

**MERCANTILE INVESTMENT COMPANY LIMITED**

**ABN 15 121 415 576**

**Appendix 4E  
Annual Report 2014**

# Mercantile Investment Company Limited

ABN 15 121 415 576  
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Sydney NSW 2000  
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25 August 2014

ASX RELEASE

ASX CODE: MVT

## Appendix 4E

### MERCANTILE INVESTMENT COMPANY LIMITED

#### Financial Report

Year ended 30 June 2014

“Results for announcement to the market”.

## 1. Details of the reporting period

The report details the results of MVT for the period ended 30 June 2014 and the previous corresponding period to the period ended 30 June 2013.

## 2. Results for announcement to the market

	Period to 30 June 2014	Period to 30 June 2013	Movement up/(down)	Movement up/(down)
	\$	\$	\$	%
2.1 Revenue from ordinary activities	849,134	485,064	364,070	75.06
2.2 Loss from operating activities after tax attributable to members	(108,562)	(216,005)	107,443	49.74
2.3 Comprehensive Income after tax for the period attributable to members	7,527,156	6,275,595	1,251,561	19.94
2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.	Nil	Nil		
2.5 The record date for determining entitlements to the dividends (if any).	Nil	Nil		

2.6 A brief explanation of any of the figures in 2.1 to 2.5 necessary to enable the figures to be understood.

The increase in Operating Profit arises primarily from the unrealised gains in movement of market value of investments held for trading.

The increase in other comprehensive income is as a result of gain on disposal of investments available for sale as well as the increase in market value of the Company's investments.

This report is based on the financial statements for the financial year ended 30 June 2014 which have been audited by the Company's auditor.

<b>3. Net tangible assets per Share</b>	Period to 30 June 2014	Period to 30 June 2013
- before tax	15.37 cents	11.54 cents
- after tax	13.45 cents	10.49 cents

## **4. Commentary on Results for the Period**

During the year, the Company used most of its cash to purchase additional investments in ASX-listed securities. The net assets of the Company now consist predominantly of securities listed on the ASX.

It is the intention of the Directors that the Company will continue to selectively invest in ASX listed share market opportunities that Directors consider offer the prospect for attractive risk-adjusted returns.

Although the present focus is on the Australian market, as the Directors have extensive international investment knowledge, occasional overseas opportunities may arise as these sorts of opportunities are considered to be part of the normal activities of the Company.

The report is based on the audited financial statements for the period ended 30 June 2014 which form part of the Annual Report.

## **5. Key Events for the Period**

On 17 March 2014, the Company and Murchison Metals Limited ('MMX') (in which the company held approximately 27.88% of shares on issue) entered into a Scheme Implementation Agreement ('SIA') that would merge the two companies by way of a scheme of arrangement. The scheme proposal involved MMX undertaking a selective reduction of capital under which all of the MMX shares (other than those held by the Company and its associates) would be cancelled. In consideration for the cancellation of their shares, MMX shareholders would have the option of either:

- choosing to receive cash consideration (being the amount equal to the MMX pre-tax net tangible assets ('NTA') per share less any transaction costs associated with implementing the Scheme) for 100% of their shares (Cash Consideration);
- to exchange 100% of their shares in the Company (calculated by reference to the relative pre-tax NTA backing per share of MMX and the Company less any transaction costs associated with implementing the scheme) (Scrip Consideration); or
- 50/50 combination of cash and scrip in Mercantile.

On 8 May 2014, the Supreme Court of New South Wales approved the release of the Scheme Booklet for the proposed merger with MMX. The Scheme Booklet incorporating the explanatory statement of the proposed merger, proxy forms for the Scheme Meeting, General Meeting and Class Meeting and election forms were dispatched to MMX shareholders on 15 May 2014.

The Scheme Meeting, General Meeting and Class Meeting of MMX shareholders were convened on 19 June 2014. MMX shareholders approved the scheme of arrangement at the various meetings.

At the Scheme Meeting, shareholders voted in favour of the Scheme. At the General Meeting, shareholders voted in favour of the subscription by MMX for new shares which will comprise the scrip consideration component under the Scheme. At the Class Meeting, shareholders voted in favour of a resolution to cancel all MMX shares other than those held by the Company and its associates.

On 23 June 2014, the Supreme Court of New South Wales approved the Scheme of Arrangement and the Court Order was lodged with ASIC on 24 June 2014.

The implementation of the merger with MMX was completed on 8 July 2014.

## **5. Key Events for the Period (Continued)**

The Scheme Consideration was issued as follows:

- Scrip Consideration – 0.3171 new shares was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new shares have been issued at a price of \$0.1523 per share.
- Cash Consideration - \$0.0483 was distributed for each MMX share held by Scheme participants as at 1 July 2014. The total Cash Consideration was distributed as a cheque or direct deposit on 8 July 2014.

The Company obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

As the merger scheme of arrangement has been approved by MMX shareholders, the Company believes that the increase in capital will increase the Company's investment capacity.

The Company has committed to invest NZD\$4.75 million in a combination of units in Foundation Life Holding Trust and redeemable preference notes in Foundation Life (NZ) Holdings Limited. Foundation Life will acquire a residual life assurance business, subject to the customary regulatory approvals. The Company has paid a deposit of \$184,780 and will pay the balance of the commitment once Foundation Life obtains all the necessary approvals.

## **6. Annual Report - “attached”**

## **7. 2014 Annual General Meeting**

The AGM is expected to be held on 27 October 2014.

Signed on behalf of Mercantile Investment Company Limited



Sir Ron Brierley  
Chairman

25 August 2014

**MERCANTILE INVESTMENT COMPANY LIMITED**

**ABN 15 121 415 576**

**Annual Report 2014**

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

## ANNUAL FINANCIAL REPORT – 30 JUNE 2014

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# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

## Portfolio Composition

As at 30 June 2014

### Australian Securities Exchange Listed Positions at 30 June 2014

Name	Total Value \$
Ingenia Communities Group	24,509,434
Murchison Metals Limited	3,645,715
Trinity Group	2,273,628
Fitzroy River Corporation Limited	2,224,515
Australian Pharmaceutical Industries Limited	1,475,000
ASK Funding Limited	1,197,412
ING Private Equity Access Limited	1,065,438
Cellnet Group Limited	610,856
Joyce Corporation Limited	510,000
Alternative Investment Trust	250,000
White Energy Company Limited	150,000
Yancoal Australia Limited	25,000
TAG Limited	23,168
Dolomatrix International Limited	16,500
<b>TOTAL</b>	<b><u>37,976,666</u></b>

### Australian Unlisted Investment Positions at 30 June 2014

Adelaide Managed Funds Asset Backed Yield Trust	<u>520,901</u>
<b>TOTAL</b>	<b><u>520,901</u></b>

### United Kingdom Stock Exchange Listed Position at 30 June 2014

Impact Holdings (UK) PLC	<u>818,656</u>
<b>TOTAL</b>	<b><u>818,656</u></b>

### Loans Receivable at 30 June 2014

Impact Holdings (UK) PLC	<u>871,534</u>
<b>TOTAL</b>	<b><u>871,534</u></b>

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

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## 1. CHAIRMAN'S LETTER

25 August 2014

Dear Shareholder

I present you with the Annual Report and Accounts for the year ended 30 June 2014.

Mercantile Investment Co Ltd enjoyed a reasonably productive year to 30 June 2014.

The value of the share portfolio held up well and we made several moves which augur well for the future.

Since balance date, we have completed the full integration of Murchison Metals Ltd (MMX), issuing 18.19 million new shares in MVT in the process. This will assist our aim of achieving economies of scale and reaching optimum size for an ASX listed entity.

We are somewhat cautious regarding the overall level of the share market in the next 12 months but otherwise we expect another satisfactory result in 2014/15.

Yours sincerely



Ron Brierley  
Chairman  
25 August 2014



# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

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## 2. DIRECTORS' REPORT

Your Directors present their report on the Company for the year ended 30 June 2014.

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
Dr Gary Weiss	Non-Executive Director

The Company Secretary during the financial year:

Mark Licciardo

### Principal Activities

The principal activities of the entity during the financial year were investment in cash and securities which will provide attractive risk adjusted returns, including by way of short term trading, profit making ventures and holding shares for dividend yield/long term capital appreciation, as appropriate.

There was no significant change in the nature of the entity's principal activities during the financial year.

### Operating Results

The Company generated Comprehensive Income, net of tax, for the year ended 30 June 2014 of \$7.53m (2013: Profit of \$6.28m), and an Operating Loss, net of tax of \$0.11m (2013: Loss of \$0.22m).

The reduction in Operating Loss arises primarily from the unrealised gains in movement of market value of investments held for trading.

Comprehensive Income per share is a profit of 3.00 cents (2013: 2.50 cents). The market price of the Company's shares increased over the year from \$0.10 per share at 30 June 2013 to \$0.135 per share at 30 June 2014 (2013: increased from \$0.08 per share to \$0.10 per share).

During the year the Net Tangible Assets (after tax) (NTA) increased from \$0.10 to \$0.13 (2013: increased from \$0.08 to \$0.10).

The increase in NTA is primarily due to the impact of increase in the market value of the Company's investments.

### Dividends Paid or Recommended

No dividends were paid or are payable for the year ended 30 June 2014.

### Financial Position

The net assets of the Company now consist of a predominance of listed securities; \$39.3m in listed and unlisted securities and \$1.1m in cash compared with \$28.1m in listed and unlisted securities and \$1.3m in cash at 30 June 2013.

During the year the total Financial Assets increased from \$29.9m to \$41.4m.

### Review of Operations

During the year, the Company continued to invest in listed securities it believes offer attractive risk adjusted returns, including profit making ventures and holding shares for dividend yield/long term capital appreciation, as appropriate.

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

## 2. DIRECTORS' REPORT (CONTINUED)

### Review of Operations (Continued)

On 17 March 2014, the Company and Murchison Metals Limited ('MMX') (in which the company held approximately 27.88% of shares on issue) entered into a Scheme Implementation Agreement ('SIA') that would merge the two companies by way of a scheme of arrangement. The scheme proposal involved MMX undertaking a selective reduction of capital under which all of the MMX shares (other than those held by the Company and its associates) would be cancelled. In consideration for the cancellation of their shares, MMX shareholders would have the option of either:

- choosing to receive cash consideration (being the amount equal to the MMX pre-tax net tangible assets ('NTA') per share less any transaction costs associated with implementing the Scheme) for 100% of their shares (Cash Consideration);
- to exchange 100% of their shares in the Company (calculated by reference to the relative pre-tax NTA backing per share of MMX and the Company less any transaction costs associated with implementing the scheme) (Scrip Consideration); or
- 50/50 combination of cash and scrip in Mercantile.

