

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES**  
ABN 15 121 415 576

**APPENDIX 4D – HALF YEAR REPORT**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET  
HALF-YEAR ENDED 31 DECEMBER 2016**  
(Comparative figures being the half-year ended 31 December 2015)

<b>Earnings</b>	<b>December 2016 \$</b>	<b>Up/down</b>	<b>Movement %</b>
Revenue from ordinary activities	7,032,944	Up	91%*
Loss from operating activities after tax, attributable to members	(3,034,709)	Down	(621%)

\*Comparative information has been restated to reflect the reclassification of the loss on acquisition of controlled entities.

	<b>31 December 2016 \$</b>	<b>30 June 2016 \$</b>
<b>Net Tangible Asset Backing Per Share (NTA)</b>		
NTA before tax	0.176	0.181
NTA after tax	0.166	0.165

**Commentary on results and changes in the consolidated entity**

The Company has continued to invest in ASX listed and other investment opportunities that the Directors consider offer the prospect of attractive risk adjusted returns.

On 4 November 2016, Mercantile NZ Limited, a wholly owned subsidiary of Mercantile Investment Company Limited, completed the takeover of Wellington Merchants Limited (“WML”) by way of an off market takeover bid.

On 12 December 2016, Mercantile OFM Pty Ltd, a wholly owned subsidiary of Mercantile Investment Company Limited, completed the takeover of Richfield International Limited (“RIS”) by way of an on market takeover bid.

The loss from operating activities after tax includes a \$6.6 million charge for the write-off of all goodwill arising from the acquisition of RIS. This is a non cash item and has not affected MVT’s NTA. Total cash cost for the acquisition of RIS was \$14.0 million for which MVT gained control of \$15.9 million of cash.

For further details, please refer to the Director’s Report.

**Dividends**

No dividends were paid during the period (2016: Nil) and no dividends are proposed for the half-year ended 31 December 2016.

*This report is presented in Australian dollars, which is Mercantile Investment Company Limited’s functional and presentation currency.*

***This report is based on the half-year financial report which have been subject to independent review by the auditors, Pitcher Partners. All documents comprise information required by listing rule 4.2A. This information should be read in conjunction with the 30 June 2016 Annual Financial Report.***

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**Interim Financial Report  
for the Half Year Ended 31 December 2016**

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

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**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**CORPORATE DIRECTORY**

**Directors:** Sir Ron Brierley - Chairman & Non-Executive Director  
Mr Gabriel Radzynski - Executive Director  
Mr James Chirnside - Independent Non-Executive Director  
Mr Ronald Langley - Independent Non-Executive Director  
Mr Daniel Weiss - Non-Executive Director  
Dr Gary Weiss - Non-Executive Alternate Director

**Company Secretary:** Mark Licciardo and Chris Lobb  
Mertons Corporate Services Pty Ltd  
Level 7, 330 Collins Street  
Melbourne VIC 3000

**Auditor:** Pitcher Partners  
Level 22, MLC Centre  
19 Martin Place  
Sydney NSW 2000

**Registered Address:** Level 5, 139 Macquarie Street  
Sydney NSW 2000

**Contact Details:** Telephone: +61 2 8014 1188  
Email: [info@mercinv.com.au](mailto:info@mercinv.com.au)  
Website: [www.mercantileinvestment.com.au](http://www.mercantileinvestment.com.au)

**Share Registrar:** Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Telephone: +61 2 8280 7001  
(Australia)  
Website: [www.linkmarketservice.com.au](http://www.linkmarketservice.com.au)

**ASX Code:** **MVT**  
Fully paid ordinary shares.

**NZX Code:** **MVT**  
Fully paid ordinary shares.

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**DIRECTORS' REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

The Directors of Mercantile Investment Company Limited ("MVT") present their report together with the financial statements of the Company and its controlled entities for the half-year ended 31 December 2016.

**DIRECTORS**

The names of Directors in office at any time during or since the end of the year are:

Sir Ron Brierley	Chairman & Non-Executive Director
Mr Gabriel Radzynski	Executive Director
Mr James Chirnside	Independent Non-Executive Director
Mr Ronald Langley	Independent Non-Executive Director
Mr Daniel Weiss	Non-Executive Director
Dr Gary Weiss	Alternate Director for Mr Daniel Weiss

**REVIEW AND RESULTS OF OPERATIONS**

MVT is pleased to provide the financial report for the half-year ending 31 December 2016. This represents the first half-year period since taking 100% ownership in both Richfield International Limited ("RIS") and Wellington Merchants Limited ("WML", formerly known as Kirkcaldie & Stains Ltd).

