

**Sandon Capital Investments Limited**  
**(ACN 107 772 467)**

**Notice of General Meeting**

Notice is given that a general meeting (**Meeting**) of Shareholders of Sandon Capital Investments Limited (**Sandon**) will be held on:

Date: 12 August 2019

Time: 11:00 am (AEST)

Venue: History House Auditorium, 133 Macquarie Street, Sydney, NSW 2000

**Business**

*Resolution 1: Ratification of Prior Issue of Shares to Siblow Pty Limited for Acquisition of Mercantile Stake*

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.4 and for all other purposes, the issue by Sandon of 10,823,974 Shares to Siblow on 14 June 2019 and otherwise on the terms and conditions set out in the Explanatory Memorandum be ratified and approved.”*

*Resolution 2: Approval to Issue Shares under Offer*

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for Sandon to issue up to 46,523,036 Shares to Mercantile Shareholders as consideration for the Offer and otherwise on the terms and conditions set out in the Explanatory Memorandum.”*

*Resolution 3: Approval to Acquire Remaining Siblow Shares under Offer*

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for Sandon to acquire up to 64,430,338 Mercantile Shares from Siblow under the Offer and otherwise as set out in the Explanatory Memorandum.”*

**BDO Corporate Finance (East Coast) Pty Ltd as independent expert has concluded that the acquisition of the Remaining Siblow Shares is fair and reasonable to Shareholders whose votes are not to be disregarded.**

The Independent Expert's Report is attached in full and forms part of the notice of Meeting. Please refer to the Independent Expert's report for further details on the advantages and disadvantages of the acquisition of the Remaining Siblow Shares under the Offer.

*Resolution 4: Approval to Issue Shares to Gefare Pty Limited for Acquisition of Mercantile Options*

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for Sandon to issue 385,826 Shares to Gefare Pty Limited as partial consideration for the acquisition of Mercantile Options and otherwise on the terms and conditions set out in the Explanatory Memorandum.”*

*Resolution 5: Approval to Issue Shares to Glen Brae Capital Pty Limited for Acquisition of Mercantile Options*

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

*“That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for Sandon to issue 215,631 Shares to Glen Brae Capital Pty Limited as partial consideration for the acquisition of Mercantile Options and otherwise on the terms and conditions set out in the Explanatory Memorandum.”*

**Voting exclusion statements**

Sandon will disregard any votes cast in favour of:

- Resolutions 1 and 3 by Siblow or an Associate of Siblow;
- Resolution 2 by or on behalf of Mercantile and any person who will obtain a material benefit as a result of the Offer or the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in Sandon or Mercantile) or an Associate of those persons;
- Resolution 4 by Gefare Pty Limited or an Associate of Gefare Pty Limited; and
- Resolution 5 by Glen Brae Capital Pty Limited or an Associate of Glen Brae Capital Pty Limited.

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

- a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**Other information**

An Explanatory Memorandum accompanies and forms part of this notice of Meeting.

All Shareholders should read the Explanatory Memorandum carefully and in its entirety. Shareholders who are in doubt regarding any part of the business of the Meeting should consult their financial or legal adviser for assistance.

**Voting by proxy**

Any Shareholder entitled to attend and vote at this Meeting is entitled to appoint a proxy to attend and vote instead of that Shareholder.

The proxy does not need to be a Shareholder of Sandon.

A Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the Shareholder's votes.

Proxies must be:

- lodged at Sandon's Share registry, Link Market Services Limited;
- faxed to the fax number specified below; or
- lodged online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) in accordance with the instructions there,

not later than 11:00 am (AEST) on 10 August 2019.

Address (hand deliveries): 1A Homebush Bay Drive, Rhodes NSW 2138 or  
Level 12, 680 George Street, Sydney NSW 2000

Address (postal deliveries): Locked Bag A14 Sydney South NSW 1235

Fax number for lodgement: (within Australia) (02) 9287 0309  
(outside Australia) +61 2 9287 0309

The Proxy Form has been enclosed. Please read all instructions carefully before completing the Proxy Form.

#### **Entitlement to vote**

In accordance with section 1074E(2)(g)(i) of the Corporations Act 2001 and regulation 7.11.37 of the Corporations Regulations 2001, Sandon has determined that for the purposes of the Meeting all Shares will be taken to be held by the persons who held them as registered Shareholders at 7.00 pm (AEST) on 10 August 2019. Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

By order of the Board



**Mark Licciardo**  
**Company Secretary**  
**9 July 2019**

# Sandon Capital Investments Limited

(ACN 107 772 467)

## Explanatory Memorandum

This Explanatory Memorandum sets out further information regarding the proposed items of business to be considered by Shareholders of Sandon at the Meeting to be held commencing at 11:00 am (AEST) on 12 August 2019 at the History House Auditorium, 133 Macquarie Street, Sydney, NSW 2000.

The Directors recommend that Shareholders read this Explanatory Memorandum before determining whether or not to support the Resolutions.

### 1. Background

#### 1.1 Overview

As announced on 3 June 2019, Sandon entered into an agreement with Siblow, an entity controlled by Sir Ron Brierley, to acquire up to 52,980,782 shares in Mercantile (**Mercantile Stake**) (representing up to 18.9% of the issued share capital of Mercantile) in exchange for the issue of Shares in Sandon.

The purchase of the Mercantile Stake was completed on 14 June 2019 and Sandon issued 10,823,974 new fully paid Shares to Siblow on the same date. The number of Shares issued was determined as the number of Mercantile Shares acquired (being 52,980,782) multiplied by an exchange ratio of 0.2043 Shares for one Mercantile Share. This exchange ratio was set by reference to the pre-tax net tangible asset backing per share of Mercantile as at 31 May 2019 (\$0.1942) divided by the pre-tax net tangible asset backing per share of Sandon as at 31 May 2019 (\$0.9507).<sup>1</sup>

In connection with the acquisition of the Mercantile Stake, on 3 June 2019 Sandon also announced an intention to make an offer to acquire all of the other shares in Mercantile in exchange for an issue of Shares in Sandon under an off-market takeover offer (**Offer**) on the terms set out in the schedule to that announcement. A copy of these terms is attached to this Explanatory Memorandum. The exchange ratio for the Offer is the same as that applying to the acquisition of the Mercantile Stake, being 0.2043 Shares for every one Mercantile Share.

At the time of completion of the sale of the Mercantile Stake to Sandon, Siblow beneficially owned (and continues to own) a further 69,430,338 Mercantile Shares<sup>2</sup> (**Remaining Siblow Shares**). As announced on 20 June 2019, Siblow provided Sandon with written notice of its intention to accept the Offer in respect of the Remaining Siblow Shares.

Mercantile also has 50,000,000 unlisted options on issue, with expiry dates of up to 31 December 2022. Gefare Pty Limited, a company controlled by Gabriel Radzynski, a Director of Sandon, holds 33,250,000 of these Mercantile Options and Glen Brae Capital Pty Limited, a company controlled by Campbell Morgan (an employee of Sandon Capital Pty Ltd) holds 16,750,000 of these Mercantile Options. Sandon has entered into agreements with the holders of the Mercantile Options to acquire the Mercantile Options in consideration for the issue of 601,457 Sandon Shares and the payment of \$337,895, subject to all defeating conditions to the Offer being satisfied or Sandon freeing the Offer from such defeating conditions and Mercantile giving its consent in writing to the acquisition by the Company of these Mercantile Options (**Option Acquisition**).

#### 1.2 Requirements for Shareholder approval

Shareholders are being asked to approve five Resolutions relating to the acquisition of the Mercantile Stake, the Offer and the Option Acquisition (**Transactions**) and the acquisition of the Remaining Siblow Shares under the Offer:

- Resolution 1 ratifies the issue of 10,823,974 Shares to Siblow completed on 14 June 2019 pursuant to the acquisition of the Mercantile Stake. Approval to this Resolution is sought pursuant to Listing Rule 7.4. The issue of Shares to Siblow under the acquisition of the Mercantile Stake has already occurred and is not conditional on the passage of Resolution 1.

<sup>1</sup> As reported by each of Mercantile and Sandon on ASX in accordance with Listing Rule 4.12 on 13 June 2019.

<sup>2</sup> Siblow directly holds 50,783,852 Mercantile Shares and McNeil Nominees Pty Ltd (ACN 003 207 592) holds 18,646,486 Mercantile Shares on behalf of Siblow.  
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- Resolution 2 approves the issue of Shares under the Offer. This Resolution is required by Listing Rule 7.1. The Offer is conditional on Shareholders approving Resolution 2. If Resolution 2 is not approved by Shareholders, Sandon may not be able to complete the Offer. Sandon may still be able to complete the Offer if the number of Shares required to be issued under the Offer, when aggregated with the Shares issued in consideration for the Mercantile Stake and the Option Acquisition, do not exceed 48,435,427, being the number of Shares Sandon had on issue at the time of announcement of the Offer and Sandon declares the Offer free of the condition requiring Shareholders to approve Resolution 2.
- Resolution 3 approves the acquisition of the Remaining Siblow Shares under the Offer. Resolution 3 is required by Listing Rule 10.1. The acquisition of the Remaining Siblow Shares under the Offer is conditional on Shareholders approving Resolution 4. If Resolution 4 is not approved by Shareholders, Sandon will not be able to acquire the Remaining Siblow Shares under the Offer. As a result, the Offer is also conditional on Shareholders approving Resolution 3.
- Resolution 4 approves the issue of Shares to Gefare Pty Limited as part of the consideration for the acquisition of his Mercantile Options under the Option Acquisition. Resolution 4 is required by Listing Rule 10.11. The acquisition of Gefare Pty Limited's Mercantile Options under the Option Acquisition is conditional on Shareholders approving Resolution 4. If Resolution 4 is not approved by Shareholders, Sandon will not be able to complete the acquisition of these Mercantile Options.
- Resolution 5 approves the issue of Shares to Glen Brae Capital Pty Limited as part of the consideration for the acquisition of his Mercantile Options under the Option Acquisition. Resolution 5 is required by Listing Rule 7.1. The acquisition of Glen Brae Capital Pty Limited's Mercantile Options is not conditional on the passage of Resolutions 5.

### 1.3 *Independent Board Committee*

To oversee Sandon's formulation and assessment of the Transactions, an Independent Board Committee, comprising Melinda Snowden and Peter Velez (the **Independent Directors**), was formed. The Independent Board Committee is responsible for deciding on the course of action to be taken by Sandon in respect of the Transactions to maximise value for Shareholders.

Gabriel Radzynski is a director of both Sandon and Mercantile and entities associated with him hold Mercantile Shares, Mercantile Options and Mercantile Notes. Mr Radzynski is not independent for the purposes of considering the Transactions and accordingly was not involved in the decision to proceed with them.

The Directors have determined that the proposed course of action in respect of the Transactions will maximise value for Shareholders and recommend (other than Mr Radzynski in respect of Resolutions 2 and 4, who does not consider it appropriate to make a recommendation in relation to those Resolutions) that Shareholders vote in **FAVOUR** of the Resolutions contained in the notice of Meeting.

### 1.4 *About Mercantile*

Mercantile is an ASX listed investment company with total assets of approximately \$97 million and net assets of \$54 million as at 31 December 2018. Mercantile invests in securities which are expected to provide attractive risk adjusted returns, including profit making ventures and holding of shares for dividend yield and long term capital appreciation. Based on Mercantile's most recent net tangible asset backing announcement its pre-tax NTA is approximately \$55 million.

The current directors of Mercantile comprise:

- Sir Ron Brierley – chairman<sup>3</sup> and non-executive director;
- Mr Gabriel Radzynski – executive director;
- Mr James Chirnside – non-executive director;

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<sup>3</sup> Sir Ron announced on 6 June 2019 his intention to imminently retire as chairman of Mercantile.  
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- Ms Katrina Langley – non-executive director;
- Mr Daniel Weiss – non-executive director; and
- Dr. Gary Weiss – alternate director (for Mr Daniel Weiss).

Sandon's intentions with the Mercantile board following completion of the Transactions is set out in Section 1.12 below.

The balance sheet for Mercantile as at 31 December 2018 is set out below.

Cash	8,972,272	Payables	6,082,349
Receivables	1,963,239	Loan Payable	14,000,000
Loans and advances	3,441,500	Current Tax liability	1,138,709
Financial Assets	37,128,271	<b>Total Current Liabilities</b>	<b>21,221,058</b>
Other current assets	94,649		
<b>Total Current Assets</b>	<b>51,599,931</b>	Unsecured Notes	21,885,619
		Deferred Tax Liability	-
Financial Assets	45,243,313	<b>Total Non-current Liabilities</b>	<b>21,885,619</b>
PP&E	24,782		
Deferred Tax Asset	612,371	<b>Total Liabilities</b>	<b>43,106,677</b>
<b>Total Non-current Assets</b>	<b>45,880,466</b>		
		<b>Net Assets</b>	<b>54,373,720</b>
<b>Total Assets</b>	<b>97,480,397</b>		
		Equity	
		Issued Capital	28,834,628
		Accumulated Losses	- 13,170,560
		Reserves	37,715,003
		Members' Interests	53,379,071
		Non-controlling Interest	994,649
		<b>Total Equity</b>	<b>54,373,720</b>

### 1.5 Share price and market capitalisation

Below is the share price of each of Sandon and Mercantile based on the last traded price of each of Sandon and Mercantile shares prior to the announcement of the Offer on 3 June 2019:

	<b>Sandon</b>	<b>Mercantile</b>
<b>Share price</b>	\$0.825	\$0.155
<b>Market capitalisation</b>	\$39,959,227	\$43,508,500

### 1.6 Rationale and potential benefits and risks of the Transactions

The Independent Directors believe that Shareholders will benefit from the increased asset base of the combined Sandon and Mercantile businesses that may result from the Transactions proceeding. The Independent Directors believe the Transactions have the potential to create significant value for Shareholders. Key benefits for Shareholders may include:

- an attractive opportunity for Sandon to increase its asset base whilst limiting the risk of dilution of value for existing Shareholders;
- a potential increase in market liquidity of the Shares due to the larger capital and shareholder base of the combined entities;
- an increase in scale as an investor which may lead to a greater opportunity for Sandon to diversify investments across the portfolio, the ability to hold more substantial positions and to hold investments in larger entities;
- greater investor interest which may result in a market price that is closer to reported NTA than has been experienced historically by Sandon; and
- economies of scale, and synergy benefits such as the reduction or possibly the elimination of duplicated costs and expenses.

Potential risks for Shareholders may include:

- the consideration to be issued under the Offer may fluctuate which may affect the number of new Shares to which Mercantile shareholders will be entitled; and
- a listed investment company's share price may trade at a premium or discount to net tangible asset backing per share. The operations and financial performance of listed investment companies are driven by a number of factors, some of which are outside of the control of the Merged Group and may not be mitigated.

### 1.7 Impact of the Transactions on Sandon – capital structure

Mercantile currently has the following securities on issue:

<b>Mercantile securities on issue</b>	<b>Number on issue</b>	<b>Face value</b>
Mercantile Shares	280,700,000	
Mercantile Notes	223,087	\$22,308,700

Mercantile Options:

- Mercantile Options expiring 31/12/20 at an 15,000,000

exercise price of 20 cents per option

- Mercantile Options expiring 31/12/21 at an exercise price of 23 cents per option 15,000,000
- Mercantile Options expiring 31/12/22 at an exercise price of 24 cents per option 20,000,000

The number of Shares to be issued under the Transactions is up to 57,948,467 Shares, representing a 119.6% increase compared to the number of Shares Sandon had on issue at the time of announcement of the Offer.

The table below sets out the number of Shares to be issued under the Transactions based on the current issued capital of Mercantile and an exchange ratio under the Offer of 0.2043 Shares for one Mercantile Share for different levels of acceptance of the Offer. For the purposes of the table below, the Mercantile Stake is included in calculating Sandon's ownership of Mercantile and the Option Acquisition is assumed to have been completed.

Sandon Shares on issue at the time of announcement of the Offer	48,435,427	48,435,427	48,435,427
Sandon ownership of Mercantile issued share capital on completion of the Offer	50.1%	80%	100%
Sandon Shares issued under the Transactions	29,332,309	46,479,065	57,948,467
<b>Sandon Shares on issue on Completion of the Transactions</b>	<b>77,767,736</b>	<b>94,914,492</b>	<b>106,383,894</b>
Shares issued under the Transactions as a percentage of the total issued share capital of Sandon post-Transactions	37.7%	49%	54.5%

#### 1.8 *Impact of the Transactions on Sandon – control*

The issue of Shares under the Transactions may materially alter the ownership makeup of Sandon. At this point, it is not possible to determine the precise change in the ownership of Sandon, as that will be dependent on a number of factors including the level of acceptances of the Offer and the ownership of Mercantile Shares at the time of acceptances under the Offer.

At the date of this Explanatory Memorandum, the largest shareholder in each of Sandon and Mercantile is Siblow:

	<b>Sandon</b>	<b>Mercantile</b>
Total shares on issue	59,259,401	280,700,000
Shares held or beneficially owned by Siblow	10,823,974	69,430,338
Shares held or beneficially owned by Siblow as a percentage total shares on issue	18.3%	24.7%

Should the Offer proceed and Siblow accept it, based on the exchange ratio of 0.2043 Sandon Shares for every Mercantile Share (and assuming no other changes in Siblow's shareholdings in Sandon or Mercantile), Siblow would have a relevant interest in 25,008,592 Sandon Shares, representing between 23.5% (assuming full acceptances of the Offer) and 33.8% (assuming no other acceptances under the Offer) of Sandon's total issued capital on completion of the Transactions.



### 1.9 Impact of the Transactions on Sandon – financial position

A pro forma statement of financial position of Sandon has been prepared to illustrate the financial position of Sandon as if the Transactions (being the acquisition of the Mercantile Stake, the Option Acquisition and the issue of Shares under the Offer) had occurred as at 31 December 2018.

The pro forma balance sheets are presented as three illustrative scenarios:

- (a) **(Scenario 1)** completion of the Offer with Sandon acquiring ownership of 50.1% of the issued share capital of Mercantile;
- (b) **(Scenario 2)** completion of the Offer with Sandon acquiring ownership of 80% of the issued share capital of Mercantile; and
- (c) **(Scenario 3)** completion of the Offer with Sandon acquiring ownership of 100% of the issued share capital of Mercantile.

These pro forma statements of financial position are intended to be illustrative and will not reflect the actual position and balances of Sandon as at 31 December 2018 or at the date of completion of the Transactions. They do not, for example, provide any information about the franking accounts of either company.

The pro forma statements of financial position are presented in summary form only and do not comply with the presentation and disclosure requirements of Australian Accounting Standards. Sandon's financial information has been prepared in accordance with the significant accounting policies set out in note 2 to the notes to the financial statements contained in Sandon's 2018 Annual Report.

