues to grow, and with a relatively fixed cost base, its EBITDA increased to £0.45 million in FY13A. EBITDA margins rose to 15% in FY13A, from 6% in FY12A reflecting the achievement of economies of scale.

5.2.2 FY14 financial performance

Based on year to date FY14 guidance provided by SFUK management, we understand that SFUK has continued to grow its revenue base, further benefiting from economies of scale as the business expands its presence in the UK and Europe. Further, guidance has been provided regarding the full 12 months to 31 December 2014 based on SFUK management's expectations and current performance run rates. In this regard, we highlight the following key trading updates as presented in the accompanying Notice of Meeting:

- ▶ For the half year to 30 June 2014, same store shopping mall card sales increased by approximately 13% in the UK and 17% in Europe. This trend is consistent with the increase of 26% in value loaded onto mall gift cards.
- ▶ Total value loaded for the six months increased by 34%, reflecting significant growth of 54% for non-mall prepaid programs. This is in line with management's strategy to expand its revenue base to non-mall programs. In this regard, we note that mall card programs in FY11 represented over 90% of loaded value versus approximately 70% in 2014.
- ▶ Total transaction volumes of 1.01 million, representing an increase of 20% over the prior corresponding period.
- ▶ For the 12 months to 31 December 2014, management's expectation is that the business will generate £3.6 million and £0.7 million of revenue and EBITDA, respectively.
- ▶ For the 12 months to 31 December 2015, management has forecast revenue of £4.8 million and EBITDA of £1.5 million. We understand that these forecasts are predominantly based on the growth of existing customers, with limited new customer growth opportunities included in management's forecast.

5.3 Financial position

The table below shows the financial position of SFUK as at 30 June 2014 based on unaudited management accounts.

<i>Currency: £ 000</i>	SFUK
Cash	716
Accounts receivable	584
Prepaid expenses	145
Intercompany loan from SEV	(1,917)
Intercompany loan to SFS BV	43
Current assets	(429)
Property, plant and equipment	33
Accumulated depreciation	(31)
Non-current assets	2
Total assets	(427)
Accounts payable	(548)
Other current liabilities	(18)
Current liabilities	(566)
Total liabilities	(566)
Net assets	(993)
Total capital	0
Retained funds / deficit	(998)
Cumulative translation adjustment	5
Total shareholders' equity	(993)

Source: SFUK unaudited management accounts as at 30 June 2014

In relation to the financial position of the SFUK as presented on the previous page, we note:

- ▶ The management accounts reflect the financial position of SFUK based on unaudited management accounts as at 30 June 2014.
- ▶ The key assets and liabilities include an intercompany loan from SEV of £1.9 million, cash of £0.7 million and accounts receivable of £0.6 million, primarily comprising trade debtors.
- ▶ Property, plant & equipment relates to office equipment and software.
- ▶ Accounts payable of £0.5 million represents amounts owing to trade creditors, taxation, social security payments and other creditors.
- ▶ SFUK has net assets of negative £1.0 million as at 30 June 2014. We note that under the terms of the Transaction, all intercompany loans are expected to be forgiven²⁵. As at 30 June 2014, if forgiven, the net assets of SFUK would have been £0.9 million.

5.4 Capital structure

As at 15 October 2014, SFUK is 100% held by SFS World Holding Co., B.V., which in turn is 100% owned by SEV. Accordingly, we have presented the shareholders of SEV below, which via their respective interests in the various holding companies own, indirectly, 100% of the issued capital of SFUK.

The top three shareholders represent over 90% of SEV's equity capital. Details of the shareholders of SEV as at 15 October 2014 are set out in the table below:

Name of shareholder	% of shares held
Store US LLC	40.00%
Mr David Shewmaker	30.51%
Mr Tom Cregan	25.01%
Mr Gareth Gumbly	4.48%
Total	100.00%

Source: Management

Of these shareholders, we note that Mr Tom Cregan is also a director and shareholder of EML, with David Shewmaker being the CEO and founder of SFUK.

²⁵ We understand that while the conditions precedent as set out in the Share Sale Agreement refer to intercompany balances to be forgiven, that alternatively, an adjustment to the equity value may be effected for the same quantum

6. Overview of the prepaid and gift card industry in the UK and Europe

SFUK generates the majority of its revenues within the UK prepaid and retail gift card industry, with an increasing presence in the broader European market. While the UK and European prepaid card industry incorporates a value chain consistent with the Australian market, differences prevail with respect to the mix of products and services and penetration of paper versus plastic cards²⁶. Largely, these differences are underpinned by varying consumer demographics, regulation and regional economic trends.

Similar to the Australian market, prepaid gift card and payment processing industry participants are involved in the issuance of open loop, closed loop, reloadable and non-reloadable prepaid cards and payment processing services. Prepaid cards are widely used by consumers in the region and have recently expanded into virtual mediums such as the online and mobile space, though at different take-up rates across Europe and the UK. Prepaid cards are typically used as retail gift cards, accepted by single merchants, however they are becoming an increasingly important tool for government disbursements and offer unbanked or under banked consumers access to online bill payment and shopping options.

6.1 Competitive landscape

The key companies in the UK retail gift card market are SFUK and Flex-E-Vouchers, the producer of the 'flex-e-card'. Currently, UK shopping malls are the largest demand driver for gift cards in the region. Based on market share of leasable shopping centre space, SFUK currently holds an estimated 45% of the shopping market in the UK²⁷, while Flex-E-Vouchers holds 53% and RG Financial holds the residual. Given the length of contracts signed with shopping malls in the UK and Europe is typically between 5 and 7 years, barriers to entry may be considered relatively high. However, advancements in technology is resulting in new entrants taking advantage of mobile based payment processing technology, such as near frequency communication and host card emulation.

SFUK operates within the three same key areas of the gift card value chain as EML. In terms of payment processing, SEV directly competes with Contis and PrePay Solutions in the UK and across Europe. Other notable competitors in the provision of program management and processing services include Skrill, Tuxedo, WireCard Solutions and Payment Card Technologies. In terms of new entrants to the market, we understand that Zapp is soon to launch in the UK that will offer an integrated payment system taking advantage of innovations in near frequency communication and host card emulation technology.

6.2 Regulatory environment

The industry is regulated by various bodies including the Financial Conduct Authority and the Prudential Regulation Authority in the UK under the Electronic Money Regulations 2011 and the Payment Services Regulation 2009. Across Europe, SFUK's products are issued under the framework of the Freedom of Provision of Services. The key regulations governing the sector are described further below.

- ▶ Electronic Money Regulations 2011 ("EMR")
 - ▶ The issuance, distribution and redemption of "electronic money" are regulated activities. Under the Second Electronic Money Directive, companies involved in issuing electronic money must first be authorised by the authority of the member state. This means applying to the Financial Conduct Authority to become an authorised Electronic Money Institution in order to carry out any issuing activities. Part of SFUK's operations includes programs involving "e-money" i.e. open loop cards, and are therefore regulated under the EMR.

²⁶ UK Gift Card & Voucher Association website

²⁷ Commercial/product due diligence: Emerchants Limited

► **Payment Services Regulation 2009 (“PSR”)**

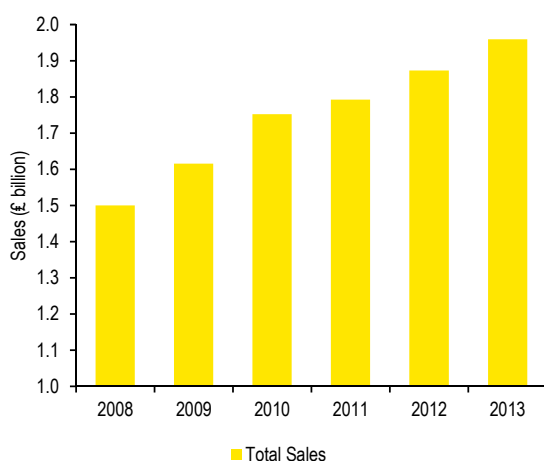
- The provision of payment services is also a regulated activity. Under the Payment Services Directive, which is captured within national law for each member state in the European Economic Area, companies that participate in payment services must first be authorised by the appropriate authority of the relevant member state. This also involves applying through the Financial Conduct Authority to become an authorised payment institution.
- As at the date of this report, regulatory risks around Multilateral Interchange Fees and breakage activity exist. Proposed changes to the regulations could involve increased charges and associated compliance costs. However, SFUK is currently lobbying to ensure that the relevant portion of its existing business model remains outside of the scope of the payments service directive legislation. This would enable SFUK to continue to operate under a limited network exemption which does not require an electronic money licence, with the exception of the open loop business which is currently within scope and would continue to be.

6.3 Industry performance and outlook

The industry has been impacted by the effects of the global financial crisis and the European debt crisis. While various repercussions continue to be felt, with limited household income growth and consumer sentiment remaining cautious when compared to prior trends, consumer spending in the UK has strengthened since 2011. We note that the key drivers of performance highlighted for the Australian market similarly apply to the UK and European markets.

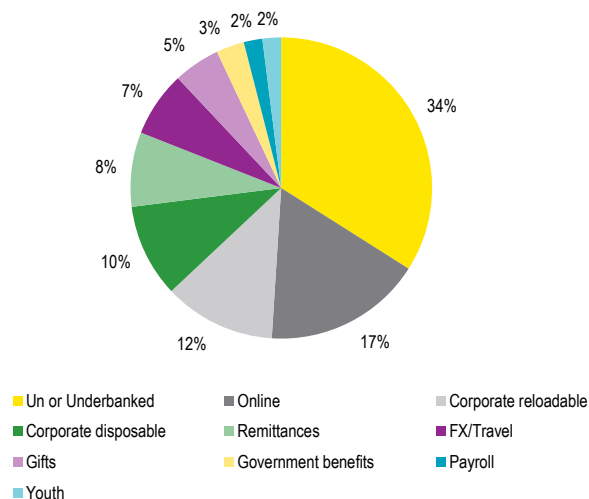
As indicated in the chart below, the UK gift card and voucher industry increased gift card and voucher sales by approximately 5% in 2013. The split between consumer sales and business to business sales, as at Q4 2013, is 55% for consumers and 45% corporate²⁸.

Total gift cards & voucher sales in the UK



Source: UKGCVA Gift Cards & Vouchers in the UK Summary 2013

Estimated 2020 prepaid spending by sector in Europe



Source: European Prepaid 2013: Accelerating Performance

The European prepaid segment, including the UK, is expected to reach €112 billion of spend on open loop prepaid cards by 2020. This is estimated to be generated by over 2 billion transactions facilitated by more than 200 million cards. This growth is supported by various studies indicating that the prepaid market is anticipated to expand substantially over coming years²⁹. A graphical depiction of the breakdown of total open loop prepaid spending by sector to 2020 for Europe (including Russia and Turkey) is set out above³⁰.

²⁸ UKGCVA Gift Cards & Vouchers in the UK – Summary 2013

²⁹ 2012 Global prepaid sizing study, commissioned by MasterCard

³⁰ European Prepaid 2013: Accelerating Performance prepared by PSE Consulting

Overall, the European prepaid card market is developing quickly. Together, the evolving regulatory landscape and the increasing importance of utilising the latest technology is expected to shape the future of the prepaid card sector in the UK and Europe. Furthermore, consumer spending in the UK is expected to continue to recover, with spending forecast to grow by over 2% per annum on average until 2016³¹.

In conjunction with broader economic trends and as less technologically advanced countries such as Italy take up plastic cards over traditional paper vouchers, the prepaid and gift card sector is expected to continue to experience growth.

³¹ "Country Economic Forecast: United Kingdom" Oxford Economics, 26 August 2014

7. Valuation approach

7.1 Valuation methodology and approach

A number of valuation approaches may be applied in determining the fair market value of an investment or business, with the appropriate approach dependent upon the specific circumstances. Details of the various accepted approaches are outlined in Appendix C – *Valuation approaches*, and typically comprise the income, market and cost approaches.

7.1.1 Valuation of SFUK

Having regard to the nature of SFUK's business and the available information, we have applied the market approach and specifically the capitalised earnings method as our primary methodology. We have adopted this approach for the following reasons:

- ▶ SFUK's business is established, with a track record of profitability.
- ▶ Information is available in respect of broadly comparable companies. We recognise that there are few truly comparable companies as many prepaid and gift card companies typically focus on niche segments. However, globally there are quoted companies that operate in a similar sector, and recent transactions involving prepaid and gift card businesses, such that trading and transaction multiples are able to be drawn from the market to be applied to an assessment of SFUK's earnings.
- ▶ No long term projections are available of sufficient reliability to enable us to apply the income approach as our primary valuation approach.