On 8 May 2014, the Supreme Court of New South Wales approved the release of the Scheme Booklet for the proposed merger with MMX. The Scheme Booklet incorporating the explanatory statement of the proposed merger, proxy forms for the Scheme Meeting, General Meeting and Class Meeting and election forms were dispatched to MMX shareholders on 15 May 2014.

The Scheme Meeting, General Meeting and Class Meeting of MMX shareholders were convened on 19 June 2014. MMX shareholders approved the scheme of arrangement at the various meetings.

At the Scheme Meeting, shareholders voted in favour of the Scheme. At the General Meeting, shareholders voted in favour of the subscription by MMX for new shares which will comprise the scrip consideration component under the Scheme. At the Class Meeting, shareholders voted in favour of a resolution to cancel all MMX shares other than those held by the Company and its associates.

On 23 June 2014, the Supreme Court of New South Wales approved the Scheme of Arrangement and the Court Order was lodged with ASIC on 24 June 2014.

### After Balance Date Events

The implementation of the merger with MMX was completed on 8 July 2014.

The Scheme Consideration was issued as follows:

- Scrip Consideration – 0.3171 new shares was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new shares have been issued at a price of \$0.1523 per share.
- Cash Consideration - \$0.0483 was distributed for each MMX share held by Scheme participants as at 1 July 2014. The total Cash Consideration was distributed as a cheque or direct deposit on 8 July 2014.

The Company obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

The Company has committed to invest NZD\$4.75 million in a combination of units in Foundation Life Holding Trust and redeemable preference notes in Foundation Life (NZ) Holdings Limited. Foundation Life will acquire a residual life assurance business, subject to the customary regulatory approvals. The Company has paid a deposit of \$184,780 and will pay the balance of the commitment once Foundation Life obtains all the necessary approvals.

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

### Future Developments, Prospects and Business Strategies

As the merger scheme of arrangement has been completed, the Company believes that the increase in capital will increase the Company's investment capacity.

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

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## 2. DIRECTORS' REPORT (CONTINUED)

### **Future Developments, Prospects and Business Strategies (Continued)**

The Company will also continue to selectively invest in share market opportunities that Directors consider offer the prospect for attractive risk-adjusted returns. Although the present focus is on the Australian market, as the Directors have extensive international investment knowledge, occasional overseas opportunities will arise as these sorts of opportunities are considered to be part of the normal activities of the Company.

### **Environmental Issues**

The Company's operations are such that they are not directly affected by environmental regulations.

### **Information on Directors and Company Secretary**

#### **Sir Ron Brierley – (Chairman and Non-Executive Director)**

Sir Ron founded Brierley Investments Ltd in 1961 and as Chairman of that company implemented his investment approach successfully over the next 30 years, retiring as a director in 2001. Sir Ron was appointed Chairman of Guinness Peat Group PLC (GPG) in 1990 where he also applied his investment approach. Sir Ron stepped down as Chairman of GPG in 2010, and remains a non-executive director.

He is the Chairman of the Board and holds directorship in Guinness Peat Group PLC.

Interest in Shares and Options - 122,411,120 ordinary shares beneficially held by Siblow Pty Ltd.

#### **Mr Gabriel Radzynski – BA (Hons), MCom (Executive Director)**

Gabriel is the founder and Managing Director of Sandon Capital Pty Ltd, a funds management and advisory firm specialising in activist investing. He is the portfolio manager of the Sandon Capital Activist Fund and Sandon Capital Investments Limited. Sandon Capital also provides advisory services to shareholders seeking to implement activist strategies.

He is Chairman of Sandon Capital Investments Limited and is a non-executive director of Future Generation Investment Fund Limited. Gabriel is also a director of Sandon Capital Opportunities Pty Limited.

#### **Mr James Chirnside – (Independent Non-Executive Director)**

James has been exclusively focussed on investment management for twenty-nine years in Sydney, Hong Kong, London, and Melbourne.

James is a Director of Mann Distribution Pty Limited, a marketing agent for Mannbio Holdings Limited. Mannbio Holdings is a specialist Biopharma Fund Manager founded in the UK by investor Jim Mellon. James ran Asia Pacific Asset Management between 2002 and 2012. APAM was an Australian and Asian equities fund, and Fund of Fund manager. From 2000-2001 James worked for Challenger Financial Group in Sydney as a product development manager responsible for hedge fund investments. During the 1990's James managed emerging market hedge funds in Hong Kong and London for Regent Fund Management - now AIM listed Charlemagne Capital. Between 1988 and 1992 James ran a Proprietary trading book for County NatWest Investment Bank, based in London. Here he was primarily focussed on Country Funds and derivative arbitrage strategies.

He is the Chairman of the Audit & Risk Committee and a member of the Nomination & Remuneration Committee.

James holds directorships in Cadence Capital Limited, Murchison Metals Limited and WAM Capital Limited.

#### **Dr. Gary Weiss – LLB (Hons), LLM, JSD (Non-Executive Director)**

Gary is the Chairman of Clearview Wealth Ltd and Secure Parking Pty Ltd, Executive Director of Ariadne Australia Limited, and a director of Premier Investments Limited, Ridley Corporation Limited, Pro-Pac Packaging Limited and Victor Chang Cardiac Research Institute.

Gary has extensive international business experience and has been involved in numerous cross-border mergers and acquisitions.

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

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## 2. DIRECTORS' REPORT (CONTINUED)

### Information on Directors and Company Secretary (Continued)

#### **Dr. Gary Weiss – LLB (Hons), LLM, JSD (Non-Executive Director)**

Gary is a member of the Audit & Risk Committee and Nomination & Remuneration Committee.

Interest in Shares and Options - 14,915,001 ordinary shares beneficially held by Portfolio Services Pty Limited and 900,000 Fully Paid ordinary shares beneficially held by Bivaru Pty Limited (Superannuation Account).

#### **Mr. Ronald Langley – BCom (Hons) (Independent Non-Executive Director)**

Ron has been an international value investor for the past 35 years and has held directorships in companies in several countries around the world. After living in the US for 25 years and building 2 substantial businesses, Ron returned to Sydney in 2009 and manages a personal investment fund which includes some unlisted emerging companies.

Ron is the Chairman of the Nomination & Remuneration Committee and a member of the Audit & Risk Committee.

Interest in Shares and Options - 12,500,000 Fully Paid Ordinary Shares

#### **Mark Licciardo – B Bus (Acc), GradDip CSP, FCIS, MAICD (Company Secretary)**

Mr Licciardo is a Managing Director of Mertons Corporate Services Pty Ltd (Mertons) which provides company secretarial and corporate governance consulting services to ASX listed, unlisted public and private companies. Mark has also had an extensive commercial banking career with the Commonwealth Bank and State Bank Victoria. Mr Licciardo is a former Chairman of the Chartered Secretaries Australia (CSA) in Victoria, a fellow of CSA, a member of the Australian Institute of Company Directors (AICD) and a director of several public and private companies.

This report details the nature and amount of remuneration for each Director of Mercantile Investment Company Limited. The current employees of the Company are one Executive Director and four Non-Executive Directors. The Company Secretary is remunerated under a service agreement with Mertons Corporate Services Pty Ltd.

#### *Remuneration policy*

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for Non-Executive Directors are not linked to the performance of the Company. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

### REMUNERATION REPORT (Audited)

Where specialist services beyond the normal expectations of a Non-Executive Director are provided to the company, payment will be made on a normal commercial basis. Works under this arrangement have been carried out by Gabriel Radzynski through Sandon Capital Pty Limited at arm's-length market rates. Further details are contained in Note 23.

#### *Directors' Remuneration*

The remuneration policy has been tailored to align the interest between shareholders, executive directors and executives.

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

## 2. DIRECTORS' REPORT (CONTINUED)

### REMUNERATION REPORT (Audited) (Continued)

	Employee Short-Term Benefits	Post-Employment Benefits	Total
	Cash, Salary & Commissions	Superannuation	
	\$	\$	\$
<b>2014</b>			
<b>Directors</b>			
Mr. James Chirnside	15,000	1,388	16,388
Mr. Gabriel Radzynski	15,000	1,388	16,388
Mr. Ronald Langley	15,000	1,388	16,388
Dr. Gary Weiss (including GST)	17,985	-	17,985
Sir Ron Brierley	-	-	-
	<b>62,985</b>	<b>4,164</b>	<b>67,149</b>
<b>2013</b>			
<b>Directors</b>			
Mr. James Chirnside	15,000	1,350	16,350
Mr. Gabriel Radzynski	15,000	1,350	16,350
Mr. Ronald Langley	15,000	1,688	16,688
Dr. Gary Weiss (including GST)	17,985	-	17,985
Sir Ron Brierley	-	-	-
	<b>62,985</b>	<b>4,388</b>	<b>67,373</b>

The Directors are the only people considered to be key management personnel of the company.

Cash, salary and superannuation shown above for Dr Weiss reflect monthly director's fees paid to Ariadne Australia Limited and include GST.

The total pool of Non-Executive Directors' Fees, excluding consultancy services, approved by the shareholders is currently \$200,000 p.a.

#### Meetings of Directors

During the period, four meetings of directors (and two committees of directors meetings) were held.

Attendances by each director during the year were as follows:

	Directors'		Committee Meetings			
	Meetings		Audit & Risk		Remuneration	
	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended	Number Eligible to Attend	Number Attended
Mr Gabriel Radzynski	4	4	-	-	-	-
Mr James Chirnside	4	4	2	2	-	-
Dr Gary Weiss	4	3	2	2	-	-
Mr Ronald Langley	4	4	2	2	-	-
Sir Ron Brierley	4	4	-	-	-	-
Total Meetings Held	4		2		-	-

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

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## 2. DIRECTORS' REPORT (CONTINUED)

### **Indemnifying Officers or Auditor**

During or since the end of the financial period the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums.

The company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a willful breach of duty in relation to the company or the improper use by the Directors of their position.

Details of the amount of the premium paid in respect of the insurance policies are not disclosed.

### **Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the period.

### **Non-Audit Services**

The Board of Directors, in accordance with advice from the Audit & Risk Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit & Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with the Corporations Act 2001 and APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No non-audit services were performed by the current auditors during the year ended 30 June 2014 (2013: Nil).

### **Auditors Independence Declaration**

The lead auditor's independence declaration as required under s.307c of the Corporations Act 2001 for the year ended 30 June 2014 is set out on page 12.