	Ownership @ 50.1% Scenario 1 December 2018				Ownership @ 80% Scenario 2 December 2018				Ownership @ 100% Scenario 3 December 2018			
Assets	Dec-18	Proforma adjustment	Tax	Pro-Forma Dec-18	Dec-18	Proforma adjustment	Tax	Pro-Forma Dec-18	Dec-18	Proforma adjustment	Tax	Pro-Forma Dec-18
<b>Current Assets</b>												
Cash and cash equivalents	3,134,762	(337,895)		2,796,867	3,134,762	(337,895)		2,796,867	3,134,762	(337,895)		2,796,867
Trade and other receivables	196,398			196,398	196,398			196,398	196,398			196,398
Prepayments	20,479			20,479	20,479			20,479	20,479			20,479
Financial assets	41,596,383			41,596,383	41,596,383			41,596,383	41,596,383			41,596,383
Investment in Mercantile Investment Company Limited		28,150,934	(306,797)	27,844,137		44,408,676	(489,896)	43,918,780		55,283,420	8,639	55,292,059
Current tax Asset	0			0	0			0	0			0
	44,948,022	27,813,039	(306,797)	72,454,264	44,948,022	44,070,781	(489,896)	88,528,907	44,948,022	54,945,525	8,639	99,902,186
<b>Non Current Assets</b>												
Deferred tax assets	50,417		306,797	357,214	50,417		489,896	540,313	50,417		104,232	154,649
<b>Total Non Current Assets</b>	50,417	0	306,797	357,214	50,417	0	489,896	540,313	50,417	0	104,232	154,649
<b>Total Assets</b>	44,998,439	27,813,039	0	72,811,478	44,998,439	44,070,781	0	89,069,220	44,998,439	54,945,525	112,871	100,056,835
<b>Liabilities</b>												
<b>Current Liabilities</b>												
Financial liabilities	0			0	0			0	0			0
Trade and other payables	136,262			136,262	136,262			136,262	136,262			136,262
Current tax liability	1,059,710		0	1,059,710	1,059,710		0	1,059,710	1,059,710		0	1,059,710
<b>Total Current Liabilities</b>	1,195,972	0	0	1,195,972	1,195,972	0	0	1,195,972	1,195,972	0	0	1,195,972
<b>Non Current Liabilities</b>												
Deferred tax liabilities	206,937			206,937	206,937			206,937	206,937		112,871	319,808
<b>Total Non Current Liabilities</b>	206,937	0	0	206,937	206,937	0	0	206,937	206,937	0	112,871	319,808
<b>Total Liabilities</b>	1,402,909	0	0	1,402,909	1,402,909	0	0	1,402,909	1,402,909	0	112,871	1,515,780
<b>Net Assets</b>	<b>43,595,530</b>	<b>27,813,039</b>	<b>0</b>	<b>71,408,569</b>	<b>43,595,530</b>	<b>44,070,781</b>	<b>0</b>	<b>87,666,311</b>	<b>43,595,530</b>	<b>54,945,525</b>	<b>0</b>	<b>98,541,055</b>
<b>Equity</b>												
Issued Capital	46,744,460			46,744,460	46,744,460			46,744,460	46,744,460			46,744,460
Issued Capital MVT Scrip & Options		27,813,039		27,813,039		44,070,781		44,070,781		54,945,525		54,945,525
Profits appropriation reserve	3,015,393			3,015,393	3,015,393			3,015,393	3,015,393			3,015,393
Accumulated losses	(6,164,323)			(6,164,323)	(6,164,323)			(6,164,323)	(6,164,323)			(6,164,323)
<b>Total Equity</b>	<b>43,595,530</b>	<b>27,813,039</b>	<b>0</b>	<b>71,408,569</b>	<b>43,595,530</b>	<b>44,070,781</b>	<b>0</b>	<b>87,666,311</b>	<b>43,595,530</b>	<b>54,945,525</b>	<b>0</b>	<b>98,541,055</b>

### 1.10 Impact of the Offer on Sandon – tax

The Offer is not expected to have any material impact on the tax position of Sandon.

Sandon is the head company of a tax consolidated group. If 100% of Mercantile is acquired by Sandon, Mercantile and companies owned by it will form part of the Sandon tax consolidated group. In simple terms, this means that the entire group would be treated as a single amalgamated taxpayer for tax purposes. Apart from attending to the compliance aspects associated with deconsolidating the existing Mercantile tax consolidated group and consolidating the Mercantile companies into Sandon, the consolidation of Mercantile is not expected to have any material impact on the tax position of Sandon.

If less than 100% of Mercantile is acquired by Sandon, the Mercantile companies will continue to operate as a separate tax consolidated group in their own right. Again, this is not expected to have any material impact on the tax position of Sandon.

#### *1.11 Sandon intentions in relation to the business of Mercantile*

Sandon's intentions in relation to the continuation of, and any significant changes to, Mercantile's business will depend on the level of acceptances received under the Offer. If Sandon gains control of Mercantile, Sandon intends to have its investment manager, Sandon Capital, manage the assets of the Mercantile. Both companies seek to invest in assets they consider undervalued relative to the prices at which they can be acquired. As such, the investment manager has advised Sandon that it expects most, if not all of Mercantile's investments will continue to be held as part of the merged group in this scenario. Of course, the investment manager will continually reassess its views on the prospects of each investment in the portfolio.

Although there are differences in the investment approaches of Mr Radzynski and Sir Ron, there are also common features, including common investments. Indeed, in the past, Sandon Capital and Mercantile have agreed to form associations in respect of their intentions regarding some of these common investments.

Mercantile controls two small operating businesses, ASK Funding Ltd and Richfield Maritime Agencies Pte. At this stage, based on discussions with the investment manager, Sandon does not intend to make any changes to the way these businesses have operated under Mercantile's ownership.

Sandon Capital currently provides accounting services to both Sandon and Mercantile. The same team will continue to provide these services under the Merged Group.

The merger may require Sandon to review its portfolio guidelines, including the guideline of up to 15% of its portfolio being held in investments outside Australia, as Mercantile appears to have a larger proportion of its portfolio in international investments. Sandon Capital is entitled to request the Board varies these guidelines and Sandon expects such a request will be made if Sandon is successful in acquiring 100% ownership of Mercantile.

#### *1.12 Sandon intentions generally*

As set out above, Sandon's intentions in relation to the continuation of, and any significant changes to, Mercantile's business will depend on the level of acceptances received under the Offer.

If, as a result of the Offer, Sandon becomes entitled to compulsorily acquire outstanding Mercantile Shares under Part 6A.1 of the Corporations Act, Sandon presently intends to proceed with compulsory acquisition of those Mercantile Shares and to:

- arrange for Mercantile to be removed from the official list of the ASX and NZX; and
- replace all members of the Mercantile board with nominees of Sandon which will comprise Sandon Directors (including any Mercantile nominees to the Sandon Board) and members of the Sandon's management team.

The intentions of Sandon if Mercantile becomes a controlled entity, but not a wholly owned subsidiary of Sandon, include:

- subject to the Corporations Act, Listing Rules and the constitution of Mercantile, to seek (through discussion and negotiation, but failing agreement, by convening a meeting of Mercantile shareholders) to replace some of the members of the Mercantile board with nominees of Sandon, so that there is a majority of Sandon nominees on the Mercantile Board

and the proportion of such nominees is not less than the Voting Power of Sandon. Replacement Mercantile Directors have not yet been finally decided by Sandon and their identity will depend on the circumstances at the relevant time. However, it is expected that the majority of the replacement Mercantile directors will be Directors of Sandon;

- if there is limited spread of Mercantile Shareholders, or limited volume of trading in Mercantile Shares, following completion of the Offer, seek to arrange for Mercantile to be removed from the official list of the ASX and NZX.

For Sandon's intention regarding the Sandon Board following completion of the Offer, see Section 1.14 below.

### *1.13 Sandon intentions in relation to the Mercantile Notes*

If a change of control of Mercantile occurs, the Mercantile board may redeem the Mercantile Notes. The Independent Directors have not determined whether to seek to have Mercantile redeem these Mercantile Notes if the Offer results in a change of control or to allow them to remain on issue. If the Offer is successful and Mercantile is removed from the official list, the Mercantile Notes will cease to be quoted on ASX.

### *1.14 Composition of the Sandon Board following completion of the Offer*

On 25 June 2019, Sandon announced the appointment of Sir Ron Brierley as a non-executive Director of Sandon. As at the date of this notice of Meeting, the Independent Directors have not determined whether any other changes will be made to the Sandon Board following completion of the Offer. The Independent Directors recognise that it is appropriate for Mercantile Shareholders to have representation on the Sandon Board commensurate with their shareholding in the Merged Group. Accordingly, whether the Mercantile board is invited to present nominees for consideration will depend on the level of acceptance of the Offer.

### *1.15 Risks specific to the Merged Group*

The risks that are set out in Section 1.5 will also be applicable to the Merged Group. Risks specific to an investment in the Merged Group, but are not limited to:

- success of the Merged Group is dependent on the performance of its investment portfolio. No guarantee can be given in respect of the future earnings of the Merged Group or the Merged Group's investment portfolio performance; and
- no guarantee can be provided that the Merged Group will be able to meet its investment objectives as this will depend on the extent of the investment portfolio performance.

### *1.16 Disclosure of interests in Mercantile securities held by Directors of Sandon*

Entities associated with Gabriel Radzynski, a Director of Sandon, hold the following Mercantile securities:

- 1,803,171 Mercantile Shares;
- 250 Mercantile Notes; and
- 33,250,000 Mercantile Options.

The Independent Directors hold no interests in Mercantile securities.

## **2. Resolution 1: Ratification of Prior Issue to Siblow Pty Limited for Acquisition of Mercantile Stake**

### *2.1 Overview*

Resolution 1 seeks Shareholder ratification pursuant to Listing Rule 7.4 for the issue of Shares to Siblow that took place on 14 June 2019 on completion of the acquisition of the Mercantile Stake.

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

Listing Rule 7.4 provides that where a company in general meeting ratifies the previous issue of securities made pursuant to Listing Rule 7.1 (and provided that the previous issue did not breach Listing Rule 7.1) those securities will be deemed to have been issued with shareholder approval for the purpose of Listing Rule 7.1.

By ratifying this issue, Sandon will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

## 2.2 *Technical information required by Listing Rule 7.5*

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the Shares issued to Siblow:

- **Number of securities issued:** 10,823,974 Shares were issued;
- **Issue price:** the issue price was \$0.9507 per Share, being the pre-tax NTA of Shares as at 31 May 2019;
- **Terms of securities:** the Shares issued were all fully paid ordinary shares in the capital of Sandon issued on the same terms and conditions as Sandon's existing Shares;
- **Recipient of issue:** the Shares were issued to Siblow;
- **Use of funds raised:** the Shares were issued as consideration for the acquisition of the Mercantile Stake by Sandon and no funds were raised from the issue of the Shares; and
- **Voting exclusion:** a voting exclusion statement is included in the notice of Meeting.

## 2.3 *Recommendation of Directors*

The Directors recommend that Shareholders vote in **FAVOUR** of Resolution 1. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 1.

## 3. **Resolution 2: Approval to Issue Shares under Offer**

### 3.1 *Overview*

Resolution 2 seeks Shareholder approval for the purposes of Listing Rule 7.1 for the issue of Shares to Mercantile Shareholders in consideration for the acquisition of Mercantile Shares under the Offer.

A summary of Listing Rule 7.1 is set out in Resolution 1 above.

An issue of shares under a takeover bid is an exception to Listing Rule 7.1. However, this exception is not available where the aggregate number of equity securities to be issued under the takeover bid is equal to or greater than the number of fully paid ordinary securities on issue in the company at the date of announcement of the takeover bid.

It may be the case, if Sandon successfully completes the Offer and acquires all of the Mercantile Shares, that the number of Shares issued by Sandon, when aggregated with the Shares issued in consideration for the Mercantile Stake and the Option Acquisition, is greater than the number of Shares on issue at the date of announcement of the Offer. As a result, Sandon is seeking Shareholder approval. The effect of Resolution 2 will be to allow Sandon to issue Shares to Mercantile Shareholders pursuant to the Offer during the period of 6 months after the Meeting (or a longer period, if allowed by ASX), without using Sandon's 15% annual placement capacity.

Sandon may not be able to proceed with the Offer if this Resolution 2 is not approved.

If the volume weighted average market price of Sandon Shares decreases relative to Mercantile Shares, Sandon will be required to adjust the exchange ratio such that a larger number of Sandon Shares is issued for each Mercantile Share that is acquired. If this happens, the number of Shares required to be issued under the Offer will increase and will be issued from Sandon's 15% annual placement capacity.

### 3.2 *Technical information required by Listing Rule 7.3*

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to the Shares to be issued pursuant to the Offer:

- **Maximum number of securities to be issued:** the maximum number of Shares Sandon will issue relying on this approval is 46,523,036 Shares;
- **The dates by which securities will be issued:** the issue of Shares to be issued with approval under this Resolution will likely occur progressively in accordance with the requirements of the Corporations Act 2001 for provision of consideration for takeover offers, but in any event will be issued no later than 6 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver);
- **Issue price:** the issue price will be \$0.9507 per Share, being the pre-tax NTA of Shares as at 31 May 2019;
- **Recipients of issue:** the Shares will be issued to Mercantile Shareholders that accept the Offer;
- **Terms of securities:** the Shares issued will be fully paid ordinary shares in the capital of Sandon issued on the same terms and conditions as Sandon's existing Shares;
- **Use of funds raised:** the Shares will be issued as consideration for the acquisition by Sandon of the Mercantile Shares held by the Mercantile Shareholders under the Offer and as such, no funds will be raised from the issue of the Shares;
- **Voting exclusion:** a voting exclusion statement is included in the notice of Meeting; and
- **Information about the Offer:** information about the Offer is included in the background section of this Explanatory Memorandum and in the schedule to this Explanatory Memorandum.

### 3.3 *Recommendation of Independent Directors*

The Independent Directors recommend that Shareholders vote in **FAVOUR** of Resolution 2. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 2. As he is a director of Mercantile, Gabriel Radzynski does not consider it appropriate to make a recommendation in relation to this Resolution.

## 4. **Resolution 3: Approval to Acquire Remaining Siblow Shares under Offer**

### 4.1 *Overview*

Resolution 3 seeks Shareholder approval for the purposes of Listing Rule 10.1 for the acquisition of Mercantile Shares from Siblow in connection with the Offer.

ASX Listing Rule 10.1 requires that any acquisition of a substantial asset from certain persons be approved by shareholders. A substantial holder who has a relevant interest in at least 10% of the voting shares of a company is one of the categories of persons within the ambit of Listing Rule 10.1. An asset is a "substantial asset" for the purposes of Listing Rule 10.1 if its value, or the value of the consideration for it, is more than 5% of the equity interests in the company as set out in its latest accounts given to ASX.

As a result of the issue of Shares to Siblow in consideration for the acquisition of the Mercantile Stake, Siblow acquired a relevant interest in 18.27% of the Sandon Shares on issue. The Remaining Siblow

Shares have a value in excess of 5% of the equity interests of Sandon as set out in its last accounts given to ASX.

Under the Offer, Sandon will be making an offer to acquire all Mercantile Shares not owned by it. The Corporations Act requires that the Offer be extended to all holders of these Mercantile Shares, including Siblow.

Accordingly, Resolution 3 seeks the approval of the Shareholders for the acquisition of the Remaining Siblow Shares under the Offer as required by Listing Rule 10.1.

Sandon has no control over the number of Mercantile Shares that Siblow will have a beneficial interest in at the date of accepting the Offer (should it do so), and accordingly approval is being sought to acquire *up to* the number of the Remaining Siblow Shares.

#### *4.2 Independent Expert's Report – Fair and Reasonable*

Sandon has obtained an Independent Expert's Report from BDO Corporate Finance (East Coast) Pty Ltd in relation to the proposed acquisition of up to 69,430,338 Mercantile Shares from Siblow under the Offer. As part of its consideration of the proposed acquisition, the Independent Expert has considered whether the acquisition of Mercantile Shares from Siblow by Sandon under the Offer is fair and/or reasonable to the Shareholders who are not associated with Siblow.

The Independent Expert has concluded that the proposed acquisition of Mercantile Shares from Siblow under the Offer is fair and reasonable to Shareholders whose votes are not to be disregarded.

The Independent Expert's Report is attached in full and forms part of the notice of Meeting. Please refer to the Independent Expert's report for further details on the advantages and disadvantages of the acquisition of Mercantile Shares from Siblow under the Offer.

The Independent Expert's Report is also available on Sandon's website at <https://www.sandoncapital.com.au/listed-investment-company>.

#### *4.3 Technical information required by Listing Rule 10.10*

Pursuant to and in accordance with Listing Rule 10.10, the following information is provided in relation to the Shares to be issued under this approval:

- **Voting exclusion:** a voting exclusion statement is included in the notice of Meeting; and
- **Independent Expert Report:** see section 6.2 of this Explanatory Memorandum above and the Independent Expert Report annexed to this Explanatory Memorandum.

#### *4.4 Recommendation of Directors*

The Directors recommend that Shareholders vote in **FAVOUR** of Resolution 3. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 3.

### **5. Resolution 4: Approval to Issue Shares to Gefare Pty Limited for Acquisition of Mercantile Options**

#### *5.1 Overview*

Resolution 4 seeks Shareholder approval for the purposes of Listing Rule 10.11 for the issue of Shares to Gefare Pty Limited as part of the consideration for the acquisition of its Mercantile Options.

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without approval of shareholders.

Gefare Pty Limited is an entity controlled by Gabriel Radzynski, a Director of Sandon, and accordingly a related party of Sandon.

Sandon will not be able to proceed with the acquisition of Mercantile Options from Gefare Pty Limited on the terms agreed with it if this Resolution 4 is not approved.

If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

#### 5.2 *Technical information required by Listing Rule 10.13*

Pursuant to and in accordance with Listing Rule 10.13, the following information is provided in relation to the Shares to be issued pursuant to the Offer:

- **Name of person:** the person to whom the Shares will be issued is Gefare Pty Limited;
- **Maximum number of securities to be issued:** the number of Shares Sandon will issue relying on this approval is 385,826 Shares;
- **The dates by which securities will be issued:** the Shares are intended to be issued on completion of the Offer, but will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver);
- **Issue price:** the issue price will be \$0.9507 per Share, being the pre-tax NTA of Shares as at 31 May 2019;
- **Voting exclusion:** a voting exclusion statement is included in the notice of Meeting; and
- **Use of funds raised:** the Shares will be issued as part of the consideration for the acquisition by Sandon of the Mercantile Options held by Gefare Pty Limited and as such, no funds will be raised from the issue of the Shares.

#### 5.3 *Recommendation of Independent Directors*

The Independent Directors recommend that Shareholders vote in **FAVOUR** of Resolution 4. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 4. As he is a director of Mercantile and an entity controlled by him may be issued Shares if this Resolution is passed, Gabriel Radzynski does not consider it appropriate to make a recommendation in relation to this Resolution.

### 6. **Resolution 5: Approval to Issue Shares to Glen Brae Capital Pty Limited for Acquisition of Mercantile Options**

#### 6.1 *Overview*

Resolution 5 seeks Shareholder approval for the purposes of Listing Rule 7.1 for the issue of Shares to Glen Brae Capital Pty Limited as part of the consideration for the acquisition of its Mercantile Options.

A summary of Listing Rule 7.1 is set out in Resolution 1 above.

By approving this issue, Sandon will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

#### 6.2 *Technical information required by Listing Rule 7.3*

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to the Shares to be issued under this approval:

- **Number of securities to be issued:** the number of Shares Sandon will issue relying on this approval is 215,631 Shares;
- **The dates by which securities will be issued:** the Shares are intended to be issued on completion of the Offer which is currently scheduled to be 26 August 2019 (although this timetable may be extended in accordance with the Corporations Act), but will be issued no

later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver);

- **Issue price:** the deemed issue price will be \$0.9507 per Share, being the pre-tax NTA of Shares as at 31 May 2019;
- **Recipients of issue:** the Shares will be issued to Glen Brae Capital Pty Limited;
- **Terms of securities:** the Shares issued will be fully paid ordinary shares in the capital of Sandon issued on the same terms and conditions as Sandon's existing Shares;
- **Use of funds raised:** the Shares will be issued as part of the consideration for the acquisition by Sandon of the Mercantile Options held by Glen Brae Capital Pty Limited and as such, no funds will be raised from the issue of the Shares; and
- **Voting exclusion:** a voting exclusion statement is included in the notice of Meeting.

### 6.3 *Recommendation of Directors*

The Directors recommend that Shareholders vote in **FAVOUR** of Resolution 5. The Chairman of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 5.



## Glossary

In this Explanatory Memorandum, and the notice of Meeting:

**Associate** has the meaning given to that term in the Listing Rules.

**ASX** means ASX Limited.

**Board** means the board of Directors of Sandon.

**Constitution** means the constitution of Sandon.

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

**Director** means a director of Sandon.

**Explanatory Memorandum** means this explanatory memorandum which forms part of the notice of Meeting.

**Independent Board Committee** means the independent board committee, being a subcommittee of the Board, that has been established to formulate, assess and implement the acquisition of the Mercantile Stake, the Offer and the Option Acquisition and which comprises the Independent Directors.