The market price of MVT's shares increased over the period from \$0.145 per share at 30 June 2016 to \$0.175 per share at 31 December 2016 (Dec 2015: increased from \$0.125 per share at 30 June 2015 to \$0.14 per share at 31 December 2015).

The Net Tangible Assets per share (after tax) as at 31 December 2016 increased from \$0.165 at 30 June 2016 to \$0.166.

**TAKEOVER OF RICHFIELD INTERNATIONAL LIMITED**

On 11 August 2016, a wholly owned subsidiary of MVT, Mercantile OFM, announced an unconditional cash offer at \$0.34 per share to acquire all of the shares it did not own in RIS by way of an on-market takeover bid. Please refer to the Bidder's Statement dated 11 August 2016 on the Australian Securities Exchange for more details of the takeover bid.

The loss from operating activities after tax includes a \$6.6 million charge for the write-off of all goodwill arising from the acquisition of RIS. This is a non cash item and has not affected MVT's NTA. Total cash cost for the acquisition of RIS was \$14.0 million for which MVT gained control of \$15.9 million of cash.

The Takeover Offer closed on 26 September 2016, with Mercantile OFM and its associates securing more than 90% of RIS (up from 26.89% prior to the launch of the bid). The remaining shares were compulsorily acquired and Mercantile OFM secured 100% ownership on 12 December 2016.

**TAKEOVER OF WELLINGTON MERCHANTS LIMITED (FORMERLY KIRCALDIE & STAINS LIMITED)**

On 11 August 2016, a wholly owned subsidiary of MVT, Mercantile NZ announced to the NZX an off-market offer at \$3.45 per share to acquire all of the shares it did not own in WML. Please refer to the terms and conditions contained in the offer document lodged with the announcement. Mercantile NZ had, by 4 November 2016, secured 100% ownership of WML.

**TAKEOVER OFFER MHM METALS LIMITED (MHM)**

On 15 December 2016, MVT announced an unconditional cash offer of \$0.04 per share to acquire all the shares it and its associates did not own in MHM Metals Limited by way of an off-market takeover bid by Mercantile OFM, a wholly owned subsidiary of Mercantile. On 10 January 2017 a Bidder's Statement was lodged with the ASX in accordance with the requirements of the Corporations Act.

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576  
DIRECTORS' REPORT  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**TAKEOVER OFFER EZA CORPORATION LIMITED (EZA)**

On 9 December 2016, MVT announced an unconditional cash offer of \$0.1375 per share to acquire all the shares it and its associates did not own in EZA Corporation Limited by way of an off-market takeover bid by Mercantile OFM, a wholly owned subsidiary of MVT. On 10 February 2017 a Bidder's Statement was lodged with ASX in accordance with the requirements of the Corporations Act.

**DIVIDENDS**

No dividends were paid or are payable for the period ended 31 December 2016. The Directors intend to consider the capacity of MVT to pay dividends in the future.

**ROUNDING OF AMOUNTS TO NEAREST DOLLAR**

In accordance with ASIC Corporations (Rounding in Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report and in the financial report have been rounded to the nearest one dollar, or in certain cases, the nearest 1/10<sup>th</sup> cent (where indicated).

**AUDITORS INDEPENDENCE DECLARATION**

The lead auditor's independence declaration as required under s307c of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2016.

The Director's report is signed in accordance with a resolution of the Board of Directors.



Gabriel Radzysinski  
Director

24 day of February 2017

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF MERCANTILE INVESTMENT COMPANY LIMITED  
ABN 15 121 415 576**

In relation to the independent auditor's review for the half-year ended 31 December 2016, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect Mercantile Investment Company Limited and the entities it controlled during the period.