The capitalised earnings methodology requires an assessment of the following:

- ▶ The earnings stream that may be considered representative for the business. In this respect we have adopted EBITDA as the appropriate earnings basis for our analysis. This is considered appropriate as:
 - ▶ Businesses in this industry may have varying levels of depreciation and amortisation due to differences in underlying business models where assets, such as software, may be owned, leased, licenced or developed in-house³². Accordingly, EBITDA, which removes the impact of differing depreciation and amortisation policies, is considered an appropriate basis.
 - ▶ Companies in this industry are typically valued using multiples of EBITDA. These are applied to earnings before interest, tax, depreciation and amortisation, and adjusted to exclude the impact of one-off and non-recurring items. Given the nature of these businesses, interest income is included in the EBITDA, with only financing costs excluded.

Our selected EBITDA is based on historical earnings trends and the company's earnings guidance for the short term.

- ▶ An appropriate earnings multiple to apply to the EBITDA, having regard to comparable listed companies, relevant transactions, growth prospects and other factors specific to SFUK.
- ▶ Any other assets, liabilities and contingent liabilities that are not reflected in the value determined by the capitalisation of EBITDA.

³² We note that as set out earlier in sections 3.2 – *Financial performance* and 3.3 – *Financial position*, SFUK's software is recorded as a tangible asset, depreciated on a straight line basis over three years.

In applying this methodology we considered the fair market value of SFUK on a controlling interest basis. Our assessment of the appropriate control premium is discussed further in section 8.2.3 of this report.

7.1.2 Valuation of the consideration

The consideration of \$24.9 million is to be provided by way of cash and new shares in EML. While the number of shares to be issued to the ultimate shareholders of SFUK is based on the placement price of \$0.50 per share, the value of the consideration to be paid will ultimately be based on the prices at which EML shares trade following completion of the Transaction.

As such we considered the value of the consideration by assessing the fair market value of an EML share post the Transaction on a notionally combined basis. The notionally combined basis reflects the aggregation of the EML value on a minority basis, and the SFUK value on a minority basis. This aggregated value is then divided by the increased number of shares on issue as a result of the Transaction to arrive at a value per EML share post the Transaction. As this takes into consideration the dilutionary impact of shares to be issued, it reflects the basis upon which EML shares may trade on the ASX, subsequent to the Transaction.

Given that we formed the view that EML shares are relatively illiquid as set out in section 3.6 – *Trading volume*, we adopted the market approach, specifically the capitalised revenue method as our primary methodology. We adopted this approach for the following reasons:

- ▶ No longer term forecasts were available to enable us to apply the income approach.
- ▶ EML's business, though established, has generated negative after tax returns for the prior three years to FY14 and therefore an earnings approach could not be applied. We do however note that over this period, EML has shown growth with a number of significant customers having been contracted over the last 12 months.
- ▶ Trading and transaction multiples are able to be drawn from the market to be applied to an assessment of EML's revenues. However, as with SFUK, there are few truly comparable companies, given the niche prepaid card focus, or processing focus, of the various quoted companies.

We then compared our fair market valuation of SFUK on a controlling interest basis to the fair market value of the consideration being offered by EML. If the fair market value of SFUK is within or above the range of the consideration, then the Transaction would be considered "fair".

As a further consideration, we compared the fair market value of an EML share prior to the Transaction, to the fair market value of an EML share, on a notionally combined basis, post the Transaction.

7.2 Control premium

In valuing SFUK, we have assumed 100% of the shares are available for sale and we have therefore incorporated a premium for control. This is consistent with the requirements of RG 111 and reflects that EML is obtaining control of SFUK. However in considering the value of EML shares, this is considered on a minority basis, as control or significant influence of EML is not passing as a result of the Transaction or issuance of shares as consideration.

SFUK shareholders will be unable to realise a control premium above this minority interest value for EML shares unless EML is itself the subject of a takeover or is subject to a similar form of transaction at some time in the future.

8. Valuation of SFUK

As discussed in section 7 of this report, our fair market value of SFUK has been conducted on a controlling interest basis using the capitalisation of earnings methodology. When considering the value of SFUK, we have performed the following:

- ▶ An assessment of the future maintainable earnings for SFUK, on an EBITDA basis.
- ▶ Applied an appropriate EBITDA multiple to the future maintainable earnings assessed in order to derive an enterprise value for the business of SFUK on a control basis.
- ▶ Deducted net debt/ cash from the enterprise value to arrive at the equity value (on a controlling interest basis) of SFUK.
- ▶ Considered any surplus assets or other adjustments to arrive at the equity value.

8.1 Future maintainable earnings

The table below summarises the EBITDA of SFUK as presented in section 5.2 – *Financial performance* of this report for the financial years ended 31 December 2012 and 2013. Also presented are management's projections to 31 December 2015 as presented in the accompanying Notice of Meeting.

Historical and forecast EBITDA of SFUK (year ended 31 December)

Currency: £000s	FY12A	FY13A	FY14F	FY15F
Revenue	2,035	2,992	3,600	4,800
EBITDA	117	454	700	1,500
Revenue growth	n/a	47.0%	20.3%	33.3%
EBITDA margin	5.8%	15.2%	19.4%	31.3%
EBITDA growth	n/a	287.4%	54.1%	114.3%

Source: Unaudited financial statements FY12 and FY13, unaudited management forecasts as presented in the EML investor presentation released 26 September 2014

In arriving at our estimate of maintainable EBITDA, we make the following comments:

- ▶ The forecasts exclude the two potential customers, Hammerson and MFI located in the UK and Germany respectively, for which if contracted and certain performance hurdles are met, additional shares may be granted to key members of SFUK management³³. These two customers, which do not form part of the Transaction, have been excluded from the projections.
- ▶ The above projections exclude the potential impact of regulatory changes regarding interchange rates that may be applicable from FY16. Furthermore, they exclude the impact of any potential change in applicable BINs which may lead to increased interchange costs. While both matters could result in negative EBITDA impacts, the timing and quantum of any such changes is currently unclear. In adopting our selected multiple range, we have had regard to these facts.
- ▶ SFUK has shown significant revenue growth in FY13 attributable to both existing and new clients.
- ▶ Similarly, EBITDA increased substantially, reflecting the aforementioned revenue growth in conjunction with the EBITDA margin improvement as the business has gained further scale.
- ▶ As described earlier in this report, the nature of the business is such that medium term forecasts for existing customers can be reasonably reliably projected as customers are commonly contracted under multi-year arrangements with some terms extending in excess of five years. Accordingly, the

³³ Per Schedule 7 of the Share Sale Agreement

forecasts presented in the table above reflect growth largely of the existing customer base at the date of this report underpinned by existing contracts and expectations around the number and timing of programs to be managed. In this regard, we note that greater than 95% of forecast revenue in FY14 and greater than 90% in FY15 is attributable to existing clients. Further, if the number of card activations is assumed to achieve nil growth from FY14 onwards, of total forecast revenue in FY14 and FY15, approximately 95% and 90% is attributable to existing customers, respectively³⁴.

- ▶ SFUK has a long term contract with Store US, with a remaining term of seven years, supporting its processing activities and enabling economies of scale.
- ▶ As SFUK is a private company, there are no available analyst forecasts with which to compare management's internal projections. However, we have considered the forecast revenue and EBITDA growth rates of selected peers and note that SFUK's peer group, excluding outliers is anticipated to grow revenue on average by approximately 12% over FY14, 12% in FY15 and 9% in FY16. Excluding outliers, EBITDA growth for the peer group is projected to be approximately 23% in FY14, 16% in FY15 and 13% in FY16. Though the peer group includes companies that operate globally, we note that forecast EBITDA growth for those based in the UK and Europe is consistent with the overall averages³⁵.
- ▶ As shown by the EBITDA margin improvement in FY13, there is evidence of SFUK's ability to achieve more profitable growth as economies of scale are realised. This is expected to continue such that the EBITDA margin is forecast to rise from 15% in FY13 to 31% in FY15. For SFUK's peer group, the average forecast EBITDA margin is 20%, 28% and 30% in FY14, FY15 and FY16 supporting the margin improvements forecast by SFUK³⁶ as it converges with the peer average.
- ▶ We note that if the observed industry average revenue growth and EBITDA margin for FY15 were applied to the FY14 forecast revenue base, this would imply FY15 EBITDA of £1.1 million. This compares to the £1.5 million FY15 management forecast. Arguably, and as evidenced by the relatively high proportion of forecast revenues that are contracted as referred to above, this reflects the lag between existing customer contracts signed and the revenues expected to be generated as cards are activated, transactions made and various expiry periods reached.
- ▶ Further, if the observed industry average EBITDA growth for FY15 is applied to 90% of the FY15 EBITDA projection, representing the approximate 90% of customers currently contracted as referred to above, the implied result is £1.6 million.
- ▶ As set out in section 6 – *Overview of prepaid and gift card industry in the UK and Europe*, the industry has in recent years achieved significant growth. Further, the industry is expected to continue to grow, particularly as economic conditions in the region stabilise and improve, and the transition from paper to card becomes more prevalent as customers demand greater functionality and flexibility of such products.
- ▶ While we understand there are potential regulatory risks, particularly regarding the provision of financial products in the European region, as described in section 6 – *Overview of prepaid and gift card industry in the UK and Europe*, discussions with Management have indicated that a portion of SFUK's products are likely to remain outside of the scope of such changes. Further, the exact timing and financial impact of any such changes currently remain uncertain with no proposed changes as yet legislated³⁷.

³⁴ For the purposes of this analysis, existing customers were assumed to exclude any forecast program launches with dates subsequent to 31 August 2014.

³⁵ EBITDA growth rates forecast for Park Group Plc and Edenred SA are on average approximately 25% in FY14, and 14% in both FY15 and FY16.

³⁶ We understand from discussions with EML that based on due diligence procedures, EML considers a higher margin beyond FY16 may be achievable given the scalable nature of SFUK's business

³⁷ We understand from discussions with EML that based on due diligence procedures carried out, EML's expectation is that the impact of any such regulatory changes is unlikely to be material. Furthermore, neither analyst reports for other UK competitors nor industry associations such as the UK Gift Card & Voucher Association have made reference to heightened regulatory risks

- ▶ As described in section 5.2.2 – *FY14 financial performance*, year to date performance for the six months to 30 June 2014 shows significant growth in the volume of transactions and loaded value, both being leading indicators of business performance. Management's guidance for the full year to 31 December 2014 indicates this trend is expected to continue, supported by the current contracted customer base and the seasonal spending over the festive period in December.

Based on the above factors and noting the anticipated growth over the medium term, we have selected maintainable EBITDA of £1.5 million based on the FY15 guidance. Future growth in earnings beyond FY15, exclusive of growth associated with the two potential customers, has then been reflected in our selection of earnings multiples. Furthermore, the risk associated with not achieving these earnings, and of future regulatory changes, is considered in our assessment of an appropriate multiple.

8.2 Earnings multiples

We have capitalised the selected EBITDA at a multiple that we consider reasonably reflects the business and growth prospects of SFUK. In assessing appropriate earnings multiples, we considered the current and forecast trading multiples of companies that may be considered comparable to SFUK. In addition, we analysed the multiples implied from recent acquisitions of companies with similar operations.

8.2.1 Trading multiples

Presented in the table on the following page are the trading multiples of the selected comparable companies. These multiples are based on the observed share prices of minority parcels of shares as at 15 October 2014 and are therefore not reflective of a premium for control. Further information on these comparable companies is provided in Appendix D – *Trading multiples and data*.

Trading multiples in the prepaid and gift card sector (excluding a control premium)

Company	Country	Market cap (\$m in filing currency)	Historic year end	FY14F EV/EBITDA ¹	FY15F EV/EBITDA ¹	FY16F EV/EBITDA ¹
Prepaid/debit payments						
<i>Emerchants Limited²</i>	Australia	61	30-Jun-14	<i>nmf</i>	<i>nmf</i>	7.9x
Green Dot Corporation	United States	877	31-Dec-13	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
Oncard International Limited	Australia	33	31-Dec-13	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
Park Group plc ²	United Kingdom	97	31-Mar-14	9.4x	7.7x	7.0x
Blackhawk Network Holdings, Inc.	United States	1,756	28-Dec-13	12.1x	9.5x	8.6x
Higher One Holdings, Inc.	United States	118	31-Dec-13	3.7x	3.8x	4.5x
Euronet Worldwide Inc.	United States	2,382	31-Dec-13	10.2x	8.6x	7.9x
Edenred SA	France	4,665	31-Dec-13	14.3x	12.6x	11.3x
Average				9.9x	8.4x	7.8x
Median				10.2x	8.6x	7.9x
Merchant acquirers/ processors/payment solutions						
Heartland Payment Systems, Inc.	United States	1,813	31-Dec-13	11.1x	9.0x	8.0x
Vantiv, Inc.	United States	4,390	31-Dec-13	11.8x	9.9x	9.0x
Total System Services, Inc.	United States	5,422	31-Dec-13	9.4x	8.3x	7.9x
Global Payments Inc. ²	United States	4,858	31-May-14	12.4x	10.9x	10.2x
EVERTEC, Inc.	United States	1,650	31-Dec-13	12.7x	11.7x	10.8x
WEX Inc.	United States	3,906	31-Dec-13	12.2x	10.3x	9.2x
FleetCor Technologies, Inc.	United States	10,833	31-Dec-13	18.6x	16.0x	14.1x
Wirecard AG	Germany	3,425	31-Dec-13	16.2x	13.1x	10.6x
Average				13.0x	11.2x	10.0x
Median				12.3x	10.6x	9.7x

Source: Capital IQ

Note 1: Given the nature of these businesses, EBITDA has been adjusted to include interest earned on cash balances held.