**Independent Directors** means Melinda Snowden and Peter Velez.

**Independent Expert** means BDO Corporate Finance (East Coast) Pty Ltd.

**Independent Expert's Report** means the report prepared by the Independent Expert accompanying the notice of Meeting.

**Listing Rules** means the listing rules of ASX.

**Meeting** means the general meeting of Sandon the subject of this notice of Meeting scheduled to occur on 12 August 2019.

**Mercantile** means Mercantile Investment Company Limited.

**Mercantile Notes** means the 8% unsecured notes issued by Mercantile and listed on the ASX (ASX:MVTHA).

**Mercantile Options** means an unlisted option over unissued shares in the capital of Mercantile.

**Mercantile Shareholder** means a person who is the registered holder of one or more Mercantile Shares.

**Mercantile Shares** means all fully paid ordinary shares in Mercantile which are listed for quotation on the official list of ASX that exist or will exist at any time during the Offer Period and are not already owned by Sandon.

**Mercantile Stake** has the meaning given to that term in the background section of the Explanatory Memorandum.

**Merged Group** means the Mercantile and Sandon businesses, assuming that Mercantile is a wholly owned subsidiary of Sandon. This will occur in circumstances where Sandon receives acceptances of not less than 90% of Mercantile Shares under the Offer and moves to compulsorily acquire the balance of Mercantile Shares outstanding.

**Offer** has the meaning given to that term in the background section of the Explanatory Memorandum.

**Offer Period** means the period during which the Offer remains open for acceptance by Mercantile Shareholders.

**Option Acquisition** means the acquisition of Mercantile Options from Gefare Pty Limited and Glen Brae Capital Pty Limited outlined in this Explanatory Memorandum.

**Proxy Form** means the proxy form accompanying the notice of Meeting.

**Remaining Siblow Shares** means the 69,430,338 Mercantile Shares beneficially owned by Siblow.

**Resolutions** means the resolutions set out in the notice of Meeting, or any one of them, as the context requires.

**Sandon** means Sandon Capital Investments Limited.

**Share** means an ordinary share in the capital of Sandon.

**Shareholder** means a holder of a Share.

**Siblow** means Siblow Pty Limited.

**Transactions** means the acquisition of the Mercantile Stake, the Offer and the Option Acquisition.

**Voting Power** has the same meaning given to that term in section 610 of the Corporations Act.

## Schedule

### Terms and Conditions of the Offer

#### 1. Consideration

- 1.1. The consideration under the Offer will be 0.2043 Sandon Shares for each Mercantile Share.
- 1.2. If you accept the Offer and are entitled to receive a fraction of a Sandon Share, the number of Sandon Shares you are entitled to under the Offer will be rounded up to the next whole number of Sandon Shares if it is 0.5 or more, and rounded down to the nearest whole number if it is less than 0.5. If Sandon reasonably believes that you have manipulated your holding of Mercantile Shares to take advantage of rounding up, then any fractional entitlement will be aggregated or rounded down to the next whole number of Sandon Shares.

#### 2. Conditions

- 2.1. The Offer and the contract that results from acceptance of the Offer are each subject to the fulfilment of the following conditions:
  - (a) **Sandon Shareholder approval:** Sandon Shareholders in general meeting pass all resolutions (including under the Listing Rules) necessary to permit Sandon to complete the acquisition of all Mercantile Shares under the Offer;
  - (b) **minimum acceptance condition:** during, or at the end of the Offer Period, Sandon has Relevant Interests in at least 80% of the Mercantile Shares;
  - (c) **repayment of revolving credit facility:** Mercantile either:
    - (i) procures that all indebtedness owed by Mercantile or any subsidiary of it to each Relevant Lender is discharged and extinguished in full and announces on ASX that it has done so on or before 30 June 2019; or
    - (ii) announces that the due date for payment of all indebtedness owed by Mercantile or any subsidiary of it to each Relevant Lender has been extended to 31 December 2019 or a later date and that the Relevant Lender has undertaken not to take any action to demand repayment of that debt prior to 31 December 2019;
  - (d) **no early redemption of MVTHA:** between the Announcement Date and the end of the Offer Period (each inclusive), Mercantile does not:
    - (i) exercise its right to redeem MVTHA in accordance with clause 6.7 of the MVTHA Terms; or
    - (ii) repurchase any MVTHA in accordance with clause 6.8 of the MVTHA Terms;
  - (e) **no change in management arrangements:** between the Announcement Date and the end of the Offer Period (each inclusive), no Service Agreement is terminated, amended or assigned, Mercantile does not grant any person any rights to manage Mercantile or any of its assets, and no proposal to terminate, amend or assign any Service Agreement or grant any rights to manage Mercantile or any of its assets is made (in each case, other than by or to Sandon or its Associates);
  - (f) **no fall in Announced NTA:** the Announced NTA of Mercantile not declining by 10% or more below the Bid NTA of Mercantile;
  - (g) **no change in NTA calculation methodology:** each of the Bid NTA and each Announced NTA is calculated in accordance with the same principles, policies and practices adopted by Mercantile in calculating the NTA of Mercantile as at 30 April 2019 as reported on ASX by Mercantile on 10 May 2019;

- (h) **no regulatory intervention:** during the period from the Announcement Date to the end of the Offer Period (each inclusive):
- (i) no preliminary or final decision, order or decree is made or issued;
  - (ii) no action, proceeding or investigation is announced, commenced or threatened; and
  - (iii) no application is made (other than by Sandon or its Associates),  
by or to any regulatory organisation or Governmental Agency which is likely to or threatens to restrain, prohibit, impede or otherwise materially adversely affect the making of the Offer, the acquisition of the Mercantile Shares by Sandon, the rights of Sandon in respect of Mercantile and the Mercantile Shares or the continued operation of the businesses of Mercantile or its subsidiaries (other than any action or decision by or application to ASIC or the Takeovers Panel in exercise of the powers or discretions conferred by the Corporations Act);
- (i) **no prescribed occurrences:** during the period from the date on which the Bidder's Statement is given to Mercantile and the end of the Offer Period (each inclusive), none of the following events occur:
- (i) Mercantile converts all or any of its shares into a larger or smaller number of shares;
  - (ii) Mercantile or a subsidiary of Mercantile resolves to reduce its share capital in any way;
  - (iii) Mercantile or a subsidiary of Mercantile:
    - (A) enters into a buy-back agreement; or
    - (B) resolves to approve the terms of a buy-back agreement under sections 257C or 257D of the Corporations Act;
  - (iv) Mercantile or a subsidiary of Mercantile issues shares, or grants an option over its shares, or agrees to make such an issue or grant such an option;
  - (v) Mercantile or a subsidiary of Mercantile issues, or agrees to issue, convertible notes;
  - (vi) Mercantile or a subsidiary of Mercantile disposes, or agrees to dispose, of the whole or a substantial part of its business or property;
  - (vii) Mercantile or a subsidiary grants, or agrees to grant, a security interest over the whole or a substantial part of its business or property;
  - (viii) Mercantile or a subsidiary resolves to be wound up; or
  - (ix) Mercantile makes or declares, or announces an intention to make or declare, any distribution (whether by dividend, capital reduction or otherwise and whether in cash or in specie); and
- (j) **no prescribed occurrences between Announcement Date and date of Bidder's Statement:** during the period beginning on the Announcement Date and ending on the day before the Bidder's Statement is given to Mercantile (each inclusive), none of the events listed in sub-paragraphs (i) to (ix) of paragraph 2(i) occur.

### 3. Definitions

**Announced NTA** means the NTA of Mercantile as at any date as reported by Mercantile on ASX in accordance with Listing Rule 4.12.

**Announcement Date** means the date of announcement of Sandon's intention to make the Offer on ASX.

**ASIC** means Australian Securities and Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the market it administers being Australian Securities Exchange (as the context requires).

**Bidder's Statement** means the bidder's statement to be prepared in relation to the Offer and includes any supplementary or replacement bidder's statement.

**Bid NTA**, in respect of Mercantile or Sandon, means the NTA of Mercantile or Sandon (as applicable) as at 31 May 2019 as reported on ASX by Mercantile or Sandon (as applicable) in June 2019 in accordance with Listing Rule 4.12.

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

**Governmental Agency** means any government, semi-government, administrative, fiscal, judicial or regulatory body, department, commission, authority, tribunal, agency or entity.

**Listing Rules** means the listing rules of ASX.

**Mercantile Shares** means fully paid ordinary shares in Mercantile.

**Mercantile Shareholder** means a person who is the registered holder of one or more Mercantile Shares.

**MVTHA** means the unsecured notes issued by Mercantile quoted on ASX with ASX code MVTHA.

**MVTHA Terms** means the terms of issue of the MVTHA.

**NTA** means the unaudited pre-tax net tangible asset backing per share as at a particular date.

**Offer** means an off-market takeover offer to be made by Sandon under Chapter 6 of the Corporations Act to acquire all of the Mercantile Shares not owned by Sandon, including as varied or extended in accordance with the Corporations Act.

**Offer Period** means the period during which the Offer remains open for acceptance by Mercantile Shareholders.

**Relevant Interest** has the same meaning given to that term in sections 608 and 609 of the Corporations Act.

**Relevant Lenders** means each of Sir Ron Brierley and any person connected with or associated with him whom is owed money by Mercantile or any subsidiary of it.

**Sandon Shareholder** means a person who is the registered holder of one or more Sandon Shares.

**Sandon Shares** means fully paid ordinary shares in Sandon.

**Services Agreements** means the agreements between Mercantile and the Manager under which the Manager provides general management and accounting services to Mercantile.

**Takeovers Panel** means the Australian Government Takeovers Panel.

## LODGE YOUR VOTE



### ONLINE

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)



### BY MAIL

Sandon Capital Investments Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia



### BY FAX

+61 2 9287 0309



### BY HAND

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



### ALL ENQUIRIES TO

Telephone: +61 1300 554 474



X99999999999

## PROXY FORM

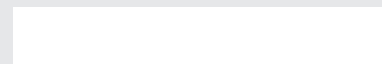
I/We being a member(s) of Sandon Capital Investments Limited and entitled to attend and vote hereby appoint:

### 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 you are appointing as your proxy



or 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 act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the General Meeting of the Company to be held at **11:00 am (AEST) on Monday, 12 August 2019 at History House Auditorium, 133 Macquarie Street, Sydney NSW 2000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

### VOTING DIRECTIONS

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 ☒

#### Resolutions

1 Ratification of Prior Issue of Shares to Siblow Pty Limited for Acquisition of Mercantile Stake

For Against Abstain\*

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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2 Approval to Issue Shares under Offer

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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3 Approval to Acquire Remaining Siblow Shares under Offer

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------

4 Approval to Issue Shares to Gefare Pty Limited for Acquisition of Mercantile Options

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------

5 Approval to Issue Shares to Glen Brae Capital Pty Limited for Acquisition of Mercantile Options

For Against Abstain\*

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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\* 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.

### SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

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).

## HOW TO COMPLETE THIS SHAREHOLDER 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 PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

### DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

### 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" must 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](http://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 **11:00 am (AEST) on Saturday, 10 August 2019**, 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](http://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

Sandon Capital Investments 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

\* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.  
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**



# INDEPENDENT EXPERT REPORT

SANDON CAPITAL INVESTMENTS LIMITED

In relation to the proposed acquisition of 69,430,338 Mercantile  
Shares from Siblow Pty Limited

**Opinion: Fair and Reasonable**

8 July 2019



## FINANCIAL SERVICES GUIDE

Dated: 8 July 2019

This Financial Services Guide ('FSG') helps you decide whether to use any of the financial services offered by BDO Corporate Finance (East Coast) Pty Ltd ('BDO Corporate Finance, we, us, our').

The FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No: 247420
- Remuneration that we and/or our staff and any associates receive in connection with the financial services
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

### FINANCIAL SERVICES WE ARE LICENSED TO PROVIDE

We hold an Australian Financial Services Licence which authorises us to provide financial product advice to retail and wholesale clients about securities and certain derivatives (limited to old law securities, options contracts and warrants). We can also arrange for customers to deal in securities, in some circumstances. Whilst we are authorised to provide personal and general advice to retail and wholesale clients, we only provide *general* advice to retail clients.

Any general advice we provide is provided on our own behalf, as a financial services licensee.

### GENERAL FINANCIAL PRODUCT ADVICE

Our general advice is typically included in written reports. In those reports, we provide general financial product advice that is prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of the general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

### FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We charge fees for providing reports. These fees are negotiated and agreed to with the person who engages us to provide the report. Fees will be agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. In this instance, the Company has agreed to pay us \$45,000 for preparing the Report.

Except for the fees referred to above, neither BDO Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of general advice.

All our employees receive a salary. Our employees are eligible for bonuses based on overall company performance but not directly in connection with any engagement for the provision of a report.

### REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

### ASSOCIATIONS AND RELATIONSHIPS

BDO Corporate Finance is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The general financial product advice in our report is provided by BDO Corporate Finance and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### COMPLAINTS RESOLUTION

#### Internal Complaints Resolution 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 product advice. Complaints can be in writing, addressed to the Complaints Officer, BDO Corporate Finance, Level 11, 1 Margaret St, Sydney NSW 2001 or by telephone or email, using the contact details at the top of this FSG.

When we receive a complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

#### Referral to External Dispute Resolution Scheme

If a complaint relating to general advice to a retail client is not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited (FOS). FOS is an independent company that has been established to impartially resolve disputes between consumers and participating financial services providers.

BDO Corporate Finance is a member of FOS (Member Number 11843).

Further details about AFCA are available at the AFCA website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Australian Financial Complaints Authority  
GPO Box 3  
MELBOURNE VIC 3001  
Toll free: 1800 931 678  
Email: [info@afca.org.au](mailto:info@afca.org.au)

### COMPENSATION ARRANGEMENTS

BDO Corporate Finance and its related entities hold Professional Indemnity insurance for the purpose of compensating retail clients for loss or damage suffered because of breaches of relevant obligations by BDO Corporate Finance or its representatives under Chapter 7 of the Corporations Act 2001. These arrangements and the level of cover held by BDO Corporate Finance satisfy the requirements of section 912B of the Corporations Act 2001.

### CONTACT DETAILS

You may provide us with instructions using the details set out at the top of this FSG or by emailing - [cf.ecp@bdo.com.au](mailto:cf.ecp@bdo.com.au)

## SUMMARY OF FINDINGS

The Independent Directors  
Sandon Capital Investments Limited  
Level 5  
139 Macquarie Street  
SYDNEY NSW 2000

8 July 2019

Dear Directors

## **INDEPENDENT EXPERT'S REPORT IN RELATION TO SANDON'S PROPOSED ACQUISITION OF 69,430,338 MERCANTILE SHARES FROM SIBLOW PTY LTD**

### **1. INTRODUCTION AND PURPOSE**

BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170) (BDO, we, us or our) has been engaged by the Independent Directors (Directors) of Sandon Capital Investments Limited (Sandon) to prepare an independent expert's report (Report or IER). The Directors have requested that our Report sets out our opinion as to whether Sandon's proposal to acquire the remaining shares in Mercantile Investment Company Limited (Mercantile) from Siblow Pty Limited (Siblow) that it does not already own is fair and reasonable to the Sandon shareholders not associated with Siblow (Sandon Shareholders).

On 3 June 2019, Sandon announced that it had written to Mercantile regarding the intention to make an off-market takeover bid. Under the transaction, Sandon would acquire all of the shares in Mercantile that it does not already own, in exchange for shares in Sandon (Proposed Transaction).

Sandon has acquired a c.18.9% interest in Mercantile from Siblow, an entity controlled by Sir Ron Brierley, on the same terms of the Proposed Transaction. As a result of this acquisition, Siblow is now a significant shareholder of Sandon.

Siblow has retained 69,430,338 shares in Mercantile, representing c.25% of the issued capital of Mercantile.

As a result of the Proposed Transaction, Sandon is acquiring a significant asset, being shares in Mercantile held by Siblow, from a related party (Related Party Transaction). Sandon is offering Siblow 14,184,618 Sandon shares (Consideration Shares) to acquire the remaining 69,430,338 shares in Mercantile held by Siblow (Remaining Siblow Shares).

BDO has been appointed by the Independent Directors of Sandon to prepare an IER expressing our opinion as to whether or not the Related Party Transaction is fair and reasonable to Sandon Shareholders.

This report is to accompany the Notice of Meeting (Transaction Document) required to be provided to Sandon Shareholders entitled to vote on the Related Party Transaction and has been prepared to assist the Sandon Shareholders in their considerations of whether or not to approve the Related Party Transaction.

### **2. APPROACH**

In preparing our IER, we have considered the requirements of:

- ▶ ASX Listing Rule 10.1
- ▶ RG 111 Content of expert reports
- ▶ RG 112 Independence of experts.

RG 111 establishes guidelines in respect of independent expert reports under the Corporations Act. This regulatory guide provides guidance as to what matters an independent expert should consider to assist shareholders to make informed decisions about transactions.

RG 111 states that there should be a separate assessment of fairness and reasonableness.

#### **2.1. Fairness**

A Related Party Transaction is 'fair' if the value of the financial benefit, being the Consideration Shares offered by Sandon to Siblow, is equal to or less than the value of the asset being acquired, being the Remaining Siblow Shares.

The fairness assessment should assume a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious seller, acting at arm's length.

## 2.2. Reasonableness

In accordance with paragraph 60 of RG111, an offer is 'reasonable' if it is 'fair'. It might also be 'reasonable' if, despite being 'not fair', the expert believes there are sufficient reasons to vote for the proposal.

When deciding whether a Related Party Transaction is 'reasonable', factors an expert might consider include:

- ▶ the financial situation and solvency of the entity;
- ▶ the alternative options available to the entity;
- ▶ the entity's bargaining position;
- ▶ whether there is selective treatment of any shareholder;
- ▶ any special value of the transaction to the purchaser.

## 3. SUMMARY OF OPINIONS

We have considered the terms of the Related Party Transaction, as outlined in the body of this Report, and have concluded that the Related Party Transaction is fair and reasonable to Sandon Shareholders.

A summary of our analysis in forming the above opinion is provided below.

### 3.1. Fairness Assessment

RG 111.58 states where the Related Party Transaction consists of an asset acquisition by the entity, it is 'fair' if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the asset being acquired. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

Our analysis has been performed by comparing the value of the:

- ▶ asset being acquired by Sandon, being the Remaining Siblow Shares; and
- ▶ the financial benefit being provided to Siblow by Sandon, being the Consideration Shares.

The result of our fairness analysis is summarised below.

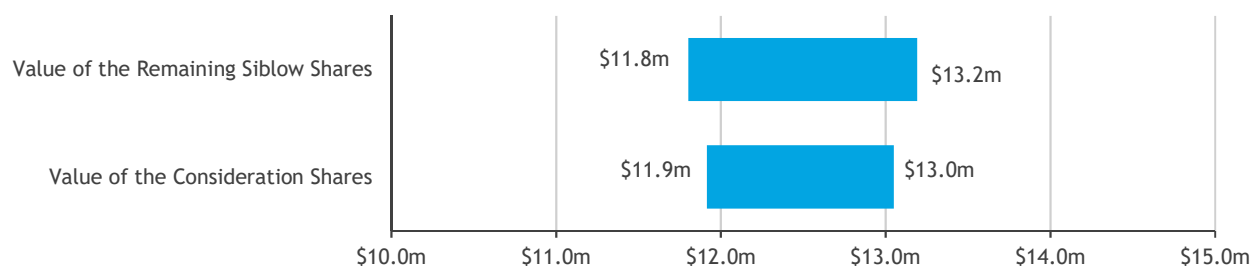
Table 1: Valuation summary

Valuation summary	Low	High
Value of the Remaining Siblow Shares	11,803,157	13,191,764
Value of the Consideration Shares	11,915,079	13,049,849

Source: BDO analysis

This is set out graphically below.

Figure 1: Graphical summary of fairness assessment



Source: BDO analysis

The value of the Consideration Shares and the Remaining Siblow Shares overlap, indicating that the Related Party Transaction is fair to Sandon Shareholders.

### 3.2. The Related Party Transaction is reasonable to Sandon Shareholders

In accordance with RG 111, a transaction is reasonable if it is fair. It might also be reasonable if, despite being not fair, the expert believes that there are sufficient reasons for Sandon Shareholders to approve the Related Party Transaction.