SCOTT WHIDDETT  
Partner

PITCHER PARTNERS  
Sydney

24 February 2017

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>\$</b>	<b>\$</b>
<b>Income</b>		
Dividends, returns of capital & distribution income	936,683	1,671,313
Net realised gain / (loss) on trading portfolio	527,659	(393,119)
Net unrealised gains on trading portfolio	2,702,728	1,444,509
Gain on acquisition of a controlled entity	326,730	-
Interest income	1,315,348	756,542
Shipping Services income	392,901	-
Foreign exchange gains	466,262	191,830
Other income	364,633	6,877
<b>Total income from operating activities</b>	<b>7,032,944</b>	<b>3,677,952</b>
<b>Expenses</b>		
Loss on acquisition of a controlled entity	-	596,786
Impairment of goodwill	6,642,240	-
Accounting fees	100,692	31,256
Audit fees	89,996	34,615
Taxation service fees	140,179	34,219
Interest expense	1,000,023	-
Service agreement fees	145,001	84,886
Company secretary fees	33,342	22,922
Share registry fees	62,588	34,563
Brokerage	105,404	34,732
Impairment of loans and advances	955,951	853,261
Legal and professional fees	487,885	49,020
ASIC and ASX charges	38,610	43,306
Share based payments	517,500	164,000
Remuneration expenses	784,170	-
Other operating costs	594,656	405,791
<b>Total expenses</b>	<b>11,698,237</b>	<b>2,389,357</b>
<b>(Loss) / Profit Before Income Tax</b>	<b>(4,665,293)</b>	<b>1,288,595</b>
Income tax benefit / (expense)	1,552,139	(836,853)
<b>(Loss) / Profit for the period</b>	<b>(3,113,154)</b>	<b>451,742</b>
<b>(Loss) / Profit Attributable to:</b>		
Members of the parent entity	(3,034,709)	582,515
Non-Controlling Interest	(78,445)	(130,773)
	<b>(3,113,154)</b>	<b>451,742</b>
<b>Other Comprehensive Income</b>		
Items that will not be reclassified to profit or loss:		
Movement in fair value of long term equity investments, net of tax	4,003,741	2,901,760
<b>Total other comprehensive Income</b>	<b>4,003,741</b>	<b>2,901,760</b>
<b>Total Comprehensive Income for the period</b>	<b>890,587</b>	<b>3,353,502</b>
<b>Total Comprehensive Income attributable to:</b>		
Members of the parent entity	969,032	3,484,275
Non-Controlling Interest	(78,445)	(130,773)
	<b>890,587</b>	<b>3,353,502</b>
<b>(Loss) / Earnings per Share</b>		
	<b>Cents</b>	<b>Cents</b>
- Basic (loss) / earnings per share	(1.08)	0.22
- Diluted (loss) / earnings per share	(1.08)	0.22

The above statement should be read in conjunction with the accompanying notes.

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

<b>Assets</b>	<b>Notes</b>	<b>31 December 2016</b>	<b>30 June 2016</b>
		<b>\$</b>	<b>\$</b>
<b>Current Assets</b>			
Cash and cash equivalents		15,375,058	7,933,953
Trade and other receivables		561,361	134,751
Net loans and advances		3,377,308	3,599,171
Financial assets at fair value through profit or loss	4	17,158,933	15,738,106
Other current assets		117,648	118,505
<b>Total Current Assets</b>		<b>36,590,308</b>	<b>27,524,486</b>
<b>Non-Current Assets</b>			
Financial assets at fair value through other comprehensive income	4	38,609,075	40,664,016
Trade and other receivables		-	624,443
Property, plant & equipment		181,915	1,039
Deferred tax assets		2,551,280	229,936
<b>Total Non-Current Assets</b>		<b>41,342,270</b>	<b>41,519,434</b>
<b>Total Assets</b>		<b>77,932,578</b>	<b>69,043,920</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables		3,375,044	1,676,527
Current tax liability		903,988	466,836
<b>Total Current Liabilities</b>		<b>4,279,032</b>	<b>2,143,363</b>
<b>Non-Current Liabilities</b>			
Unsecured notes	6	21,635,657	15,107,926
Deferred tax liabilities		4,210,761	4,326,616
<b>Total Non-Current Liabilities</b>		<b>25,846,418</b>	<b>19,434,542</b>
<b>Total Liabilities</b>		<b>30,125,450</b>	<b>21,577,905</b>
<b>Net Assets</b>		<b>47,807,128</b>	<b>47,466,015</b>
<b>Equity</b>			
Issued capital	7	28,717,120	28,717,120
Accumulated losses		(8,675,955)	(5,237,356)
Profits reserve		16,888,377	12,548,822
Asset revaluation reserve		9,663,057	9,998,871
Foreign currency translation reserve		(644,469)	-
Share based payment reserve		681,500	164,000
Parent entity interest		46,629,630	46,191,457
Non-controlling interest		1,177,498	1,274,558
<b>Total Equity</b>		<b>47,807,128</b>	<b>47,466,015</b>