Note 2: FY14 multiples for EML, Park Group plc and Global Payments Inc. are based on actual FY14 EBITDA as their last financial year is FY14.

8.2.2 Transaction multiples

The table below summarises the multiples implied by recent transactions involving companies with operations broadly comparable to those of SFUK. Further details regarding the transactions are presented in Appendix E – *Recent transactions*.

Recent transactions in the prepaid and gift card sector

Announcement date	Target	Country	Buyer	Transaction value (LC\$m)	LTM EV/EBITDA ¹
12-Aug-14	Comdata Network, Inc ²	US	FleetCor Technologies, Inc	3,450	13.2x
1-Jul-14	Meritus Payment Solutions, Inc. ²	US	Optimal Payments Plc	210	16.3x
2-Apr-14	DFC Global Corp.	US	Lone Star Funds	1,300	5.5x
24-Mar-14	Nets Holding A/S	Denmark	Advent International Corporation, ATP Group, Bain Capital, LLC	17,000	12.8x
21-Oct-13	InteliSpend Prepaid Solutions, LLC	US	Blackhawk Network Holdings, Inc.	97	n/a
4-Oct-13	e-pay Asia Limited	Australia	GHL Systems Berhad	37	10.5x
19-Feb-13	NetSpend Holdings	US	Total System Services, Inc.	1,400	14.6x
16-Oct-12	T-Chek Systems, Inc.	US	Electronic Funds Source LLC	303	n/a
11-May-12	CorporatePay Limited	UK	WEX Inc	23	n/a
15-Feb-12	Advance America, Cash Advance Centres Inc.	US	Grupo Elektra, S.A.B. de C.V.	776	6.7x
9-May-11	Emerchants Australia Pty Ltd ⁶	Australia	Australasia Consolidated Limited	33	<i>nmf</i>
29-Sep-10	Hypercom Corporation	US	VeriFone Systems, Inc.	485	9.0x
Min					5.5x
Average					11.1x
Median					11.7x
Max					16.3x

Source: Annual reports, Mergermarket, Capital IQ

Note 1: Multiples are calculated based on the financial metrics for the last twelve months (LTM) of financial performance available prior to the transactions.

Note 2: Deal expected to close December 2014.

Nmf: not meaningful denotes that the multiples are either too large or small (or negative) to be meaningful for analysis for the purpose of this report.

8.2.3 Assessment of earnings multiples

In assessing an appropriate range of earnings multiples to apply in valuing SFUK on a control basis, we considered the following factors:

- ▶ SFUK is significantly smaller than most of the selected comparable companies.
- ▶ Certain of the quoted companies' observed trading multiples may be impacted by their small market capitalisation, relatively low liquidity and free float proportions. In this regard, we consider Oncard International Limited, Park Group plc, Edenred SA and Wirecard AG may be less reliable when analysing their implied multiples given their relatively low trading volumes³⁸.
- ▶ Over the last financial year, SFUK demonstrated higher revenue and EBITDA growth than its peers, albeit EML and FleetCor Technologies, Inc also showed strong growth. Refer to Appendix D – *Trading multiples and data* for further details.
- ▶ The trading multiples presented in section 8.2.1 are based on the market price for minority parcels or portfolio share holdings and therefore do not include a premium for control. A premium for control is applicable when the acquisition of control of a company would give rise to benefits such as:
 - ▶ The ability to realise synergistic benefits, for example by merging the operations and customer bases with those of the acquiring entity
 - ▶ Access to cash flows and payment of dividends
 - ▶ Access to tax benefits
 - ▶ Control of the board of directors and the direction of the company
- ▶ Historically, control premiums on successful takeovers have frequently been in the range of 20% to 40% with the premium varying significantly. Control premiums in the current environment approximate 30%, with the median premium observed for transactions globally in the last 12 months being 31%, with an observed median of 29% for the financial services sector.³⁹
- ▶ The FY15 multiples of the comparable companies average 10.1x, reflecting a range of 3.8x to 16.0x. We consider Park Group plc and Edenred SA, with FY15 multiples of 7.7x and 12.6x respectively, to be more comparable due to their focus on prepaid and gift cards, geographical presence and, in the case of Park Group plc, size. The average and median FY15 EBITDA multiples for the prepaid/ debit payments companies were 8.4x and 8.6x respectively.
- ▶ Including a control premium of 30% to the market capitalisation of the comparable companies would result in an average FY15 EBITDA multiple of 12.8x. The FY15 EBITDA multiples for Park Group plc and Edenred SA inclusive of a control premium would be 10.4x and 15.8x, respectively. The average and median FY15 EBITDA multiple for the prepaid/ debit payments companies inclusive of a control premium would be 10.8x and 11.1x respectively. In this regard, while EML and SFUK are unlikely to benefit from significant cost savings if the Transaction were to be approved, there may be opportunities to leverage SFUK's existing network and processing arrangement as a platform to deliver EML's reloadable product and service offerings in the UK and Europe.
- ▶ The average and median of the EBITDA multiples implied by the transactions were 11.1x and 11.7x, respectively. These multiples are not inconsistent with those observed for the listed companies referred to earlier and reflect acquisitions of 100% interests.
- ▶ Of the transactions, we consider the acquisition of DFC Global Corp and NetSpend Holdings A/S to be most comparable given their focus on prepaid debit cards. These transactions implied historic

³⁸ Over the 12 months to 15 October 2014, less than 100% of these companies' shares turned over

³⁹ As presented in the Mergerstat control premium study at 30 June 2014, the median 12 month control premium observed for transactions globally was 31%, with an observed median of 29% for the financial services sector

EBITDA multiples of 5.5x and 14.6x respectively, therefore representing a wide range. The low multiple implied for the DFC acquisition may reflect the relatively high gearing of the target and a degree of uncertainty regarding its future growth given consecutive earnings downgrades leading up to the transaction announcement⁴⁰. The higher implied multiple for NetSpend may reflect the complementary nature of the business of the acquirer and NetSpend's position as a prepaid market leader with a history of consistent EBITDA growth of 25% annually over 2007 to 2012⁴¹.

- Though undertaken several years ago, we considered the metrics involved in the acquisition of Emerchants Australia Pty Limited. Similar to the trend shown in *section 3.2 – Financial performance* of this report, EML was loss making when it was acquired in 2011. Since that time, the company has stated its intentions and subsequent progress towards enhancing the scale and offering of the business in order to position it for profitable growth.
- As referred to earlier in this report, there exist certain risks around interchange rates which could negatively impact revenue and/or costs. While the timing and quantum of any such impacts is uncertain, we consider that a level of regulatory risk is present for the business.

After considering the above factors in the context of the long term contracted nature of the business, we have selected a multiple range of 7.5x to 9.5x on a controlling interest basis to apply to the selected maintainable EBITDA of SFUK.

8.3 Other assets and liabilities

Management has advised that as at the date of this report, there are no significant surplus assets or liabilities which require inclusion within the valuation.

8.4 Summary of valuation analysis

Based on our assessed earnings and range of multiples, we summarise our fair market valuation of SFUK on a controlling interest basis as follows:

Fair market valuation of SFUK

Currency: £	Ref	Low	High
Maintainable EBITDA	8.1	1,500,000	1,500,000
Assessed EBITDA multiple	8.2	7.5x	9.5x
Enterprise value of SFUK		11,250,000	14,250,000
Less: (net debt)/ net cash as at 30 June 2014 ¹	5.3	715,746	715,746
Plus: surplus assets/ (liabilities)	8.3	-	-
Equity value (on a controlling interest basis)		11,965,746	14,965,746
FX rate as at 15 October 2014 (GBP:AUD) ²		0.5190	0.5190
Equity value in AUD (on a controlling interest basis)		23,055,388	28,835,735

Source: EY analysis

Note 1: Based on the net cash position of SFUK at 30 June 2014 less intercompany debt to be forgiven

Note 2: Per Australian Financial Review, 16 October 2014

Our analysis results in a fair market value of SFUK on a controlling interest basis of between \$23.1 million to \$28.8 million.

⁴⁰ DFC investor presentation regarding Lone Star merger, April 2014

⁴¹ Total System Services, Inc investor presentation, "TSYS to Acquire NetSpend" dated 19 February 2013

9. Valuation of the purchase consideration

The consideration of \$24.9 million is to be provided by way of cash and new shares in EML. As discussed in section 7 of this report, while the number of shares to be issued as part of the consideration is based on the placement price of \$0.50 per share, the value of the consideration will ultimately be dependent upon the prices at which EML shares are likely to trade following the completion of the Transaction. As such, we considered the value of the consideration by assessing the fair market value of an EML share post completion of the Transaction.

In assessing the fair market value of the consideration, as described in section 7.1.2 of this report, we adopted a market based approach, specifically the capitalised revenue method as our primary approach, having formed the view that EML shares are relatively illiquid. The fair market value of the consideration being offered by EML, which is the aggregate of the cash proceeds and new EML shares to be issued, on a minority basis, was then compared to the fair market value of SFUK on a controlling interest basis.

As a further consideration, we compared the fair market value of an EML share prior to the Transaction, to the fair market value of an EML share, on a notionally combined basis, post the Transaction. In doing so, the value of the notionally combined EML and SFUK was determined with regard to:

- ▶ The value of EML based on its fair market value on a minority basis
- ▶ The value of SFUK on a minority basis
- ▶ Any synergies expected to be realised as a result of the Transaction
- ▶ Other relevant adjustments for the likely impact of the Transaction such as acquisition costs
- ▶ The dilutionary impact of the new EML shares to be issued in connection with the Transaction.

9.1 Value of EML pre Transaction

9.1.1 Future maintainable revenue

The table below summarises the revenue of EML as presented in section 3.2 of this report for the three financial years ended 30 June 2014.

Historical revenue of EML (year ended 30 June)

<i>Currency: \$000s</i>	FY12A	FY13A	FY14A
Revenue	3,771	5,034	5,184
Revenue growth	n/a	33.5%	3.0%

Source: EML Annual Reports FY12 and FY14

In arriving at our estimate of maintainable revenue, we make the following comments:

- ▶ FY13 revenue grew at more than 33%. However FY14 growth was more modest at 3% reflecting the delayed timing of certain new customer programs which resulted in set up fees being earned post year end in July 2014. We understand from EML management that if the delays were adjusted for, EML's revenue growth would have been 18% over FY13⁴². This would imply revenue of around \$5.9 million.
- ▶ EML has not provided guidance regarding forecast FY15 revenues for EML. However, we note that numerous additional customer contracts have been awarded to EML, with recent ASX announcements including the awarding of a trial agreement with Cash Converters (announced

⁴² EML FY14 full year results presentation, September 2014

21 October 2013), five year agreement with the Queensland Government (announced 28 November 2013), Ladbrokes Digital (announced 6 March 2014), Sportsbet.com.au (announced 3 July 2014) and MoneyMe (announced 22 September 2014). EML estimates that new customers, for which minimal or no revenues were earned in FY14, may generate up to around \$3 million of additional revenue in FY15. Further, given the associated programs of new customers are expected to launch throughout FY15, the full annualised benefit of such contracts will not be achieved until FY16.

- ▶ Taking into account both the implied FY14 revenue inclusive of delayed set up fees of approximately \$5.9 million, applying the observed market FY15 growth rate of 12% and reflecting the incremental FY15 revenues for recently contracted customers, FY15 revenue of around \$9.7 million is implied.
- ▶ Consensus estimates, prior to the announcement of the Transaction, for EML indicated forecast revenue of approximately \$10.5 million in FY15, increasing to \$18.7 million in FY16⁴³.

Based on the above factors and noting the anticipated growth over the coming 12 months underpinned by recent customer wins will not reflect annualised revenues attributable to newly contracted customers, we have selected maintainable revenue of \$9.5 million. Future growth beyond this is then reflected in our assessment of an appropriate multiple.