Whilst the Related Party Transaction is fair, we have assessed the reasonableness of the Related Party Transaction by considering the factors arising thereto. Set out below is a summary of factors we have considered in our reasonableness assessment.

Table 2: Summary of factors considered in the reasonableness assessment

Advantages	
The Related Party Transaction is fair	Our analysis in Section 8 concludes that the Related Party Transaction is fair to Sandon Shareholders. RG 111 states that an offer is reasonable if it is fair.
The Related Party Transaction is on the Same terms as the Proposed Transaction	<p>Sandon has announced an offer to acquire all the Mercantile shares on issue, including the shares held by Siblow. All shares are being acquired on the same terms, for the same consideration, being 0.2043 Sandon shares per Mercantile share.</p> <p>As the unrelated shareholders represent over 75% of all shares being acquired, and all Mercantile shareholders are being offered the same consideration, we are of the opinion that it is highly likely that the offer price has been negotiated at arms' length terms. We note that Siblow is not receiving a benefit in excess of other Mercantile shareholders.</p>
Potential for increased liquidity of Sandon shares	If the Proposed Transaction is successful, the number of Sandon shares on issue may increase from c.48.4m to c.106.4m. Based on the ASX trading at 31 May 2019, Sandon's market capitalisation may increase from c.\$40.0m at 31 May 2019 to c.\$87.8m assuming 100% acceptance of the offer by Mercantile shareholders. In general, larger LICs experience greater liquidity in trading on the ASX, which is a benefit to Sandon Shareholders.
The share price of the enlarged Sandon may benefit from potential synergies	<p>The share price of the enlarged Sandon may benefit from an increase in scale as well as cost savings and other synergies of the combined group due to:</p> <ul style="list-style-type: none"> <li>• combining investment processes and structures, as well as support functions such as head offices and registry services; and</li> <li>• a reduction in listing and other governance costs.</li> </ul> <p>We note that the extent to which Sandon Shareholders can realise these synergies is dependent upon the level of acceptances of the Proposed Transaction.</p>
Disadvantages	
The Related Party Transaction will result in a significant shareholder	Following the Proposed Transaction, Sir Ron Brierley will have, by virtue of his substantial holding in Sandon, the capacity to influence the election of directors, and the potential to influence the outcome of matters submitted to a vote of Sandon shareholders.
Assumption of debt	Following the Related Party Transaction and the Proposed Transaction, the enlarged Sandon will assume the debt associated with the Mercantile Notes. The Mercantile Notes have a fixed interest obligation of 8.0% per annum, which must be paid irrespective of the performance of the Company. This fixed obligation to pay interest may be a disadvantage to Sandon Shareholders.
The enlarged entity will hold additional unlisted investments	Mercantile controls two small operating businesses, Ask Funding and Richfield. Approval of the Related Party Transaction and Proposed Transaction means the enlarged Sandon will hold these unlisted investments. There is an inherent risk associated with unlisted investments in that they are illiquid and determining and realising their value is a more complicated process compared to listed investments.

Source: BDO analysis

## 4. OTHER MATTERS

### 4.1. Shareholders' individual circumstances

Our analysis has been undertaken, and our conclusions are expressed at an aggregate level. Accordingly, BDO has not considered the effect of the Related Party Transaction on the particular circumstances of individual shareholders. Some individual shareholders may place a different emphasis on various aspects of the Related Party Transaction from that adopted in this IER. Accordingly, individual shareholders may reach different conclusions as to whether or not the Related Party Transaction is fair and reasonable in their individual circumstances.

The decision of an individual Sandon Shareholder in relation to the Related Party Transaction may be influenced by their particular circumstances and accordingly individual Sandon Shareholders are advised to seek their own independent advice.

Approval or rejection of the Related Party Transaction is a matter for individual Sandon Shareholders based on their expectations as to the expected value, future prospects and market conditions together with their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Sandon Shareholders should carefully consider the Transaction Document. Individual Sandon Shareholders who are in doubt as to the action they should take in relation to the Related Party Transaction should consult their professional adviser.

### 4.2. General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated by those persons affected by the Related Party Transaction. In preparing the IER, we considered ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- ▶ Particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the past, between BDO East Coast Partnership or BDO and any of the parties to the Related Party Transaction.
- ▶ The nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- ▶ We have been appointed as independent expert for the purposes of providing an IER in relation to the Related Party Transaction for the Independent Directors of Sandon.
- ▶ That we have relied on information provided by the Directors and Management of Sandon and that we have not carried out any form of audit or independent verification of the information provided other than our review of the valuation reports.
- ▶ That we have received representations from the Directors in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

### 4.3. Current market conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this IER. Such conditions can change significantly over relatively short periods of time.

Changes in those conditions may result in any valuation or other opinion becoming quickly outdated and in need of revision. We reserve the right to revise any valuation or other opinion, in the light of material information existing at the valuation date that subsequently becomes known to us.

### 4.4. Glossary

Capitalised terms used in this IER have the meanings set out in the glossary. A glossary of terms used throughout this IER is set out in **Appendix 1**.

### 4.5. Sources of information

**Appendix 2** to the IER sets out details of information referred to and relied upon by us during the course of preparing this IER and forming our opinion.

The statements and opinions contained in this IER are given in good faith and are based upon our consideration and assessment of information provided by Sandon.

Under the terms of our engagement, Sandon has agreed to indemnify BDO and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

#### 4.6. Limitations

This IER has been prepared at the request of the Independent Directors for the sole benefit of the Independent Directors and Sandon Shareholders to assist them in their decision to approve or reject the Related Party Transaction. This IER is to accompany the Transaction Document to be sent to Sandon Shareholders to consider the Related Party Transaction and was not prepared for any other purpose.

Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Independent Directors and Sandon Shareholders without our written consent. We accept no responsibility to any person other than the Independent Directors and Sandon Shareholders in relation to this IER.

This IER should not be used for any other purpose and we do not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our IER, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

We have consented to the inclusion of the IER within the Transaction Document. Apart from this IER, we are not responsible for the contents of the Notice of Meeting or any other document associated with the Related Party Transaction. We acknowledge that this IER may be lodged with regulatory authorities.

#### 4.7. Summary

This summary should be read in conjunction with our full IER that sets out in full the purpose, scope, basis of evaluation, limitations, information relied upon, analysis and our findings.

#### 4.8. Financial Service Guide

BDO holds an Australian Financial Services Licence which authorises us to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues. A financial services guide is attached to this IER.

Yours faithfully

**BDO CORPORATE FINANCE (EAST COAST) PTY LTD**



**David McCourt**  
Director



**Sebastian Stevens**  
Director



# INDEPENDENT EXPERT REPORT



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## 1. PURPOSE AND BACKGROUND

### 1.1. Purpose

We have been engaged by the Independent Directors of Sandon to prepare an IER setting out our opinion as to whether the Related Party Transaction is fair and reasonable to Sandon Shareholders.

This IER is to accompany the Transaction Document to be provided to Sandon Shareholders in connection with the Related Party Transaction. It has been prepared to assist and enable the Sandon Shareholders to assess the merits of the Related Party Transaction and to decide whether to approve the Related Party Transaction.

A summary of the background to the terms of the Related Party Transaction is set out below.

### 1.2. Background to the Related Party Transaction

On 3 June 2019, Sandon announced that it had entered into an agreement with Siblow, an entity controlled by Sir Ron Brierley, to acquire up to 52,980,782 shares in Mercantile (Mercantile Stake), representing up to c.18.9% of the issued share capital of Mercantile, in exchange for the issue of shares in Sandon.

The purchase of the Mercantile Stake was completed on 14 June 2019, on which date Sandon issued 10,823,974 new fully paid shares to Siblow. The number of Sandon shares issued was equal to the number of Mercantile shares acquired (being 52,980,782) multiplied by an exchange ratio of 0.2043 Sandon shares for one Mercantile share. The exchange ratio was set by reference to the pre-tax net tangible asset (NTA) backing per share of Mercantile at 31 May 2019 (\$0.1942) divided by the pre-tax NTA backing per share of Sandon at 31 May 2019 (\$0.9507).

At the time of completion of the sale of the Mercantile Stake to Sandon, Siblow continued to beneficially own a further 69,430,338 Mercantile shares (comprising 50,783,852 Mercantile shares directly held by Siblow, and 18,646,486 Mercantile shares held indirectly by Siblow through McNeil Nominees Pty Ltd) (defined as the Remaining Siblow Shares).

Sandon announced on 3 June 2019 that it intended to make an offer to acquire all of the other shares in Mercantile in exchange for an issue of shares in Sandon under an off-market takeover offer (defined as the Proposed Transaction). The Proposed Transaction is on the same terms as the acquisition of the Mercantile Stake.

As a result of the Proposed Transaction, Sandon is acquiring a significant asset, being shares in Mercantile held by Siblow, from a related party. Sandon is offering Siblow 14,184,618 Sandon shares to acquire the remaining 69,430,338 shares in Mercantile held by Siblow.

#### 1.2.1. Conditions precedent

The Proposed Transaction is subject to a number of conditions precedent including, but not limited to the following:

- (a) Sandon Shareholder approval;
- (b) minimum acceptance condition: during, or at the end of the offer period, Sandon has a relevant interest in at least 80% of all the fully paid ordinary shares in Mercantile;
- (c) repayment of revolving credit facility;
- (d) no early redemption of the Mercantile Notes by Mercantile;
- (e) no change in management arrangements;
- (f) no fall in announced NTA; and
- (g) no change in NTA calculation methodology.

Further details of the conditions precedent are disclosed in the Terms and Conditions Schedule of the attached Transaction Document.

## 2. SCOPE AND LIMITATIONS

### 2.1. Scope

The scope of the procedures we undertook in forming our opinion on whether the Related Party Transaction is fair and reasonable to Sandon Shareholders has been limited to those procedures we believe are required in order to form our opinion. Our procedures did not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards.

Our assessment involved determining the fair market value of various securities, assets and liabilities. For the purposes of our opinion, the term fair market value is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm's length.

## 2.2. Summary of regulatory requirements

ASX Listing Rule 10.1 requires that any acquisition of a substantial asset from certain persons be approved by shareholders. A substantial shareholder who has a relevant interest in at least 10% of the voting shares of a company is one of the categories of persons within the ambit of Listing Rule 10.1. An asset is a “substantial asset” for the purposes of ASX Listing Rule 10.1 if its value, or the value of the consideration for it, is more than 5% of the equity interests in the company as set out in its latest accounts given to ASX.

As a result of the issue of shares to Siblow in consideration for the Mercantile Stake, Siblow acquired a relevant interest in c.18.9% of the Sandon shares on issue. The Remaining Siblow Shares have a value in excess of 5% of the equity interests of Sandon as set out in its last accounts provided to the ASX.

As a result of the above, approval by Sandon Shareholders for the acquisition of the Remaining Siblow Shares is required pursuant to ASX Listing Rule 10.1.

In preparing our IER, we have considered the requirements of:

- ▶ ASX Listing Rule 10.1
- ▶ RG 111 Content of expert reports
- ▶ RG 112 Independence of experts.

## 2.3. Basis of evaluation

RG 111 establishes guidelines in respect of independent expert.

RG 111 establishes two distinct criteria for an expert analysing a control transaction. The tests are:

- ▶ Is the offer ‘fair’?
- ▶ Is it ‘reasonable’?

### 2.3.1. Fairness

RG 111.58 states where the Related Party Transaction consists of an asset acquisition by the entity, it is ‘fair’ if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the asset being acquired. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

Our analysis has been performed by comparing the value of:

- ▶ asset being acquired by Sandon, being the Remaining Siblow Shares; and
- ▶ the financial benefit being provided to Siblow by Sandon, being the Consideration Shares.

### 2.3.2. Reasonableness

In accordance with paragraph 12 of RG 111, an offer is ‘reasonable’ if it is ‘fair’. An offer could be considered ‘reasonable’ if there are valid reasons to approve it (in the absence of any higher bid before the close of the offer), notwithstanding that it may not be regarded as ‘fair’.

RG 111.13 sets out some of the factors that an expert might consider in assessing the reasonableness of an offer, including:

- ▶ the bidder’s pre-existing voting power in securities in the target;
- ▶ other significant security holding blocks in the target;
- ▶ the liquidity of the market in the target’s securities;
- ▶ taxation losses, cash flow or other benefits through achieving 100% ownership of the target;
- ▶ any special value of the target to the bidder, such as particular technology, the potential to write off outstanding loans from the target, etc.;
- ▶ the likely market price if the offer is unsuccessful; and
- ▶ the value to an alternative bidder and likelihood of an alternative offer being made.

### 2.3.3. General requirements in relation to the IER

In preparing the IER, ASIC requires the independent expert when deciding on the form of analysis for a report, to bear in mind that the main purpose of the report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the Related Party Transaction. In preparing the IER we considered the necessary legal requirements and guidance of the Corporations Act, ASIC regulatory guides and commercial practice.

The IER also includes the following information and disclosures:

- ▶ particulars of any relationship, pecuniary or otherwise, whether existing presently or at any time within the last two years, between BDO and any of the parties to the Related Party Transaction;

- ▶ the nature of any fee or pecuniary interest or benefit, whether direct or indirect, that we have received or will or may receive for or in connection with the preparation of the IER.
- ▶ we have been appointed as independent expert for the purposes of providing an IER for the Transaction Document;
- ▶ that we have relied on information provided by the Independent Directors and management of Sandon and that we have not carried out any form of audit or independent verification of the information provided; and
- ▶ that we have received representations from the Directors in relation to the completeness and accuracy of the information provided to us for the purpose of our IER.

#### **2.4. Special value**

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the particular potential acquirer of potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

#### **2.5. Reliance on information**

This IER is based upon financial and other information provided by the Independent Directors and management of Sandon. We have considered and relied upon this information. Unless there are indications to the contrary, we have assumed that the information provided was reliable, complete and not misleading, and material facts were not withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Related Party Transaction is fair and reasonable.

We do not warrant that our inquiries have identified or verified all of the matters which an audit, extensive examination or due diligence investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.

Where we relied on the views and judgement of management the information was evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation.

Under the terms of our engagement, Sandon has agreed to indemnify BDO and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided, which is false or misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

#### **2.6. Limitations**

We acknowledge that this IER may be lodged by the Independent Directors with regulatory and statutory bodies and a summary of this IER will be included in the Transaction Document to be sent to the Sandon Shareholders. The Independent Directors acknowledge that our IER has been prepared solely for the purposes noted in the Transaction Document and accordingly we disclaim any responsibility from reliance on the IER in regard to its use for any other purpose. Except in accordance with the stated purposes, no extract, quote or copy of the IER, in whole or in part, should be reproduced without our prior written consent, including as to the form and context in which it may appear.

It was not our role to undertake, and we have not undertaken any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of Sandon. We understand that the Independent Directors have been advised by legal, accounting, tax and other appropriate advisors in relation to such matters as necessary. We provide no warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the Independent Directors or their advisors.

We note that the IER does not deal with the individual investment circumstances of Sandon Shareholders and no opinion has been provided in relation to the same. Some individual Sandon Shareholders may place a different emphasis on various aspects of the Related Party Transaction from that adopted in our IER. Accordingly, individuals may reach different conclusions on whether or not the Related Party Transaction is fair and reasonable. An individual Sandon Shareholder's decision in relation to the Related Party Transaction may be influenced by their particular circumstances and, therefore, Sandon Shareholders are advised to seek their own independent advice.

Apart from the IER, we are not responsible for the contents of the Transaction Document or any other document. We have provided consent for inclusion of the IER in the Transaction Document. Our consent and the Transaction Document acknowledge that we have not been involved with the issue of the Transaction Document and that we accept no responsibility for the Transaction Document apart from the IER.

## 2.7. Assumptions

In forming our opinion, we have made certain assumptions and outline these in our IER including:

- ▶ assumptions outlined in the valuation sections;
- ▶ that matters such as title to all relevant assets, 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;
- ▶ information sent out in relation to the Related Party Transaction to Sandon Shareholders or any regulatory or statutory body is complete, accurate and fairly presented in all material respects;
- ▶ publicly available information relied on by us is accurate, complete and not misleading;
- ▶ the terms and conditions of the Related Party Transaction are as set out in the Bidder's Statement.

## 3. PROFILE OF SANDON

### 3.1. Overview

Sandon is an ASX-listed investment company (LIC), which predominantly invests in Australia and New Zealand-based companies. Sandon Capital Pty Ltd (Sandon Capital) is a Director-associated fund management business appointed to manage the investment portfolio of Sandon.

Sandon Capital was established in June 2008, and Sandon was established in December 2013. As at 31 May 2019, Sandon Capital had c.\$82.6m funds under management, and Sandon had \$46.9m of pre-tax gross assets, with the balance (c.\$35.7m) held in a unit trust.

The current key management personnel of Sandon are:

- ▶ Gabriel Radzynski - Chairman;
- ▶ Peter Velez - Independent Non-Executive Director; and
- ▶ Melinda Snowden - Independent Non-Executive Director.

### 3.2. Sandon Capital Management Agreement

Under the management agreement between Sandon and Sandon Capital, the following fees are payable to Sandon Capital:

- ▶ a management fee of 1.25% per annum (plus GST); and
- ▶ a performance fee of 20% of the portfolio's excess returns against the cash benchmark (30-day BBSW) with a high watermark.

Performance fees (GST inclusive) over the year ended 30 June 2018 (FY18) totalling c. \$1.0m (c. \$1.2m in the year ended 30 June 2017 (FY17)) were paid to Sandon Capital.

### 3.3. Investment portfolio

A summary of Sandon's listed investments at 31 May 2019 are set out below.

Table 3: Sandon's listed portfolio composition at 31 May 2019

	Total Value (\$'000)	%
<b>Listed investments</b>		
Consolidated Operations Group Ltd	7,264	15.7%
Fleetwood Corporation Ltd	6,155	13.3%
Iluka	4,844	10.5%
Spicers Ltd	3,718	8.0%
City Chic Collective Ltd	3,207	6.9%
Coventry Group Ltd.	2,817	6.1%
Onemarket Ltd	2,300	5.0%
AIMS Property Securities Fund	2,084	4.5%
IDT Australia Ltd	1,877	4.1%
BCI Minerals Ltd	1,691	3.7%
<b>Top 10 listed investments</b>	<b>35,956</b>	<b>77.9%</b>
Other investments	10,230	22.1%
<b>Total listed investments</b>	<b>46,187</b>	<b>100.0%</b>

Source: Sandon's NTA at 31 May 2019

### 3.4. Historical Statement of Profit or Loss and Other Comprehensive Income

Sandon's income statements for FY17 and FY18 are set out below.

Table 4: Sandon's Historical Statement of Profit or Loss and Other Comprehensive Income

\$'000	Audited FY17	Audited FY18
<b>Income</b>		
Net realised and unrealised gains on financial assets	6,094	4,376
Other income from operating activities	728	1,677
<b>Total income</b>	<b>6,823</b>	<b>6,053</b>
<b>Expenses</b>		
Management fees	(607)	(633)
Performance fees	(1,079)	(978)
Directors' fees	(72)	(63)
Company secretarial fees	(40)	(44)
Brokerage expense	(85)	(41)
Custody fees	(21)	(21)
ASX listing and chess fees	(42)	(46)
Share registry fees	(47)	(42)
Accounting fees	(46)	(48)
Audit fees	(46)	(37)
Taxation fees	(81)	(62)
Legal fees	(19)	(10)
Other operating expenses	(40)	(56)
<b>Total expenses</b>	<b>(2,223)</b>	<b>(2,080)</b>
<b>Profit/(loss) before income tax</b>	<b>4,599</b>	<b>3,973</b>
Income tax expense	(1,250)	(616)
<b>Total profit/(loss) for the period</b>	<b>3,349</b>	<b>3,356</b>

Source: Sandon's FY18 annual report

Other income from operating activities consists of dividend income, trust distributions, interest income and other. Dividend income yielded from Sandon investments was the main contributor to the increase of \$949k of other income from operating activities in FY18.

### 3.5. Historical Statement of Financial Position

The Historical Statement of Financial Position for Sandon as at 30 June 2017, 30 June 2018 and 31 May 2019 are set out below.