The above statement should be read in conjunction with the accompanying notes.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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ABN 15 121 415 576**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	Issued Share Capital – Ordinary	Accumulated Losses	Profits Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Share Based Payment Reserve	Non- Controlling Interests	Total Equity
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2015</b>	<b>27,404,109</b>	<b>(7,142,450)</b>	<b>12,083,545</b>	<b>5,865,821</b>	-	-	-	<b>38,211,025</b>
Profit for the period	-	582,515	-	-	-	-	(130,773)	451,742
<i>Other Comprehensive Income for the Period:</i>								
Movements in fair value of long term equity investments, net of tax	-	-	-	2,901,760	-	-	-	2,901,760
Realised gains on sale of investments	-	-	408,532	(408,532)	-	-	-	-
<i>Transactions with owners:</i>								
Shares issued via placement	1,315,046	-	-	-	-	-	-	1,315,046
Capitalised share issue costs	(2,035)	-	-	-	-	-	-	(2,035)
Non-controlling interests on acquisition of a controlled entity	-	-	-	-	-	-	1,530,060	1,530,060
Share options issued	-	-	-	-	-	164,000	-	164,000
<b>Balance at 31 December 2015</b>	<b>28,717,120</b>	<b>(6,559,935)</b>	<b>12,492,077</b>	<b>8,359,049</b>	-	<b>164,000</b>	<b>1,399,287</b>	<b>44,571,598</b>
<b>Balance at 1 July 2016</b>	<b>28,717,120</b>	<b>(5,237,356)</b>	<b>12,548,822</b>	<b>9,998,871</b>	-	<b>164,000</b>	<b>1,274,558</b>	<b>47,466,015</b>
Loss for the Period	-	(3,034,709)	-	-	-	-	(78,445)	(3,113,154)
<i>Other Comprehensive Income for the period:</i>								
Movements in fair value of long term equity investments, net of tax	-	-	-	4,003,741	-	-	-	4,003,741
Realised gains on sale of investments	-	-	1,038,935	(1,038,935)	-	-	-	-
Revaluation of pre-existing investment in controlled entity	-	-	3,300,620	(3,300,620)	-	-	-	-
Foreign currency translation reserve	-	-	-	-	(644,469)	-	-	(644,469)
<i>Transaction with owners:</i>								
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	-	2,719,951	2,719,951
Change in proportion of NCI	-	(403,890)	-	-	-	-	(2,738,566)	(3,142,456)
Share options issued	-	-	-	-	-	517,500	-	517,500
<b>Balance at 31 December 2016</b>	<b>28,717,120</b>	<b>(8,675,955)</b>	<b>16,888,377</b>	<b>9,663,057</b>	<b>(644,469)</b>	<b>681,500</b>	<b>1,177,498</b>	<b>47,807,128</b>

The above statement should be read in conjunction with the accompanying notes.

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	31 December 2016	31 December 2015
	\$	\$
<b>Cash Flows from Operating Activities</b>		
Dividends, distributions and other investment income received	2,669,347	1,591,371
Other payments in the course of ordinary operations	(2,799,646)	(791,523)
Proceeds from sale of trading securities	2,555,976	1,490,027
Payments for trading securities	(2,369,770)	(6,227,201)
Interest and fees received	433,349	273,914
Interest paid	(1,026,257)	-
Loan repayments received	103,003	-
Income tax paid	(597,414)	-
<b>Net Cash used in Operating Activities</b>	<b><u>(1,031,412)</u></b>	<b><u>(3,663,412)</u></b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from disposal of available-for-sale investments	315,104	699,332
Payments for available-for-sale investments	(2,391,009)	(1,735,660)
Loans repaid by clients	-	48,465
Net cash acquired / (paid) on acquisition of a controlled entities	4,814,068	(1,531,499)
Payment from purchase of non-controlling interest	(3,142,455)	-
Proceeds from returns of capital	3,597,067	599,186
<b>Net Cash Provided by / (Used in) Investing Activities</b>	<b><u>3,192,775</u></b>	<b><u>(1,920,176)</u></b>
<b>Cash Flows from Financing Activities</b>		
Loan proceeds received	-	3,000,000
Interest payments on MVT Notes	(933,909)	-
Proceeds from unsecured notes	6,663,000	-
Proceeds from issue of shares	-	1,315,046
Borrowing costs	(195,070)	-
Payments in relation to raising capital	-	(28,577)
<b>Net Cash Provided by Financing Activities</b>	<b><u>5,534,021</u></b>	<b><u>4,286,469</u></b>
<b>Net Increase / (Decrease) in Cash and Cash Equivalents Held</b>	<b>7,695,384</b>	<b>(1,291,119)</b>
Effects of exchange rate changes on cash and cash equivalents	(254,279)	-
Cash and Cash Equivalents at the Beginning of Financial Year	<u>7,933,953</u>	<u>6,117,624</u>
<b>Cash and Cash Equivalents at End of Financial Year</b>	<b><u>15,375,058</u></b>	<b><u>4,820,505</u></b>

The above statement should be read in conjunction with the accompanying notes.

**MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES  
ABN 15 121 415 576**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Basis of preparation**

The half-year condensed consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AAB 134: Interim Financial Reporting, and other applicable Australian Accounting Standards (including Australian Accounting Interpretations).

These half-year financial statements do not include all the notes of the type normally included in an annual financial report. It is recommended that these half-year financial statements be read in conjunction with the 30 June 2016 Annual Financial Report and any public announcements made by Mercantile Investment Company Limited and its controlled entities ("the consolidated entity") during the half-year in accordance with any continuous disclosure requirements arising under the Corporations Act 2001.

