

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Interim Financial Report
for the Half-Year Ended 31 December 2019**

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

For the half-year ended 31 December 2019

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**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

Corporate Directory

| | |
|----------------------------|--|
| Directors: | Mr Gabriel Radzynski - Non-Executive Chairman Ms Melinda Snowden - Non-Executive Director (appointed 13 September 2019) Mr Peter Velez - Independent Non-Executive Director (appointed 13 September 2019) Sir Ron Brierley - Chairman & Non-Executive Director (retired as Chairman 6 June 2019 and retired as Non-Executive Director 19 Dec 2019) Mr James Chirnside - Independent Non-Executive Director (resigned 13 September 2019) Mr Daniel Weiss - Independent Non-Executive Director (resigned 13 September 2019) Ms Katrina Langley - Independent Non-Executive Director (resigned 13 September 2019) Dr Gary Weiss – Non-Executive Alternate Director (resigned 13 September 2019) |
| Company Secretary: | Mark Licciardo and Elizabeth McGregor were joint Company Secretaries up to the 31 December 2019. Elizabeth McGregor resigned as joint Company Secretary on 10 January 2020. Mertons Corporate Services Pty Ltd Level 7, 330 Collins Street Melbourne VIC 3000 |
| Auditor: | Pitcher Partners Darling Park Tower 2, Level 16 201 Sussex Street Sydney NSW 2000 |
| Registered Address: | Level 5, 139 Macquarie Street Sydney NSW 2000 |
| Contact Details: | Telephone: +61 2 8014 1188 Email: info@mercinv.com.au Website: www.mercantileinvestment.com.au |
| Share Registrar: | Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Telephone: +61 2 8280 7100 Website: www.linkmarketservices.com.au |
| ASX Code: | MVT (removal from official quotation 18 October 2019) Fully paid ordinary shares. MVTHA 8% p.a Unsecured Notes. |
| NZX Code: | MVT (delisted and ceased from official quotation 21 October 2019) Fully paid ordinary shares. |

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

Directors' Report

The Directors of Mercantile Investment Company Limited ("MVT") present their report together with the financial statements of the Company and its controlled entities for the half-year ended 31 December 2019.

Directors

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

| | |
|----------------------|--|
| Mr Gabriel Radzynski | Non-Executive Chairman |
| Ms Melinda Snowden | Independent Non-Executive Director (appointed 13 September 2019) |
| Mr Peter Velez | Independent Non-Executive Director (appointed 13 September 2019) |
| Sir Ron Brierley | Chairman & Non-Executive Director (retired as Chairman on 6 June 2019 and retired as Non-Executive Director 19 Dec 2019) |
| Mr James Chirnside | Independent Non-Executive Director (resigned 13 September 2019) |
| Mr Daniel Weiss | Independent Non-Executive Director (resigned 13 September 2019) |
| Ms Katrina Langley | Independent Non-Executive Director (resigned 13 September 2019) |

Review and Results of Operations

Revenue from ordinary activities was \$3,411,307 (2018: \$2,394,357) up 43% on the prior comparable period. There were significant increases in dividends received in the Company's trading portfolio.

Profit after tax to members for the reporting period was \$150,837 (2018: Loss \$2,445,419) up 106% on the prior comparable period. MVT reported a \$5,039,087 unrealised gain in the fair value of long-term equity investments, which contributed to a Total Comprehensive Income after tax to members of \$5,189,924 (2018: Loss \$1,190,128) up 536% on the prior comparable period.

The Company reported a cash balance of \$5,949,862 as at 31 December 2019.

During the period, Sandon Capital Investments Limited (SNC) successfully completed its takeover offer for the Company. MVT is now a wholly owned subsidiary of SNC. A total of 46,523,233 new SNC shares were issued as scrip consideration to MVT shareholders. A further 601,457 new SNC shares were issued as part consideration for the acquisition of unlisted options over unissued MVT shares. All new SNC shares were issued at a price 95.06 cents per share, which was a slight premium to the post-merger pre-tax NTA of 94.80 cents per share (as at 13 September 2019).