Table 5: Sandon's Historical Statement of Financial Position

\$'000	Audited as at 30-Jun-17	Audited as at 30-Jun-18	Mgmt accts as at 31-May-19
<b>Assets</b>			
Cash and cash equivalents	2,374	1,807	175
Trade and other receivables	152	392	31
Prepayments	9	9	13
Financial assets	46,147	47,752	46,634
Deferred tax assets	148	60	60
<b>Total assets</b>	<b>48,831</b>	<b>50,020</b>	<b>46,914</b>
<b>Liabilities</b>			
Financial liabilities	-	374	-
Trade and other payables	1,327	1,215	711
Deferred tax liabilities	1,472	1,967	1,222
<b>Total liabilities</b>	<b>2,800</b>	<b>3,557</b>	<b>1,933</b>
<b>Net assets</b>	<b>46,031</b>	<b>46,464</b>	<b>44,981</b>
<b>Equity</b>			
Issued capital	46,288	46,744	46,744
Profit reserve	2,841	2,818	1,320
Accumulated losses	(3,099)	(3,099)	(3,084)
<b>Total equity</b>	<b>46,031</b>	<b>46,464</b>	<b>44,981</b>

Source: Sandon's FY18 annual report and management accounts for the 11 months ended 31 May 2019

We note the following regarding Sandon's Historical Statement of Financial Position:

- ▶ Financial assets of \$47.8m at 30 June 2018 comprise c.\$47.6m of listed investments and c.\$0.2m of unlisted investments.
- ▶ Financial liabilities of \$374k at 30 June 2018 relates to borrowed stock/short positions initiated by Sandon during FY18. Borrowed stock is carried at fair value, and the Company is required to provide collateral of 110% of the fair value of the borrowed stock to the stock lender. The level of borrowed stock plus other borrowings cannot exceed 50% of the net asset value of the Company.
- ▶ Trade and other payables totalling \$711k at 31 May 2019 comprises management fee, performance fee, outstanding settlements and other payables.

### 3.6. Capital structure

A summary of Sandon's securities on issue at 25 June 2019 is set out below.

Table 6: Sandon's securities on issue at 25 June 2019

Security	Number of securities
Fully Paid Ordinary Securities	59,259,401
<b>Total securities</b>	<b>59,259,401</b>

Source: Sandon Appendix 3B dated 17 June 2019

### 3.7. Ownership

The top 20 Sandon shareholders as at 25 June 2019 are set out below.

Table 7: Sandon top 20 shareholders at 25 June 2019

Rank	Shareholder	Current shares	% of total shares
1	Siblow Pty Limited <sup>1</sup>	10,823,974	18.3%
2	Mr Victor John Plummer	2,752,823	4.6%
3	Hsbc Custody Nominees (Australia) Limited	2,564,574	4.3%
4	Dynasty Peak Pty Ltd	2,145,717	3.6%
5	Navigator Australia Ltd	1,884,920	3.2%
6	Heathers Super Pty Ltd	1,374,090	2.3%
7	Donwood Pty Ltd	1,034,091	1.7%
8	English Family Super Fund Pty Ltd	564,109	1.0%
9	Investment Custodial Services Limited	504,698	0.9%
10	Robert Nairn Pty Ltd	500,000	0.8%
11	Robyn Robinson Holdings Pty Ltd	397,045	0.7%
12	Mr John Stephen Michael Heathers & Ms Margaret Jean Heathers	392,345	0.7%
13	Mr William Blomfield	384,110	0.6%
14	Great D Pty Ltd	350,000	0.6%
15	Mrs Robyn Robinson	327,045	0.6%
16	Guys Investments Pty Ltd	305,853	0.5%
17	Australian Executor Trustees Limited	290,000	0.5%
18	Hidiga Pty Limited	272,364	0.5%
19	Henggeler Super Pty Ltd	260,000	0.4%
20	Kerway Investments Pty Ltd	257,163	0.4%
<b>Total top 20</b>		<b>27,384,921</b>	<b>46.2%</b>

Source: Sandon share registry, Capital IQ

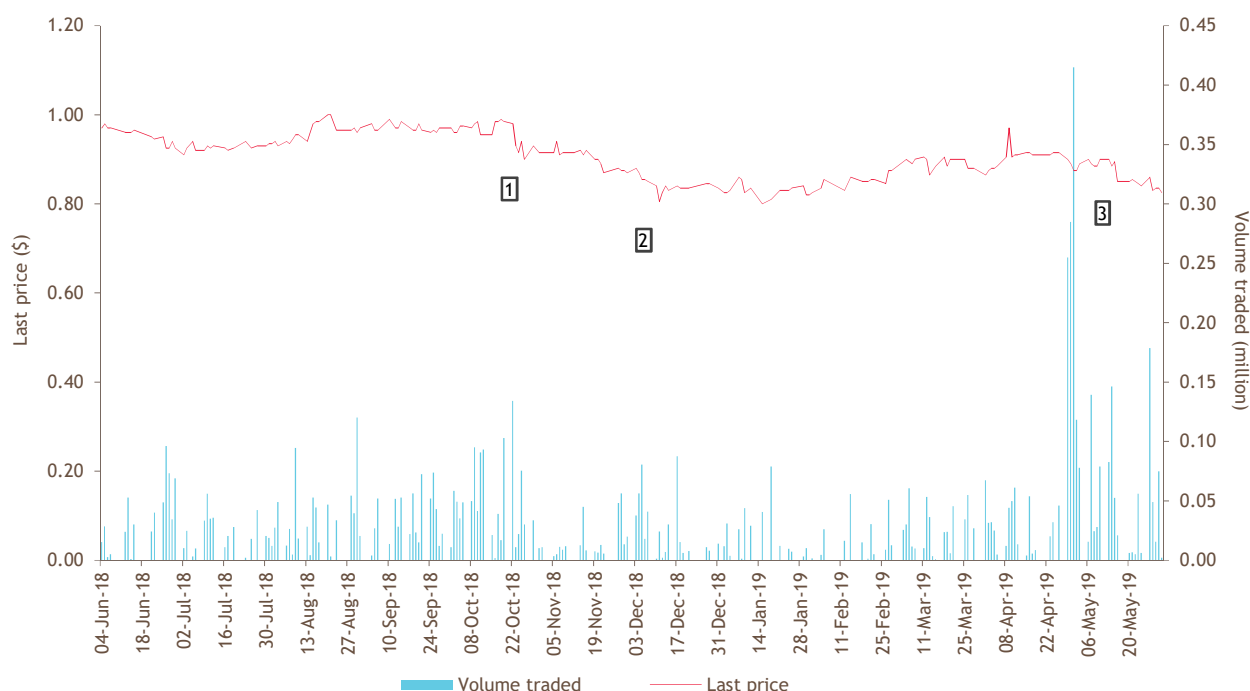
<sup>1</sup>The Sandon shares held by Siblow were obtained as consideration due to Sandon's acquisition of the Mercantile Stake on 14 June 2019



### 3.8. Historical share trading analysis

Sandon entered into a trading halt on 3 June 2019 prior to the announcement of the Proposed Transaction and the Related Party Transaction. As such, Sandon's share price movements for the 12 months to 31 May 2019, which was the last trading day prior to the trading halt, is set out below.

Figure 2: Daily closing share price and trading volume (1 June 2018 to 31 May 2019)



Source: Capital IQ

We note the following key movements from the chart above:

- 23 October 2018 represented the ex-dividend date for Sandon shares.
- Sandon's share price decreased to \$0.81 on 11 December 2018 (c.21% fall from the beginning of October 2018). This was due to broad market declines as markets throughout Australia, Asia and the United States fell.
- 16 May 2019 represented the ex-dividend date for Sandon shares.

#### 3.8.1. Volume weighted average price

Sandon's volume weighted average price (VWAP) over the 12-month period preceding the trading halt and announcement of the Proposed Transaction and the Related Party Transaction.

Table 8: Sandon's VWAP analysis (to 31 May 2019)

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 day	0.83	0.83	0.83	0.0	0.0	0.0%
1 week	0.83	0.86	0.84	0.3	0.3	0.7%
1 month	0.83	0.91	0.88	1.4	1.6	3.3%
3 months	0.83	0.98	0.89	2.8	3.1	6.4%
6 months	0.80	0.98	0.88	3.6	4.1	8.4%
12 months	0.80	1.00	0.91	7.0	7.7	15.9%

Source: Capital IQ, BDO analysis

We note the following with respect to the VWAP analysis displayed above:

- The share price of Sandon over the 12-month period prior to 3 June 2019 ranged from a low of \$0.80 to a high of \$1.00.
- The VWAP of Sandon has steadily decreased over the 12-month period, from \$0.91 to \$0.83.
- Over the 12-month period immediately preceding 3 June 2019, the cumulative value of Sandon shares traded was \$7.0m and the cumulative volume of Sandon shares traded was 7.7m.

## 4. PROFILE OF MERCANTILE

### 4.1. Overview

Mercantile is an ASX and NZX-listed investment company that seeks to generate attractive risk adjusted returns through investments in a diversified range of companies. Along with its subsidiaries, Mercantile operates within three segments being securities, consumer finance and shipping services:

- ▶ securities involve investments in cash, term deposits and equity investments;
- ▶ consumer finance relates to Mercantile's holding in Ask Funding Limited (Ask Funding), an unlisted entity which deals in pre-settlement and disbursement lending. Ask Funding continues to service and amortise its loan book with the sole objective of delivering surplus funds to shareholders. Its loan book remains permanently closed to new loans. Mercantile completed the acquisition of a 71.74% stake in Ask Funding in August 2015; and
- ▶ shipping services pertains to Mercantile's holding in Richfield International Limited (Richfield), an unlisted entity which, through its Singapore based subsidiaries, is involved in the provision of port and shipping services for foreign-going vessels. Mercantile completed the acquisition of 100% of the issued capital of Richfield in November 2016.

The current board of directors and senior management of Mercantile are:

- ▶ Sir Ron Brierley - Chairman and Non-Executive Director;
- ▶ Mr James Chirnside - Independent Non-Executive Director;
- ▶ Mr Ron Langley - Independent Non-Executive Director;
- ▶ Mr Gabriel Radzynski - Executive Director;
- ▶ Mr Daniel Weiss - Non-Executive Director; and
- ▶ Dr Gary Weiss - Alternative Director.

On 4 July 2018, Mercantile announced an off-market takeover offer by its wholly owned subsidiary Mercantile OFM Pty Ltd (Mercantile OFM) for all the ordinary shares in ASX-listed IPE Limited (IPE) that it did not already own. The offer closed on 31 August 2018 and Mercantile OFM received acceptances totalling 92.8%. As such, Mercantile compulsorily acquired IPE.

On 20 August 2018, Mercantile launched an off-market takeover bid for 100% of Yellow Brick Road Holdings Limited. The offer was rejected, and subsequently closed on 19 October 2018.

On 6 June 2019, Sir Ron Brierley released an announcement stating his intention to retire as Chairman of Mercantile following implementation of the Proposed Transaction.

### 4.2. Mercantile Notes

Mercantile has 223,087 ASX-listed convertible notes on issue with a face value of \$100 per note (Mercantile Notes).

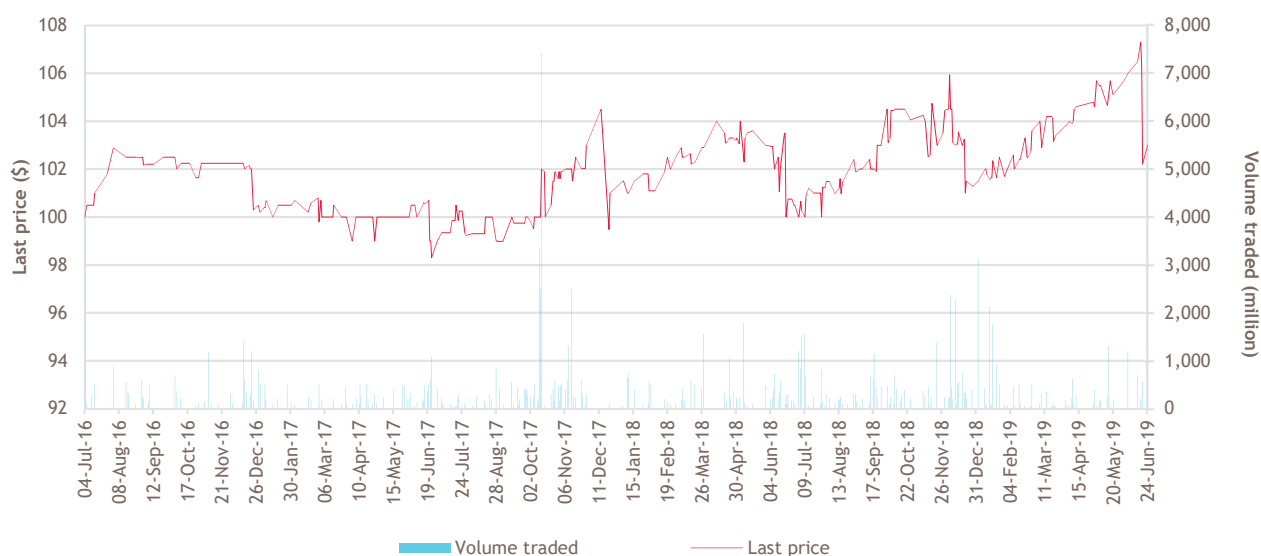
The Mercantile Notes are unsecured, mature on 10 July 2021 (unless redeemed earlier) and pay interest of 8% per annum.

If a change of control of Mercantile occurs, the Mercantile board may redeem the Mercantile Notes prior to the maturity date. A change of control includes the following:

- ▶ Mercantile becomes a controlled entity of another entity;
- ▶ a person's voting power in Mercantile increases above 50%;
- ▶ a person is in a position to cast or control the casting of more than 50% of the maximum number of votes that may be cast at a general meeting of members of Mercantile;
- ▶ a person acquires shares representing more than 50% of the issued Mercantile shares (excluding any part of those issued units that carry no right to participate beyond a specified amount in its distribution of income or assets of Mercantile); or
- ▶ Mercantile shares cease to be listed.

A summary of the historical trading activity of the Mercantile Notes is set out below.

Figure 3: Historical trading activity of the Mercantile Notes



Source: Bloomberg

### 4.3. Investments

A summary of Mercantile's investments at 31 May 2019 are set out below.

Table 9: Mercantile's portfolio composition at 31 May 2019

	Total Value (\$'000)	%
<b>Investments</b>		
Ingenia Communities Group	12,335	16.0%
Spectra Systems	10,387	13.5%
Foundation Life Investment	6,521	8.5%
Fleetwood Corporation Ltd	4,900	6.4%
Stanmore Coal Limited	4,673	6.1%
Yellow Brick Road Ltd	4,255	5.5%
Mg Unit Trust	3,900	5.1%
CM Capital Venture Trust No 4	3,449	4.5%
Bauxite Resources Limited	1,930	2.5%
NBC Private Equity Fund III	1,922	2.5%
<b>Top 10 investments</b>	<b>54,271</b>	<b>70.5%</b>
Other investments	22,689	29.5%
<b>Total investments</b>	<b>76,960</b>	<b>100.0%</b>

Source: Mercantile's NTA at 31 May 2019

#### 4.4. Historical Statement of Profit or Loss and Other Comprehensive Income

Mercantile's income statements for FY17 and FY18 are set out below.

Table 10: Mercantile's Historical Statement of Profit or Loss and Other Comprehensive Income

\$'000s	Audited FY17	Audited FY18
<b>Income</b>		
Revenue from continuing operations	5,505	7,651
Other income	7,761	7,895
<b>Total income</b>	<b>13,266</b>	<b>15,546</b>
<b>Expenses</b>		
Accounting fees	(224)	(213)
Audit fees	(216)	(174)
Taxation service fees	(263)	(177)
Finance costs	(2,052)	(1,951)
Service agreement fees	(331)	(330)
Company secretary fees	(64)	(41)
Share registry fees	(139)	(74)
Brokerage	(121)	(57)
Impairment charges	(9,012)	(860)
Legal and professional fees	(782)	(530)
ASIC and ASX charges	(82)	(98)
Share based payments	(518)	(112)
Employee benefit expenses	(1,530)	(1,712)
Insurance	(92)	(44)
Other operating costs	(852)	(656)
<b>Total expenses</b>	<b>(16,276)</b>	<b>(7,029)</b>
<b>Profit/(loss) before income tax</b>	<b>(3,010)</b>	<b>8,516</b>
Income tax (expense)	(2,101)	(1,729)
<b>Profit/(loss) for the period</b>	<b>(5,111)</b>	<b>6,787</b>

Source: Mercantile's FY18 annual report

We note the following regarding Mercantile's Historical Statement of Profit or Loss and Other Comprehensive Income:

- ▶ Finance costs comprise interest on the loan provided by Director, interest on the Mercantile Notes and amortisation expense of the Mercantile Notes.
- ▶ Impairment charges amounting to c.\$9.0m for FY17 comprised a goodwill impairment of c.\$6.6m relating to Mercantile's holding in Richfield, and an impairment of c.\$2.4m related to the writing down of Ask Funding's loan book value.
  - ▶ The c.\$6.6m goodwill impairment pertaining to Mercantile's holding in Richfield was largely a result of the continued downturn in the industrial shipping market.
  - ▶ During FY17, Ask Funding's management assessed an impairment of c.\$2.4m with respect to the net loans and advances recognised due to objective evidence obtained and doubt existing over the collectability of principal and interest.

#### 4.5. Historical Statement of Financial Position

The statements of financial position for Mercantile as at 30 June 2017, 30 June 2018 and 31 May 2019 are set out below.

Table 11: Mercantile's Historical Statement of Financial Position

\$'000s	Audited as at 30-Jun-17	Audited as at 30-Jun-18	Mgmt accts as at 31-May-19
<b>Current assets</b>			
Cash and cash equivalents	18,942	11,744	7,078
Trade and other receivables	2,065	2,337	1,797
Net loans and advances	2,845	3,533	3,442
Financial assets at fair value through profit or loss	19,488	25,716	38,269
Other current assets	105	89	98
<b>Total current assets</b>	<b>43,444</b>	<b>43,420</b>	<b>50,683</b>
<b>Non-current assets</b>			
Financial assets at fair value through other comprehensive income	32,321	47,735	38,691
Property, plant and equipment	105	23	40
Deferred tax assets	222	184	329
<b>Total non-current assets</b>	<b>32,648</b>	<b>47,941</b>	<b>39,060</b>
<b>Total assets</b>	<b>76,092</b>	<b>91,361</b>	<b>89,744</b>
<b>Current liabilities</b>			
Trade and other payables	4,215	9,928	11,126
Current tax liability	2,642	3,726	1,712
<b>Total current liabilities</b>	<b>6,857</b>	<b>13,654</b>	<b>12,839</b>
<b>Non-current liabilities</b>			
Unsecured notes	21,707	21,825	22,672
Deferred tax liabilities	2,915	703	(432)
<b>Total current liabilities</b>	<b>24,622</b>	<b>22,528</b>	<b>22,240</b>
<b>Total liabilities</b>	<b>31,479</b>	<b>36,182</b>	<b>35,079</b>
<b>Net assets</b>	<b>44,613</b>	<b>55,178</b>	<b>54,665</b>
<b>EQUITY</b>			
Issued capital	28,717	28,835	28,835
Accumulated losses	(10,455)	(10,455)	(13,152)
Reserves	25,392	35,719	38,023
Non-controlling interest	959	1,079	959
<b>Total equity</b>	<b>44,613</b>	<b>55,178</b>	<b>54,665</b>

Source: Mercantile's FY18 annual report and management accounts for the 11 months ended 31 May 2019

We note the following regarding Mercantile's Historical Statement of Financial Position:

- ▶ Net loans and advances were acquired by Mercantile as part of the acquisition of Ask Funding in September 2015. Credit impairment with respect to these loans is determined on an individual case basis after taking into account various factors such as likely time of settlement, potential further deterioration in asset pool values and/or a decrease in the prospects of an individual borrower succeeding in their respective claims in court.
- ▶ Trade and other payables of \$9.9m at 30 June 2018 include a \$5.0m loan from Sir Ron Brierley. In April 2018, a short-term loan of \$5.0m was advanced to Mercantile by Sir Ron Brierley to fund the purchase of investments. Interest is payable at the Reserve Bank of Australia (RBA) cash rate per annum.
- ▶ Unsecured notes of c.\$22.7m at 31 May 2019 comprise the c.\$22.3m face value of the Mercantile Notes, capitalised costs of c.\$0.4m and accumulated interest of c.\$0.7m.