Signed in accordance with a resolution of the Board of Directors.



Sir Ron Brierley  
Chairman

Dated 25 August 2014

# MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

## 3. CORPORATE GOVERNANCE STATEMENT

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### Introduction

The Board of Directors of Mercantile Investment Company Limited ('MVT' or 'the Company') is responsible for the corporate governance of the Company. The Board has chosen to prepare the Corporate Governance Statement ("CGS") in accordance with the third edition of the ASX Corporate Governance Council's Principles and Recommendations under which the CGS may be made available on a company's website.

Accordingly, a copy of the company's CGS is available on the company's website at [www.mercantileinvestment.com.au](http://www.mercantileinvestment.com.au) under the Governance section.



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

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C  
OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF MERCANTILE INVESTMENT COMPANY LIMITED  
AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

*MNSA Pty Ltd*

**MNSA Pty Ltd**

**Mark Schiliro**

Sydney

25 August 2014



**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities

**5. FINANCIAL STATEMENTS**

**Consolidated Statement of Profit or Loss and other Comprehensive Income**  
For the year ended 30 June 2014

		<b>Consolidated</b>	
		June	June
		2014	2013
	Note	\$	\$
<b>Revenue</b>	<b>2</b>	<b>398,143</b>	484,050
Realised (Loss)/ Gains on Trading Portfolio	<b>2</b>	<b>(184)</b>	93,421
Other Income	<b>2</b>	<b>36,500</b>	37,828
Unrealised Gains/ (Loss) on Market Value Movement	<b>2</b>	<b>451,175</b>	(92,407)
Fund Administration Expenses		<b>(4,432)</b>	(3,185)
Remuneration Costs	<b>3</b>	<b>(67,324)</b>	(67,636)
Listed Company Expenses	<b>3</b>	<b>(717,444)</b>	(555,777)
Marketing and Development Expenses		<b>(5,387)</b>	(13,456)
Occupancy Costs		<b>(13,673)</b>	(13,223)
Depreciation	<b>13</b>	<b>(5,010)</b>	(12,854)
Foreign Exchange Gains		<b>39,014</b>	2,572
Finance Costs		<b>(84,589)</b>	(5,287)
Loss on Disposal of Non-Current Assets		<b>-</b>	(18,503)
<b>Profit/ (Loss) Before Income Tax</b>		<b>26,789</b>	(164,457)
Income Tax Expense	<b>4</b>	<b>(135,351)</b>	(51,548)
<b>Loss for the year</b>		<b>(108,562)</b>	(216,005)
<b>Other Comprehensive Income</b>			
Gain on Revaluation of Available-for-sale Financial Assets			
Items that will not be reclassified to profit or loss:			
Gain on disposal of investments available for sale		<b>3,150,200</b>	956,666
Fair Value Adjustment		<b>6,407,883</b>	7,907,048
Deferred Tax Impact relating to items that will not be reclassified		<b>(1,922,365)</b>	(2,372,114)
<b>Other Comprehensive Income for the Year, Net of Tax</b>		<b>7,635,718</b>	6,491,600
<b>Total Comprehensive Income for the Year</b>		<b>7,527,156</b>	6,275,595
<b>Loss Attributable to:</b>			
Members of the Parent Entity		<b>(108,562)</b>	(216,005)
Non-Controlling Interest		<b>-</b>	-
		<b>(108,562)</b>	(216,005)
<b>Total Comprehensive Income Attributable to:</b>			
Members of the Parent Entity		<b>7,527,156</b>	6,275,595
Non-Controlling Interest		<b>-</b>	-
		<b>7,527,156</b>	6,275,595

**Earnings per Share**

From Continuing Operations			
- Basic loss per share (cents per share)	<b>8</b>	<b>(0.04)</b>	(0.09)
- Diluted loss per share (cents per share)	<b>8</b>	<b>(0.04)</b>	(0.09)
From Comprehensive Income			
- Basic earnings per share (cents per share)	<b>8</b>	<b>3.00</b>	2.50
- Diluted earnings per share (cents per share)	<b>8</b>	<b>3.00</b>	2.50

**MERCANTILE INVESTMENT COMPANY LIMITED**

ABN 15 121 415 576 and Controlled Entities

**Consolidated Statement of Financial Position**

As at 30 June 2014

		<b>Consolidated</b>	
		<b>June</b>	<b>June</b>
		<b>2014</b>	<b>2013</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	9	1,129,258	1,357,461
Trade and Other Receivables	10	34,924	489,293
Financial Assets	11	4,866,296	3,477,736
Other Current Assets	12	193,120	8,735
Current Tax Assets	15	59	59
<b>Total Current Assets</b>		<b>6,223,657</b>	<b>5,333,284</b>
<b>Non-Current Assets</b>			
Financial Assets	11	34,449,927	24,668,300
Trade and Other Receivables	10	871,534	-
Property, Plant & Equipment	13	5,830	7,648
Deferred Tax Assets	15	36,218	144,465
<b>Total Non-Current Assets</b>		<b>35,363,509</b>	<b>24,820,413</b>
<b>Total Assets</b>		<b>41,587,166</b>	<b>30,153,697</b>
<b>Current Liabilities</b>			
Trade and Other Payables	16	138,318	88,510
Borrowings	17	2,912,241	1,005,206
<b>Total Current Liabilities</b>		<b>3,050,559</b>	<b>1,093,716</b>
<b>Non-Current Liabilities</b>			
Deferred Tax Liabilities	15	4,830,215	2,772,498
<b>Total Non-Current Liabilities</b>		<b>4,830,215</b>	<b>2,772,498</b>
<b>Total Liabilities</b>		<b>7,880,774</b>	<b>3,866,214</b>
<b>Net Assets</b>		<b>33,706,392</b>	<b>26,287,483</b>
<b>Equity</b>			
Issued Capital	18	24,773,530	24,881,777
Reserves	19	16,561,023	8,925,305
Retained Earnings		(7,628,161)	(7,519,599)
<b>Total Equity</b>		<b>33,706,392</b>	<b>26,287,483</b>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities

**Consolidated Statement of Cash Flows**  
For the year ended 30 June 2014

	Note	Consolidated	
		June 2014	June 2013
		\$	\$
<b>Cash Flows from Operating Activities</b>			
Dividends Received		357,174	338,880
Payments to Suppliers and Employees		(773,060)	(625,793)
Proceeds from Sale of Shares held for trading		3,005	2,108,100
Purchase of Shares held for trading		(940,573)	(3,853,322)
Capital Return Payments		-	460,000
Interest Received		33,695	23,249
Interest Paid		(89,794)	(82)
Trust Distributions Received		1,160,149	417,694
Underwriting Fee Received		36,500	37,828
Income Tax Paid		230,192	(267,367)
<b>Net Cash Provided by/ (Used in) Operating Activities</b>	<b>21</b>	<b>17,288</b>	<b>(1,360,813)</b>
<b>Cash Flows from Investing Activities</b>			
Proceeds from Sale of Investments		5,150,772	2,643,546
Purchase of Investments		(6,374,181)	(6,707,510)
Capital Return Payments		80,000	1,537,444
Purchase of Capital Assets		(3,192)	(2,134)
<b>Net Cash (Used in) Investing Activities</b>		<b>(1,146,601)</b>	<b>(2,528,654)</b>
<b>Cash Flows from Financing Activities</b>			
Loan Advanced		(826,351)	-
Loan Provided		1,912,241	1,000,000
Deposit paid for share purchase agreement		(184,780)	-
<b>Net Cash Provided by Financing Activities</b>		<b>901,110</b>	<b>1,000,000</b>
<b>Net (Decrease) in Cash &amp; Cash Equivalents Held</b>		<b>(228,203)</b>	<b>(2,889,467)</b>
<b>Cash &amp; Cash Equivalents at Beginning of Financial Year</b>		<b>1,357,461</b>	<b>4,246,928</b>
<b>Cash &amp; Cash Equivalents at End of Financial Year</b>	<b>9</b>	<b>1,129,258</b>	<b>1,357,461</b>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities

**Consolidated Statement of Changes in Equity**  
For the year ended 30 June 2014

<b>Consolidated</b>	<b>Issued Share Capital – Ordinary \$</b>	<b>Retained Earnings \$</b>	<b>Realised Capital Profits Reserve \$</b>	<b>Asset Revaluation Reserve \$</b>	<b>Total \$</b>
<b>Balance at 1 July 2013</b>	<b>24,881,777</b>	<b>(7,519,599)</b>	<b>2,515,234</b>	<b>6,410,071</b>	<b>26,287,483</b>
Loss for the Year	-	(108,562)	-	-	(108,562)
<i>Other Comprehensive Income for the Year</i>					
Gains on Disposal of Investments Available for Sale to 30 June 2014	-	-	3,150,200	-	3,150,200
Net unrealised gains for stocks held at 30 June 2014	-	-	-	4,485,518	4,485,518
Total Comprehensive Income for the Year	-	-	3,150,200	4,485,518	7,635,718
Deferred Tax Relating to Capital Raising Costs	(108,247)	-	-	-	(108,247)
<b>Subtotal</b>	<b>24,773,530</b>	<b>(7,628,161)</b>	<b>5,665,434</b>	<b>10,895,589</b>	<b>33,706,392</b>
Dividends Paid or Provided for	-	-	-	-	-
<b>Balance at 30 June 2014</b>	<b>24,773,530</b>	<b>(7,628,161)</b>	<b>5,665,434</b>	<b>10,895,589</b>	<b>33,706,392</b>
<b>Balance at 1 July 2012</b>	<b>24,992,645</b>	<b>(7,303,594)</b>	<b>1,558,568</b>	<b>875,137</b>	<b>20,122,756</b>
Loss for the Year	-	(216,005)	-	-	(216,005)
<i>Other Comprehensive Income for the Year</i>					
Gains on Disposal of Investments Available for Sale to 30 June 2013	-	-	956,666	-	956,666
Net unrealised gains for stocks held at 30 June 2013	-	-	-	5,534,934	5,534,934
Total Comprehensive Income for the Year	-	-	956,666	5,534,934	6,491,600
Deferred Tax Relating to Capital Raising Costs	(110,868)	-	-	-	(110,868)
<b>Subtotal</b>	<b>24,881,777</b>	<b>(7,519,599)</b>	<b>2,515,234</b>	<b>6,410,071</b>	<b>26,287,483</b>
Dividends Paid or Provided for	-	-	-	-	-
<b>Balance at 30 June 2013</b>	<b>24,881,777</b>	<b>(7,519,599)</b>	<b>2,515,234</b>	<b>6,410,071</b>	<b>26,287,483</b>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

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

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the Corporations Act 2001. Mercantile Investment Company Limited is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report includes the consolidated financial statements and notes of Mercantile Investment Company Limited and controlled entities ('Consolidated Group' or 'Group' or 'Company'). Mercantile Investment Company Limited is a listed public company, incorporated and domiciled in Australia.