Since the completion of the compulsory acquisition of the Company, funding of \$7,350,000 has been provided to SNC.

On 16 October 2019, the Company entered into an Investment Management Agreement (IMA) with Sandon Capital Pty Ltd, largely replicating the terms of the IMA that exists between Sandon Capital Pty Ltd and SNC. Sandon Capital Pty Ltd does not change any management fee at the Company level.

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

Directors' Report (continued)

Review and Results of Operations (continued)

From February to September 2019, Mercantile provided its subsidiary Ask Funding Limited (AKF) a loan of \$400,000 (2018: nil) on commercial terms to provide financial support for operational expenses. AKF repaid the full \$400,000 plus interest to Mercantile in November 2019.

During the past 6 months, the Company repaid \$6,000,000 in principal for a short-term, unsecured loan provided by Sir Ron Brierley. Interest was paid at the RBA cash rate per annum. There are no further loans owing to Sir Ron Brierley.

On 18 October 2019, the fully paid ordinary shares of the Company were removed from Official Quotation on ASX.

Subsequent events

No events have occurred subsequent to the balance date that would require adjustments to, or disclosure in the financial report.

Dividends

No dividends were paid or are payable for the period ended 31 December 2019.

Rounding of amounts to nearest dollar

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

Auditors independence declaration

The lead auditor's independence declaration as required under s307C of the *Corporations Act 2001* is set out on page 4 for the half-year ended 31 December 2019.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.



Gabriel Radzynski
Director

Signed on this 27 day of February 2020

Level 16, Tower 2 Darling Park
201 Sussex Street
Sydney NSW 2000

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GPO Box 1615
Sydney NSW 2001

p. +61 2 9221 2099
e. sydneypartners@pitcher.com.au

**Auditor's Independence Declaration
To the Directors of Mercantile Investment Company Limited
ABN 15 121 415 576**

In relation to the independent auditor's review for the half year ended 31 December 2019, I declare to the best of my knowledge and belief there have been:

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

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



S S WALLACE
Partner

PITCHER PARTNERS
Sydney

27 February 2020

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2019**

| | Note | 31 December 2019 | 31 December 2018 |
|--|------|---------------------|---------------------|
| Income | | | \$ |
| Revenue from continuing operations | 2 | 5,027,669 | 3,990,298 |
| Other income | 2 | (1,616,362) | (546,555) |
| Loss on acquisition of a controlled entity | 2 | - | (1,049,386) |
| | | <u>3,411,307</u> | <u>2,394,357</u> |
| Expenses | | | |
| Accounting fees | | 99,352 | 163,505 |
| Audit fees | | 113,254 | 136,276 |
| Taxation service fees | | 175,078 | 65,366 |
| Finance costs | | 942,093 | 976,491 |
| Service agreement fees | | 96,304 | 233,750 |
| Company secretary fees | | 34,141 | 18,963 |
| Share registry fees | | 135,139 | 166,998 |
| Brokerage | | 16,859 | 22,528 |
| Impairment charges on loans | | 1,104,030 | 1,047,281 |
| Legal and professional fees | | 208,665 | 323,853 |
| ASIC and ASX charges | | 66,057 | 82,683 |
| Share based payments | | - | 310,000 |
| Employee benefit expenses | | 1,051,742 | 1,071,159 |
| Other operating costs | | 319,983 | 785,938 |
| | | <u>4,362,697</u> | <u>5,404,791</u> |
| Loss Before Income Tax | | (951,390) | (3,010,434) |
| Income tax benefit | | 1,089,370 | 464,317 |
| Profit/(Loss) for the period | | <u>137,980</u> | <u>(2,546,117)</u> |
| Profit/(Loss) Attributable to: | | | |
| Members of the Parent Entity | | 150,837 | (2,445,419) |
| Non-Controlling Interest | | (12,857) | (100,698) |
| | | <u>137,980</u> | <u>(2,546,117)</u> |
| Other Comprehensive Income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Movement in fair value of long term equity investments, net of tax | | 5,039,087 | 1,255,291 |
| Total other comprehensive income | | 5,039,087 | 1,255,291 |
| Total Comprehensive Profit/(Loss) for the half-year, net of tax | | <u>5,117,067</u> | <u>(1,290,826)</u> |
| Total Comprehensive Profit/(Loss) attributable to: | | | |
| Members of the Parent Entity | | 5,189,924 | (1,190,128) |
| Non-Controlling Interest | | (12,857) | (100,698) |
| | | <u>5,117,067</u> | <u>1,290,826</u> |
| (Loss)/ Earnings per Share | | Cents | Cents |
| - Basic (loss)/ earning per share | | 0.05 | (0.87) |
| - Diluted (loss)/ earning per share | | 0.05 | (0.87) |