These financial statements have been prepared on an accruals basis and are based on the historical cost basis except as modified by the revaluation of investments which are recorded at fair value.

The consolidated financial statements are presented in Australian dollars, which is Mercantile Investment Company Limited's functional and presentation currency.

These consolidated half-year financial statements were approved by the Board of Directors on 24 February 2017.

In accordance with ASIC Corporations (Rounding in Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest one dollar.

There are no new and revised accounting requirements significantly affecting the half year financial statements. The accounting policies have been consistently applied by the consolidated entity and are consistent with those applied in the 30 June 2016 Annual Financial Report. The following additional accounting policies apply for the half-year ended 31 December 2016 balances upon acquisition of Richfield International Limited and Wellington Merchants Limited.

**b. Significant accounting policies of controlled entity acquired during the period**

**Business combinations**

*Goodwill*

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

**Revenue recognition**

*Goods Sold and Services Rendered*

Revenue is measured at fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed.

Revenue for the sale of goods is recognised in the Statement of Comprehensive Income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the rendering of services is recognised when the services are rendered. Agency fees and commission income are recognised when the right to receive payment is established. Revenue from freight forwarding is recognised upon shipment. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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ABN 15 121 415 576**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Significant accounting policies of controlled entity acquired during the period (Continued)**

**Foreign Currency Translations and Balances**

*Transactions and Balances*

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

*Group Companies*

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

**New Accounting Standards for Application in Future Periods**

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied ) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented on an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 2: OPERATING SEGMENTS**

<b>Consolidated – 31 December 2016</b>	<b>Securities</b>	<b>Consumer Finance</b>	<b>Shipping Services</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	5,085,399	907,791	1,039,754	7,032,944
Expenses	(2,960,910)	(1,284,744)	(7,452,583)	(11,698,237)
(Loss) / Profit before tax	2,124,489	(376,953)	(6,412,829)	(4,665,293)
Profit after tax				(3,113,154)
<i>Material items include:</i>				
Impairments		(955,951)	(6,642,240)	(7,598,191)
<b>Assets</b>				
Segment assets	66,213,215	4,120,597	4,716,897	75,050,709
Trade and other receivables				212,044
Other current assets				117,648
Property, plant & equipment				897
Deferred tax asset				2,551,280
				<u>77,932,578</u>
<b>Liabilities</b>				
Segment liabilities	(21,635,657)	-	(1,607,521)	(23,243,178)
Trade and other payables				(1,767,523)
Current tax liability				(903,988)
Deferred tax liability				(4,210,761)
				<u>(30,125,450)</u>

The Group only operated in the Securities and Consumer Finance segments in the comparative financial period. As a consequence of acquiring control of Richfield International Ltd during the interim period, Mercantile has recognised a new segment in 'Shipping Services'. The new segment derives revenues from shipping agency services. Segments have been identified by business unit. Other immaterial operations that do not meet the quantitative thresholds requiring separate disclosure in AASB 8 Operating segments have been combined with the Securities operations.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 2: OPERATING SEGMENTS (CONT'D)**

<b>Consolidated – 31 December 2015</b>	<b>Securities</b>	<b>Consumer Finance</b>	<b>Shipping Services</b>	<b>Total</b>
	\$	\$	\$	\$
Revenue	3,109,549	568,403	-	3,677,952
Expenses	(1,358,203)	(1,031,154)	-	(2,389,357)
Profit (Loss) before tax	1,751,346	(462,751)	-	1,288,595
Profit after tax				451,742
<i>Material items include:</i>				
Impairments	-	(853,261)	-	853,261
 <b>Consolidated – 30 June 2016</b>				
<b>Assets</b>				
Segment assets	64,336,075	3,599,171	-	67,935,246
Trade and other receivables				759,194
Other current assets				118,505
Property, plant & equipment				1,039
Deferred tax asset				229,936
				<u>69,043,920</u>
 <b>Liabilities</b>				
Segment liabilities	(15,107,926)	-	-	(15,107,926)
Trade and other payables				(1,676,527)
Current tax liability				(466,836)
Deferred tax liability				(4,326,616)
				<u>(21,577,905)</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 3: DIVIDENDS**

No dividends were paid or provided for during the period (2016: nil)

**(a) Franking account**

The Company's franking account balance at 30 June 2016 was \$1,430,644. The amount of franking credits for the period to 31 December 2016 from franked dividends received is \$80,441.