The separate financial statements of the parent entity, Mercantile Investment Company Limited, have not been presented within this financial report as permitted by amendments made to the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB.

Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied, unless otherwise stated.

The financial report was approved for release by the Board of Directors on 25 August 2014.

**Reporting Basis and Conventions**

Except for cash flow information, the financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. All amounts are presented in Australian dollars unless otherwise stated.

In preparing this financial report, the significant judgements made by management in applying the accounting policies and the key sources of estimates or uncertainty were the same as those that applied historically.

**Accounting Policies**

**(a) Principles of Consolidation**

The consolidated financial report incorporates the assets, liabilities and results of entities controlled by Mercantile Investment Company Limited at the end of the reporting period. A controlled entity is any entity over which Mercantile Investment Company Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled.

A list of controlled entities is contained in Note 14 to the financial statements.

Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group. Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of profit or loss and other comprehensive income.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

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

**Accounting Policies (Continued)**

**(b) Business Combinations**

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method.

The acquisition method requires the acquirer of the business to be identified. The business combination will be accounted for as at acquisition date, which is the date that control over the acquiree, is obtained by the parent entity. At that date, the parent entity shall recognise in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be measured reliably.

Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entities incremental borrowing rate.

Goodwill arising on acquisition is recognised initially at the excess of cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

**(c) Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**(d) Income Tax**

The income tax expense/ (income) for the year comprises current income tax expense/ (income) and deferred tax expense/ (income). Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/ (assets) are measured at the amounts expected to be paid to/ (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/ (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss. Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

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

**Accounting Policies (Continued)**

**(d) Income Tax (Continued)**

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**(e) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

***Plant and Equipment***

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

***Depreciation***

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a combination of prime cost and diminishing value basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Plant and Equipment	10-25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

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

**Accounting Policies (Continued)**

**(f) Financial Instruments**

***Initial Recognition and Measurement***

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

***Classification and Subsequent Measurement***

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

***Financial assets at fair value through profit or loss***

Financial assets are classified at 'fair value through profit or loss' when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

***Available-for-sale investments***

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.



**MERCANTILE INVESTMENT COMPANY LIMITED**

ABN 15 121 415 576 and Controlled Entities

For the year ended 30 June 2014

**Notes to the Financial Statements**

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

**Accounting Policies (Continued)**

**(f) Financial Instruments (Continued)**

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

*Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

*Impairment*

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial assets.

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

*Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**Notes to the Financial Statements**

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

**Accounting Policies (Continued)**

**(g) Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss.

**(h) Investment in Subsidiaries**

Investment in subsidiary companies in the parent's financial statements is stated at cost, net of any impairment losses.

Details of investment in subsidiaries are provided in Note 14.

**(i) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks and other short-term highly liquid investments with original maturities of three months or less.

**(j) Trade and other Receivables**

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(g) for further discussion on the determination of impairment losses.

**(k) Earnings per Share (EPS)**

Basic earnings per share is determined by dividing the operating profit after tax by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the operating profit after tax adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.

**(l) Revenue and Other Income**

Dividend revenue is recognised when the right to receive a dividend has been established.

Interest revenue is recognised using the effective interest method.

The realised gain or loss on disposal of investments is recognised at the date of transaction. All unrealised gains or losses which represent movements in the market value of the portfolio of listed investments are recognised through the Asset Revaluation Reserve on the Statement of Financial Position.

All revenue is stated net of the amount of goods and services tax (GST).

**(m) Operating Segments**

The Company has only one reportable segment. The Company operates predominantly in Australia and in one industry being the securities industry, deriving revenue from trust distribution, dividend income, interest income and from sale of its investment portfolio.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

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

**Accounting Policies (Continued)**

**(n) Critical Accounting Estimates and Judgements**

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

*Key Estimates – Impairment*

The financial assets available-for-sale and held-for-trading of Mercantile Investment Company Limited are valued at fair value. The Directors assess impairment of all other assets at each reporting date by evaluating conditions specific to the Group that may lead to impairment of these assets. Where an impairment trigger exists, the recoverable amount of the assets is determined.

In accordance with AASB 112 Income Taxes, deferred tax assets/liabilities have been recognised for unrealised losses/gains in the investment portfolio at current tax rates to the point that management believes that they will be utilised.

*Key Judgements - Impairment*

There are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

**(o) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

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

GST is accounted for on a cash basis for activity statement purposes.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

**(p) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

**(q) New and Amended Accounting Standards and Interpretations**

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013:

**AASB 10: Consolidated Financial Statements.** This standard provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The assets, liabilities and non-controlling interests related to investments in businesses that are now assessed as being controlled by the Group, and were therefore not previously consolidated, are measured as if the investee had been consolidated.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

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

**Accounting Policies (Continued)**

**(q) New and Amended Accounting Standards and Interpretations (Continued)**

This standard did not result in any changes to the amounts reported in the Group's financial statements as the "controlled" status of the existing subsidiaries did not change, nor did it result in any new subsidiaries being included in the Group.

*AASB 13: Fair Value Measurement* and *AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13*. This standard sets out a comprehensive framework for measuring the fair value of assets and liabilities and prescribes enhanced disclosures regarding all assets and liabilities measured at fair value.

This standard did not materially impact the fair value amounts reported in the Group's financial statements.

**(r) New Accounting Standards for Application in Future Periods**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's Directors have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

- *AASB 9: Financial Instruments* and associated amending standards (applicable for annual reporting periods commencing on or after 1 January 2017).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

- *AASB 2012-3: Amendments to Australian Accounting Standards Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard provides clarifying guidance relating to the offsetting of financial instruments.

- *AASB 2013-3: Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in *AASB 136: Impairment of Assets* pertaining to the use of fair value in impairment assessment.

- *AASB 2013-4: Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard makes amendments to *AASB 139: Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.

- *AASB 2013-5: Amendments to Australian Accounting Standards – Investment Entities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends *AASB 10: Consolidated Financial Statements* to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with *AASB 9* and not be consolidated. Additional disclosures are also required.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

	<b>Consolidated</b>	
	<b>June 2014</b>	<b>June 2013</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
<b>NOTE 2: REVENUE AND OTHER INCOME</b>		
<b>Revenue</b>		
- Dividends Received	<b>357,174</b>	234,050
- Trust Distributions Received	-	226,751
- Interest Received	<b>40,969</b>	<b>23,249</b>
	<hr/>	<hr/>
<b>Total Revenue</b>	<b>398,143</b>	<b>484,050</b>
	<hr/>	<hr/>
Realised (Loss)/ Gains on Trading Portfolio	<b>(184)</b>	93,421
Unrealised Gains/ (Loss) on Market Value Movement	<b>451,175</b>	(92,407)
	<hr/>	<hr/>
<b>Other Income</b>		
- Underwriting Fee	<b>36,500</b>	37,828
	<hr/>	<hr/>
<b>Total Other Income</b>	<b>36,500</b>	<b>37,828</b>
	<hr/>	<hr/>
<b>Total Revenue and Other Income</b>	<b>885,634</b>	<b>522,892</b>
	<hr/>	<hr/>
<b>NOTE 3: EXPENSES</b>		
<b>Remuneration Costs</b>		
Director Fees	<b>62,985</b>	62,985
Superannuation	<b>4,164</b>	4,388
Other	<b>175</b>	263
	<hr/>	<hr/>
	<b>67,324</b>	<b>67,636</b>
	<hr/>	<hr/>
<b>Listed Company Costs</b>		
Accounting & Secretarial Costs	116,572	116,298
Audit Fees	35,640	38,500
Director & Officer Insurance	11,197	11,458
Legal and Professional Fees		
- Non Recurring Costs <sup>1</sup>	171,708	52,554
- Recurring Costs	-	1,195
ASIC & ASX Charges	32,429	29,107
Share Registry Costs	24,281	21,954
Corporate Work Costs	165,000	157,297
Taxation Services <sup>2</sup>	160,617	127,414
	<hr/>	<hr/>
	<b>717,444</b>	<b>555,777</b>
	<hr/>	<hr/>

<sup>1</sup> A number of legal costs incurred during 2014 are not expected to recur, and are therefore considered non-recurring. These include costs relating to the proposed take-over offer of GLL which did not proceed as well as costs in relation to the merger Scheme of Arrangement with MMX.

<sup>2</sup> A large proportion of the taxation services costs were one-off and not expected to recur.

**MERCANTILE INVESTMENT COMPANY LIMITED**

ABN 15 121 415 576 and Controlled Entities

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**Notes to the Financial Statements**

	<b>Consolidated</b>	
	<b>June 2014</b>	<b>June 2013</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
<b>NOTE 4: INCOME TAX EXPENSE</b>		
(a) The components of tax expense comprise:		
- Deferred Tax	<b>135,351</b>	25,325
- Under Provision for Tax – Prior Year	<b>-</b>	26,223
	<hr/> <b>135,351</b>	<hr/> 51,548
(b) The prima facie tax on (loss)/ profit from ordinary activities before income tax as follows:		
- Prima face tax payable on (loss)/ profit from ordinary activities before income tax at 30% (2013: 30%)	<b>8,037</b>	(49,337)
Add: Tax Effect of:		
- Franking Credits	<b>43,994</b>	30,092
- Other Assessable Income	<b>1,171,354</b>	340,046
- Non-Deductible Expenditure	<b>67,011</b>	53,586
Less: Tax Effect of:		
- Group Losses/ (Gains) not recognised	<b>195</b>	2,267
- Non-Assessable Income	<b>(176,449)</b>	(772)
- Tax Losses Utilised	<b>(944,240)</b>	(241,196)
- Other Allowable Items	<b>(10,096)</b>	(16,253)
- Rebateable Fully Franked Dividends	<b>(43,994)</b>	-
- Deduction under Sec 40-880	<b>(115,812)</b>	(118,433)
Under Provision for Tax – Prior Year	<b>-</b>	26,223
Deferred Tax	<b>135,351</b>	25,325
<b>INCOME TAX EXPENSE</b>	<hr/> <b>135,351</b>	<hr/> 51,548

Approximate carried forward Revenue Losses as at 30 June 2014: \$4.9m (2013: \$8.1m). There were no capital losses to be carried forward at 30 June 2014 (30 June 2013 – Nil). The Company has determined that current year taxable profits will be offset against prior year carried forward revenue losses.