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

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Consolidated Statement of Financial Position
For the half-year ended 31 December 2019**

| | Note | 31 December 2019 \$ | 30 June 2019 \$ |
|---|------|---------------------------|--------------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | | 5,949,862 | 6,505,698 |
| Trade and other receivables | | 3,527,747 | 1,883,536 |
| Net loans and advances | 8 | 10,541,500 | 3,455,099 |
| Financial assets at fair value through profit or loss | 6 | 38,389,799 | 38,810,623 |
| Other current assets | | 131,563 | 81,313 |
| Total Current Assets | | <u>58,540,471</u> | <u>50,736,269</u> |
| Non-Current Assets | | | |
| Financial assets at fair value through other comprehensive income | 6 | 30,019,081 | 39,251,847 |
| Property, plant & equipment | | 70,176 | 36,631 |
| Deferred tax assets | | 1,513,634 | 441,925 |
| Total Non-Current Assets | | <u>31,602,891</u> | <u>39,730,403</u> |
| Total Assets | | <u>90,143,362</u> | <u>90,466,672</u> |
| Liabilities | | | |
| Current Liabilities | | | |
| Trade and other payables | 9 | 4,757,238 | 11,289,766 |
| Intercompany with Parent Entity | | 1,195,680 | - |
| Current tax liability | | 490,234 | 1,022,240 |
| Total Current Liabilities | | <u>6,443,152</u> | <u>12,312,006</u> |
| Non-Current Liabilities | | | |
| Unsecured notes | 7 | 22,008,214 | 21,929,602 |
| Total Non-Current Liabilities | | <u>22,008,214</u> | <u>21,929,602</u> |
| Total Liabilities | | <u>28,451,366</u> | <u>34,241,608</u> |
| Net Assets | | <u>61,691,996</u> | <u>56,225,064</u> |
| Equity | | | |
| Issued Capital | 4 | 28,834,628 | 28,834,628 |
| Accumulated losses | | (10,821,072) | (12,075,409) |
| Reserves | 5 | 42,736,339 | 38,510,888 |
| Members' interests | | 60,749,895 | 55,270,107 |
| Non-controlling interest | | 942,101 | 954,957 |
| Total Equity | | <u>61,691,996</u> | <u>56,225,064</u> |