9.1.2 Revenue multiples

We have capitalised the selected revenue at a multiple that we consider reasonably reflects the growth prospects of EML and the risks in achieving this growth, exclusive of any impacts associated with the potential acquisition of SFUK. In assessing appropriate revenue multiples, we considered the current and forecast trading multiples of companies that may be considered comparable to EML. In addition, we analysed the multiples implied from recent acquisitions of companies with similar operations.

⁴³ CapitalIQ

9.1.2.1 Trading multiples

Presented in the table below are the revenue multiples of the selected comparable companies. These multiples are based on the observed share prices of minority parcels of shares as at 15 October 2014 and are therefore not reflective of a premium for control. Further information on these comparable companies is provided in Appendix D – *Trading multiples and data*.

Revenue multiples in the prepaid and gift card sector (excluding a control premium)

Company	Country	Market cap (\$m in filing currency)	Historic year end	FY14F EV/Revenue ¹	FY15F EV/Revenue ¹	FY16F EV/Revenue ¹
<u>Prepaid/debit payments</u>						
Emerchants Limited ²	Australia	61	30-Jun-14	10.9x	4.9x	2.4x
Green Dot Corporation	United States	877	31-Dec-13	nmf	nmf	nmf
Oncard International Limited	Australia	33	31-Dec-13	nmf	nmf	nmf
Park Group plc ²	United Kingdom	97	31-Mar-14	0.3x	0.3x	0.3x
Blackhawk Network Holdings, Inc.	United States	1,756	28-Dec-13	1.1x	0.9x	0.8x
Higher One Holdings, Inc.	United States	118	31-Dec-13	0.9x	0.9x	1.0x
Euronet Worldwide Inc.	United States	2,382	31-Dec-13	1.5x	1.3x	1.3x
Edenred SA	France	4,665	31-Dec-13	5.2x	4.8x	4.4x
Average				3.3x	2.2x	1.7x
Median				1.3x	1.1x	1.1x
<u>Merchant acquirers/ processors/payment solutions</u>						
Heartland Payment Systems, Inc.	United States	1,813	31-Dec-13	3.0x	2.6x	2.5x
Vantiv, Inc.	United States	4,390	31-Dec-13	5.7x	4.8x	4.4x
Total System Services, Inc.	United States	5,422	31-Dec-13	2.7x	2.5x	2.4x
Global Payments Inc. ²	United States	4,858	31-May-14	2.5x	2.3x	2.2x
EVERTEC, Inc.	United States	1,650	31-Dec-13	6.3x	5.9x	5.5x
WEX Inc.	United States	3,906	31-Dec-13	5.3x	4.5x	4.1x
FleetCor Technologies, Inc.	United States	10,833	31-Dec-13	10.9x	9.0x	7.5x
Wirecard AG	Germany	3,425	31-Dec-13	4.6x	3.8x	3.2x
Average				5.1x	4.4x	4.0x
Median				4.9x	4.1x	3.7x

Source: Capital IQ

Note 1: Given the nature of these businesses, Revenue has been adjusted to include interest earned on cash balances held.

Note 2: FY14 multiples for EML, Park Group plc and Global Payments Inc. are based on actual FY14 revenue as their last financial year is FY14.

9.1.2.2 Transaction multiples

The table below summarises the transaction multiples implied by recent transactions involving companies with operations broadly comparable to those of EML. Further details regarding the transactions are presented in Appendix E – *Recent transactions*.

Recent transactions in the prepaid and gift card sector

Announcement date	Target	Country	Buyer	Transaction value (LC\$m)	LTM EV/Revenue ¹
12-Aug-14	Comdata Network, Inc ²	US	FleetCor Technologies, Inc	3,450	5.9x
1-Jul-14	Meritus Payment Solutions, Inc.	US	Optimal Payments Plc	210	2.8x
2-Apr-14	DFC Global Corp.	US	Lone Star Funds	1,300	1.2x
			Advent International Corporation,		
24-Mar-14	Nets Holding A/S ²	Denmark	ATP Group, Bain Capital, LLC	17,000	2.0x
21-Oct-13	IntelliSpend Prepaid Solutions, LLC	US	Blackhawk Network Holdings, Inc.	97	n/a
4-Oct-13	e-pay Asia Limited	Australia	GHL Systems Berhad	37	3.3x
19-Feb-13	NetSpend Holdings	US	Total System Services, Inc.	1,400	4.0x
16-Oct-12	T-Chek Systems, Inc.	US	Electronic Funds Source LLC	303	6.1x
11-May-12	CorporatePay Limited	UK	WEX Inc	23	n/a
	Advance America, Cash Advance				
15-Feb-12	Centres Inc.	US	Grupo Elektra, S.A.B. de C.V.	776	1.2x
9-May-11	Emerchants Australia Pty Ltd	Australia	Australasia Consolidated Limited	33	nmf
29-Sep-10	Hypercom Corporation	US	VeriFone Systems, Inc.	485	1.2x
Min					1.2x
Average					3.1x
Median					2.8x
Max					6.1x

Source: Annual reports, Mergermarket, Capital IQ

Note 1: Multiples are calculated based on the financial metrics for the last twelve months available (LTM) prior to the transactions.

Note 2: Deal anticipated to close in December 2014

Nmf: not meaningful denotes that the multiples are either too large or small (or negative) to be meaningful for analysis for the purpose of this report.

9.1.2.3 Assessment of revenue multiples

In assessing an appropriate range of revenue multiples to apply in valuing EML on a minority basis, we considered the following factors:

- ▶ The trading multiples presented above are exclusive of a control premium. This is consistent with our valuation approach under which we are considering the value of EML on a minority basis.
- ▶ The average and median FY15 revenue multiples of the quoted peer group in aggregate were 3.5x and 3.2x, respectively. However, companies involved in processing and payment solutions tend to trade on higher multiples as indicated by the quoted trading companies' multiples. Of the quoted companies, we consider Edenred SA and WEX Inc to be more comparable to EML given their operations. Forecast FY15 revenue multiples for these companies were 4.8x and 4.5x respectively. Further, we also considered FleetCor's forecast FY15 revenue multiple of 9.0x given the similarly strong growth expectations forecast for the business by analysts, albeit noting FleetCor focuses largely on fuel cards and workforce payment products.
- ▶ Although we do not consider EML's share price to be liquid, we note that its forecast FY15 multiple based on analyst estimates is 4.9x.
- ▶ All transactions involved the acquisition of 100% stakes and therefore include control premia. However, for those acquisitions of listed targets, we note that the observed control premium implied by the closing price pre transaction announcement showed a wide range from approximately 6% to 31% as set out in Appendix E – *Recent transactions*. This wide range may reflect differing circumstances particular to each transaction.
- ▶ Of the transactions, we highlight FleetCor's proposed acquisition of Comdata announced on 12 August 2014, which implies a multiple of 5.9x. Comdata has four key business lines including a virtual e-payments MasterCard payment program and a prepaid gift card processing and program management business, which processes over 1 billion transactions annually. Approximately 48% of its revenue is derived from its corporate payments business, to which its business has become

increasingly focused in recent years given the rapid growth of the virtual payments market. The residual is comprised of fuel cards for large fleets.

- ▶ We note that on 15 September 2014, Global Payments Inc, a US listed global provider of payment solutions, announced it had entered into an agreement to acquire 100% of Ezi Holdings Pty Ltd, an integrated payments company focused on recurring payment solutions based in Australia and New Zealand⁴⁴. The offered consideration of \$305 million implies an approximate FY15 revenue multiple of 5.5x⁴⁵. While the deal had not closed as at the date of this report, and the target is involved more in the processing of recurring payments such as within the childcare and fitness sectors, we consider it a relevant benchmark given the location of the company.
- ▶ The acquisition of T-Chek in 2012 implied a revenue multiple of 6.1x. T-Chek is a business to business provider of payment processing and spend management. It services a wide range of customers include retailers, merchants and corporations offering card programs inclusive of single and ongoing card programs as well as accounts payable solutions, web-based expense reporting and other payment processing services.
- ▶ The acquisition of Emerchants Australia Pty Ltd by Australasia Consolidated Limited in 2011 was for a total consideration of \$28 million which included deferred consideration subject to various performance hurdles being achieved. Assuming the full consideration was paid, an historical FY10 revenue multiple of 24.7x and a forecast FY11 multiple of 14.4x would be implied. However, if calculated based purely on the consideration paid upfront of \$12.3 million, the adjusted implied revenue multiples would have been 10.8x and 6.3x respectively.

Based on the above factors, we have selected a multiple range of 4.5x to 5.5x on a minority basis to apply to the selected maintainable revenue of EML on a standalone basis prior to the Transaction.

9.1.3 Other assets and liabilities

Management has advised that as at the date of this report, there are no significant surplus assets or liabilities which require inclusion within the valuation.

9.1.4 Shares outstanding

As detailed in section 3.4 of this report, EML currently has 124,668,047 ordinary shares outstanding. Further, as noted in section 3.4, there are existing share options outstanding. However, these are subject to different performance hurdles, exercise prices, expiry dates and the EML Board has discretion as to how to direct option holders to convert the options such that the dilutionary impact can be managed by EML. We understand that it is unlikely the required performance hurdles would be met and furthermore, the share options do not necessarily convert on a 1:1 basis into ordinary shares.

Given these factors and the discretionary powers of the Board, we have not therefore taken into account the possible conversion of the share options for the purposes of this calculation. Accordingly, the number of ordinary shares outstanding for the purposes of our valuation analysis is therefore 124,668,047.

Calculation of number of EML shares on issue pre Transaction

	Low	High
Current number of EML shares on issue	124,668,047	124,668,047
No. of share options likely to convert to ordinary shares	-	-
No. of EML shares on issue pre Transaction	124,668,047	124,668,047

Source: EY analysis

⁴⁴ Global Payments Inc company announcement dated 15 September 2014

⁴⁵ Calculated based on approximate figures included in the 15 September 2014 company announcement which indicated the partial year earnings contribution of the target may be in the order of USD25 million. We adopted an USD:AUD exchange rate of 1.1076 per Bloomberg and annualised the pro rate figure assuming the revenues reflected approximately 6 months

9.1.5 Summary of valuation analysis of an EML share pre Transaction

Our analysis of the fair market valuation of an EML share pre the proposed Transaction, on a minority basis is set out in the table below.

Fair market valuation of EML pre Transaction

Currency: A\$	Ref	Low	High
Maintainable revenue	9.1.1	9,500,000	9,500,000
Assessed revenue multiple	9.1.2	4.5x	5.5x
Enterprise value of EML		42,750,000	52,250,000
Less: (net debt)/ net cash as at 30 June 2014	3.3	4,495,896	4,495,896
Plus: surplus assets/ (liabilities)		-	-
Equity value (on a minority basis)		47,245,896	56,745,896
No. of shares outstanding	9.1.4	124,668,047	124,668,047
Equity value per EML share (on a minority basis) pre Transaction		0.38	0.46

Source: EY analysis

Based on our analysis, the fair market value per EML share on a minority basis pre the Transaction is between \$0.38 and \$0.46.

The assessed value of EML shares reflects the current value pre the Transaction.

9.2 Valuation of an EML share post Transaction

As stated in section 7 of this report, we also determined the fair market value of an EML share post the Transaction on a notionally combined basis. This is relevant for both:

- ▶ The comparison of the consideration offered by EML for SFUK as part of the consideration is in the form of new EML shares and therefore, ultimately, the value of the EML shares will be dependent upon the price at which EML shares may trade following the completion of the Transaction.
- ▶ The comparison of the fair market value of an EML share prior to the Transaction, to the fair market value of an EML share, on a notionally combined basis post the Transaction. This is relevant for non-associated shareholders of EML as it considers the dilutionary impact of shares to be issued and reflects the basis upon which EML shares may trade on the ASX subsequent to the Transaction.

When considering the EML share price post the Transaction, we have:

- ▶ Assessed the fair market value of an EML share on a minority basis having regard to the fact that post the Transaction, EML will be part of a larger, more diverse company. Accordingly, we considered whether any adjustments to the adopted multiple in our valuation analysis in section 9.1 of this report were appropriate to determine the fair market value of an EML share post the Transaction.
- ▶ Included the proceeds to be received as a result of the capital raising, which is inter-conditional with the Transaction.
- ▶ Deducted the cash amount to be provided to the ultimate shareholders of SFUK as part of the purchase consideration.
- ▶ Deducted the transaction and other related costs, including the cost of undertaking the capital raising, associated with the Transaction.

- ▶ Added the equity value of SFUK, on a minority interest basis, based on our valuation analysis in section 8 of this report to arrive at a notional equity value of the combined group post the Transaction, on a minority interest basis.
- ▶ Calculated the number of EML shares expected to be on issue, on a fully diluted basis, post the Transaction.
- ▶ We then divided the aggregate equity value of the combined group by the calculated number of shares to determine the notional value of an EML share post the Transaction. This value per share was then compared to the value of an EML share pre the Transaction.