Deferred tax assets relating to capital raising costs have been recognised in the Statement of Financial Position totalling \$36,218.

**Franking Credits**

The ability for Mercantile Investment Company Limited to pay franked dividends is dependent upon the Company paying tax. At 30 June 2014 the Company was liable for tax on taxable profits and total imputation credits from the receipt of franked dividends of \$146,646 was used to reduce tax on taxable profits.

Balance of franking account at year end arising from:

Opening balance at 1 July	<b>495,258</b>	127,642
Payment of provision for income tax	<b>-</b>	267,309
Franking credits on dividends received	<b>146,646</b>	100,307
	<hr/> <b>641,904</b>	<hr/> 495,258

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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For the year ended 30 June 2014

**Notes to the Financial Statements**

**Consolidated**  
**June**                      **June**  
**2014**                      **2013**  
**\$**                              **\$**

**NOTE 5: KEY MANAGEMENT COMPENSATION**

**(a) Names and Positions held of key management personnel in office at any time during the financial year are:**

<b>Key Management Person</b>	<b>Position</b>
Sir Ron Brierley	Non-Executive Director & Chairman
Mr. Gabriel Radzynski	Executive Director
Mr. James Chirnside	Independent Non-Executive Director
Dr. Gary Weiss	Non-Executive Director
Mr. Ronald Langley	Independent Non-Executive Director

**(b) Aggregate compensation made to Key Management Personnel**

Short-term Employee Benefits	<b>62,985</b>	62,985
Post-Employment Benefits	<b>4,164</b>	4,388
	<b><u>67,149</u></b>	<b><u>67,373</u></b>

**(c) Shareholdings**

Number of Shares held directly, indirectly or beneficially by Key Management Personnel, or by entities to which they were related, were:

<b>2014</b>	<b>Balance 1 July 2013</b>	<b>Net Change Other</b>	<b>Balance 30 June 2014</b>
Mr. James Chirnside	-	-	-
Mr. Gabriel Radzynski	-	-	-
Sir Ron Brierley**	122,411,120	-	122,411,120
Dr. Gary Weiss**	15,815,001	-	15,815,001
Mr. Ronald Langley	12,500,000	-	12,500,000
	<b><u>150,726,121</u></b>	<b>-</b>	<b><u>150,726,121</u></b>

\*\* Held through Indirect Interest.

<b>2013</b>	<b>Balance 1 July 2012</b>	<b>Net Change Other</b>	<b>Balance 30 June 2013</b>
Mr. James Chirnside	-	-	-
Mr. Gabriel Radzynski	-	-	-
Sir Ron Brierley **	122,411,120	-	122,411,120
Dr. Gary Weiss **	15,815,001	-	15,815,001
Mr. Ronald Langley	12,500,000	-	12,500,000
	<b><u>150,726,121</u></b>	<b>-</b>	<b><u>150,726,121</u></b>

\*\* Held through Indirect Interest.

**(d) Options & Rights Holdings**

There were no options held directly, indirectly or beneficially by Key Management Personnel, or by entities to which they were related for the year ended 30 June 2014.

**NOTE 6: AUDITOR'S REMUNERATION**

Remuneration of the auditor of the entity for:

- Audit and Review of Financial Report	<b><u>35,640</u></b>	<b><u>38,500</u></b>
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**MERCANTILE INVESTMENT COMPANY LIMITED**  
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For the year ended 30 June 2014

**Notes to the Financial Statements**

	<b>Consolidated</b>	
	<b>June 2014</b>	<b>June 2013</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
<b>NOTE 7: DIVIDENDS</b>		
No dividends were paid or provided for during the year (2013: Nil).		
<b>Listed Investment Company capital gains account</b>		
Balance of the Listed Investment Company (LIC) capital gains account	<b>5,665,434</b>	2,515,234
This would equate to an attributable amount of	<b>6,333,392</b>	3,183,192
Distributable LIC capital gains may entitle certain shareholders to a special capital gains concession in their taxation return, as set out in the dividend statement. LIC capital gains available for distribution are dependent upon the disposal of investment portfolio holdings which qualify for LIC capital gains.		
<b>NOTE 8: EARNINGS PER SHARE</b>		
<i>(a) Reconciliation of earnings used in calculating basic and diluted earnings per share</i>		
Net loss attributable to members	<u><b>(108,562)</b></u>	<u>(216,005)</u>
Loss used in calculating basic and diluted EPS	<u><b>(108,562)</b></u>	<u>(216,005)</u>
<i>(b) Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS</i>		
	<u><b>250,577,700</b></u>	<u>250,577,700</u>
Weighted average number of options outstanding	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares and options outstanding during the year used in calculating diluted EPS	<u><b>250,577,700</b></u>	<u>250,577,700</u>
<b>Comprehensive Income:</b>		
Loss for the year	<b>(108,562)</b>	(216,005)
Other Comprehensive Income for the year, Net of Tax	<u><b>7,635,718</b></u>	<u>6,491,600</u>
Total Comprehensive Income for the year	<u><b>7,527,156</b></u>	<u>6,275,595</u>
<b>NOTE 9: CASH AND CASH EQUIVALENTS</b>		
Cash at Bank and in Hand	<u><b>1,129,258</b></u>	<u>1,357,461</u>
<b>Reconciliation of Cash</b>		
Cash at the end of the financial period as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:		
Cash and Cash Equivalents	<u><b>1,129,258</b></u>	<u>1,357,461</u>



**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

**Consolidated**  
**June**                      June  
**2014**                      2013  
**\$**                              \$

**NOTE 10: TRADE AND OTHER RECEIVABLES**

**Current – Loans & Receivables**

Other Receivables	13,991	235,720
Amounts Receivable from:		
- Sundry Debtors	9,659	2,018
- Trust Distributions Receivable	11,274	251,555
	<u>34,924</u>	<u>489,293</u>

There are no balances within trade and other receivables that contain assets that are impaired. Those balances past due are expected to be received in full. All assets are assessed for impairment and are provided for in full, where identified to be impaired.

**Non-Current – Loans & Receivables**

Loan – Impact Holdings (UK)	<u>871,534</u>	-
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On 11 July 2013, the Company advanced GBP500,000 to Impact Holdings (UK). Interest is payable at the end of each quarter at a rate of 4.5% per annum.

**Credit Risk – Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. The class of assets described as Non-Current - Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, the Group's significant credit risk exposure is in United Kingdom due to the loan to Impact Holdings (UK). The only credit risk exposure in India as at 30 June 2013 was the amount of tax refundable to the Company from prior years. The tax refund has been paid to the Company during the year. The Group's exposure to credit risk for receivables at reporting date in those regions is as follows:

**AUD**

United Kingdom	871,534	-
Australia	34,924	251,795
India	-	237,498
	<u>906,458</u>	<u>489,293</u>

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided thereon. Amounts are considered as 'past due' when the debt has not been settled with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trading terms (as detailed in the table) are considered to be high credit quality.

	Gross Amount	Past due and Impaired	Past due but not impaired				Within initial Trade Terms
			< 30	31-60	61 -90	>90	
<b>2014</b>							
Other Receivables	906,458	-	34,924	-	-	-	871,534
Total	<u>906,458</u>	<u>-</u>	<u>34,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>871,534</u>
<b>2013</b>							
Other Receivables	489,293	-	-	-	-	-	489,293
Total	<u>489,293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>489,293</u>

**MERCANTILE INVESTMENT COMPANY LIMITED**

ABN 15 121 415 576 and Controlled Entities

For the year ended 30 June 2014

**Notes to the Financial Statements**

		<b>Consolidated</b>	
		<b>June</b>	<b>June</b>
		<b>2014</b>	<b>2013</b>
	<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>NOTE 11: FINANCIAL ASSETS</b>			
<b>CURRENT &amp; NON-CURRENT</b>			
Current - Financial Assets Held-for-Trading	<b>11(a)</b>	<b>4,866,296</b>	3,477,736
Non-Current - Available-for-Sale Financial Assets	<b>11(b)</b>	<b>34,449,927</b>	24,668,300
		<u><b>39,316,223</b></u>	<u>28,146,036</u>
<b>(a) Financial Assets Held-for-Trading Comprise:</b>			
<b>CURRENT</b>			
- Shares in listed corporations held-for-trading		<u><b>4,866,296</b></u>	<u>3,477,736</u>
Total Current Financial Assets		<u><b>4,866,296</b></u>	<u>3,477,736</u>
<b>(b) Available-for-Sale Financial Assets comprise:</b>			
<b>NON-CURRENT</b>			
Investments, at fair value			
Units in unlisted trust available-for-sale		<b>520,901</b>	506,018
Shares in domestic and overseas listed corporations available-for-sale		<u><b>33,929,026</b></u>	<u>24,162,282</u>
Total Non-Current Financial Assets		<u><b>34,449,927</b></u>	<u>24,668,300</u>
<b>NOTE 12: OTHER ASSETS</b>			
<b>Current</b>			
Deposits paid <sup>1</sup>		<b>184,780</b>	-
Prepayments		<u><b>8,340</b></u>	<u>8,735</u>
Total Other Assets		<u><b>193,120</b></u>	<u>8,735</u>
<sup>1</sup> The Company is investing in an entity that is acquiring a NZ based life insurer. A deposit of \$184,780 was payable when the Unit holder Agreement was signed. If all regulatory approvals are received, the Company's total initial commitment to this investment will be NZD\$4.75m.			
<b>NOTE 13: PROPERTY, PLANT AND EQUIPMENT</b>			
<b>PLANT AND EQUIPMENT</b>			
Plant and Equipment:			
At Cost		<b>23,279</b>	23,279
Accumulated Depreciation		<u><b>(20,989)</b></u>	<u>(17,765)</u>
		<u><b>2,290</b></u>	<u>5,514</u>
Website Development Costs:			
At Cost		<b>5,326</b>	2,134
Accumulated Depreciation		<u><b>(1,786)</b></u>	<u>-</u>
		<u><b>3,540</b></u>	<u>2,134</u>
Total Plant and Equipment		<u><b>5,830</b></u>	<u>7,648</u>

**MERCANTILE INVESTMENT COMPANY LIMITED**

ABN 15 121 415 576 and Controlled Entities

For the year ended 30 June 2014

**Notes to the Financial Statements**

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

**Movements in Carrying Amounts**

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	<b>Plant and Equipment</b>	<b>Furniture and Fixtures</b>	<b>Website Development Costs</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Consolidated:</b>				
<b>Balance at 1 July 2012</b>	31,055	5,816	-	36,871
Additions	-	-	2,134	2,134
Write-offs	(14,976)	(3,527)	-	(18,503)
Depreciation Expense	(12,273)	(581)	-	(12,854)
<b>Balance at 30 June 2013</b>	<b>3,806</b>	<b>1,708</b>	<b>2,134</b>	<b>7,648</b>
<b>Balance at 1 July 2013</b>	3,806	1,708	2,134	7,648
Additions	-	-	3,192	3,192
Write-offs	-	-	-	-
Depreciation Expense	(3,001)	(223)	(1,786)	(5,010)
<b>Balance at 30 June 2014</b>	<b>805</b>	<b>1,485</b>	<b>3,540</b>	<b>5,830</b>

**NOTE 14: CONTROLLED ENTITIES**

	<b>Country of Incorporation</b>	<b>Percentage Owned (%)</b>	
		<b>June 2014</b>	<b>June 2013</b>
<b>Parent Entity</b>			
Mercantile Investment Company Limited	Australia	100	100
<b>Controlled Entities of Mercantile Investment Company Limited:</b>			
Asia Diversified Fund Pty Ltd	Australia	100	100
India Asset Management Pty Ltd	Australia	100	100
India Asset Holdings Pty Ltd	Australia	100	100
Olympus Funds Management Pty Ltd	Australia	100	100

Percentage of voting power is in proportion to ownership.