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

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2019**

| | Issued Share Capital - Ordinary \$ | Accumulated Losses \$ | Profits Reserve \$ | Asset Revaluation Reserve \$ | Foreign Currency Translation Reserve \$ | Share Based Payment Reserve \$ | Non- Controlling Interests \$ | Total Equity \$ |
|--|---|-----------------------------|-----------------------|---------------------------------------|---|--|--|--------------------|
| Balance at 1 July 2018 | 28,834,628 | (10,454,943) | 29,118,386 | 5,752,039 | 55,549 | 793,500 | 1,079,325 | 55,178,484 |
| (Loss) for the Year | - | (2,445,419) | - | - | - | - | (100,698) | (2,546,117) |
| <u>Other Comprehensive Income for the Year:</u> | | | | | | | | |
| Movements in the fair value of long-term investments, net of tax | - | - | - | 1,284,386 | - | - | - | 1,284,386 |
| Realised gains on sale of investments | - | - | 967,019 | (967,019) | - | - | - | - |
| <u>Transactions with Owners:</u> | | | | | | | | |
| Foreign Currency Translation Reserve | - | - | - | - | 401,143 | - | - | 401,143 |
| Cost of raising capital | - | - | - | - | - | - | - | - |
| Non-controlling interest on acquisition of controlled entity | - | - | - | - | - | - | 2,392,523 | 2,392,523 |
| Change in proportion of NCI | - | (270,198) | - | - | - | - | (2,376,501) | (2,646,699) |
| Share options issued / exercised | - | - | - | - | - | 310,000 | - | 310,000 |
| Balance at 31 December 2018 | 28,834,628 | (13,170,560) | 30,085,405 | 6,069,406 | 456,692 | 1,103,500 | 994,649 | 54,373,720 |
| Balance at 1 July 2019 | 28,834,628 | (12,075,409) | 32,744,489 | 4,213,659 | 449,240 | 1,103,500 | 954,957 | 56,225,064 |
| Profit for the Year | - | 150,837 | - | - | - | - | (12,856) | 137,981 |
| <u>Other Comprehensive Income for the Year:</u> | | | | | | | | |
| Movements in the fair value of long-term investments, net of tax | - | - | - | 5,039,087 | - | - | - | 5,039,087 |
| Realised gains on sale of investments | - | - | 4,752,347 | (4,752,347) | - | - | - | - |
| <u>Transactions with Owners:</u> | | | | | | | | |
| Foreign Currency Translation Reserve | - | - | - | - | 289,864 | - | - | 289,864 |
| Cancellation of share options | - | 1,103,500 | - | - | - | (1,103,500) | - | - |
| Balance at 31 December 2019 | 28,834,628 | (10,821,072) | 37,496,836 | 4,500,399 | 739,104 | 0 | 942,101 | 61,691,996 |

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

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Consolidated Statement of Cash Flows
For the half-year ended 31 December 2019**

| | 31 December 2019 \$ | 31 December 2018 \$ |
|--|------------------------------------|------------------------------------|
| Cash Flows from Operating Activities | | |
| Dividends, distributions and other investment income received | 3,195,276 | 3,221,730 |
| Other payments in the course of ordinary operations | (1,995,565) | (3,482,564) |
| Proceeds from sale of trading securities | 1,253,673 | 1,067,602 |
| Payments for trading securities | (3,529,837) | (3,911,109) |
| Interest received | 11,919 | 384,828 |
| Loan repayments received | 388,416 | 12,207 |
| Income tax paid | (1,868,767) | (3,680,127) |
| Net Cash (used) in Operating Activities | (2,544,885) | (6,387,433) |
| Cash Flows from Investing Activities | | |
| Proceeds from disposal of financial assets | 18,664,599 | 5,318,205 |
| Payments for financial assets | (1,978,721) | (3,311,200) |
| Payment for IPE Limited investments | - | (4,488,575) |
| Subsequent purchase of non-controlling interest | - | (2,649,357) |
| Proceeds from return of capital | 207,096 | - |
| Net Cash provided by / (used in) Investing Activities | 16,892,974 | (5,130,927) |
| Cash Flows from Financing Activities | | |
| Borrowing costs | - | (17,232) |
| Loan proceeds received | - | 9,000,000 |
| Loan repayment | (6,000,000) | |
| Funding to Parent Entity | (7,350,000) | - |
| Interest paid | (206,466) | (76,808) |
| Interest Payments on MVT Notes | (899,682) | (899,682) |
| Share buy-back | - | (162,061) |
| Net Cash used in / (provided by) Financing Activities | (14,456,148) | 7,844,217 |
| Net Decrease in Cash and Cash Equivalents held | (108,059) | (3,674,142) |
| Effects of exchange rate changes on cash and cash equivalents | (431,690) | 902,416 |
| Cash and Cash Equivalents at the beginning of Financial Year | 6,489,611 | 11,743,998 |
| Cash and Cash Equivalents at end of the half-year | 5,949,862 | 8,972,272 |

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

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

Basis of preparation of the half-year Financial Report

This consolidated half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by Mercantile Investment Company Limited (the Company) during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

The half-year financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

This half-year financial report covers the Company and its controlled entities as a consolidated entity. Mercantile Investment Company Limited is a company limited by shares, incorporated and domiciled in Australia.