9.2.1 Equity value of EML post the Transaction

Given that part of the consideration will ultimately comprise EML shares of the combined group, we have considered the potential value of EML post the Transaction. In doing so, we applied the same methodology as in our valuation pre Transaction, set out above in section 9.1.5, and considered any other benefits and risks of EML, excluding the contribution to performance of SFUK, as part of the combined group.

The table below summarises our assessment of the fair market value of EML post Transaction for the purposes of assessing the fair market value of the scrip component of the consideration.

Fair market valuation of EML post Transaction

<i>Currency: A\$</i>	<i>Ref</i>	<i>Low</i>	<i>High</i>
Maintainable revenue	9.1.1	9,500,000	9,500,000
Assessed revenue multiple ¹	9.2.1	5.0x	6.0x
Enterprise value of EML		47,500,000	57,500,000
Less: (net debt)/ net cash as at 30 June 2014	3.3	4,495,896	4,495,896
Plus: surplus assets/ (liabilities)		-	-
Adjusted equity value (on a minority basis)		51,995,896	61,495,896

Source: EY analysis

As set out above we considered a slightly higher range of multiples to be appropriate in valuing EML post Transaction, reflecting the larger size, diversification and potential for growth through complementary products and services.

9.2.2 Equity value of the combined group post the Transaction

The table below sets out our calculation of the assessed value of the notionally combined group post the Transaction, on a minority interest basis.

Notional fair market valuation of the combined group post the Transaction

<i>Currency: A\$</i>	<i>Ref</i>	<i>Low</i>	<i>High</i>
Equity value of EML post Transaction (on a minority basis) ¹	9.2.1	51,995,896	61,495,896
Plus: proceeds from capital raising		14,000,000	14,000,000
Deduct: Cash component of purchase consideration	1.1	(12,450,000)	(12,450,000)
Deduct: Working capital, capital raising and transaction costs	1.1	(1,550,000)	(1,550,000)
Equity value of EML (post capital raising)		51,995,896	61,495,896
Plus: equity value of SFUK (on a minority basis) ²	8.4	17,734,914	22,181,335
Equity value of combined group post Transaction (on a minority basis)		69,730,810	83,677,231

Source: EY analysis

In relation to this analysis, we note:

- ▶ The equity value of SFUK on a minority basis was calculated with reference to our assessment of the equity value of SFUK on a controlling interest basis less a 30% premium for control⁴⁶. Given EML shareholders post the Transaction would hold a minority interest in the combined group, it is appropriate to add the value of SFUK on a minority basis to that of EML.

Based on the above, this resulted in an equity value of the notionally combined group post the Transaction, on a minority basis, in the range of \$69.7 million to \$83.7 million.

9.2.3 Number of EML shares on issue post the Transaction

The number of diluted shares on issue post the Transaction reflects the current number of ordinary EML shares on issue as adjusted for:

- ▶ The number of new EML shares to be issued as part of the capital raising to fund the cash component of the purchase consideration.
- ▶ The number of new EML shares to be issued to settle the scrip component of the purchase consideration.
- ▶ The number of new EML shares to be issued to fund the transaction, working capital and capital raising costs.

The table below summarises the total number of EML shares that will be on issue post the Transaction.

Calculation of number of EML shares on issue post Transaction

<i>Currency: A\$</i>	<i>Ref</i>	<i>Low</i>	<i>High</i>
Current number of EML shares on issue	9.1.4	124,668,047	124,668,047
No. shares required to settle scrip component based on placement price	1.1	24,900,000	24,900,000
No. shares issued in accordance with the capital raising ¹	1.1	28,000,000	28,000,000
No. of EML shares on issue post completion of Transaction		177,568,047	177,568,047

Source: EY analysis

Note 1: Based on \$14 million capital raising proceeds at a placement price of \$0.50 per share

9.2.4 Equity value per EML share post the Transaction

Our analysis implies a value of an EML share on a notionally combined minority basis post the Transaction of between \$0.39 and \$0.47.

Notional fair market valuation of the combined group post the Transaction

<i>Currency: A\$</i>	<i>Ref</i>	<i>Low</i>	<i>High</i>
Equity value of combined group post Transaction (on a minority basis)	9.2.2	69,730,810	83,677,231
No. of diluted shares on issue post Transaction	9.2.3	177,568,047	177,568,047
Equity value of combined group post Transaction per EML share		0.39	0.47

Source: EY analysis

Note 1: Assuming a control premium of 30% based on the discussion in section 8.2.3 of this report

We note that the recent placement to investors was undertaken at \$0.50 per share, being slightly above the top end of our range. This may reflect that our value range post the Transaction does not include the full potential for synergistic benefits that may arise from the Transaction as these are likely to comprise revenue benefits, rather than cost savings, and have not been quantified by Management.

⁴⁶ Minority discount is calculated as the inverse of the control premium

9.3 Comparison of value of SFUK to consideration offered

Under the terms of the Transaction, as described in section 1.1 of this report, the consideration being provided by EML is comprised of a cash component of \$12.45 million and the allotment and issue of 24,900,000 new EML shares. Based on our assessed value of the EML shares post Transaction, the value of consideration is between \$22.2 million and \$24.2 million.

Fair market valuation of purchase consideration being offered by EML for SFUK

<i>Currency: A\$</i>	<i>Ref</i>	<i>Low</i>	<i>High</i>
Equity value of combined group per EML share (on a minority basis) post Transaction	9.2.4	0.39	0.47
No. of new EML shares to be issued as scrip component	9.2.3	24,900,000	24,900,000
Fair market value of new EML shares being issued (on a minority basis)		9,722,987	11,664,821
Plus: cash consideration	9.2.2	12,450,000	12,450,000
Fair market value of consideration		22,228,207	24,183,885
<i>Compared to:</i>			
Fair market equity value of SFUK (on a control basis)	8.4	23,055,388	28,835,735

Source: EY analysis

Our assessed value range of SFUK of \$23.1 million to \$28.8 million is consistent with, albeit higher at the high end of the range, than the assessed range of values for the consideration.

9.4 Comparison of value of an EML share pre and post Transaction

As a further consideration, we have compared our assessed range of values for EML shares pre Transaction to the value ranges post Transaction. As set out in the table below, our analysis indicated that the value post Transaction is within, and slightly above, the range of values pre Transaction.

Comparison of pre and post Transaction fair market value of an EML share (on a minority basis)

<i>Currency: A\$</i>	<i>Ref</i>	<i>Low</i>	<i>High</i>
Equity value of an EML share pre Transaction	9.1.5	0.38	0.46
Equity value of an EML share post Transaction	9.2.4	0.39	0.47

Source: EY analysis

We note that the value of EML on a notionally combined basis excludes any potential revenue growth opportunities in leveraging EML's reloadable payment applications into new growth markets. Any such revenue growth opportunities that may arise as a result of the Transaction have not been explicitly quantified and to the extent that such benefits arise in future, this would increase the value of the combined EML business post Transaction.

We also considered the impact on the value of EML shares assuming that the two additional customers are contracted and the associated additional shares are issued to David Shewmaker in accordance with terms set out in the Share Sale Agreement. In doing so, we had regard to the following:

- As stated earlier in this report, up to an additional 5.3 million EML shares may be issued based on certain EBITDA performance hurdles for the two potential customers. For the purposes of our analysis, we considered the impact on the per share value if the maximum number of bonus shares were granted. This would result in 182,892,103 shares on a fully diluted basis.

- In order to further assess the sensitivity, we also adjusted the maintainable level of SFUK's FY15 EBITDA to include the projected incremental net EBITDA impact of \$0.4 million for FY15 if these two customers were contracted and the required performance hurdles met⁴⁷.

Based on the above, our analysis indicated no material change in the value per share post Transaction. This reflects that the impact of the proposed issue of bonus shares is mitigated by the additional EBITDA contribution of the potential new contracts. This is considered reasonable given the number of bonus shares to be issued is based on a 3x multiple, which is significantly lower than the range we have assessed for SFUK as a whole.

⁴⁷ Acquisition of SFUK investor presentation released by EML on 26 September 2014

10. Evaluation of the Transaction

10.1 Approach

In forming our opinion as to whether the Transaction is fair and reasonable for the non-associated shareholders of EML, we have considered a number of factors, including:

- ▶ Whether the estimated value of SFUK, on a controlling interest basis, is higher or lower than our assessed fair market value of the consideration that will be paid by EML in the event the Transaction is approved.
- ▶ The impact on the value of EML shares post the Transaction, compared to our assessed value pre Transaction in order to consider any dilutionary impact of the share issuance
- ▶ The strategic rationale for the Transaction and EML's intention with respect to SFUK.
- ▶ The existence of alternatives to the Transaction and the consequences for EML shareholders.
- ▶ Other advantages and disadvantages that EML shareholders should consider in assessing whether to approve the Transaction.

10.2 Fairness

In determining whether the Transaction is fair, we have compared the assessed value of SFUK, on a controlling interest basis, to our assessed fair market value of the consideration that will be paid by EML in the event that the Transaction is approved.

The table below shows a summary of the assessed value of SFUK and the consideration offered.

Fair market valuation of consideration being offered by EML for SFUK

<i>Currency: A\$millions</i>	Ref	Low	High
Fair market equity value of SFUK (on a controlling interest basis)	8.4	23.1	28.8
Fair market value of consideration	9.3	22.2	24.2

Source: EY analysis

Our assessed value range of SFUK is consistent with, albeit higher at the high end of, the assessed range of values for the consideration.

We also compared our assessed range of values for EML shares pre Transaction to the value ranges post Transaction. This analysis indicated that the value post Transaction is within, and slightly above, the range of values pre Transaction. We note that the value of EML on a notionally combined basis excludes any potential revenue growth opportunities in leveraging EML's reloadable payment applications into new growth markets. Any such revenue growth opportunities that may arise as a result of the Transaction have not been explicitly quantified and to the extent that such benefits arise in future, this would increase the value of the combined EML business post Transaction.

In our opinion, as the fair market value of the consideration is consistent with, and in fact at the lower end of our valuation of SFUK, on a controlling interest basis, we consider the Transaction to be fair to the non-associated shareholders of EML.

10.3 Reasonableness

Under the guidance provided by RG 111, as we consider the terms to be fair, we also consider the terms to be reasonable for the non-associated shareholders of EML.

10.4 Other factors

Notwithstanding the above conclusion that the terms of the Transaction are fair and reasonable, we have also considered other factors that the non-associated shareholders of EML should consider in forming their views as to whether or not to approve the Transaction.

Certain of these factors may only be an advantage or disadvantage to the extent that an EML shareholder continues to hold their EML shares. Those shareholders who decide to sell their EML shares will not consider various of these factors to be advantages or disadvantages.

10.4.1 Advantages of the Transaction

EML will be a larger, more diversified business which is expected to be cash flow positive

Over the last three years, EML has generated negative earnings as it invests in its future growth strategy within the Australian market. On the other hand, SFUK currently generates positive cash flows and, based on Management's guidance, is projected to increase its cash flows, benefiting from a growing contracted customer base and economies of scale. The Transaction is therefore expected to result in the combined EML business becoming cash flow positive during the financial year to 30 June 2015 and reducing the requirement for EML to undertake further equity issuances in the short term.

Potentially increased liquidity of EML shares

Currently, EML shares are relatively illiquid. However, as a result of the Transaction, EML is expected to be a larger and more diversified business with a higher market capitalisation. While approximately 14% of the shares post the Transaction are expected to be held by Store US and other employees of SFUK, and are subject to certain share trading restrictions, the larger size of the company may result in greater interest in its operations and coverage by analysts, resulting in improved demand for its shares.

10.4.2 Disadvantages of the Transaction

Costs associated with the Transaction

As set out in the Notice of Meeting, EML estimates that it will incur total transaction costs, inclusive of the costs associated with the inter-conditional placement, of approximately \$1.5 million. A significant proportion of these costs, in the order of \$0.3 million, have been incurred irrespective of whether the Transaction is ultimately implemented.

10.4.3 Other factors

Alternative opportunities for EML

EML management has been seeking opportunities for growth over at least the last twelve months, and considers the acquisition of SFUK meets its long term strategic goals. No superior alternatives were identified by Management.

The acquisition of SFUK provides EML the opportunity to quickly enter the UK and European markets, with complementary product and service offerings. In addition, the SFUK business is well known to EML particularly due to the common shareholder and directorship of Tom Cregan in both EML and SFUK.