Murchison Metals Limited became a controlled entity on 8 July 2014.

<b>Opening balance</b>	<b>Charged to income</b>	<b>Charged directly to equity</b>	<b>Closing balance</b>
\$	\$	\$	\$

**NOTE 15: CURRENT & DEFERRED TAX**

**Consolidated**

**2014**

**Deferred Tax Liability**

Fair Value Gain	<b>2,772,498</b>	<b>135,351</b>	<b>1,922,366</b>	<b>4,830,215</b>
<b>Balance at 30 June 2014</b>	<b>2,772,498</b>	<b>135,351</b>	<b>1,922,366</b>	<b>4,830,215</b>

**Deferred Tax Assets**

Transaction costs on equity issue	<b>144,465</b>	<b>-</b>	<b>(108,247)</b>	<b>36,218</b>
<b>Balance at 30 June 2014</b>	<b>144,465</b>	<b>-</b>	<b>(108,247)</b>	<b>36,218</b>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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**Consolidated**

**June**                      **June**  
**2014**                      **2013**  
**\$**                              **\$**

**NOTE 15: CURRENT & DEFERRED TAX (CONTINUED)**

**2013**

**Deferred Tax Liability**

Fair Value Gain 375,059    25,325    2,372,114    2,772,498

**Balance at 30 June 2013** 375,059    25,325    2,372,114    2,772,498

**Deferred Tax Assets**

Transaction costs on equity issue 255,333                      -                      (110,868)    144,465

**Balance at 30 June 2013** 255,333                      -                      (110,868)    144,465

Deferred tax assets totalling \$36,218 relating to capital raising costs have been recognised in the Statement of Financial Position.

**Consolidated**

**June**                      **June**  
**2014**                      **2013**  
**\$**                              **\$**

Current Tax Asset

**59**                      **59**

**NOTE 16: TRADE AND OTHER PAYABLES**

**Current**

**Unsecured Liabilities**

Trade Payables 66,828                      35,859

Sundry Payables and Accrued Expenses 71,447                      52,548

GST Payable 43                              103

**138,318**                      **88,510**

Due to the short term nature of trade payables, their carrying value is assumed to approximate their fair value.

**NOTE 17: BORROWINGS**

**Current**

**Unsecured Short-Term Loan**

**2,912,241**                      **1,005,206**

Sir Ron Brierley provided an advance of \$1m on 24 May 2013 to fund the Company's purchase of shares in domestic and overseas corporations. An additional advance of \$1.9m was advanced in 2014. Interest is payable at 5% per annum. All interest payable on the loan was paid before 30 June 2014.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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**Notes to the Financial Statements**

Notes to the Financial Statements

	Note	Consolidated June 2014 \$	June 2013 \$
<b>NOTE 18: ISSUED CAPITAL</b>			
250,577,700 (2013: 250,577,700) fully paid securities		<u>24,773,530</u>	<u>24,881,777</u>
An additional 18,186,971 fully paid ordinary shares were issued on 8 July 2014 at a price of \$0.1523 per share.			
<b>(a) Ordinary Shares</b>			
	<b>2014 No.</b>	<b>2013 No.</b>	<b>2014 \$</b>
At the beginning of reporting period	<b>250,577,700</b>	250,577,700	<b>24,881,777</b>
Movement in Ordinary Shares issued during period:			
Shares issued	-	-	-
Net share issue costs			<b>(108,247)</b>
<b>At Reporting Date – 30 June</b>	<b>250,577,700</b>	<b>250,577,700</b>	<b>24,773,530</b>
			<b>24,881,777</b>

**(b) Capital Management**

Management controls the capital of the Group in order to provide shareholders with returns through capital growth in the medium to long term and ensure that the entity can fund its operations and continue as a going concern.

Mercantile Investment Company Limited does not have any externally imposed capital requirements.

Apart from the \$2.9m loan provided by Sir Ron Brierley, Mercantile Investment Company Limited does not have any debt at 30 June 2014 (2013: Nil).

**NOTE 19: RESERVES**

Asset Revaluation Reserve	19(a)	10,895,589	6,410,071
Realised Capital Gains Reserve	19(b)	<u>5,665,434</u>	<u>2,515,234</u>
		<u><b>16,561,023</b></u>	<u><b>8,925,305</b></u>

**(a) Asset Revaluation Reserve**

The asset revaluation reserve records revaluations of non-current assets. This includes available-for-sale investments. Under certain circumstances dividends can be declared from this reserve.

Opening Balance at 1 July	6,410,071	875,137
Revaluation of Investment Portfolio	6,407,883	7,907,048
Provision for Tax on Unrealised Gains	<u>(1,922,365)</u>	<u>(2,372,114)</u>
Closing balance at 30 June	<u><b>10,895,589</b></u>	<u><b>6,410,071</b></u>

**(b) Realised Capital Gains Reserve**

The reserve records gains or losses after applicable taxation arising from disposal of securities in the investment portfolio. As the balance relates to net realised gains it may be distributed as cash dividends at the discretion of the Directors.

The net capital gains on disposal of investments held for sale for the year was \$3,150,200 and has been transferred to the Realised Capital Gains Reserve.

Opening Balance at 1 July	2,515,234	1,558,568
Transfer from Retained Earnings	-	-
Gains on disposal of investments available for sale	<u>3,150,200</u>	<u>956,666</u>
Closing Balance at 30 June	<u><b>5,665,434</b></u>	<u><b>2,515,234</b></u>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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**Notes to the Financial Statements**

	<b>Consolidated</b>	
	<b>June</b>	<b>June</b>
	<b>2014</b>	<b>2013</b>
<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS</b>		
There are no contingent assets or liabilities as at 30 June 2014 (2013: Nil).		
<b>NOTE 21: CASH FLOW INFORMATION</b>		
<b>(a) Reconciliation of Cash Flow from Operating Activities with Profit after Income Tax</b>		
Loss after Income Tax	<u>(108,562)</u>	(216,005)
Non-Cash Flows in Profit:		
- Net Loss/ (Gains) on Disposal of Investments	184	(93,421)
- Unrealised (Gains) on Foreign Currency	(45,185)	(2,572)
- Realised Loss on Sale of Fixed Assets	-	18,503
- Depreciation	5,010	12,854
- Unrealised (Gains)/ Loss on Market Value Movement	(315,825)	117,731
- Tax-Deferred Portion on Trust Distributions Received	919,867	442,499
Changes in assets and liabilities:		
- Decrease/ (Increase) in Trade Receivables	454,370	(148,553)
- Decrease/ (Increase) in Other Assets	395	(935)
- (Increase) in Financial Investments	(937,568)	(1,285,222)
- (Decrease)/ Increase in Income Tax Payable	-	(241,144)
- Increase in Trade Payables & Accruals	44,602	35,452
Cash Flow from Operations	<u>17,288</u>	<u>(1,360,813)</u>
<b>NOTE 22: PARENT ENTITY</b>		
<b>Statements of Financial Position</b>		
<b>Assets</b>		
Current Assets	6,183,776	5,331,124
Non-Current Assets	<u>35,397,804</u>	<u>24,819,729</u>
<b>Total Assets</b>	<u>41,581,580</u>	<u>30,150,853</u>
<b>Liabilities</b>		
Current Liabilities	3,049,629	1,096,177
Non-Current Liabilities	<u>4,830,215</u>	<u>2,772,498</u>
<b>Total Liabilities</b>	<u>7,879,844</u>	<u>3,868,675</u>
<b>Net Assets</b>	<u>33,701,736</u>	<u>26,282,178</u>
Issued Capital	24,773,530	24,881,777
Retained Earnings	(7,632,817)	(7,524,904)
Reserves	<u>16,561,023</u>	<u>8,925,305</u>
<b>Shareholders' Equity</b>	<u>33,701,736</u>	<u>26,282,178</u>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Profit/ (Loss)	27,439	(156,902)
Total Comprehensive Income	7,663,157	6,334,698

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014

**Notes to the Financial Statements**

		<b>Consolidated</b>	
		<b>June</b>	<b>June</b>
		<b>2014</b>	<b>2013</b>
<b>Note</b>		<b>\$</b>	<b>\$</b>
<hr/>			
<b>NOTE 23: RELATED PARTY TRANSACTIONS</b>			
<b>Transactions with related parties</b>			
Sandon Capital Pty Ltd is an entity associated with Mr. Gabriel Radzynski. Sandon Capital provided general consulting and corporate advisory services to Mercantile Investment. All dealings are conducted at arm's length on normal commercial terms.			
		<b>165,000</b>	157,297
Ariadne Australia Limited is an entity associated with Dr. Gary Weiss. Director's fees for Dr Gary Weiss were paid to Ariadne Australia Limited at the same rate as other Directors' of the Company but including GST.			
		<b>17,985</b>	17,985
A short-term loan was advanced to the Company by Sir Ron to fund purchases of investments. Interest is payable at 5% per annum.			
All Interest payable on loan advanced by Sir Ron was paid before 30 June 2014.			
		<b>1,912,241</b>	1,000,000
During the year, the Company paid management fees to Sandon Capital Pty Limited on behalf of MMX and they were reimbursed in full by MMX.			
<b>NOTE 24: FINANCIAL RISK MANAGEMENT</b>			
<b>Financial Risk Management</b>			
The Group's financial instruments consisted mainly of shares listed on the Australian Securities Exchange. Other financial instruments include deposits with banks, loans, accounts receivable and payable.			
The totals for each category of financial instruments measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements are as follows:			
<b>Financial Assets</b>			
Cash and Cash Equivalents	<b>9</b>	<b>1,129,258</b>	1,357,461
Trade and Other Receivables	<b>10</b>	<b>34,924</b>	489,293
Financial assets at fair value through profit or loss			
Financial Assets Held-for-trading	<b>11</b>	<b>4,866,296</b>	3,477,736
Available-for-sale financial assets			
Units in unlisted trust	<b>11</b>	<b>520,901</b>	506,018
Shares in listed corporations	<b>11</b>	<b>33,929,026</b>	24,162,282
Loans	<b>10</b>	<b>871,534</b>	-
		<u><b>41,351,939</b></u>	<u>29,992,790</u>
<b>Financial Liabilities</b>			
Trade and Other Payables	<b>16</b>	<b>138,318</b>	88,510
Borrowings	<b>17</b>	<b>2,912,241</b>	1,005,206
		<u><b>3,050,559</b></u>	<u>1,093,716</u>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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For the year ended 30 June 2014

**Notes to the Financial Statements**

**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Financial Risk Management Policies (Continued)**

The financial instruments recognised at fair value in the statement of financial position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- Quoted prices 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).