	<b>31 December 2016</b>	<b>30 June 2016</b>
	\$	\$
Opening Balance	1,430,644	848,970
Tax payment	597,414	511,950
Franking Credits received	<u>80,441</u>	<u>69,724</u>
	<u><u>2,108,499</u></u>	<u><u>1,430,644</u></u>

**NOTE 4: FINANCIAL ASSETS**

Current: financial assets at fair value through profit and loss	17,158,933	15,738,106
Non-Current: financial assets at fair value through other comprehensive income	<u>38,609,075</u>	<u>40,664,016</u>
	<u><u>55,768,008</u></u>	<u><u>56,402,122</u></u>

**(a) Financial Assets At Fair Value Through Profit and Loss comprise:**

**CURRENT**

Investments, at fair value:

- Shares in domestic and international listed corporations	16,455,656	15,118,637
- Shares in unlisted corporations	<u>703,277</u>	<u>619,469</u>

**Total Current Financial Assets**

17,158,933      15,738,106

**(b) Financial Assets At Fair Value Through Other Comprehensive comprise:**

**NON-CURRENT**

Investments, at fair value:

- Listed domestic and international investments	33,032,047	36,507,805
- Unlisted domestic investments	1,098,258	233,661
- Unlisted international investments	<u>4,478,770</u>	<u>3,922,550</u>

**Total Non-Current Financial Assets**

38,609,075      40,664,016

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 5: FAIR VALUE MEASUREMENT**

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through other comprehensive income
- Financial assets at fair value through profit and loss

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurements hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following table presents the Company's assets and liabilities measured and recognised at fair value:

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Assets:</b>				
Financial assets at fair value through other comprehensive income				
- Listed domestic and international	33,032,047	-	-	33,032,047
- Unlisted domestic investments	-	1,098,258	-	1,098,258
- Unlisted international investments	-	4,478,770	-	4,478,770
	<u>33,032,047</u>	<u>5,577,028</u>	-	<u>38,609,075</u>
Financial assets at fair value through profit and loss				
- Listed domestic and international	16,455,656	-	-	16,455,656
- Unlisted domestic and international	-	703,277	-	703,277
	<u>16,455,656</u>	<u>703,277</u>	-	<u>17,158,933</u>
Total investments	<u>49,487,703</u>	<u>6,280,305</u>	-	<u>55,768,008</u>
<b>30 June 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Assets:</b>				
Financial assets at fair value through other comprehensive income				
- Listed domestic and international	36,507,805	-	-	36,507,805
- Unlisted domestic investments	-	233,661	-	233,661
- Unlisted international investments	-	3,922,550	-	3,922,550
	<u>36,507,805</u>	<u>4,156,211</u>	-	<u>40,664,016</u>
Financial assets at fair value through profit and loss				
- Listed domestic and international	15,118,637	-	-	15,118,637
- Unlisted domestic and international	-	619,469	-	619,469
	<u>15,118,637</u>	<u>619,469</u>	-	<u>15,738,106</u>
Total investments	<u>51,626,442</u>	<u>4,775,680</u>	-	<u>56,402,122</u>

Investments listed as level 2 utilise valuation techniques of consist share of net identifiable assets or last sale price before suspension. It is noted that measures for an interim period for level 2 investments may rely on estimates to a greater extent than measurements of annual financial data.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 6: UNSECURED NOTES**

	<b>31 December 2016</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
Unsecured notes	22,308,700	15,645,700
Less: capitalised costs	<u>(673,043)</u>	<u>(537,774)</u>
	<u><u>21,635,657</u></u>	<u><u>15,107,926</u></u>

During the period, MVT issued 66,630 unsecured notes at a face value of \$100 each, ranking pari passu with those issued on 24 June 2016.

**NOTE 7: ISSUED CAPITAL**

**Movement in share capital**

Opening Balance	28,717,120	27,404,109
Shares issued via placement*	-	1,315,046
Cost of raising capital, net of tax	-	(2,035)
	<u>28,717,120</u>	<u>28,717,120</u>

**Closing Balance**

**Movement in number of shares**

	<b>No.</b>	<b>No.</b>
Opening Balance	280,000,000	268,764,671
Shares issued via placement*	-	11,235,329
	<u>280,000,000</u>	<u>280,000,000</u>

**Closing Balance**

\* Shares issued on New Zealand Exchange on 22 December 2015.

The Board issued 10,000,000 options to Gabriel Radzynski for nil consideration on 11 November 2015 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.17 per option and expire on 31 December 2017.

The Board issued 10,000,000 options to Gabriel Radzynski for nil consideration on 2 December 2016 following shareholder approval at the annual general meeting. The options have an exercise price of \$0.20 per option and expire 31 December 2020.

The Board issued 5,000,000 options to Campbell Morgan for nil consideration on 7 October 2016. The options have an exercise price of \$0.20 per option and expire 31 December 2020.