Aligned interests of SFUK and EML management

Under the terms of the Transaction, shares in the combined EML group will be issued to Store US, as well as key management team members of SFUK. Through this alignment of interests, these

shareholders are incentivised to achieve the projected growth and expansion of the business, and therefore aligned with the interests of the non-associated shareholders of EML.

The combined group will operate in Australia, the UK and Europe, with processing operations based in the US

EML shareholders currently hold shares in an entity with Australian operations. If the Transaction is approved, EML shareholders would subsequently hold shares in an entity with global operations covering Australia, the UK and Europe and supporting ancillary processes based in the US. Depending on the perception and risk appetite of any existing individual EML shareholder, this may represent an advantage or disadvantage given the diversification of geographical exposure and associated risks and opportunities, including exchange rate movements. To the extent that some shareholders wish to cease holding their interest, they may sell their holding.

Potential synergistic benefits

While EML management have indicated that SFUK and EML's Australian operations will continue to operate relatively independently as at present, there may be the potential for certain synergistic benefits. While we understand that any cost savings that could be achieved by combining the businesses will be minimal, the Transaction is intended to enable the combined business to leverage EML's reloadable payment applications into new growth markets. As such, there is the potential for additional growth opportunities. However, any such revenue growth opportunities that may arise as a result of the Transaction have not been quantified and are not certain. To the extent that such benefits arise, this would be considered an advantage.

10.5 Conclusions

Taking into consideration the matters outlined above and detailed in the attached independent expert's report, in our opinion the Transaction is fair and reasonable for the non-associated EML shareholders.

Appendix A Qualifications and declarations

Ernst & Young Transaction Advisory Services Limited, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report.

Prior to accepting this engagement we considered our independence with respect to EML and SFUK with reference to ASIC Regulatory Guide 112 *Independence of experts*. Ernst & Young, and global affiliates thereof, have not provided any services to either party in relation to the Transaction other than the preparation of this report. Ernst & Young has not provided any advice to either party in relation to the Transaction. We are not aware of any conflict of interest either in relation to the firm or the individual professional staff involved in this engagement which would impact on our ability to provide an independent and unbiased opinion with respect to the Transaction.

This report has been prepared specifically for the security holders of EML. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than the EML security holders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We have evaluated the information provided to us by EML, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base our report. We do not imply and it should not be construed that we have audited or in any way verified any of the information provided to us, or that our inquiries could have verified any matter which a more extensive examination might disclose. EML has provided an indemnity to us for any claims arising out of any mis-statement or omission in any material or information provided to us in the preparation of this report.

We provided draft copies of this report to the directors and management of EML for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this report as a result of this review by the directors and management of EML have not changed the approach or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this report estimated at approximately A\$88,000 inclusive of GST. We will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the preparation of this report. No part of the fee is contingent on the conclusions reached, the content or the future use of this report.

The principal persons responsible for the preparation of this report are Julie Wolstenholme and Michael Fenech. Julie Wolstenholme, a director and representative of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young Australia has over 14 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered. Michael Fenech, a director and representative of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young Australia has over 18 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

The preparation of this report has had regard to relevant ASIC Regulatory Guides and APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited in July 2008. It is not intended that the report should be used for any other purpose other than to accompany the Notice of Meeting to be sent to EML security holders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of our opinion as to whether or not the Transaction is fair and reasonable to the non-associated shareholders of EML.

Any forward looking information prepared by EML and used as a basis for the preparation of this report reflects the judgement of EML management based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the relevant future period will almost always differ from the forward looking information and such differences may be material. To the extent that our conclusions are based on such forward looking information, we express no opinion on the achievability of that information.

We consent to the issue of this report in the form and context in which it is included in the Notice of Meeting to be sent to EML security holders.

Appendix B Sources of information

In preparing this report, we have had regard to the following sources of information:

- ▶ Annual accounts of EML for the years ending 30 June 2013 and 2014
- ▶ Unaudited annual accounts of SFUK for the years ending 31 December 2010, 2011 and 2012
- ▶ Half year interim reports for EML for the six months ended 31 December 2013
- ▶ Management forecasts for SFUK for the years ended 31 December 2014 through to 2015
- ▶ EML results presentations for the interim and annual periods over 2013 and 2014
- ▶ Various announcements to the ASX and shareholder updates, including in relation to the announced acquisition
- ▶ Analyst reports prepared in respect of EML
- ▶ Draft copies of the Notice of Meeting
- ▶ EML and SEV company websites
- ▶ External information sources including IBISWorld, CapitalIQ, Reuters
- ▶ Mergerstat control premium study as at 30 June 2014
- ▶ Industry association websites including the UK Gift Card and Vouchers Association and the Australian National Retailers Association
- ▶ Valuation report prepared for the Board of EML regarding the valuation of SEV as at 29 August 2014
- ▶ Federal Government releases and publications pertaining to the gift card sector including:
 - ▶ “Gift cards in the Australian Market”, 6 July 2012 released by the Chairman of the Commonwealth Consumer Affairs Advisory Council, Mr Colin Neave AM
 - ▶ “Gift cards in the Australian Market”, 9 December 2011 released by the Chairman of the Commonwealth Consumer Affairs Advisory Council, Mr Colin Neave AM

In addition, we held discussions with various members of senior management and the board of EML and SFUK.

Appendix C Valuation approaches

Most valuation approaches can be categorised under one or more of the following broad approaches:

- ▶ The income approach under which an asset is valued as the present value of the future net economic benefits that are expected to accrue to the owner from the use or sale of the asset.
- ▶ The market approach under which an asset is valued by reference to evidence (if any) of prices obtained in sales of interests in the asset that is the subject of the valuation, or by reference to the value of comparable assets related to some common variable such as earnings, cash flow or revenue.
- ▶ The cost approach under which an asset is valued by reference to its historical cost or replacement cost.

Each of these approaches is appropriate in certain circumstances. The decision as to which approach and methodology to utilise generally depends on the availability of appropriate information and type of business.

Income approach

The most common methodology within the income approach is the discounted cash flow (“DCF”) methodology. The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a rate that reflects the time value of money and the risk inherent in the cash flows.

This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life. The utilisation of this methodology generally requires management to be able to provide long term cash flows for the company, asset or business.

Market approach

The main methodology within the market approach is the capitalisation of earnings methodology. This involves capitalising the earnings of a business at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology requires consideration of the following factors:

- ▶ Estimation of normalised earnings having regard to historical and forecast operating results, abnormal or non-recurring items of income and expenditure and other factors. The normalised earnings are generally based on net profit after tax, EBIT, EBITA or EBITDA.
- ▶ Determination of an appropriate earnings multiple reflecting the risks inherent in the business, growth prospects and other factors. Multiples may be derived from quoted comparable trading companies and well as implied from recent acquisitions of similar companies.
- ▶ Earnings multiples applied to net profit after tax are known as price earnings multiples and are commonly used in relation to listed public companies. Earnings multiples applied to EBIT, EBITA or EBITDA are known, respectively, as EBIT, EBITA or EBITDA multiples, and are commonly used in respect of companies comprising a number of businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to influence the capital structure.
- ▶ An adjustment for financial debt, in the event that maintainable earnings are based on EBIT, EBITA or EBITDA.
- ▶ An assessment of any surplus assets and liabilities, being those which are not essential to the generation of the future maintainable earnings.

This methodology is appropriate where a company or business is expected to generate a relatively stable record of earnings.

Cost approach

The main method within the cost approach is the net realisable value of assets methodology. This involves the determination of the net realisable value of the assets of a business or company, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair market value.

This methodology is appropriate for asset intensive businesses, or where a business does not generate an adequate return on its assets.

Appendix D Trading multiples and data

Trading multiples

The table below summarises current trading multiples of listed companies operating in the prepaid cards sector as well as companies operating in the payment processing/solutions industry globally as at 15 October 2014. These multiples are shown exclusive of any premium for control.

Trading multiples in the prepaid and gift card sector (excluding a control premium)

Company	Country	Market cap (\$m in filing currency)	Historic year end	FY14F EV/EBITDA ¹	FY15F EV/EBITDA ¹	FY16F EV/EBITDA ¹
<u>Prepaid/debit payments</u>						
Emerchants Limited ²	Australia	61	30-Jun-14	nmf	nmf	7.9x
Green Dot Corporation	United States	877	31-Dec-13	nmf	nmf	nmf
Oncard International Limited	Australia	33	31-Dec-13	nmf	nmf	nmf
Park Group plc ²	United Kingdom	97	31-Mar-14	9.4x	7.7x	7.0x
Blackhawk Network Holdings, Inc.	United States	1,756	28-Dec-13	12.1x	9.5x	8.6x
Higher One Holdings, Inc.	United States	118	31-Dec-13	3.7x	3.8x	4.5x
Euronet Worldwide Inc.	United States	2,382	31-Dec-13	10.2x	8.6x	7.9x
Edenred SA	France	4,665	31-Dec-13	14.3x	12.6x	11.3x
Average				9.9x	8.4x	7.8x
Median				10.2x	8.6x	7.9x
<u>Merchant acquirers/ processors/payment solutions</u>						
Heartland Payment Systems, Inc.	United States	1,813	31-Dec-13	11.1x	9.0x	8.0x
Vantiv, Inc.	United States	4,390	31-Dec-13	11.8x	9.9x	9.0x
Total System Services, Inc.	United States	5,422	31-Dec-13	9.4x	8.3x	7.9x
Global Payments Inc. ²	United States	4,858	31-May-14	12.4x	10.9x	10.2x
EVERTEC, Inc.	United States	1,650	31-Dec-13	12.7x	11.7x	10.8x
WEX Inc.	United States	3,906	31-Dec-13	12.2x	10.3x	9.2x
FleetCor Technologies, Inc.	United States	10,833	31-Dec-13	18.6x	16.0x	14.1x
Wirecard AG	Germany	3,425	31-Dec-13	16.2x	13.1x	10.6x
Average				13.0x	11.2x	10.0x
Median				12.3x	10.6x	9.7x

Source: Capital IQ

Notes to table:

- Given the nature of these businesses, EBITDA has been adjusted to include interest earned on cash balances held.
- FY14 multiples for Emerchants Limited, Park Group plc and Global Payments Inc. are based on actual FY14 EBITDA as their last financial year is FY14.

Revenue multiples in the prepaid and gift card sector (excluding a control premium)

Company	Country	Market cap (\$m in filing currency)	Historic year end	FY14F EV/Revenue ¹	FY15F EV/Revenue ¹	FY16F EV/Revenue ¹
<u>Prepaid/debit payments</u>						
<i>Emerchants Limited²</i>	Australia	61	30-Jun-14	10.9x	4.9x	2.4x
Green Dot Corporation	United States	877	31-Dec-13	nmf	nmf	nmf
Oncard International Limited	Australia	33	31-Dec-13	nmf	nmf	nmf
Park Group plc ²	United Kingdom	97	31-Mar-14	0.3x	0.3x	0.3x
Blackhawk Network Holdings, Inc.	United States	1,756	28-Dec-13	1.1x	0.9x	0.8x
Higher One Holdings, Inc.	United States	118	31-Dec-13	0.9x	0.9x	1.0x
Euronet Worldwide Inc.	United States	2,382	31-Dec-13	1.5x	1.3x	1.3x
Edenred SA	France	4,665	31-Dec-13	5.2x	4.8x	4.4x
Average				3.3x	2.2x	1.7x
Median				1.3x	1.1x	1.1x
<u>Merchant acquirers/ processors/payment solutions</u>						
Heartland Payment Systems, Inc.	United States	1,813	31-Dec-13	3.0x	2.6x	2.5x
Vantiv, Inc.	United States	4,390	31-Dec-13	5.7x	4.8x	4.4x
Total System Services, Inc.	United States	5,422	31-Dec-13	2.7x	2.5x	2.4x
Global Payments Inc. ²	United States	4,858	31-May-14	2.5x	2.3x	2.2x
EVERTEC, Inc.	United States	1,650	31-Dec-13	6.3x	5.9x	5.5x
WEX Inc.	United States	3,906	31-Dec-13	5.3x	4.5x	4.1x
FleetCor Technologies, Inc.	United States	10,833	31-Dec-13	10.9x	9.0x	7.5x
Wirecard AG	Germany	3,425	31-Dec-13	4.6x	3.8x	3.2x
Average				5.1x	4.4x	4.0x
Median				4.9x	4.1x	3.7x

Source: Capital IQ

Notes to table:

1. Given the nature of these businesses, Revenue has been adjusted to include interest earned on cash balances held.
2. FY14 multiples for EML, Park Group plc and Global Payments Inc. are based on actual FY14 EBITDA as their last financial year is FY14.