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>2014</b>				
Financial Assets:				
Available-for-sale financial assets				
- Units in unlisted trust	-	-	520,901	520,901
- Shares in listed corporations	<u>33,929,026</u>	-	-	<u>33,929,026</u>
	<u>33,929,026</u>	-	520,901	<u>34,449,927</u>
Held-for trading Financial Assets				
- Listed Investments	<u>4,866,296</u>	-	-	<u>4,866,296</u>
<b>2013</b>				
Financial Assets:				
Available-for-sale financial assets				
- Units in unlisted trust	-	-	506,018	506,018
- Shares in listed corporations	<u>24,162,282</u>	-	-	<u>24,162,282</u>
	<u>24,162,282</u>	-	506,018	<u>24,668,300</u>
Held-for trading Financial Assets				
- Listed Investments	<u>3,477,736</u>	-	-	<u>3,477,736</u>

**Specific Financial Risk Exposures and Management**

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and foreign currency risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous year.

**(i) Price Risk**

The Group is exposed to share price risk through its investment holdings on the Australian Securities Exchange. All equity investments (other than investment in AYT and Impact Holdings (IHUK)) are publicly traded on Australian Securities Exchange (ASX) and holdings are predominantly in small capitalisation companies with varying degrees of liquidity. AYT is an illiquid, unlisted investment. IHUK is listed on the London Stock Exchange (LSE).

The Group's exposure to price risk, which is the risk that an instruments value will fluctuate as a result of changes in a securities price on classes of financial assets and liabilities, is as follows:

	Consolidated June 2014 \$	June 2013 \$
<b>Financial Assets:</b>		
Available-for-sale financial assets – Units in unlisted trust	520,901	506,018
Available-for-sale financial assets – Shares in listed domestic and overseas corporations	33,929,026	24,162,282
Financial assets held-for-trading	<u>4,866,296</u>	<u>3,477,736</u>
	<u>39,316,223</u>	<u>28,146,036</u>



**MERCANTILE INVESTMENT COMPANY LIMITED**  
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For the year ended 30 June 2014

**Notes to the Financial Statements**

**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Specific Financial Risk Exposures and Management (Continued)**

**(ii) Foreign Currency Risk**

As at 30 June 2014, the Group is exposed to fluctuations in the British Pound/Australian Dollar exchange rate arising only from the loan advanced to Impact Holdings (UK). At 30 June 2013, the Group was exposed to fluctuations in the Indian Rupee/Australian Dollar exchange rate arising only from the amount refundable from Indian tax authorities for tax paid in India for prior years.

The Directors monitor the appropriateness of their policy by periodically reviewing the continuing appropriateness of such an approach.

As at 30 June 2014, the Group had the following exposure in Australian Dollars to British Pounds without any currency hedging:

	<b>Consolidated</b>	
	<b>June 2014</b>	<b>June 2013</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Assets:</b>		
Loans	<b>871,534</b>	-
Trade and Other Receivables	-	237,498
	<b>871,534</b>	<b>237,498</b>
<b>Financial Liabilities:</b>		
Trade and Other Payables	-	-
	-	-

**(iii) Interest Rate Risk**

At 30 June 2014 the Company had a loan of \$2,912,241 advanced by Sir Ron Brierley to fund the Company's purchase of shares in domestic and overseas corporations.

Interest is payable at 5% per annum on the loan from Sir Ron and the interest was repaid before 30 June 2014.

The Directors believe the exposure is relatively low and does not pose potential risk to the Company.

The Group's exposure to interest rate risk, which is the risk that the financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	<b>Weighted Average Effective Interest Rate</b>		<b>Floating Interest Rate</b>		<b>Fixed Interest Rate</b>	
	<b>2014</b>	<b>2013</b>	<b>\$ 2014</b>	<b>2013</b>	<b>\$ 2014</b>	<b>2013</b>
<b>Consolidated</b>						
<b>Financial Assets:</b>						
Cash and Cash Equivalents	<b>0.40%</b>	0.28%	<b>1,129,258</b>	1,357,461	-	-
Trade and Other Receivables			-	-	-	-
Loan Receivable			-	-	<b>871,534</b>	-
<b>Total Financial Assets</b>			<b>1,129,258</b>	<b>1,357,461</b>	<b>871,534</b>	-
<b>Financial Liabilities:</b>						
Trade and Other Payables			-	-	-	-
Borrowings	<b>5.00%</b>	5.00%	-	-	<b>2,912,241</b>	1,005,206
<b>Total Financial Liabilities</b>			-	-	<b>2,912,241</b>	<b>1,005,206</b>
<b>Net Exposure</b>			<b>1,129,258</b>	<b>1,357,461</b>	<b>(2,040,707)</b>	<b>(1,005,206)</b>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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**Notes to the Financial Statements**

**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Specific Financial Risk Exposures and Management (Continued)**

**(iii) Interest Rate Risk (Continued)**

<b>Consolidated</b>	<b>Non-Interest Bearing</b>		<b>Total</b>	
	<b>\$</b>		<b>\$</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Financial Assets:</b>				
Cash and cash equivalents	-	-	1,129,258	1,357,461
Trade and Other Receivables	-	-	-	-
Loan Receivable	-	-	871,534	-
<b>Total Financial Assets</b>	<b>-</b>	<b>-</b>	<b>2,000,792</b>	<b>1,357,461</b>
<b>Financial Liabilities:</b>				
Trade and Other Payables	138,318	88,510	138,318	88,510
Borrowings	-	-	2,912,241	1,005,206
<b>Total Financial Liabilities</b>	<b>138,318</b>	<b>88,510</b>	<b>3,050,559</b>	<b>1,093,716</b>
<b>Net Exposure</b>	<b>(138,318)</b>	<b>(88,510)</b>	<b>(1,049,767)</b>	<b>(263,745)</b>

**(iv) Liquidity Risk**

The Group's objective is to maintain sufficient cash and cash equivalents to meet the needs of operations through cash flow monitoring and forecasting, which is done on a weekly basis. In addition, the focus of the investment portfolio on small cap and highly liquid securities ensures that the Group has access to significant proportion of its portfolio within a short time frame.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2014. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2014.

The table below reflects the maturity of financial assets and liabilities based on management's expectations. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates.

<b>Consolidated</b>	<b>Within 1 Year</b>		<b>1 to 5 Years</b>		<b>Over 5 Years</b>		<b>Total Contracted Cash Flows</b>	
	<b>\$</b>		<b>\$</b>		<b>\$</b>		<b>\$</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Financial Liabilities due for payment</b>								
Trade and Other Payables	138,318	1,093,716	2,912,241	-	-	-	3,050,559	1,093,716
<b>Total Expected Outflows</b>	<b>138,318</b>	<b>1,093,716</b>	<b>2,912,241</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,050,559</b>	<b>1,093,716</b>
<b>Financial Assets – cash flows realisable</b>								
Cash and Cash Equivalents	1,129,258	1,357,461	-	-	-	-	1,129,258	1,357,461
Trade and Other Receivables	34,924	489,293	-	-	-	-	34,924	489,293
Loan	-	-	871,534	-	-	-	871,534	-
Investments – Available-for-sale	-	-	34,449,927	24,668,300	-	-	34,449,927	24,668,300
Investments – Held-for-trading	4,866,296	3,477,736	-	-	-	-	4,866,296	3,477,736
<b>Total anticipated inflows</b>	<b>6,030,478</b>	<b>5,324,490</b>	<b>35,321,461</b>	<b>24,668,300</b>	<b>-</b>	<b>-</b>	<b>41,351,939</b>	<b>29,992,790</b>
<b>Net Inflow on Financial Instruments</b>	<b>5,892,160</b>	<b>4,230,774</b>	<b>32,409,220</b>	<b>24,668,300</b>	<b>-</b>	<b>-</b>	<b>38,301,380</b>	<b>28,899,074</b>

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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**Notes to the Financial Statements**

**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Specific Financial Risk Exposures and Management (Continued)**

**(v) Credit Risk**

Credit risk arises from the financial assets of the Group, which comprise equity investments, cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Cash is only invested with highly rated international financial institutions in Australia.

Receivable balances are monitored on an ongoing basis and the Group has no debts past due or impaired.

**Net Fair Values**

The Group's financial assets and liabilities are carried at amounts that approximate their fair value.

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the Statement of Financial Position. Fair values are those amounts that an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities have been valued at the quoted market price at balance date adjusted for transaction costs expected to be incurred.