**NOTE 8: CONTROLLED ENTITIES ACQUIRED OR DISPOSED OF DURING THE PERIOD**

The reason for the acquisitions of Richfield International Limited and Wellington Merchant Limited was due to both companies having significant cash reserves which was available at a discounted price.

**(a) Richfield International Ltd (RIS)**

On 11 August 2016, a wholly owned subsidiary of MVT, Mercantile OFM, announced an unconditional cash offer at \$0.34 per share to acquire all of the shares it did not own in RIS by way of an on-market takeover bid.

Mercantile gained control at the end of August 2016 with a holding of 92.45%.

The Takeover Offer closed on 26 September 2016, with Mercantile OFM and its associates securing more than 90% of RIS (up from 26.89% prior to the launch of the bid). The remaining shares were compulsorily acquired.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 8: CONTROLLED ENTITIES ACQUIRED OR DISPOSED OF DURING THE PERIOD (CONT'D)**

**(a) Richfield International Ltd (RIS) (continued)**

The assets and liabilities recognised as a result of the acquisition are as follows:

	<b>Fair Value \$</b>
Cash	15,889,628
Other receivables	415,357
Other assets	64,069
Goodwill	-
PPE	356,146
Creditors	(2,485,061)
Income tax liability	(29,371)
Deferred tax liability	(10,817)
<b>Net identifiable assets acquired</b>	<b>14,199,951</b>
(Less) non-controlling interest	(1,072,610)
<b>Net identifiable assets acquired attributable to shareholders of Mercantile</b>	<b>13,127,341</b>

**Purchase consideration**

Fair value of previously held interest	5,750,635
Cash paid	14,018,946
	<b>19,769,581</b>

**(i). Reconciliation of loss on acquisition of controlled entity**

Net identifiable assets acquired attributable to shareholders of Mercantile	13,127,341
Purchase consideration	(19,769,581)
	<b>(6,642,240)</b>

**(ii). Revaluation of pre-existing investment in controlled entity**

Fair value of previously held interest	5,750,635
Book value of previously held interest	(2,450,015)
	<b>3,300,620</b>

**(iii). Reconciliation of amount included in statement of cash flows**

Outflow of cash to acquire subsidiary, net of cash acquired	
Total cash consideration	14,018,946
Less: cash balances acquired	(15,889,628)
<b>Inflow of cash – investing activities</b>	<b>(1,870,682)</b>

**(iv). Profit contribution**

Revenue contribution from date of acquisition to 31 December 2016	1,118,256
Expenditure contribution from date of acquisition to 31 December 2016	(906,248)
Tax expense contribution from date of acquisition to 31 December 2016	(65,579)
	<b>146,429</b>

The amount of revenue and loss contribution had the entity been acquired at the beginning of the period would have been \$1,477,750 and \$5,731,142 respectively.

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

**NOTE 8: CONTROLLED ENTITIES ACQUIRED OR DISPOSED OF DURING THE PERIOD (CONT'D)**

**(a) Richfield International Ltd (RIS) (continued)**

*Acquisition related costs*

There were no external acquisition costs included in other expenses in the income statement and in operating cash flows in the statement of cash flows.

**(b) Wellington Merchants Limited (WML)**

During the six months to 31 December 2016, the consolidated entity completed the acquisition of Wellington Merchants Limited. Further details of the acquisition are provided below:

On 11 August 2016, Mercantile announced to the NZX a full takeover for 100% of the fully paid ordinary shares of WML. Mercantile offered to purchase all of the ordinary shares in WML not already held by Mercantile for NZD\$3.45 in cash per share on the terms and conditions contained in the offer document lodged with the announcement.

Mercantile gained control at the end of September 2016 with a holding of 77.06%.

Mercantile NZ had, by 4 November 2016, secured 100% ownership of WML.

The assets and liabilities recognised as a result of the acquisition are as follows:

	<b>Fair Value \$</b>
Cash	7,464,019
Other receivables	366,964
Other assets	17,778
Creditors	(527,656)
Income tax liability	(140,554)
<b>Net identifiable assets acquired</b>	<b>7,180,551</b>
(Less) non-controlling interest	(1,647,342)
<b>Net identifiable assets acquired attributable to shareholders of Mercantile</b>	<b>5,533,209</b>

**Purchase consideration**

Fair value of previously held interest	669,754
Revaluation of previous held interest to \$3.195 cents per share	20,729
Cash paid	4,520,633
	<b>5,211,116</b>

**(i). Reconciliation of gain on acquisition of controlled entity**

Fair value of previously held interest	669,754
Revaluation of previous held interest to \$3.195 cents per share	20,729
Book value of previously held interest	(685,846)
Net identifiable assets acquired attributable to shareholders of Mercantile	5,533,209
Purchase consideration	(5,211,116)
	<b>326,730</b>