#### 4.6. Capital structure

A summary of Mercantile's securities on issue at 25 June 2019 is set out below.

Table 12: Mercantile securities on issue at 25 June 2019

	Number of securities
Mercantile Shares	280,700,000
Mercantile Notes	223,087
Mercantile Options	
- Expiring 31/12/20 at an exercise price of \$0.20 per option	15,000,000
- Expiring 31/12/21 at an exercise price of \$0.23 per option	15,000,000
- Expiring 31/12/22 at an exercise price of \$0.24 per option	20,000,000

Source: Mercantile security registry, Capital IQ

As at 25 June 2019, Mercantile had 280.7m ordinary shares on issue, 223,087 Mercantile Notes on issue, and 50 million options on issue with varying exercise prices.

On 24 June 2019, Sandon announced that it entered into agreements to acquire the 50 million unlisted options in Mercantile currently on issue. The consideration is a cash payment of \$337,895 and the issue of 601,457 ordinary shares in Sandon.

#### 4.7. Ownership

The top 20 Mercantile shareholders as at 25 June 2019 are set out below.

Table 13: Mercantile top 20 shareholders at 25 June 2019

Rank	Shareholder	Current shares	% of total shares
1	Sandon Capital Investments Limited <sup>1</sup>	52,980,782	18.9%
2	Siblow Pty Ltd	50,783,852	18.1%
3	G W Holdings Pty Ltd <sup>2</sup>	23,000,522	8.2%
4	McNeil Nominees Pty Limited	18,646,486	6.6%
5	JP Morgan Nominees Australia Pty Ltd	17,450,020	6.2%
6	Portfolio Services Pty Ltd	14,915,001	5.3%
7	GW Holdings Pty Limited	9,500,000	3.4%
8	Treasure Island Hire Boat Company Pty Ltd	8,788,147	3.1%
9	LIC Investments Pty Ltd	6,500,000	2.3%
10	Abbawood Nominees Pty Ltd	4,202,529	1.5%
11	National Nominees Limited	4,032,954	1.4%
12	HSBC Custody Nominees (Australia) Limited	2,425,701	0.9%
13	Mercantile Investment Company Limited	2,404,350	0.9%
14	Investment Custodial Services Limited	1,960,000	0.7%
15	Mr Edward James Dally & Mrs Selina Dally	1,770,334	0.6%
16	Australian Minerals Corporation Pty Ltd	1,537,478	0.5%
17	Mr Edward James Dally & Mrs Selina Dally	1,420,000	0.5%
18	BNP Paribas Nominees Pty Ltd	1,225,685	0.4%
19	Avenue 8 Pty Limited	1,117,100	0.4%
20	Glen Brae Capital Pty Ltd	1,105,977	0.4%
	<b>Total top 20</b>	<b>225,766,918</b>	<b>80.4%</b>

Source: Mercantile share registry, Capital IQ

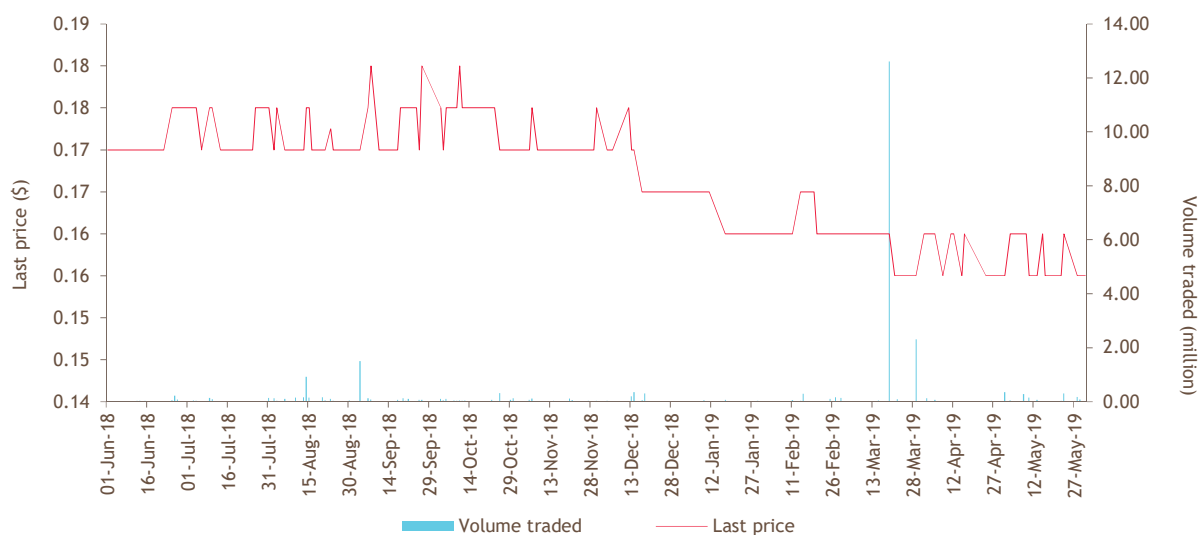
<sup>1</sup>The c.18.9% holding in Mercantile by Sandon represents the acquisition of the Mercantile Stake.

<sup>2</sup>Siblow directly holds 50,783,852 Mercantile shares and indirectly holds 18,646,486 Mercantile shares through McNeil Nominees Pty Ltd.

#### 4.8. Historical share trading analysis

Mercantile entered into a trading halt on 3 June 2019 prior to the announcement of the Proposed Transaction and the Related Party Transaction. As such, Mercantile's share price movements for the 12 months to 31 May 2019, which was the last trading day prior to the trading halt, is set out below.

Figure 4: Daily closing share price and trading volume (1 June 2018 to 31 May 2019)



Source: Capital IQ

We note over the assessed period, there have been a number of significant but unexplained share price movements. For example, Mercantile's shares declined from \$0.18 on 12 December 2018 to \$0.16 on 21 March 2019 with no price sensitive announcements made over this period, only the release of Mercantile's half-year results. In addition, the greatest level of trading occurred on 19 March 2019, where a large block trade for 12.5m shares was made. No price sensitive announcements were released to the market on or around this date.

##### 4.8.1. Volume weighted average price

Mercantile's VWAP over the 12-month period preceding the trading halt and prior to the announcement of the Proposed Transaction and the Related Party Transaction is set out in the table below. We note Mercantile entered into a trading halt on 3 June 2019.

Table 14: Mercantile's VWAP analysis (to 31 May 2019)

Period	Price (Low)	Price (High)	Price VWAP	Cumulative value	Cumulative volume	% of issued capital	Shares held by strategic shareholders	Volume of shares traded as a % of free float shares (excluding strategic ownership) during period
	\$	\$	\$	\$m	m		m	
1 day	0.16	0.16	0.16	0.0	0.0	0.0%	122.4	0.0%
1 week	0.16	0.16	0.16	0.0	0.3	0.1%	122.4	0.2%
1 month	0.16	0.16	0.16	0.2	1.5	0.5%	122.4	0.9%
3 months	0.16	0.16	0.16	2.7	17.0	6.0%	122.4	10.7%
6 months	0.16	0.18	0.16	3.0	18.7	6.7%	122.4	11.8%
12 months	0.16	0.18	0.16	4.1	25.2	9.0%	122.4	15.9%

Source: Capital IQ

Note: Strategic shareholders hold approximately 44% of shares outstanding.

We note the following with respect to the VWAP analysis displayed above:

- ▶ the share price of Mercantile over the 12-month period prior to 3 June 2019 ranged from \$0.16 to \$0.18.
- ▶ the VWAP of Mercantile has remained relatively stable over the assessed period at approximately \$0.16.
- ▶ over the 12-month period immediately preceding 3 June 2019, the cumulative value of Mercantile shares traded was \$4.1m and the cumulative volume of Mercantile shares traded was 25.2m.

The table above also shows the volume of Mercantile shares as a percentage of free float shares (i.e. excluding strategic ownership) during the period. This excludes the c.53.0m Mercantile shares held by Sandon, c.50.8m Mercantile shares held by Siblow, and c. 18.6m Mercantile shares held indirectly by Siblow through McNeil Nominees Pty Limited at 25 June 2019. The table indicates that Mercantile's shares display a relatively low level of liquidity, with 0.9% of Mercantile's issued capital being traded over a one-month period. We note a large block trade made on 19 March 2019 influenced the volume of shares traded from the three-month period.

## **5. FAIRNESS ASSESSMENT AND VALUATION METHODOLOGY**

### **5.1. Fairness assessment overview**

The Related Party Transaction is 'fair' if the value of the financial benefit, being the Consideration Shares offered by Sandon to Siblow, is equal to or less than the value of the asset being acquired, being the Remaining Siblow Shares.

The fairness assessment should assume a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious seller, acting at arm's length.

Having regard to the above, BDO has performed a comparison between the value of the financial benefit, being the Consideration Shares offered by Sandon to Siblow, and the value of the asset being acquired, being the Remaining Siblow Shares.

The valuation methods commonly used for the above analyses are considered below.

### **5.2. Valuation methods**

Details of common methodologies for valuing businesses and assets are included at Appendix 3. The principal methodologies which can be used are as follows:

- ▶ Discounted cash flow (DCF)
- ▶ Capitalisation of maintainable earnings (COE)
- ▶ Net asset value (NAV)
- ▶ Net tangible assets on a realisation basis (NRV)
- ▶ Quoted market price basis (QMP).

Set out below is a discussion around the valuation methods we consider appropriate for the purposes of undertaking our valuation assessment of the Sandon Shares and the Mercantile Shares.

### **5.3. Selected valuation methods for Sandon Shares**

In our assessment of the value of the Sandon Shares, we have chosen to employ the following methodologies:

- ▶ the NAV method, which estimates the market value of a company by separately valuing each asset and liability of the company and then aggregating their fair market values. We have utilised the orderly realisation of assets method as the basis for our NAV. Using this methodology, the value of the net assets of the company is adjusted for the time, cost and taxation consequences of realising the company's assets; and
- ▶ QMP method, which represents the value that a Sandon Shareholder can receive for a share if sold on the market.

We have chosen these methodologies for the following reasons:

- ▶ the QMP basis is a relevant methodology to consider because Sandon shares are listed on the ASX and this reflects the value that a Sandon Shareholder can receive for a share sold on market. This means that there is a regulated and observable market where Sandon shares can be traded. However, in order for the QMP to be considered appropriate, the company's shares should be liquid and the market should be fully informed of its activities;
- ▶ NAV is generally considered the most appropriate method when a significant portion of a company's net assets comprise liquid assets or other investments including marketable securities, real estate investments and mineral rights. As Sandon is a LIC, we consider the NAV methodology to be appropriate;
- ▶ we do not consider that we have reasonable grounds to rely on forecast cash flows for Sandon and therefore we do not consider the application of the DCF methodology to be appropriate; and
- ▶ the FME methodology is most commonly applicable to profitable businesses with steady growth histories and forecasts. We do not consider the FME methodology to be appropriate as Sandon is a LIC and as such, its value is derived from multiple business investments that have differing profitability profiles.

### **5.4. Selected valuation methods for Mercantile Shares**

In our assessment of the value of the Mercantile Shares, we have chosen to employ the following methodologies:

- ▶ the NAV method, which estimates the market value of a company by separately valuing each asset and liability of the company and then aggregating their fair market values. We have utilised the orderly realisation of assets method as the basis for our NAV. Using this methodology, the value of the net assets of the company is adjusted for the time, cost and taxation consequences of realising the company's assets; and
- ▶ QMP method, which represents the value that a shareholder of Mercantile can receive for a share if sold on the market.



We have chosen these methodologies for the following reasons:

- ▶ the QMP basis is a relevant methodology to consider because Mercantile shares are listed on the ASX and this reflects the value that a shareholder of Mercantile can receive for a share sold on market. This means that there is a regulated and observable market where Mercantile shares can be traded. However, in order for the QMP to be considered appropriate, the company's shares should be liquid and the market should be fully informed of its activities;
- ▶ NAV is generally considered the most appropriate method when a significant portion of a company's net assets comprise liquid assets or other investments including marketable securities, real estate investments and mineral rights. As Mercantile is a LIC, we consider the NAV methodology to be appropriate;
- ▶ we do not consider that we have reasonable grounds to rely on forecast cash flows for Mercantile and therefore we do not consider the application of the DCF methodology to be appropriate; and
- ▶ the FME methodology is most commonly applicable to profitable businesses with steady growth histories and forecasts. We do not consider the FME methodology to be appropriate as Mercantile is a LIC and as such, its value is derived from multiple business investments that have differing profitability profiles.

## **5.5. Other valuation considerations**

### **5.5.1. Future events**

The business of Sandon and Mercantile assumed in this valuation, is that which exists at the current date.

Future growth which arises from an increase of income generated by each property asset has been considered in this valuation through our consideration of the fair market value of each property.

Other growth potential, which may result from new activities, business initiatives, acquisitions and the like (which are not capable of estimation), is not within the scope of this valuation.

### **5.5.2. Synergies**

The level of synergies that can be derived from a takeover or merger is dependent on the nature of the respective businesses and their geographical and operational overlap.

We have not considered special value in forming our opinion. Accordingly, we have not attributed any value to the potential synergies listed above in our valuation approach beyond those generally observed in the market.

### **5.5.3. Control premium**

We consider the Consideration Shares and the Remaining Siblow Shares to represent controlling interests.

Investment fundamentals dictate that the value of a controlling interest in an entity is normally greater than the sum of values attributable to the individual shares of that company based on transactions in minority share holdings.

The difference between the value of a controlling interest in a company and the total value of minority share holdings is referred to as a "premium for control" taking into account control and synergistic benefits for the acquirer.

Control of a company by a shareholder gives that shareholder rights to which minority shareholders are not entitled, including control of the company's policies and strategies, and use of cash flows of the company.

A premium for control is applicable when an acquisition would give rise to benefits such as:

- ▶ the ability to realise synergistic benefits;
- ▶ access to cash flows;
- ▶ access to tax benefits; and
- ▶ control of the board of directors of the company.

Therefore, a transaction premium would typically include a premium for control as well as potential buyer specific synergies.

The level of premium for control paid in a takeover bid will vary across industries and is dependent upon the specifics of the company being acquired. In arriving at an appropriate premium for control to apply, we note that buyers would generally assess the following considerations:

- ▶ level of liquidity in the trade of the target's securities;
- ▶ synergistic value;
- ▶ nature and magnitude of non-operating assets;
- ▶ nature and magnitude of discretionary expenses;
- ▶ perceived quality of existing management;
- ▶ nature and magnitude of business opportunities not currently being exploited; and

- ▶ ability to integrate the target into the acquirer's business.

In our assessment of an appropriate control premium for Sandon and Mercantile, we reviewed Australian LIC acquisitions over the period 2012 to 2019. We note the industry historically lacks an active M&A market. We reviewed the offer premium to the share price one trading day before the offer announcements along with the offer premium to the pre-tax NTA of the target prior to the announcement. The details of the three transactions are set out below. We note one-day prior control premiums are in the range of 0.0% to 15.0%, with an average premium of c. 5.5%, while premiums to NTA average c. 1.0%.

Table 15: Control premiums

Transaction Announce Date	Target	Buyer	Offer Price	Target Share Price	Target NTA	1-Day Premium to Target Share Price	Premium to Target NTA
30/08/2018	Wealth Defender Equities Ltd.	WAM Capital Ltd.	1.00	0.87	0.97	15.1%	3.0%
21/02/2017	Century Australia Investments Ltd.	Century Australia Investments Ltd.	0.94	0.93	0.94	1.2%	0.0%
14/09/2012	WAM Capital Ltd.	Premium Investors Ltd.	1.64	1.64	1.64	0.2%	0.0%
					Maximum	15.1%	3.0%
					Average	5.5%	1.0%
					Median	1.2%	0.0%
					Minimum	0.2%	0.0%

Source: ASX announcements, Capital IQ and BDO analysis

Further, we have reviewed 24 LICs in the Australian market. We have determined the premium for control by comparing the NTA of the LIC to the traded price of the share. NTAs are generally considered controlling values, whilst market-traded values are minority values (we note the data above supports our view that the NTA value of a LIC is a controlling value). We note that other factors may contribute to LICs trading below the NTA value such as the cost of funding management expenses.

In addition to the above, we do not believe that there is a significant premium to be paid for control due to the simplicity of recreating portfolios held by LICs as well as the low costs associated with replicating these portfolios.

Table 16: Average Australian LIC premiums/(discounts) to NTA

	FY2017	FY2018	31-May-19
NTA	Premium/(Discount)	Premium/(Discount)	Premium/(Discount)
Max	24.5%	20.2%	14.2%
Average	-3.0%	-4.8%	-7.5%
Median	-4.7%	-5.4%	-7.9%
Min	-14.2%	-16.6%	-22.2%

Source: Capital IQ, BDO analysis

Our results indicate that there is a significant spread in relation to discounts and premiums to NTA in the market, with discounts of up to c. 22% and premiums of up to c. 24.5% being noted over the assessed period. It can be noted however, that the average results of our analysis illustrates an average discount over the assessed period of between 3.0% and 7.5% and a median of between 4.7% and 7.9%.

Based on the above, we consider a control premium of between 2% and 5% to be appropriate for both Sandon and Mercantile. Refer to Appendix 4 for a list of LICs utilised in our analysis.

#### 5.5.4. Valuation in accordance with APES 225

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services, as issued by the Australian Professional and Ethical Standards Board.

## 6. VALUATION OF SANDON SHARES

See below for the valuation assessment of Sandon Shares based upon the adjusted NAV method and the QMP method.

### 6.1. FMV of a Sandon share using the NAV method

We have assessed the FMV of Sandon on a control basis. We considered applying adjustments to the NAV, as discussed in more detail below, as the resulting value represents 100% of the equity value of Sandon on an orderly realisation of assets method. As such, we have valued Sandon based on its estimated realisable value after allowing for realisation expenses and after all liabilities have been extinguished.

Table 17: NAV

\$'000	Note	Mgmt accts as at 31-May-19	Low value	High value
<b>Assets</b>				
Cash and cash equivalents		175	175	175
Trade and other receivables		31	31	31
Prepayments		13	13	13
Financial assets	1	46,634	46,634	46,634
<b>Total current assets</b>		<b>46,854</b>	<b>46,854</b>	<b>46,854</b>
Deferred tax assets	2	60	60	60
<b>Total non-current assets</b>		<b>60</b>	<b>60</b>	<b>60</b>
<b>Total assets</b>		<b>46,914</b>	<b>46,914</b>	<b>46,914</b>
<b>Liabilities</b>				
Trade and other payables		711	711	711
<b>Total current liabilities</b>		<b>711</b>	<b>711</b>	<b>711</b>
Deferred tax liabilities		1,222	1,222	1,222
<b>Total non-current liabilities</b>		<b>1,222</b>	<b>1,222</b>	<b>1,222</b>
<b>Total liabilities</b>		<b>1,933</b>	<b>1,933</b>	<b>1,933</b>
<b>Net assets</b>		<b>44,981</b>	<b>44,981</b>	<b>44,981</b>
Less: Investment portfolio realisation costs	3		(97)	(97)
Less: Estimated transaction costs	4		(100)	(100)
<b>Adjusted net assets at 31 May 2019</b>			<b>44,784</b>	<b>44,784</b>
<b>Subsequent events</b>				
Acquisition of Mercantile Stake on 14 June 2019	5		9,007	10,066
<b>Adjusted net assets including subsequent events</b>			<b>53,790</b>	<b>54,850</b>
Number of shares on issue at 31 May 2019 (000s)	6		48,435	48,435
Shares issued to Siblow on 14 June 2019 (000s)	7		10,824	10,824
<b>Total shares on issue (000s)</b>			<b>59,259</b>	<b>59,259</b>
<b>Value per share (\$)</b>			<b>0.91</b>	<b>0.93</b>

Source: Capital IQ and BDO analysis

BDO has considered the following in applying the NAV methodology:

#### 1. Financial assets

Financial assets include comprise Sandon's listed and unlisted investments at 31 May 2019. All material financial assets are valued by reference to quoted prices and have been revalued at 31 May 2019.