Description of trading companies

A brief overview of the comparable companies is provided below:

Green Dot Corporation

- ▶ Green Dot Corporation (“Green Dot”) is a US based provider of debit cards, prepaid card reloading services and mobile banking services including products such as Green Dot MasterCard, Visa-branded prepaid debit cards and other co-branded reloadable prepaid card programs, gift cards and swipe reload proprietary products. Customers include banked, underbanked and unbanked consumers, with products offered through retailers, online and via the app stores. In the last financial year, almost 40% of revenue was generated through card revenues and other fees including maintenance fees, new card fees, and ATM fees.

Oncard International Limited

- ▶ Oncard International Limited (“Oncard”) provides private label and branded rewards, loyalty and payment solutions including a range of prepaid and other cards such as debit cards, gift cards, staff cards, credit cards, reward cards and phone cards. The company operates throughout Australia, New Zealand and certain parts of Asia. In the last financial year, Oncard generated approximately 75% of revenue through the provision of payment solutions and card issuer processing services. Oncard also offers OnCard Rewards, which is a rewards and payments system software platform and MarketSMART, which provides the intellectual property to support the OnCard Rewards platform. The company also offers Buffet Club, a loyalty program that offers Dining Club membership.

Park Group plc

- ▶ Park Group plc (“Park Group”) provides multi-retailer vouchers and prepaid cards throughout the UK and Ireland. Park Group provides specialised Christmas time savings products and services including vouchers, prepaid cards, gifts and hampers. The company also operates the Love2reward and Love2shop businesses that provide rewards programs. Furthermore, Park Group also operates the highstreetvouchers.com website, which provides gift cards and vouchers guaranteeing next day delivery. During the last financial year, approximately 95% of revenue was generated from the sale of vouchers and cards.

Blackhawk Network Holdings, Inc

- ▶ Blackhawk Network Holdings, Inc (“Blackhawk”), based in the US, provides a range of payment services and prepaid products including prepaid e-commerce, digital media, dining, entertainment, fuel, home improvement, travel and electronics closed loop gift cards as well as non-reloadable gift cards. Blackhawk also provides prepaid phone cards and handsets, and prepaid financial services products such as general purpose reloadable cards e.g. Green Dot branded cards, which allow customers to reload funds onto these cards. Further, the company offers online gift exchange products, digital wallet services, promotions solutions and corporate incentives. In the last financial year, approximately 80% of revenue was generated through cards related fees. Distribution channels include grocery, convenience, specialty and online retailers.

Higher One Holdings, Inc

- ▶ Higher One Holdings, Inc. (“Higher One”) provides technology-based refund disbursement, payment processing, checking account and data analytics services to higher education institutions and students across the US. In FY13 Higher One generated around 61% of revenues from the provision of an online checking account service, OneAccounts, providing students with debit cards, mobile, direct deposit, online banking, bill pay and ATM services. A further 22% of revenue was derived from fees charged for processing payment transactions.

Euronet Worldwide, Inc

- ▶ Euronet Worldwide, Inc. (“Euronet”) is a global provider of payment and transaction processing solutions to financial institutions, retailers, service providers and consumers. Euronet operates through three key business segments including, electronic financial transactions, prepaid and money transfers. Prepaid or “epay services”, as referred to by Management, accounted for 53% of revenue in FY13A through the electronic distribution and processing of prepaid mobile airtime and other electronic payment products. This segment is also engaged in collection services for various payment products and cards. The remaining 47% of revenue was generated from electronic financial transactions and money transfers.

Edenred SA

- ▶ Edenred SA (“Edenred”) provides prepaid employee benefits including food vouchers, childcare, transport and motivation gift cards, and expense management services. Products include Ticket Restaurant® (a brand of meal vouchers), Commuter Check® (a cost reduction program in relation to commuting) and Target:Nutrition® (an employee wellness program). In the last financial year almost 90% of revenue was generated through the provision of prepaid vouchers.

Heartland Payment Systems, Inc

- ▶ Heartland Payment Systems, Inc (“Heartland”) offers end to end electronic payment processing services to merchants, as well as merchant set up and training, transaction authorisation, clearing and settlement and risk management services. Further, Heartland provides payment solutions for schools and small businesses. A small proportion of revenues, approximating 5% in FY13, was generated from prepaid card related products and therefore is not overly comparable.

Vantiv, Inc

- ▶ Vantiv, Inc (“Vantiv”) provides integrated payment processing services including merchant and issuer processing services, as well as financial institution payment services including card issuer processing and network services. The company also offers prepaid cards such as reward programs, general purpose reloadable cards and gift cards. In the last financial year, the majority of revenue was generated from merchant acquiring services, with the remainder contributed by processing of debit cards for financial institutions.

Total System Services, Inc

- ▶ Total System Services, Inc. (“TSS”) offers global electronic payment processing services to financial and non-financial institutions, generally under long-term contracts. TSS has four key operating segments including, North America Services, International Services, Merchant Services and NetSpend. NetSpend provides reloadable prepaid debit and payroll cards as well as alternative financial services solutions to underbanked consumers in the US. However, this business accounted for only 10% of revenues in FY13A.

Global Payments, Inc

- ▶ Global Payments, Inc. (“Global Payments”) is a global provider of electronic transaction processing services to merchants, independent sales organisations, financial institutions, government agencies and multinational corporations.

EVERTEC, Inc

- ▶ EVERTEC, Inc. (“EVERTEC”) provides full-service transaction processing services in Latin America and the Caribbean. EVERTEC operates in three segments including, merchant acquiring, payment processing and business solutions. The company provides authorisation, processing, management and recording of ATM and point of sale transactions, while also assisting merchants in accepting various electronic methods of payments. In FY13A, business solutions generated 52% of total revenues while payment processing accounted for 28% of revenue.

WEX Inc

- ▶ WEX Inc (“WEX”) provides corporate card processing solutions and information management services to the commercial and government vehicle fleet industry. In the last financial year, almost 75% of revenue was generated from the provision of fleet payment solutions.

FleetCor Technologies, Inc

- ▶ FleetCor Technologies, Inc (“FleetCor”) provides workforce payment products and fuel cards including a range of fleet and lodging payment programs as well as prepaid cards that can be used to purchase fuel, food, toll, transportation and similar products and services. FleetCor also provides equipment that reduces fraudulent and unauthorised transactions to trucking fleets, shipping fleets and other operators of industrial equipment. Further, the company owns and operates closed-loop networks, which it connects to merchants. In the last financial year, almost 75% of revenue was generated through the provision of payment network and card issuer processing services.

Wirecard AG

- ▶ Wirecard AG (“Wirecard”) provides outsourcing and white label solutions for electronic payment transactions. In FY13A, payment processing and risk management accounted for 73% of total revenue. Wirecard provides products and services for the implementation and downstream processing of electronic payments as well as account and payment transaction services for corporate and private customers.

Appendix E Recent transactions

The table below summarises the multiples implied by recent transactions in the prepaid cards and payment processing sectors globally. All transactions involved the acquisition of a 100% interest. The total transaction value is presented in the local currency in which the transaction was completed.

Recent transactions

Announcement date	Target	Country	Buyer	Transaction value (LC\$m)	LTM EV/Revenue ¹	LTM EV/EBITDA ¹	LTM EV/EBIT ¹
12-Aug-14	Comdata Network, Inc ²	US	FleetCor Technologies, Inc	3,450	5.9x	13.2x	n/a
1-Jul-14	Meritus Payment Solutions, Inc. ²	US	Optimal Payments Plc	210	2.8x	16.3x	n/a
2-Apr-14	DFC Global Corp. ³	US	Lone Star Funds	1,300	1.2x	5.5x	6.9
24-Mar-14	Nets Holding A/S ²	Denmark	Advent International Corporation, ATP Group, Bain Capital, LLC	17,000	2.0x	12.8x	19.4x
21-Oct-13	InteliSpend Prepaid Solutions, LLC	US	Blackhawk Network Holdings, Inc.	97	n/a	n/a	n/a
4-Oct-13	e-pay Asia Limited ⁴	Australia	GHL Systems Berhad	37	3.3x	10.5x	12.2x
19-Feb-13	NetSpend Holdings ⁴	US	Total System Services, Inc.	1,400	4.0x	14.6x	17.0x
16-Oct-12	T-Chek Systems, Inc.	US	Electronic Funds Source LLC	303	6.1x	n/a	n/a
11-May-12	CorporatePay Limited	UK	WEX Inc	23	n/a	n/a	12.3x
15-Feb-12	Advance America, Cash Advance Centres Inc. ⁵	US	Grupo Elektra, S.A.B. de C.V.	776	1.2x	6.7x	6.9x
9-May-11	Emerchants Australia Pty Ltd ⁶	Australia	Australasia Consolidated Limited	33	nmf	nmf	nmf
29-Sep-10	Hypercom Corporation ⁷	US	VeriFone Systems, Inc.	485	1.2x	9.0x	10.2x
Min					1.2x	5.5x	6.9x
Average					3.1x	11.1x	12.1x
Median					2.8x	11.7x	12.2x
Max					6.1x	16.3x	19.4x

Source: Annual reports, Mergermarket, Capital IQ

Note 1: Multiples are calculated based on the financial metrics for the last twelve months (LTM) prior to the transactions.

Nmf: not meaningful denotes that the multiples are either too large or small (or negative) to be meaningful for analysis for the purpose of this report.

Description of transactions

A brief overview of the transactions is provided below:

- ▶ On 12 August 2014, FleetCor Technologies, Inc announced it had entered into an agreement to acquire Comdata Network, Inc (“Comdata”) for US\$3.5 billion in a cash and scrip offer. Comdata provides electronic funds transfers, prepaid cards (including payroll, rewards, corporate spending and gift cards), fleet solutions, regulatory compliance solutions and merchant solutions. The transaction is subject to regulatory approvals and is expected to close by December 2014.
- ▶ On 1 July 2014, Optimal Payments Plc announced it had entered into a definitive agreement to acquire all of the partnership interests in Meritus Payment Solutions, Inc. (“Meritus”) for consideration of US\$210 million. This agreement comprised US\$150 million in cash and US\$60 million in Optimal Payments shares, which will be issued over four years in equal tranches. Meritus is a company engaged in the provision of payment and transaction processing solutions. The transaction closed on 23 July 2014.
- ▶ On 2 April 2014, Lone Star Funds entered into an agreement to acquire DFC Global Corp. (“DFC”) for a total transaction price of approximately US\$1.3 billion. Under the terms of the agreement, DFC shareholders received US\$9.50 per share in cash, which represented a slight premium to its announcement date closing price⁴⁸. DFC is an international non-bank provider of reloadable prepaid cards, short-term consumer loans, money transfers and cheque cashing, and serves predominantly unbanked and under-banked consumers. The transaction closed on 13 June 2014.
- ▶ On 24 March 2014, Advent International Corporation, ATP Group and Bain Capital Private Equity signed an agreement to acquire Nets Holding A/S (“Nets”) for a total transaction price of DKK17,000. Nets provides automated payment and information services, payment card solutions for various payment channels and card types and merchant solutions. The transaction closed on 9 July 2014.
- ▶ On 4 October 2013, GHL Systems Berhad announced it had made a takeover offer for e-pay Asia Limited (“e-pay”), valuing the company at A\$37 million. The offer price of \$0.40 per share represents a 6.7% premium to its 3 October 2013 closing price. e-pay provides a range of prepaid services throughout Australia and Asia including reloadable cards, prepaid mobiles and prepaid games. The transaction closed on 1 February 2014.
- ▶ On 21 October 2013, Blackhawk Network announced it had entered into a definitive agreement to acquire IntelliSpend Prepaid Solutions, LLC (“IntelliSpend”) for a total transaction value of US\$97 million, financed by cash and a parent company loan. IntelliSpend provides consumer promotions and corporate incentives products. The transaction closed on 12 November 2013.
- ▶ On 19 February 2013, Total System Services, Inc. announced it had entered into a definitive agreement to acquire NetSpend Holdings (“NetSpend”) in an all cash transaction valued at US\$1.4 billion. Under the terms of agreement, NetSpend shareholders received US\$16 per share in cash, which represented a premium of 26% based on the closing share price on the 15 February 2013. NetSpend is a provider of general-purpose reloadable prepaid debit cards and related financial services to the underbanked consumer population in the US. The transaction closed on 1 July 2013.
- ▶ On 16 October 2012, Electronic Funds Source, LLC announced it had acquired substantially all of the assets of T-Chek Systems, Inc (“T-Chek”) for US\$303 million in cash. T-Chek provides business to business payment processing solutions as well as spend management services.
- ▶ On 11 May 2012, WEX Inc acquired CorporatePay Limited (“CorporatePay”) for £23 million with additional payments contingent on certain performance milestones. CorporatePay designs and

⁴⁸ The acquisition implied a premium of 5.8% to DFC’s closing share price on 1 April 2014 and a 12.3% premium to its 30 day VWAP to the same date as set out in the press release, “DFC Global Corp. Enters into Definitive Agreement to be Acquired” published 2 April 2014

provides prepaid card solutions. No financial information on CorporatePay has been disclosed. The transaction closed on 11 May 2012.