**(ii). Reconciliation of amount included in statement of cash flows**

Outflow of cash to acquire subsidiary, net of cash acquired

Total cash consideration	4,520,633
Less: cash balances acquired	(7,464,019)
<b>Inflow of cash – investing activities</b>	<b>(2,943,386)</b>

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 8: CONTROLLED ENTITIES ACQUIRED OR DISPOSED OF DURING THE PERIOD (CONT'D)**

**(b) Wellington Merchants Limited (WML) (continued)**

**(iii). Profit contribution**

Revenue contribution from date of acquisition to 31 December 2016	230,725
Expenditure contribution from date of acquisition to 31 December 2016	(110,216)
Tax expense contribution from date of acquisition to 31 December 2016	(26,382)
	<b>94,127</b>

The amount of revenue and profit contribution had the entity been acquired at the beginning of the period would have been \$249,632 and \$71,968 respectively.

This business combination resulted in a bargain on purchase as the underlying assets of WML exceeded the purchase consideration.

*Acquisition related costs*

There were no external acquisition costs included in other expenses in the income statement and in operating cash flows in the statement of cash flows.

**NOTE 9: EVENTS SUBSEQUENT TO BALANCE DATE**

On 15 December 2016, the Company announced an unconditional cash offer of \$0.04 per share to acquire all the shares it and its associates did not own in MHM Metals Limited by way of an off-market takeover bid by Mercantile OFM, a wholly owned subsidiary of Mercantile. On 10 January 2017 a Bidder's Statement was lodged with the ASX in accordance with the requirements of the Corporations Act.

On 15 December 2016, the Company announced an unconditional cash offer of \$0.1375 per share to acquire all the shares it and its associates did not own in EZA Corporation Limited by way of an off-market takeover bid by Mercantile OFM, a wholly owned subsidiary of Mercantile. On 10 February 2017 a Bidder's Statement was lodged with the ASX in accordance with the requirements of the Corporations Act.

Shares held in Impact Holding UK Ltd (IHUK), which are recorded at fair value \$579,922 at 31 December 2016 have been revalued to nil for the January 2017 NTA. The write down was due to a recent litigation loss in a UK Supreme Court and IHUK's inability to obtain funding to pursue its legal claims. IHUK does not have sufficient funding to continue to operate, and is being wound down. MVT does not have any further exposure to IHUK.

Apart from the above, no events have occurred subsequent to balance date that would require adjustment to, or disclosure in the interim financial report.

**NOTE 10: CONTINGENCIES AND COMMITMENTS**

On 12 December 2016 a loan facility agreement of \$1.2 million was signed between Mercantile and Fitzroy River Corporation Limited (FZR). The loan was to be used by FZR to pay for shares it may acquire in its takeover of Royalco Resources Limited (RCO). This commitment will expire when the RCO takeover closes.

<b>Operating lease commitments</b>	<b>31 December 2016</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
Not later than 1 year	248,874	-
Later than 1 year but no later than 5 years	529,931	-
	778,805	-

Apart from the above mentioned items in the events subsequent to balance date, there are no contingent assets or liabilities as at 31 December 2016 (2015: nil)

**MERCANTILE INVESTMENT COMPANY LIMITED  
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**HALF-YEAR ENDED 31 DECEMBER 2016**

**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Mercantile Investment Company Limited, the Directors of the Group declare that:

1. the financial statements and notes, as set out on pages 5 to 18, are in accordance with the Corporations Act 2001, including:
  - (a) comply with Australian Accounting Standards AASB 134: Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (b) give a true and fair view of the financial position of the consolidated entity as at 31 December 2016 and of its performance for the half year ended on that date;
2. in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Gabriel Radzynski  
Director

Signed this 24 day of February 2017

**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF MERCANTILE INVESTMENT COMPANY LIMITED  
ABN 15 121 415 576**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Mercantile Investment Company Limited ("the company") and its controlled entities ('the consolidated entity'), which comprises the consolidated statement of financial position as at 31 December 2016, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising Mercantile Investment Company Limited and the entities it controlled at half-year's end or from time to time during the half-year.

**Directors' Responsibility for the Half-Year Financial Report**

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: "*Review of a Financial Report Performed by the Independent Auditor of the Entity*", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: "*Interim Financial Reporting*" and the *Corporations Regulations 2001*. As the auditor of Mercantile Investment Company Limited and the entities it controlled, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF MERCANTILE INVESTMENT COMPANY LIMITED  
ABN 15 121 415 576**

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mercantile Investment Company Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



SCOTT WHIDDETT  
Partner

24 February 2017



PITCHER PARTNERS  
Sydney