#### 2. Deferred tax asset

We have included the value of Sandon's deferred tax assets in applying the NAV methodology. A deferred tax asset can only be realised in the presence of taxable profits. As we are assessing the valuation of Sandon using the orderly realisation of assets method, we have attributed value of the tax losses under the expectation that Sandon continues to be a profit making entity.

#### 3. Investment portfolio realisation costs

In order to liquidate Sandon's current listed investments, we have considered the exit fees payable that will arise upon realisation of the investment portfolio. Management have estimated the investment portfolio realisation costs at 0.3% of the market value of the portfolio at 31 May 2019, and tax effected by 30%, amounting to c. \$97k.

#### 4. Estimated transaction costs

In order to undertake the Proposed Transaction, Sandon has incurred certain corporate advisory, legal and other related costs which BDO has taken into consideration in calculating the NAV of Sandon. Based on our

experience with similar transactions, the transaction costs associated with the Proposed Transaction are expected to be approximately \$100k and will be borne by Sandon. These costs will be incurred even if Sandon Shareholders do not approve the Proposed Transaction or the Related Party Transaction.

5. Acquisition of Mercantile stake from Siblow

Sandon acquired c.53.0m Mercantile shares from Siblow on 14 June 2019 as discussed in Section 1.2. We have calculated the value of the Mercantile Stake to be in the range of c.\$9.0m and c.\$10.0m using the preferred range as determined in Section 7.2. multiplied by the c.53.0m shares acquired by Sandon.

6. Shares on issue at 31 May 2019

As at 31 May 2019, Sandon had c.48.4m shares on issue.

7. Shares issued to Siblow on 14 June 2019

With respect to the acquisition of the Mercantile Stake, c.10.8m Sandon shares were issued to Siblow which formed part of the consideration. This brought the total number of Sandon shares issued as at 14 June 2019 to c.59.3m.

The above adjustments resulted in an implied NAV valuation range of c.\$53.8m to c.\$54.9m. This translates to a value per Sandon share in the range of \$0.91 to \$0.93 on a control basis.

## 6.2. FMV of Sandon Shares - QMP method

To provide a comparison to the NTA valuation of Sandon Shares in Section 6.1, we have also assessed the quoted market price for a Sandon share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.69 states that for the quoted market price methodology to be an appropriate methodology, there needs to be a 'liquid and active' market in the shares and allowing for the fact that the quoted price may not reflect their value should 100% of the securities not be available for sale. We consider the following characteristics to be representative of a liquid and active market:

- ▶ regular trading in a company's securities;
- ▶ approximately 1% of a company's securities are traded on a weekly basis;
- ▶ the spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- ▶ there are no significant and unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'liquid and active'. However, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

Our analysis of the quoted market price of a Sandon share is based on pricing prior to the announcement of the Proposed Transaction and the Related Party Transaction. This is because the value of a Sandon share after the announcements of the Proposed Transaction and Related Party Transaction may include the effects of any change in value as a result of these transactions.

Sandon entered into a trading halt on 3 June 2019 prior to the announcement of the Proposed Transaction and the Related Party Transaction. Therefore, we have assessed the share price of Sandon up to 31 May 2019, being the last trading day prior to the trading halt.

Table 18: Share price analysis

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital
1 day	0.83	0.83	0.83	0.0	0.0	0.0%
1 week	0.83	0.86	0.84	0.1	0.1	0.3%
1 month	0.83	0.91	0.87	0.9	1.0	2.0%
3 months	0.83	0.98	0.89	2.8	3.1	6.4%
6 months	0.80	0.98	0.88	3.6	4.0	8.4%
12 months	0.80	1.00	0.91	7.0	7.7	15.9%

Source: Capital IQ, BDO analysis

We have calculated Sandon's VWAP over various periods preceding the Proposed Transaction and Related Party Transaction date, and included a control premium range of 2% to 5%. (Refer to Section 5.5.3.)

Table 19: VWAP analysis

Period	Price VWAP \$	2% Control premium \$	5% Control premium \$
1 day	0.83	0.84	0.87
1 week	0.84	0.86	0.88
1 month	0.87	0.89	0.92
3 months	0.89	0.91	0.93
6 months	0.88	0.90	0.92
12 months	0.91	0.93	0.96

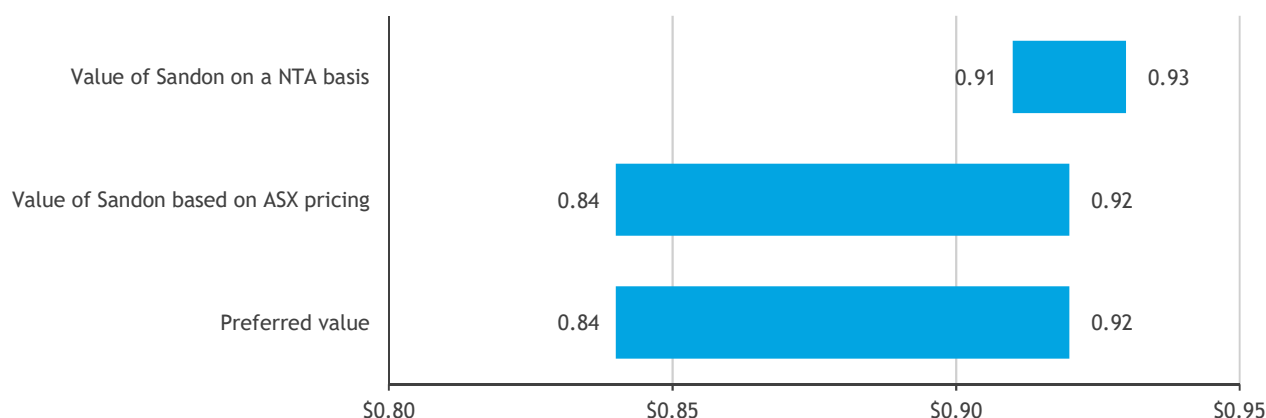
Source: Capital IQ, BDO analysis

Overall, we consider a QMP value of \$0.84 and \$0.92 on a control basis to be an appropriate value for a Sandon share.

### 6.3. Conclusion as to the FMV of a Sandon share

A summary of our valuation is set out below.

Figure 5: Sandon FMV Summary



Source: BDO analysis

We have adopted the low end of the ASX pricing and the midrange of the NTA valuation as our preferred value per Sandon share. As such, we consider a preferred value of \$0.84 to \$0.92 to be appropriate for Sandon, on a control basis, prior to the implementation of the Proposed Transaction and the Related Party Transaction.

### 6.4. Total value of the Consideration Shares

As part of the Related Party Transaction, Sandon will acquire the 69,430,338 Remaining Siblow Shares. The consideration under the Related Party Transaction is 0.2043 Sandon shares for every Mercantile share. As such, Sandon will issue up to 14,184,618 shares to Siblow per the terms of the Related Party Transaction.

A summary of the total value of the Consideration Shares is set out below.

Table 20: Value of Consideration Shares

Value of Consideration Shares	Low value	High value
Value per Sandon share (\$)	0.84	0.92
Total number of Sandon shares being issued under the Related Party Transaction	14,184,618	14,184,618
<b>Total value of the Sandon Shares (\$)</b>	<b>11,915,079</b>	<b>13,049,849</b>

Source: BDO analysis

The total value of the Sandon Shares is therefore in the range of c.\$11.9m and c.\$13.0m.

## 7. VALUATION OF MERCANTILE SHARES

See below for the valuation assessment of Mercantile Shares based upon the adjusted NAV method and the QMP method.

### 7.1. FMV of Mercantile Shares using the NAV method

We have assessed the FMV of Mercantile on a control basis prior to the announcement of the Proposed Transaction and the Related Party Transaction. We considered applying adjustments to the NAV, as discussed in more detail below, as the resulting value represents 100% of the equity value of Mercantile on an orderly realisation of assets method. As

such, we have valued Mercantile based on its estimated realisable value after allowing for realisation expenses and after all liabilities have been extinguished.

Table 21: NAV

\$'000s	Notes	Mgmt accts as at 31-May-19	Low value	High value
<b>Current assets</b>				
Cash and cash equivalents		7,078	7,078	7,078
Trade and other receivables		1,797	1,797	1,797
Net loans and advances		3,442	3,442	3,442
Financial assets at fair value through profit or loss	1	38,269	38,269	38,269
Other current assets		98	98	98
<b>Total current assets</b>		<b>50,683</b>	<b>50,683</b>	<b>50,683</b>
<b>Non-current assets</b>				
Financial assets at fair value through other comprehensive income	1	38,691	38,691	38,691
Property, plant and equipment		40	40	40
Deferred tax assets		329	329	329
<b>Total non-current assets</b>		<b>39,060</b>	<b>39,060</b>	<b>39,060</b>
<b>Total assets</b>		<b>89,744</b>	<b>89,744</b>	<b>89,744</b>
<b>Current liabilities</b>				
Trade and other payables		11,126	11,126	11,126
Current tax liability		1,712	1,712	1,712
<b>Total current liabilities</b>		<b>12,839</b>	<b>12,839</b>	<b>12,839</b>
<b>Non-current liabilities</b>				
Unsecured notes	2	22,672	22,672	22,672
Deferred tax liabilities		(432)	(432)	(432)
<b>Total current liabilities</b>		<b>22,310</b>	<b>22,240</b>	<b>22,240</b>
<b>Total liabilities</b>		<b>35,079</b>	<b>35,079</b>	<b>35,079</b>
<b>Net assets</b>		<b>54,665</b>	<b>54,665</b>	<b>54,665</b>
<i>Less: Capitalised costs (asset) pertaining to the Mercantile Notes</i>	2		(375)	(375)
<i>Less: Investment portfolio realisation costs</i>	3		(109)	(109)
<i>Less: Estimated transaction costs</i>	4		(100)	(100)
<i>Less: Value of Mercantile Options</i>	5		(910)	(910)
<i>Add: Net operating liability value of 100% of Richfield</i>	6		-	1,325
<i>Less: Net asset value of 100% of Ask Funding</i>	7		(3,346)	(3,346)
<i>Add: FMV of 100% of Richfield</i>	6		-	1,500
<i>Add: FMV of 72% of Ask Funding</i>	7		2,409	2,409
<b>Adjusted net assets</b>			<b>52,235</b>	<b>55,060</b>
Number of shares on issue at 31 May 2019 (000s)	8		280,700	280,700
<b>Value per share (\$)</b>			<b>0.19</b>	<b>0.20</b>

Source: Capital IQ and BDO analysis

BDO has considered the following in applying the NAV methodology:

1. Financial assets

Financial assets comprise Mercantile's listed and unlisted investments at 31 May 2019. All material financial assets are valued by reference to quoted prices and have been revalued at 31 May 2019.

2. Unsecured notes

The amounts comprising the unsecured notes balance at 31 May 2019 is summarised below.

Table 22: Summary of total unsecured notes balance

\$'000s	31-May-19
Face value of the Mercantile Notes	22,309
Accrued interest	738
Capitalised costs	(375)
<b>Total unsecured notes balance</b>	<b>22,672</b>

Source: Management information

Under the terms of the Mercantile Notes, if a change of control of Mercantile occurs, the Mercantile board may redeem the Mercantile Notes at face value plus any unpaid interest. As our valuation has been performed on a net realisable value basis, we consider it appropriate to value the Mercantile Notes at face value.

If the Mercantile Notes were to be redeemed, the total payment would be the face value plus any accrued interest. There would be no reduction in the payment for capitalised costs. As such, we have deducted the capitalised cost asset of c.\$375k in our adjusted net asset valuation.

### 3. Investment portfolio realisation costs

In order to liquidate Mercantile's current listed investments, we have considered the exit fees payable that will arise upon realisation of the investment portfolio. Management have estimated the investment portfolio realisation costs at 0.3% of the market value of the portfolio at 31 May 2019, and tax effected by 30%, amounting to c.\$109k.

### 4. Estimated transaction costs

In order to undertake the Proposed Transaction, Mercantile has incurred certain corporate advisory, legal and other related costs which BDO has taken into consideration in calculating the NAV of Mercantile. Based on our experience with similar transactions, the transaction costs associated with the Proposed Transaction are expected to be approximately \$100k and will be borne by Mercantile. These costs will be incurred even if the Proposed Transaction does not proceed.

### 5. Mercantile options

Mercantile has 50 million options on issue. The value of the Mercantile options has been determined based on the Mercantile share price (using the implied Mercantile/Sandon merger ratio and Sandon's two-day VWAP as at 31 May 2019) and an expected volatility of 30%.

The holders of the Mercantile options essentially have a claim over the equity of Mercantile. As such, we have deducted c.\$910k from the net assets of Mercantile, reflecting the value of the Mercantile options.

### 6. Investment in Richfield

The value of 100% of the net assets of Richfield has been reflected in the unadjusted net asset value of Mercantile at 31 May 2019. The FMV of Richfield may be different to its net asset value. We have not adjusted the value of Mercantile's investment in Richfield in our low scenario.

In our high scenario, we have added back the net operating liability of Richfield at 31 May 2019 totalling c.\$1.3m. We have replaced this with our assessment of the fair market value of Richfield (\$1.5m) which was determined based on Richfield's average EBITDA over FY17 and FY18.

### 7. Investment in Ask Funding

Ask Funding's value is largely attributable to its loan book assets. Credit impairment in respect of these loans is determined on an individual case basis through an assessment undertaken by management. The carrying value of these loans at 31 May 2019 is not materially different to the value at 31 December 2018 and Ask Funding directors have noted no material change to the nature of the loan book.

We have removed 100% of the net assets of Ask Funding at 31 May 2019, and added back 72% of the net assets of Ask Funding to reflect Mercantile's 72% ownership stake in the company.

### 8. Shares on issue

As at 31 May 2019, Mercantile had c. 280.7m shares on issue.

The above adjustments resulted in an implied NAV valuation range of between c.\$52.2m and c.\$55.1m. This translates to a value per Mercantile share of \$0.19 to \$0.20.

## 7.2. FMV of a Mercantile share - QMP method

To provide a comparison to the valuation of Mercantile Shares in Section 7.1, we have also assessed the quoted market price for a Mercantile share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.



RG 111.69 states that for the quoted market price methodology to be an appropriate methodology, there needs to be a ‘liquid and active’ market in the shares and allowing for the fact that the quoted price may not reflect their value should 100% of the securities not be available for sale. We consider the following characteristics to be representative of a liquid and active market:

- ▶ regular trading in a company’s securities;
- ▶ approximately 1% of a company’s securities are traded on a weekly basis;
- ▶ the spread of a company’s shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- ▶ there are no significant and unexplained movements in share price.

A company’s shares should meet all of the above criteria to be considered ‘liquid and active’. However, failure of a company’s securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

Our analysis of the quoted market price of a Mercantile share is based on pricing prior to the announcement of the Proposed Transaction and the Related Party Transaction. This is because the value of a Mercantile share after the announcements of the Proposed Transaction and Related Party Transaction may include the effects of any change in value as a result of these transactions.

Mercantile entered into a trading halt on 3 June 2019 prior to the announcement of the Proposed Transaction and the Related Party Transaction. Therefore, we have assessed the share price of Mercantile up to 31 May 2019, being the last trading day prior to the trading halt.

Table 23: Share price analysis

Period	Price (Low) \$	Price (High) \$	Price VWAP \$	Cumulative value \$m	Cumulative volume m	% of issued capital	Shares held by strategic shareholders m	Volume of shares traded as a % of free float shares (excluding strategic ownership) during period
1 day	0.16	0.16	0.16	0.0	0.0	0.0%	122.4	0.0%
1 week	0.16	0.16	0.16	0.0	0.3	0.1%	122.4	0.2%
1 month	0.16	0.16	0.16	0.2	1.5	0.5%	122.4	0.9%
3 months	0.16	0.16	0.16	2.7	17.0	6.0%	122.4	10.7%
6 months	0.16	0.18	0.16	3.0	18.7	6.7%	122.4	11.8%
12 months	0.16	0.18	0.16	4.1	25.2	9.0%	122.4	15.9%

Source: Capital IQ

Note: Strategic shareholders hold approximately 44% of shares outstanding.

The table above also shows the volume of Mercantile shares as a percentage of free float shares (i.e. excluding strategic ownership) during the period. This excludes the c.53.0m Mercantile shares held by Sandon, c.50.8m Mercantile shares held by Siblow, and c.18.6m Mercantile shares held indirectly by Siblow through McNeil Nominees Pty Limited at 25 June 2019. The table indicates that Mercantile’s shares display a relatively low level of liquidity, with 0.9% of Mercantile’s issued capital being traded over a one-month period. We note a large block trade made on 19 March 2019 influenced the volume of shares traded from the three-month period.

We have calculated Sandon’s VWAP over various periods preceding the Proposed Transaction and Related Party Transaction date, and included a control premium range of 2% to 5%. (Refer to Section 5.5.3.)

Table 24: Share price analysis

Period	Price VWAP \$	2% Control premium \$	5% Control premium \$
1 day	0.155	0.158	0.163
1 week	0.158	0.162	0.166
1 month	0.159	0.162	0.167
3 months	0.159	0.162	0.166
6 months	0.159	0.162	0.167
12 months	0.163	0.166	0.171

Source: Capital IQ, BDO analysis

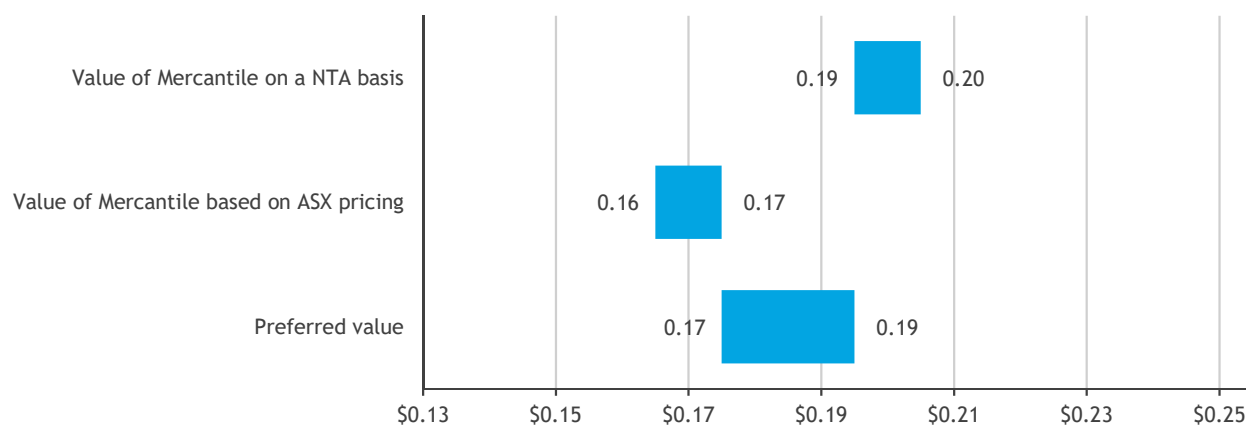
Overall, we consider a value of \$0.16 and \$0.17 on a control basis to be an appropriate value for a Mercantile share.



### 7.3. Conclusion as to the FMV of a Mercantile share

A summary of our valuation is set out below.

Figure 6: Mercantile FMV Summary



Source: BDO analysis

We have adopted the high end of the ASX pricing and the low end of the NTA valuation as the preferred value per Mercantile share. As such, we consider a preferred value of \$0.17 to \$0.19 to be appropriate for Mercantile, on a control basis, prior to the implementation of the Proposed Transaction and the Related Party Transaction.

#### 7.3.1. Total value of the Remaining Siblow Shares

As part of the Related Party Transaction, Sandon will acquire the 69,430,338 Remaining Siblow Shares. A summary of the total value of the Remaining Siblow Shares is set out below.