The address of the Company's registered office and principal place of business is Level 5, 139 Macquarie Street, Sydney, NSW, 2000.

The Company is a for-profit entity for the purpose of preparing the financial statements. Compliance with AASB 134, as appropriate for for-profit entities, ensures compliance with International Financial Reporting *Standard IAS 34 Interim Financial Reporting*.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2019.

Parent Entity

During the period, SNC successfully completed its takeover offer for the Company. SNC has become the parent entity of MVT and its subsidiaries.

Tax Consolidation

On the 3rd of the December 2019, the Company became part of the Sandon Capital Investments Limited (SNC) tax consolidated group under the tax consolidated regime. The tax agreement between SNC and the Company is effective from the income year ending 30 June 2020 and future years. The Australian Taxation Office has been notified of this decision.

The half-year financial report was authorised for issue by the directors on 27 February 2020.

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 1: Segment Information

| Consolidated - 31 December 2019 | Securities \$ | Consumer Finance \$ | Shipping Services \$ | Unallocated \$ | Total \$ |
|--|--------------------------|--------------------------------|---------------------------------|---------------------------|---------------------|
| Revenue | 985,159 | 1,237,526 | 1,188,622 | - | 3,411,307 |
| Expenses | (2,024,818) | (1,283,021) | (1,054,858) | - | (4,362,697) |
| (Loss)/ Profit before tax | (1,039,659) | (45,495) | 133,764 | - | (951,390) |
| (Loss)/ Profit after tax | 115,834 | (45,495) | 67,641 | - | 137,980 |
| <i>Material items include:</i> | | | | | |
| Impairment of loans | - | (1,104,030) | - | - | (1,104,030) |
| Assets | | | | | |
| Segment assets | 82,274,244 | 3,191,500 | 2,222,033 | - | 87,687,777 |
| Trade and other receivables | - | - | - | 740,211 | 740,211 |
| Other current assets | - | - | - | 131,563 | 131,563 |
| Property, plant & equipment | - | - | - | 70,176 | 70,176 |
| Deferred tax asset | - | - | - | 1,513,634 | 1,513,634 |
| | | | | | <u>90,143,361</u> |
| Liabilities | | | | | |
| Segment liabilities | (22,008,213) | - | (3,259,514) | - | (25,267,727) |
| Trade and other payables | - | - | - | (1,497,725) | (1,497,725) |
| Current tax liability | - | - | - | (1,685,914) | (1,685,914) |
| | | | | | <u>(28,451,366)</u> |

Segments have been identified by business unit. Other immaterial operations that do not meet the quantitative thresholds requiring separate disclosure in AASB 8 Operating segments have been combined with the Securities operations.

**Mercantile Investment Company Limited
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**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 1: Segment Information (continued)

| Consolidated - 31 December 2018 | Securities \$ | Consumer Finance \$ | Shipping Services \$ | Unallocated \$ | Total \$ |
|--|--------------------------|--------------------------------|---------------------------------|---------------------------|---------------------|
| Revenue | 24,678 | 1,055,981 | 1,313,698 | - | 2,394,357 |
| Expenses | (3,039,782) | (1,355,612) | (1,009,397) | - | (5,404,791) |
| (Loss)/Profit before tax | (3,015,104) | (299,631) | 304,301 | - | (3,010,434) |
| (Loss)/Profit after tax | (2,477,198) | (299,631) | 230,712 | - | (2,546,117) |
| <i>Material items include:</i> | | | | | |
| Impairment of loans | - | (1,047,281) | - | - | (1,047,281) |
| Assets | | | | | |
| Segment assets | 91,343,857 | 3,441,500 | 1,662,925 | - | 96,448,282 |
| Trade and other receivables | - | - | - | 300,314 | 300,314 |
| Other current assets | - | - | - | 94,649 | 94,649 |
| Property, plant & equipment | - | - | - | 24,782 | 24,782 |
| Deferred tax asset | - | - | - | 612,371 | 612,371 |
| | | | | | <u>97,480,398</u> |
| Liabilities | | | | | |
| Segment liabilities | (21,885,619) | - | (3,516,974) | - | (25,402,592) |
| Loan Payable | (14,000,000) | - | - | - | (14,000,000) |
| Trade and other payables | - | - | - | (2,565,377) | (2,565,377) |
| Current tax liability | - | - | - | (1,138,709) | (1,138,709) |
| | | | | | <u>(43,106,678)</u> |