	Note	Net Carrying Value 2014 \$	Net Fair Value 2014 \$	Net Carrying Value 2013 \$	Net Fair Value 2013 \$
<b>Consolidated</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	i	1,129,258	1,129,258	1,357,461	1,357,461
Trade and Other Receivables	i	34,924	34,924	489,293	489,293
Loan	iii	871,534	871,534	-	-
Available for Sale Investments – Units in Unlisted Trust	ii	520,901	520,901	506,018	506,018
Available for Sale Investments – Shares in Listed Corporations	ii	33,929,026	33,929,026	24,162,282	24,162,282
Investments – held-for-trading	ii	4,866,296	4,866,296	3,477,736	3,477,736
<b>Total Financial Assets</b>		<b>41,351,939</b>	<b>41,351,939</b>	<b>29,992,790</b>	<b>29,992,790</b>
<b>Financial Liabilities</b>					
Trade and Other Payables	i	138,318	138,318	88,510	88,510
Borrowings	iii	2,912,241	2,912,241	1,005,206	1,005,206
<b>Total Financial Liabilities</b>		<b>3,050,559</b>	<b>3,050,559</b>	<b>1,093,716</b>	<b>1,093,716</b>

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value.
- (ii) For listed available-for-sale and held-for-trading financial assets, closing quoted market prices at reporting date are used. The fair value of unlisted available-for-sale financial assets has been determined based on the audited net tangible asset value of that investment as at 30 June 2014.
- (iii) Borrowings and loans receivable are short-term in nature and recorded at fair value.

**MERCANTILE INVESTMENT COMPANY LIMITED**  
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 For the year ended 30 June 2014

**Notes to the Financial Statements**

<b>Consolidated</b>	
<b>June</b>	<b>June</b>
<b>2014</b>	<b>2013</b>
<b>\$</b>	<b>\$</b>

**NOTE 24: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Sensitivity Analysis**

The Group has performed a sensitivity analysis relating to its exposure to price risk, foreign currency risk and interest rate risk, at the end of the reporting period. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

**Price Risk**

**Held-for-trading financial assets**

Change in Profit

- Increase in portfolio prices by 20.0%	<b>973,259</b>	695,547
- Decrease in portfolio prices by 20.0%	<b>(973,259)</b>	(695,547)

Held-for-trading financial assets are actively managed on a short term basis and are fair valued through the Statement of Comprehensive Income. Any movement in the portfolio price will be realised in the Statement of Comprehensive Income.

**Available-for-sale financial assets**

Change in Equity

- Increase in portfolio prices by 20.0%	<b>6,889,985</b>	4,933,660
- Decrease in portfolio prices by 20.0%	<b>(6,889,985)</b>	(4,933,660)

Available-for-sale financial assets are passively managed on a longer term basis and are fair valued through the equity reserves, with no effect on the Statement of Comprehensive Income unless sold or impaired.

**Interest Rate Risk**

Change in Profit

- Increase in interest rate by 0.5%	<b>5,646</b>	6,787
- Decrease in interest rate by 0.5%	<b>(5,646)</b>	(6,787)

Change in Equity

- Increase in interest rate by 0.5%	<b>5,646</b>	6,787
- Decrease in interest rate by 0.5%	<b>(5,646)</b>	(6,787)

**NOTE 25: EVENTS SUBSEQUENT TO BALANCE DATE**

The implementation of the merger with MMX was completed on 8 July 2014.

The Scheme Consideration was issued as follows:

- Scrip Consideration – 0.3171 new shares was issued for each MMX share held by Scheme participants as at 1 July 2014. 18,186,971 new shares have been issued at a price of \$0.1523 per share.
- Cash Consideration - \$0.0483 was distributed for each MMX share held by Scheme participants as at 1 July 2014. The total Cash Consideration was distributed as a cheque or direct deposit on 8 July 2014.

The Company obtained control of MMX on 8 July 2014 and MMX will be included in the consolidated Group from that date.

**MERCANTILE INVESTMENT COMPANY LIMITED**

ABN 15 121 415 576 and Controlled Entities

For the year ended 30 June 2014

**Notes to the Financial Statements**

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**NOTE 25: EVENTS SUBSEQUENT TO BALANCE DATE (CONTINUED)**

The Company has committed to invest NZD\$4.75 million in a combination of units in Foundation Life Holding Trust and redeemable preference notes in Foundation Life (NZ) Holdings Limited. Foundation Life will acquire a residual life assurance business, subject to the customary regulatory approvals. The Company has paid a deposit of \$184,780 and will pay the balance of the commitment once Foundation Life obtains all the necessary approvals.

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

**NOTE 26: COMPANY DETAILS**

**The registered office of the Company is:**

Mercantile Investment Company Limited  
Level 11, 139 Macquarie Street  
SYDNEY NSW 2000

**The principal place of business is:**

Mercantile Investment Company Limited  
Level 11, 139 Macquarie Street  
SYDNEY NSW 2000

**MERCANTILE INVESTMENT COMPANY LIMITED**  
ABN 15 121 415 576 and Controlled Entities  
For the year ended 30 June 2014


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**6. DIRECTORS' DECLARATION**

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

1. the financial statements and notes, as set out on pages 13 to 41, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Australian Accounting Standards which as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - (b) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the consolidated group;
2. in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. the Directors have been given the declarations required by S295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

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



.....  
Sir Ron Brierley  
Director

Dated: 25 August 2014



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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
MERCANTILE INVESTMENT COMPANY LIMITED AND CONTROLLED ENTITIES**

**Report on the Financial Report**

We have audited the accompanying financial report of Mercantile Investment Company Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

*Auditor's Responsibility*

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

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

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

*Independence*

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

*Auditor's Opinion*

In our opinion:

- a) the financial report of Mercantile Investment Company Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b.) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

In our opinion, the remuneration report of Mercantile Investment Company Limited for the year ended 30 June 2014, complies with s 300A of the *Corporations Act 2001*.

MNSA Pty Ltd

MNSA Pty Ltd



**Mark Schiliro**

Sydney

25 August 2014



## 8. ASX ADDITIONAL INFORMATION

Information as at 13 August 2014

### Shares (ASX: MVT)

The number of investors holding shares within the ranges outlined in the table and the number of investors holding less than a marketable parcel of shares on X August 2014 is shown below:

Range	Total holders	Units	% of Issued Capital
1 - 1,000	697	254,361	0.09
1,001 - 5,000	1,454	4,348,694	1.62
5,001 - 10,000	538	4,278,372	1.59
10,001 - 100,000	764	24,565,857	9.14
100,001 - 999,999,999	117	235,317,387	87.56
1,000,000,000 - 9,999,999,999	0	0	0.00
<b>Rounding</b>			<b>0.00</b>
<b>Total</b>	<b>3,570</b>	<b>268,764,671</b>	<b>100.00</b>

### Unmarketable Parcels

Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.1250 per unit	1,824	3,064,074

### Top 20 holders of FULLY PAID ORDINARY SHARES

Rank	Name	Units	% of Units
1	SIBLOW PTY LTD	122,411,120	45.55
2	G W HOLDINGS PTY LTD <EDWINA A/C>	26,150,522	9.73
3	PORTFOLIO SERVICES PTY LTD	14,915,001	5.55
4	MR RONALD LANGLEY + MS RHONDA ELIZABETH LANGLEY	12,500,000	4.65
5	TREASURE ISLAND HIRE BOAT COMPANY PTY LTD <STAFF SUPER FUND ACCOUNT>	7,066,842	2.63
6	MS FRANCISKA LASIC	3,737,896	1.39
7	LIC INVESTMENTS PTY LTD <LIC INVESTMENTS UNIT A/C>	3,474,645	1.29
8	CITICORP NOMINEES PTY LTD	2,702,172	1.01
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	2,170,054	0.81
10	ABBAWOOD NOMINEES PTY LTD <ABBOTT FAMILY S/F NO 1 A/C>	2,100,000	0.78
11	MR PHILIP JOHN GAVEY + MRS ELIZABETH GAVEY	1,499,000	0.56
12	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	1,297,527	0.48
13	AVENUE 8 PTY LIMITED <GAN SUPER FUND A/C>	1,117,100	0.42
14	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,107,812	0.41
15	MR EDWARD JAMES STEPHEN DALLY + MRS SELINA DALLY <LEKDAL FAMILY A/C>	1,070,334	0.40
16	AUSTRALIAN MINERALS CORPORATION PTY LTD <JAP-FEBP A/C>	1,028,488	0.38
17	MR FREDERICK BRUCE WAREHAM	1,000,000	0.37
18	B W ROFE PTY LIMITED	870,000	0.32
19	AUSTRALIAN MINERALS CORPORATION PTY LTD <FEBP A/C>	858,990	0.32
20	SUN PHOONG CORPORATION PTY LTD	802,297	0.30
<b>Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)</b>		<b>207,879,800</b>	<b>77.35</b>
<b>Total Remaining Holders Balance</b>		<b>60,884,871</b>	<b>22.65</b>

## 8. ASX ADDITIONAL INFORMATION (CONTINUED)

### Substantial Security Holders

Name	Number of securities	% of securities
SIBLOW PTY LTD	122,411,120	45.55
G W HOLDINGS PTY LTD <EDWINA A/C>	26,150,522	9.73
PORTFOLIO SERVICES PTY LTD	14,915,001	5.55

### Voting Rights

On a show of hands, every shareholder present in person or by proxy holding stapled securities in the Company shall have one vote and upon a poll each stapled security shall have one vote.

### Audit & Risk Committee

As at the date of the Directors' Report, the economic entity had established an Audit & Risk Committee of the Board of Directors (refer Corporate Governance Statement).

### Holdings of Securities

The total value of the Company's investment portfolio was \$39,316,223; comprising of \$4,866,296 shares held-for-trading and \$34,449,927 (\$520,901 units in unlisted trust and \$33,929,026 shares in domestic and overseas listed corporations) shares available-for-sale at 30 June 2014.

## **9. CORPORATE DIRECTORY**

### **MERCANTILE INVESTMENT COMPANY LIMITED**

ABN: 15 121 415 576  
Level 11, 139 Macquarie Street  
Sydney NSW 2000  
Telephone: +61 2 8014 1188  
Email: [info@mercinvest.com.au](mailto:info@mercinvest.com.au)  
Website: [www.mercantileinvestment.com.au](http://www.mercantileinvestment.com.au)

### **DIRECTORS**

Sir Ron Brierley (Chairman & Non-Executive Director)  
Gabriel Radzyninski (Executive Director)  
James Chirnside (Non-Executive Director)  
Dr Gary Weiss (Non-Executive Director)  
Ronald Langley (Non-Executive Director)

### **COMPANY SECRETARY**

Mark Licciardo  
Mertons Corporate Services Pty Ltd  
Level 7, 330 Collins Street  
Melbourne VIC 3000

### **AUDITOR**

MNSA Pty Limited  
Level 1, 283 George Street  
Sydney NSW 2000

### **SHARE REGISTRAR**

Computershare Investor Services Pty Ltd  
GPO Box 2975  
Melbourne VIC 3001  
Telephone: 1300 850 505 (Australia)  
+61 3 9415 4000 (Outside Australia)

### **ASX CODE: MVT**

fully paid ordinary shares