- ▶ On 15 February 2012, Grupo Elektra, S.A.B. de C.V. announced it had entered into a definitive agreement to acquire Advance America, Cash Advance Centres Inc (“Advance America”) for US\$776 million in cash, representing an offer price of US\$10.50 per share which represented a premium of 30.9% over the one day prior closing price. Advance America provides cash advance services such as cash advances, instalment loans, cheque cashing and bill payment services, as well as prepaid cards. The transaction closed on 23 April 2012.
- ▶ On 9 May 2011, Australasia Consolidated Limited (“AAO”) announced it had reached an agreement to acquire all of the issued stock of Emerchants Australia Pty Limited in a combined stock and cash offer for a potential consideration of \$33 million, including deferred consideration and performance shares to be issued subject to various hurdles being achieved. In conjunction with the acquisition, AAO undertook a placement of 11.8 million new shares at \$0.85 per share to raise A\$10 million. The transaction closed on 1 July 2011⁴⁹.
- ▶ On 17 November 2010, VeriFone Systems, Inc announced it had entered into a definitive agreement to acquire Hypercom Corp (“Hypercom”) for approximately US\$485 million in an all-stock transaction. Hypercom is a provider of electronic payment and processing solutions as well as point of sale services globally. The transaction closed on 4 August 2011.

⁴⁹ Australasia Consolidated Limited ASX announcement 9 May 2011

Appendix F Growth rates and margins

The tables below present the historical and forecast revenue and EBITDA growth rates as well as EBITDA margins for the quoted trading companies. The forecasts are based on analyst consensus estimates. We note that the forecast estimates for EML incorporate the anticipated growth of the aggregate business, inclusive of the contribution from SFUK assuming the acquisition is completed.

Revenue growth rates

Company	Historic year end	FY13	FY14	FY15	FY16
<u>Prepaid/debit payments</u>					
Emerchants Limited ¹	30-Jun-14	33.5%	3.0%	124.5%	102.8%
Green Dot Corporation	31-Dec-13	5.0%	4.8%	18.8%	5.4%
Oncard International Limited	31-Dec-13	5.3%	n/a	n/a	n/a
Park Group plc	31-Mar-14	0.0%	-3.4%	5.1%	2.8%
Blackhawk Network Holdings, Inc.	28-Dec-13	18.7%	27.0%	22.9%	21.8%
Higher One Holdings, Inc.	31-Dec-13	6.8%	7.4%	4.9%	-13.2%
Euronet Worldwide Inc.	31-Dec-13	11.5%	13.9%	11.4%	6.0%
Edenred SA	31-Dec-13	-2.7%	8.6%	8.9%	8.0%
<u>Merchant acquirers/processors/ payment solutions</u>					
Heartland Payment Systems, Inc.	31-Dec-13	6.1%	-69.2%	14.1%	5.6%
Vantiv, Inc.	31-Dec-13	13.1%	-33.4%	18.1%	9.2%
Total System Services, Inc.	31-Dec-13	14.0%	13.9%	9.5%	5.5%
Global Payments Inc.	31-May-14	7.8%	7.5%	8.8%	6.9%
EVERTEC, Inc.	31-Dec-13	4.6%	3.5%	6.2%	7.1%
WEX Inc.	31-Dec-13	15.1%	13.6%	17.2%	9.1%
FleetCor Technologies, Inc.	31-Dec-13	26.5%	23.1%	21.7%	19.8%
Wirecard AG	31-Dec-13	24.1%	20.2%	21.6%	19.2%
Min		-2.7%	-69.2%	4.9%	-13.2%
Average		11.8%	2.7%	20.9%	14.4%
Median		9.6%	7.5%	14.1%	7.1%
Max		33.5%	27.0%	124.5%	102.8%

Source: Capital IQ

EBITDA growth rates

Company	Historic year end	FY13	FY14	FY15	FY16
<u>Prepaid/debit payments</u>					
Emerchants Limited	30-Jun-14	23.4%	0.3%	98.2%	7275.5%
Green Dot Corporation	31-Dec-13	-18.5%	87.2%	27.5%	2.7%
Oncard International Limited	31-Dec-13	48.2%	n/a	n/a	n/a
Park Group plc	31-Mar-14	6.4%	3.1%	22.8%	9.3%
Blackhawk Network Holdings, Inc.	28-Dec-13	7.5%	44.2%	27.3%	10.6%
Higher One Holdings, Inc.	31-Dec-13	-19.0%	9.4%	-2.6%	-16.3%
Euronet Worldwide Inc.	31-Dec-13	20.8%	30.6%	19.1%	8.9%
Edenred SA	31-Dec-13	-4.5%	27.3%	13.6%	11.6%
<u>Merchant acquirers/processors/ payment solutions</u>					
Heartland Payment Systems, Inc.	31-Dec-13	17.0%	9.5%	23.2%	12.2%
Vantiv, Inc.	31-Dec-13	14.8%	27.0%	18.7%	10.3%
Total System Services, Inc.	31-Dec-13	17.8%	42.6%	12.9%	4.6%
Global Payments Inc.	31-May-14	3.0%	2.9%	14.2%	6.7%
EVERTEC, Inc.	31-Dec-13	9.4%	31.5%	8.6%	7.9%
WEX Inc.	31-Dec-13	16.0%	17.3%	18.7%	12.6%
FleetCor Technologies, Inc.	31-Dec-13	33.5%	31.4%	16.0%	13.8%
Wirecard AG	31-Dec-13	12.5%	40.2%	23.7%	23.6%
Min		-19.0%	0.3%	-2.6%	-16.3%
Average		11.8%	27.0%	22.8%	492.9%
Median		13.6%	27.3%	18.7%	10.3%
Max		48.2%	87.2%	98.2%	7275.5%

Source: Capital IQ

EBITDA margins

Company	Historic year end	FY13	FY14	FY15	FY16
<u>Prepaid/debit payments</u>					
Emerchants Limited	30-Jun-14	-112.1%	-108.5%	-0.9%	30.4%
Green Dot Corporation	31-Dec-13	11.4%	20.4%	21.9%	21.3%
Oncard International Limited	31-Dec-13	-9.2%	n/a	n/a	n/a
Park Group plc	31-Mar-14	3.0%	3.2%	3.8%	4.0%
Blackhawk Network Holdings, Inc.	28-Dec-13	8.7%	9.9%	10.2%	9.3%
Higher One Holdings, Inc.	31-Dec-13	23.9%	24.4%	22.6%	21.8%
Euronet Worldwide Inc.	31-Dec-13	12.7%	14.5%	15.6%	16.0%
Edenred SA	31-Dec-13	31.2%	36.5%	38.1%	39.4%
<u>Merchant acquirers/processors/ payment solutions</u>					
Heartland Payment Systems, Inc.	31-Dec-13	7.6%	26.9%	29.0%	30.8%
Vantiv, Inc.	31-Dec-13	25.5%	48.7%	48.9%	49.4%
Total System Services, Inc.	31-Dec-13	23.4%	29.3%	30.2%	29.9%
Global Payments Inc.	31-May-14	21.3%	20.4%	21.4%	21.3%
EVERTEC, Inc.	31-Dec-13	39.0%	49.5%	50.6%	51.1%
WEX Inc.	31-Dec-13	41.9%	43.2%	43.7%	45.1%
FleetCor Technologies, Inc.	31-Dec-13	54.9%	58.6%	55.9%	53.1%
Wirecard AG	31-Dec-13	24.2%	28.3%	28.8%	29.8%
Min		-112.1%	-108.5%	-0.9%	4.0%
Average		13.0%	20.4%	28.0%	30.2%
Median		22.3%	26.9%	28.8%	29.9%
Max		54.9%	58.6%	55.9%	53.1%

Source: Capital IQ

Appendix G Glossary

Term	Meaning
£ or GBP	Great British Pound
A\$	Australian dollars
AAO	Australasia Consolidated Ltd.
Act or "Corporations Act"	Corporations Act 2001
ADI	Authorised deposit-taking institution
AIFRS	Australian International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
B2B	Business to business
CAGR	Compound annual growth rate
Corporations Regulations	Corporations Regulations, 2001
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EML	Emerchants Limited
EMR	Electronic Money Regulations 2011
EPS	Earnings per share
Ernst & Young Transaction Advisory Services, "we" or "us"	Ernst & Young Transaction Advisory Services Limited
FCA	Financial Conduct Authority
FSG	Financial Services Guide
FYXX	Fiscal year ended 30 June 20XX for EML and 31 December 20XX for SFUK
i2c	i2c, Inc
Independent Expert's Report	This report
Indue	Indue Limited
LNE	Limited Network Exemption
MIF	Multilateral interchange fees
NFC	Near frequency communication
NPAT	Net profit after tax
NSW	New South Wales
Optimal Payments	Optimal Payments Limited
PE	Price to earnings
PSD	Payment Services Directive
PSR	Payment Services Regulation 2009
PSR Act	Payment Systems (Regulation) Act 1998 ("PSR Australia")
RAN	Restricted authorisation network
RG 111	Regulatory Guide 111 <i>Content of expert reports</i>
SAM	Secure account manager
SEV	Store European Ventures, LLC
SFS BV	SFS World Holdings Co BV (World) Holland
Skrill	Skrill Limited
SFUK	Store Financial Services UK Ltd
Store US	Store Financial Services LLC
TPA	Transaction Processing Agreement
Transaction	The proposed acquisition of SFUK by EML, the subject of this report
UK	United Kingdom
UKGCVA	United Kingdom gift card and voucher association
US\$	United states dollars
US	United States of America
VWAP	Volume weighted average price
Wirecard	Wirecard AG
Wright Express	Wright Express Australia Pty Ltd

PART 2 – FINANCIAL SERVICES GUIDE

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT
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16 October 2014

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$88,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Exception for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Contacting the Independent Dispute Resolution Scheme: Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.



By mail:
Emerchants Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: +61 1300 554 474



X99999999999

PROXY FORM

I/We being a member(s) of Emerchants Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐

the Chairman
of the Meeting
(mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy.

Failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to vote on my/our behalf (including in accordance with the directions set out below or, if no directions have been given, to vote as the proxy sees fit, to the extent permitted by the law) at the Annual General Meeting of the Company to be held at 11:30am (Sydney time) on Wednesday, 19 November 2014 at The Westin Sydney, 1 Martin Place, Sydney NSW 2000 (the Meeting) and at any postponement or adjournment of the Meeting.

I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the key management personnel.

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

STEP 2

VOTING DIRECTIONS

Resolutions

ORDINARY BUSINESS

- | | For | Against | Abstain* |
|---|--------------------------|--------------------------|--------------------------|
| 1 Directors' remuneration report | ☐ | ☐ | ☐ |
| 2 Re-election of directors - Peter Martin | ☐ | ☐ | ☐ |

SPECIAL BUSINESS

- | | | | |
|---|--------------------------|--------------------------|--------------------------|
| 3 Approval to acquire the SFUK Shares from a related party | ☐ | ☐ | ☐ |
| 4 Approval for the issue of Emerchant Shares to a related party | ☐ | ☐ | ☐ |
| 5 Approval of proposed issue of Emerchants Shares | ☐ | ☐ | ☐ |

SPECIAL BUSINESS

- | | For | Against | Abstain* |
|--|--------------------------|--------------------------|--------------------------|
| 6 Approval for the issue of 100,000 Emerchants Shares to Mr Thomas Cregan | ☐ | ☐ | ☐ |
| 7 Approval for the issue of 50,000 Emerchants Shares to Mr Robert Browning | ☐ | ☐ | ☐ |
| 8 Approval for the issue of 30,000 Emerchants Shares to Mr Tony Adcock | ☐ | ☐ | ☐ |
| 9 Approval for the issue of 200,000 Emerchants Shares to Mr David Liddy | ☐ | ☐ | ☐ |
| 10 Approval for the issue of 100,000 Emerchants Shares to Mr Peter Martin | ☐ | ☐ | ☐ |
| 11 Approval of additional capacity to issue shares under Listing Rule 7.1A | ☐ | ☐ | ☐ |

i * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the Corporations Act 2001 (Cth).

EML PRX401R



HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you appoint someone other than the Chairman of the Meeting as your proxy, you will also be appointing the Chairman of the Meeting as your alternate proxy to act as your proxy in the event the named proxy does not attend the Meeting.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **11:30am (Sydney time) on Monday, 17 November 2014**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE > www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



by mail:

Emerchants Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney NSW 2000.

**If you would like to attend and vote at the Annual General Meeting, please bring this form with you.
This will assist in registering your attendance.**