Table 25: Value of Remaining Siblow Shares

Value of Remaining Siblow Shares	Low value	High value
Value per Mercantile Share (\$)	0.17	0.19
Total number of Remaining Siblow Shares	69,430,338	69,430,338
<b>Total value of Remaining Siblow Shares</b>	<b>11,803,157</b>	<b>13,191,764</b>

Source: BDO analysis

The total value of the Remaining Siblow Shares is therefore in the range of c.\$11.8m and c.\$13.2m.

## 8. ASSESSMENT OF FAIRNESS

### 8.1. Fairness assessment

RG 111.58 states where the Related Party Transaction consists of an asset acquisition by the entity, it is 'fair' if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the asset being acquired. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

Our analysis has been performed by comparing the value of the:

- ▶ asset being acquired by Sandon, being the Remaining Siblow Shares; and
- ▶ the financial benefit being provided to Siblow by Sandon, being the Consideration Shares.

The result of our fairness analysis is summarised below.

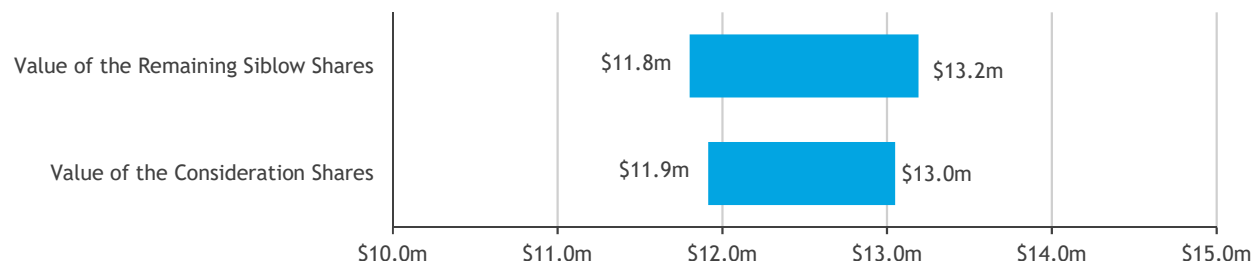
Table 26: Valuation summary

Valuation summary	Low	High
Value of the Remaining Siblow Shares	11,803,157	13,191,764
Value of the Consideration Shares	11,915,079	13,049,849

Source: BDO analysis

This is set out graphically below.

Figure 7: Graphical summary of fairness assessment



Source: BDO analysis

The value of the Consideration Shares and the Remaining Siblow Shares overlap, indicating that the Related Party Transaction is fair to Sandon Shareholders.

## 9. REASONABLENESS ASSESSMENT

In accordance with RG 111 an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, the expert believes there are sufficient reasons for Sandon Shareholders to accept the Related Party Transaction in the absence of a superior offer.

Whilst we have concluded that the Related Party Transaction is fair, we have assessed the reasonableness of the Related Party Transaction by considering the factors relevant for a Sandon Shareholder to consider. Set out below is a summary of factors we have considered in our reasonableness assessment.

### 9.1. Advantages

#### 9.1.1. The Related Party Transaction is Fair

Our analysis in Section 8 concludes that the Related Party Transaction is fair to Sandon Shareholders. RG 111 states that an offer is reasonable if it is fair.

#### 9.1.2. The Related Party Transaction is on the same terms as the Proposed Transaction

Sandon has announced an offer to acquire all the Mercantile shares on issue, including the shares held by Siblow. All shares are being acquired on the same terms, for the same consideration, being 0.2043 Sandon shares per Mercantile share.

Over 75% of the Mercantile shares subject to Sandon's offer are held by parties unrelated to Sandon.

As the unrelated shareholders represent over 75% of all shares being acquired, and all Mercantile shareholders are being offered the same consideration, we are of the opinion that it is highly likely that the offer price has been negotiated at arms' length terms. We note that Siblow is not receiving a benefit in excess of other Mercantile shareholders.

#### 9.1.3. Potential for increased liquidity of Sandon shares

The Proposed Transaction is conditional upon Sandon Shareholders approving all resolutions, including those relating to the Related Party Transaction. If the Related Party Transaction is approved, the Proposed Transaction may be successful.

If the Proposed Transaction is successful, the number of Sandon shares on issue may increase from c.48.4m to c.106.4m. Based on the ASX trading at 31 May 2019, Sandon's market capitalisation may increase from c.\$40.0m at 31 May 2019 to c.\$87.8m assuming 100% acceptance of the offer by Mercantile shareholders.

In general, larger LICs experience greater liquidity in trading on the ASX, which is a benefit to Sandon Shareholders.

#### 9.1.4. The share price of the enlarged Sandon may benefit from potential synergies

The share price of the enlarged Sandon may benefit from an increase in scale as well as cost savings and other synergies of the combined group due to:

- ▶ combining investment processes and structures, as well as support functions such as head offices and registry services; and
- ▶ a reduction in listing and other governance costs.

We note that the extent to which Sandon Shareholders can realise these synergies is dependent upon the level of acceptances of the Proposed Transaction.

## 9.2. Disadvantages

### 9.2.1. The Related Party Transaction will result in a significant shareholder

As at 25 June 2019, Siblow (and therefore Sir Ron Brierley) holds 10,823,974 shares, or c.18.3%, of Sandon. If the Related Party Transaction is approved, Sandon will issue an additional 14,184,618 shares to Siblow (i.e. the 69,430,338 Remaining Siblow Shares multiplied by an exchange ratio of 0.2043).

A summary of the share structure of Sandon following the Proposed Transaction based on 80% and 100% acceptance of the other Mercantile shareholders is set out below.

Table 27: Share structure following the Proposed Transaction (80% acceptance)

Share structure following the Proposed Transaction (80% acceptance)	Siblow	Other	Total
<b>Existing shareholding</b>			
Issued shares (25 June 2019)	10,823,974	48,435,427	59,259,401
Shareholding (%)	18.3%	81.7%	100.0%
<b>Following the Proposed Transaction</b>			
Issue of Sandon shares to Mercantile shareholders	14,184,618	20,869,016	35,053,634
Issue of Sandon shares to Mercantile optionholders		601,457	601,457
Issued shares following the Proposed Transaction	25,008,592	69,905,900	94,914,492
Shareholding (%)	26.3%	73.7%	100.0%

Source: BDO analysis

Table 28: Share structure following the Proposed Transaction (100% acceptance)

Share structure following the Proposed Transaction (100% acceptance)	Siblow	Other	Total
<b>Existing shareholding</b>			
Issued shares (25 June 2019)	10,823,974	48,435,427	59,259,401
Shareholding (%)	18.3%	81.7%	100.0%
<b>Following the Proposed Transaction</b>			
Issue of Sandon shares to Mercantile shareholders	14,184,618	32,338,418	46,523,036
Issue of Sandon shares to Mercantile option holders		601,457	601,457
Issued shares following the Proposed Transaction	25,008,592	81,375,302	106,383,894
Shareholding (%)	23.5%	76.5%	100.0%

Source: BDO analysis

Sir Ron Brierley will have, by virtue of his substantial holding in Sandon, the capacity to influence the election of directors, and the potential to influence the outcome of matters submitted to a vote of Sandon shareholders.

### 9.2.2. Assumption of debt

Following the Related Party Transaction and the Proposed Transaction, the enlarged Sandon will assume the debt associated with the Mercantile Notes.

The Mercantile Notes have a fixed interest obligation of 8.0% per annum which must be paid irrespective of the performance of the Company. This fixed obligation to pay interest may be a disadvantage to Sandon Shareholders.

Under the terms of the Mercantile Notes, if a change of Mercantile occurs, the Mercantile notes may be redeemed at face value. However, the Independent Directors have not determined whether to seek to have Mercantile redeem these Mercantile Notes.

If the notes were to be redeemed, the redemption would be required to be funded. Potential funding options include the issue of additional Sandon shares, by raising new debt, or by funds raised by liquidating investments.

### 9.2.3. The enlarged entity will hold additional unlisted investments

Mercantile controls two small operating businesses, Ask Funding and Richfield. Approval of the Related Party Transaction and Proposed Transaction means the enlarged Sandon will hold these unlisted investments. There is an inherent risk associated with unlisted investments in that they are illiquid and determining and realising their value is a more complicated process compared to listed investments.

### 9.3. Other factors

#### 9.3.1. Independent Directors' recommendation

The Independent Directors of Sandon have recommended that Sandon Shareholders vote in favour of the Related Party Transaction.

### 9.4. Conclusion on reasonableness

Based on the above, we consider the Related Party Transaction to be reasonable to Sandon Shareholders.

## 10. OVERALL OPINION

We have considered the terms of the Related Party Transaction, as outlined in this Report, and have concluded that the Related Party Transaction is fair and reasonable to Sandon Shareholders.

## 11. QUALIFICATIONS, DECLARATIONS AND CONSENTS

### 11.1. Qualifications

BDO is the licensed corporate finance arm of BDO East Coast Partnership, Chartered Accountants and Business Advisers. BDO provides advice in relation to all aspects of valuations and has extensive experience in the valuation of corporate entities and provision of expert's reports.

Mr David McCourt, B.Bus, CA, is a director of BDO and a CA certified Business Valuations Specialist. Mr McCourt is also a partner of BDO East Coast Partnership. Mr McCourt has been responsible for the preparation of this IER.

Mr McCourt has over 19 years of experience in a number of specialist corporate advisory activities including company valuations, financial modelling, preparation and review of business feasibility studies, accounting, advising on mergers and acquisitions and advising on independent expert reports. Accordingly, Mr McCourt is considered to have the appropriate experience and professional qualifications to provide the advice offered.

Mr Sebastian Stevens, B.Bus, CPA is a Director of BDO. Mr Stevens is also a partner of BDO East Coast Practice.

Mr Stevens is the Director responsible for the review of this IER. Mr Stevens has over 25 years of experience in a number of specialist corporate advisory activities including company valuations advising on independent expert reports, due diligence investigations, preparation and review of business feasibility studies, public company floats, accounting, advising on mergers and acquisitions, preparation of information memoranda and other corporate investigations. Accordingly, Mr Stevens is considered to have the appropriate experience and professional qualifications to provide the advice offered.

### 11.2. Independence

BDO is not aware of any matter or circumstance that would preclude it from preparing this IER on the grounds of independence either under regulatory or professional requirements. In particular, we have had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and ASIC.

BDO considers itself to be independent in terms of RG 112 independence of experts, issued by ASIC. In June 2019, BDO was engaged by Sandon in connection with providing the valuation of options held by key management personnel, Campbell Morgan and Gabriel Radzynski of Mercantile. This matter has not had any impact on our independence.

BDO was not involved in advising on, negotiating, setting, or otherwise acting in any capacity for Sandon in relation to the Related Party Transaction. Further, BDO has not held and, at the date of this IER, does not hold any shareholding in, or other relationship with Sandon or Mercantile that could be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Related Party Transaction.

BDO will receive a fee of up to \$45,000 plus Goods and Services Tax for the preparation of this IER. BDO will not receive any fee contingent upon the outcome of the Related Party Transaction, and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Related Party Transaction.

A draft of this IER was provided to the Independent Directors and their advisors for review of factual accuracy. Certain changes were made to the IER as a result of the circulation of the draft IER. However, no changes were made to the methodology, conclusions, or recommendations made to the Sandon Shareholders as a result of issuing the draft IER.

### 11.3. Disclaimer

This IER has been prepared at the request of the Independent Directors and was not prepared for any purpose other than that stated in this IER. This IER has been prepared for the sole benefit of the Independent Directors and Sandon Shareholders. Accordingly, this IER and the information contained herein may not be relied upon by anyone other than the Directors and Sandon Shareholders without the written consent of BDO. BDO accepts no responsibility to any person other than the Independent Directors and Sandon Shareholders in relation to this IER.

The statements and opinions contained in this IER are given in good faith and are based upon BDO's consideration and assessment of information provided by the Independent Directors, executives and Management of all the entities.

## APPENDIX 1: GLOSSARY

Term	Definition
APES 225	Accounting Professional & Ethical Standards Board Limited issued professional standard APES 225 on valuation services
Ask Funding	Ask Funding Limited
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rule 10.1	ASX Listing Rules Chapter 10 - Transactions with persons in a position of influence
Bank Bill Swap Rate	The wholesale interbank rate within Australia
BDO, we, our or us	BDO Corporate Finance (East Coast) Pty Ltd (ABN 70 050 038 170)
COE	Capitalisation of maintainable earnings
Consideration Shares	The 14,184,618 Sandon shares offered to Siblow under the Related Party Transaction as consideration for the Remaining Siblow Shares
Corporations Act	Corporations Act 2001
DCF	Discounted cash flow method
EV	Enterprise value
FOS	Financial Ombudsman Service Limited
FSG	Financial Services Guide
FYxx	Financial year ended/ending 30 June 20xx
FMV	Fair market value
GST	Goods and services tax
Independent Directors	Melinda Snowden and Peter Velez
LIC	Listed investment company
Licence	Australian Financial Services Licence No: 247420
M&A	Merger and acquisitions
Mercantile	Mercantile Investment Company Limited
Mercantile Stake	The acquisition of 52,980,782 Mercantile shares by Siblow on 3 June 2019
NAV	Net asset value
NTA	Net tangible assets
NZX	New Zealand Exchange
Proposed Transaction	Sandon's proposed acquisition of 100% of the issued capital of Mercantile
QMP	Quoted market price basis
RBA	Reserve Bank of Australia
Related party transaction	Sandon's acquisition of a significant asset, being the Remaining Siblow Shares, from Siblow
Remaining Siblow Shares	The remaining 69,430,338 shares in Mercantile held by Siblow
Report or IER	Independent expert's report
Richfield	Richfield International Limited
RG 111	ASIC Regulatory Guide 111 Content of expert reports
RG 112	ASIC Regulatory Guide 112 Independence of experts
Sandon	Sandon Capital Investments Limited
Sandon Shareholders	Sandon Shareholders not associated with Siblow Pty Limited
Siblow	Siblow Pty Limited, an entity controlled by Sir Ron Brierley
Transaction Document	Notice of meeting
VWAP	Volume weighted average price

Source: BDO

## APPENDIX 2: SOURCES OF INFORMATION

In preparing this IER, we had access to and relied upon the following principal sources of information:

- ▶ Draft Notice of Meeting on or about the date of this Report
- ▶ Sandon and Mercantile annual reports for the years ended 30 June 2017 and 30 June 2018
- ▶ Unaudited management accounts for Sandon and Mercantile for the 11 months ended 31 May 2019
- ▶ ASX announcements
- ▶ Discussions with the Independent Directors and management of Sandon and Mercantile
- ▶ Information sourced from CapitalIQ and MergerMarket
- ▶ ASIC guidance notes and regulatory guides as applicable
- ▶ Other generally available public information

## APPENDIX 3: VALUATION METHODS - BUSINESSES AND ASSETS

In conducting our assessment of the fair market value of Sandon and Mercantile securities, the following commonly used business valuation methods have been considered:

### Discounted Cash Flow Method

The discounted cash flow (DCF) method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- ▶ the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- ▶ the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (NPV).

DCF is appropriate where:

- ▶ the businesses' earnings are capable of being forecast for a reasonable period (preferably 5 to 10 years) with reasonable accuracy;
- ▶ earnings or cash flows are expected to fluctuate significantly from year to year;
- ▶ the business or asset has a finite life;
- ▶ the business is in a 'start up' or in early stages of development;
- ▶ the business has irregular capital expenditure requirements;
- ▶ the business involves infrastructure projects with major capital expenditure requirements; or
- ▶ the business is currently making losses but is expected to recover.

### Capitalisation of Earnings Method

This method involves the capitalisation of normalised earnings by an appropriate multiple. Normalised earnings are the assessed sustainable profits that can be derived by the vendor's business and exclude any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

### Net Asset Value Methods

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- ▶ separating the business or entity into components which can be readily sold, such as individual business securities or collection of individual items of plant and equipment and other net assets; and
- ▶ ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- ▶ orderly realisation (NRV): this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- ▶ liquidation: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- ▶ continuing operations (NAV): this is a valuation of the net assets on the basis that the operations of the business will continue. It estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding entity. Adjustments may need to be made to the book value of assets and liabilities to reflect their value based on the continuation of operations.

The net realisable value of a trading entity's assets will generally provide the lowest possible value for the business. The difference between the value of the entity's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.



The net realisable value of assets is relevant where an entity is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding entity, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the entity's value could exceed the realisable value of its assets.

#### **Quoted Market Prices**

The price that an entity's security trades on an exchange can be an appropriate basis for valuation where:

- ▶ the security trades in an efficient market place where 'willing' buyers and sellers readily trade the entity's security; and
- ▶ the market for the entity's security is active and liquid.

## APPENDIX 4: DISCOUNTS / PREMIUM TO NTA

Company Name	FY2017			FY2018			31-May-19		
	Share Price	NTA	Premium/ (Discount)	Share Price	NTA	Premium/ (Discount)	Share Price	NTA	Premium/ (Discount)
Amcil Limited	0.92	0.95	-3.7%	0.96	1.02	-5.9%	0.88	0.95	-7.9%
Argo Investments Limited	7.67	7.71	-0.5%	7.97	8.16	-2.3%	7.92	8.24	-3.9%
Arowana Australasian Value Opportunities Fund Ltd	0.90	1.03	-12.6%	1.18	1.33	-11.3%	1.03	1.21	-15.3%
Australian Foundation Investment Company Limited	5.81	5.90	-1.4%	6.16	6.27	-1.8%	6.09	6.28	-3.0%
Australian United Investment Company Limited	8.09	8.57	-5.6%	8.65	9.21	-6.1%	9.00	9.57	-6.0%
BKI Investment Company Limited	1.62	1.61	0.6%	1.53	1.63	-6.4%	1.52	1.63	-7.1%
Cadence Capital Limited	1.24	1.24	-0.6%	1.25	1.30	-3.7%	0.83	0.94	-12.2%
Carlton Investments Limited	31.50	36.65	-14.1%	33.08	37.09	-10.8%	30.74	36.50	-15.8%
CBG Capital Limited	0.87	0.97	-10.8%	0.89	1.06	-16.1%	0.93	1.07	-13.1%
Clime Capital Limited	0.85	0.89	-4.6%	0.84	0.96	-12.1%	0.89	0.96	-7.8%
Concentrated Leaders Fund Limited	1.17	1.27	-7.9%	1.24	1.36	-9.2%	1.27	1.30	-2.3%
Contango Income Generator Limited	0.97	1.01	-4.8%	0.94	0.96	-1.8%	0.77	0.93	-17.7%
Diversified United Investment Limited	3.72	4.00	-7.0%	4.10	4.47	-8.3%	4.45	4.63	-3.9%
Djerriwarrh Investments Limited	3.68	3.24	13.6%	3.38	3.31	2.1%	3.19	3.23	-1.2%
Future Generation Investment Company Limited	1.10	1.14	-3.9%	1.26	1.28	-2.0%	1.18	1.21	-2.5%
Ironbark Capital Limited	0.50	0.54	-7.1%	0.49	0.54	-8.6%	0.49	0.55	-10.9%
Milton Corporation Limited	4.51	4.51	0.0%	4.61	4.73	-2.5%	4.59	4.80	-4.4%
Mirrabooka Investments Limited	2.70	2.39	13.0%	2.69	2.59	3.9%	2.41	2.37	1.7%
Monash Absolute Investment Company Limited	0.75	0.87	-14.2%	0.82	0.98	-16.6%	0.82	1.05	-22.2%
Perpetual Equity Investment Company Limited	1.04	1.10	-5.6%	1.17	1.14	2.6%	1.01	1.10	-8.9%
WAM Capital Limited	2.39	1.92	24.5%	2.38	1.98	20.2%	2.09	1.83	14.2%
WAM Leaders Limited	1.12	1.15	-3.0%	1.15	1.19	-3.4%	1.10	1.22	-9.8%
Westoz Investment Company Limited	0.96	1.06	-9.1%	1.17	1.23	-4.9%	1.03	1.16	-11.3%
Whitefield Limited	4.54	4.91	-7.5%	4.54	5.01	-9.4%	4.65	5.08	-8.5%

Source: Capital IQ and BDO analysis



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