**Mercantile Investment Company Limited
and Controlled Entities
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**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 1: Segment Information (continued)

| Consolidated – 31 December 2019 | Australia | Singapore | Total |
|--|------------------|------------------|--------------|
| | \$ | \$ | \$ |
| Revenue | 2,222,684 | 1,188,622 | 3,411,306 |
| Non-current assets | 31,532,715 | 70,176 | 31,602,891 |
| Consolidated – 31 December 2018 | | | |
| Revenue | 1,080,659 | 1,313,698 | 2,394,357 |
| Non-current assets | 45,855,684 | 24,782 | 45,880,466 |

Note 2 (a): Revenue from continuing operations

| | 31 December 2019 | 31 December 2018 |
|---|-----------------------------|-----------------------------|
| | \$ | \$ |
| Revenue | | |
| Dividends received | 1,216,683 | 470,807 |
| Trust Distributions Received | 1,143,726 | 1,078,952 |
| Interest income | 1,599,968 | 1,301,359 |
| Revenue from contracts with shipping services income customers* | 1,067,292 | 1,139,180 |
| | 5,027,669 | 3,990,298 |

The revenue from the shipping services commission is recognised based on point in time. The customers (principals) are shipping lines and ship owners. All the contracts are less than 12 months.

Note 2 (b): Other income

| | | |
|--|--------------------|------------------|
| Realised gain/(loss) on trading equities fair valued through profit and loss | 119,393 | (307,316) |
| Unrealised loss on trading equities fair valued through profit and loss | (1,962,553) | (666,639) |
| Foreign gain/(loss) exchange movement | 97,673 | 236,903 |
| Sundry income | 129,125 | 190,497 |
| | (1,616,362) | (546,555) |

Note 2 (c): Loss on acquisition

| | | |
|--|----------|--------------------|
| Loss on acquisition of a controlled entity | - | (1,049,386) |
| | - | (1,049,386) |

Note 3: Payment of dividends to shareholders

The group has not declared a dividend for the period (2018: nil).

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 4: Issued Capital

| | 31 December 2019 \$ | 30 June 2019 \$ |
|---|------------------------------------|--------------------------------|
| 280,700,000 (June 2019: 280,700,000) fully paid ordinary shares | 28,834,628 | 28,834,628 |

| | 31 December 2019 No. | 30 June 2019 No. | 31 December 2019 \$ | 30 June 2019 \$ |
|--------------------------------------|-------------------------------------|---------------------------------|------------------------------------|--------------------------------|
| Ordinary Shares | | | | |
| At the beginning of reporting period | 280,700,000 | 280,700,000 | 28,834,628 | 28,834,628 |
| <u>Movement in Shares on Issue:</u> | | | | |
| Share options exercised | - | - | - | - |
| Capital raising costs, net of tax | - | - | - | - |
| Closing Balance at Reporting Date | 280,700,000 | 280,700,000 | 28,834,628 | 28,834,628 |

Options

As part of the SNC takeover offer, SNC issued 601,457 new fully paid ordinary shares as partial consideration for the transfer of the Mercantile options on the 10th September 2019. The balance of the consideration was paid in cash on the 20th November 2019 to Gefare Pty Ltd (\$237,930) and to Glen Brae Capital Pty Ltd (\$99,965).

Gabriel Radzynski has been issued the following options at nil consideration which were acquired by SNC:

| Option Issued Date | Exercise price \$ per option | Expiration date | No. of Options | Options acquired by SNC | Balance at 31 December 2019 |
|---------------------------|-------------------------------------|------------------------|-----------------------|--------------------------------|------------------------------------|
| 2 December 2016 | 0.20 | 31 December 2020 | 10,000,000 | (10,000,000) | - |
| 21 November 2018 | 0.23 | 31 December 2021 | 10,000,000 | (10,000,000) | - |
| 21 November 2018 | 0.24 | 31 December 2022 | 13,250,000 | (13,250,000) | - |
| | | | 33,250,000 | (33,250,000) | - |

An employee of Sandon Capital Pty Ltd (an entity associated with Gabriel Radzynski which provides general consulting, corporate advisory and accounting services to MVT) was issued the following options at nil consideration. These options have been acquired by SNC.

| Option Issued Date | Exercise price \$ per option | Expiration date | No. of Options | Options acquired by SNC | Balance at 31 December 2019 |
|---------------------------|-------------------------------------|------------------------|-----------------------|--------------------------------|------------------------------------|
| 7 October 2016 | 0.20 | 31 December 2020 | 5,000,000 | (5,000,000) | - |
| 26 October 2017 | 0.23 | 31 December 2021 | 5,000,000 | (5,000,000) | - |
| 21 November 2018 | 0.24 | 31 December 2022 | 6,750,000 | (6,750,000) | - |
| | | | 16,750,000 | (16,750,000) | - |

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 5: Reserves

| | 31 December 2019 \$ | 30 June 2019 \$ |
|--|------------------------------------|--------------------------------|
| a) Reserves | | |
| Profits Reserve | 37,496,836 | 32,744,489 |
| Asset Revaluation Reserve | 4,500,399 | 4,213,659 |
| Foreign currency translation reserve | 739,104 | 449,240 |
| Share based payment reserve | - | 1,103,500 |
| | <u>42,736,339</u> | <u>39,510,888</u> |
| b) Major movements in reserves consist of: | | |
| Asset revaluation reserve | | |
| Balance 1 July | 4,213,659 | 5,752,039 |
| Movement in fair value of long term equity investments, net of tax | 5,039,087 | 2,087,723 |
| Revaluation of pre-existing investment in controlled entity | - | - |
| Realised gains on sale of long term equity investments | (4,752,347) | (3,626,103) |
| Balance 31 December | <u>4,500,399</u> | <u>4,213,659</u> |
| Profits reserve | | |
| Balance 1 July | 32,744,489 | 29,118,386 |
| Revaluation of pre-existing investment in controlled entity | - | - |
| Realised gains on sale of long term equity investments | 4,752,347 | 3,626,103 |
| Transfer to profit reserve | - | - |
| Balance 31 December | <u>37,496,836</u> | <u>32,744,489</u> |
| Foreign currency translation reserve | | |
| Balance 1 July | 449,240 | 55,549 |
| Foreign exchange movement | 289,864 | 393,691 |
| Balance 31 December | <u>739,104</u> | <u>449,240</u> |
| Share based payment reserve | | |
| Balance 1 July | 1,103,500 | 793,500 |
| Issuance of share-based options | - | 310,000 |
| Cancellation of share options | (1,103,500) | - |
| Balance 31 December | <u>-</u> | <u>1,103,500</u> |

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 6: Fair value estimation

Fair Value Hierarchy

Judgements and estimates are made in determining the fair values of assets and liabilities. To provide an indication of the reliability of the inputs used in determining fair value, the Group categorises each asset and liability into one of the following three levels as prescribed by accounting standards:

Level 1: Fair value is determined by reference to quoted prices (unadjusted) in active markets for identical assets or liabilities as at the end of the reporting period.

Level 2: Fair value is determined by using valuation techniques incorporating observable market data inputs.

Level 3: Fair value is determined by using valuation techniques that rely on inputs that are not based on observable market data.

| | Level 1 | Level 2 | Level 3 | Total |
|--|--------------------------|-----------------------|--------------------------|--------------------------|
| | \$ | \$ | \$ | \$ |
| As at 31 December 2019 | | | | |
| Financial assets at fair value through other comprehensive income: | | | | |
| - Listed domestic and international investments | 24,150,366 | 255,000 | - | 24,405,366 |
| - Unlisted domestic investments | - | - | 4,800 | 4,800 |
| - Unlisted international investments | - | - | 5,608,915 | 5,608,915 |
| | <u>24,150,366</u> | <u>255,000</u> | <u>5,613,715</u> | <u>30,019,081</u> |
| Financial assets at fair value through profit and loss | | | | |
| - Listed domestic and international investments | 33,437,658 | - | - | 33,437,658 |
| - Unlisted domestic and international investments | - | - | 4,952,141 | 4,952,141 |
| | <u>33,437,658</u> | <u>-</u> | <u>4,952,141</u> | <u>38,389,799</u> |
| Total financial assets | <u>57,588,024</u> | <u>255,000</u> | <u>10,565,856</u> | <u>68,408,880</u> |

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 6: Fair value estimation (continued)

| | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|--|--------------------------|-----------------------|--------------------------|--------------------------|
| As at 30 June 2019 | | | | |
| Financial assets at fair value through other comprehensive income: | | | | |
| - Listed domestic and international investments | 32,346,970 | 270,000 | - | 32,616,970 |
| - Unlisted domestic investments | - | - | 4,800 | 4,800 |
| - Unlisted international investments | - | - | 6,630,077 | 6,630,077 |
| | <u>32,346,970</u> | <u>270,000</u> | <u>6,634,877</u> | <u>39,251,847</u> |
| Financial assets at fair value through profit and loss | | | | |
| - Listed domestic and international investments | 31,199,934 | - | - | 31,199,934 |
| - Unlisted domestic and international investments | - | - | 7,610,689 | 7,610,689 |
| | <u>31,199,934</u> | <u>-</u> | <u>7,610,689</u> | <u>38,810,623</u> |
| Total financial assets | <u>63,546,904</u> | <u>270,000</u> | <u>14,245,566</u> | <u>78,062,470</u> |

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets and liabilities have been based on the closing quoted last sale prices at the end of the reporting period, excluding transaction costs.

Included in level 2 of the hierarchy are unlisted investment companies. The fair value of the investment has been based on their net asset backing, being the underlying value of their cash, cash equivalents and investment portfolio values at the end of the reporting period.

Level 3 of the hierarchy are unlisted securities such as shares in private companies, trusts and unlisted foreign notes. In order to determine the fair value of these investments, valuation techniques such as comparisons to similar investments for which market observable inputs are available, latest available net tangible assets per share, the adjusted last sale price or the fair value of the expected redemption value in the notes have been adopted.

Valuation techniques and inputs used in level 2 and 3 fair value measurements

Level 3 Financial assets at fair value through other comprehensive income includes an investment in Foundation Life valued at \$5,608,915 (June 2019: \$6,630,077), based on its share of Foundation Life's shareholder equity and notes. This value is reported in Foundation Life's reviewed half yearly and audited full year accounts (in March and September respectively). The method of fair value of the investment is consistent with prior years.

Within level 3 Financial assets at fair value through profit and loss consists of IPE Limited's unlisted portfolio valued at \$4,952,141 (June 2019: \$7,610,689). The value of the unlisted private equity funds held via IPE are determined by the monthly valuations provided by each of the managers of the underlying private equity funds.

Transfer between level 1 and 2

There has been no investment transferred from level 1 to level 2 in the fair value hierarchy between levels during the period.

**Mercantile Investment Company Limited
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**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 6: Fair value estimation (continued)

Level 3 Assets during the current and previous financial year are set out below:

| | Unlisted domestic investments \$ | Unlisted international investments \$ | Total \$ |
|---|--|---|------------------|
| Consolidation | | | |
| Balance at 1 July 2018 | 611,961 | 4,458,149 | 5,070,110 |
| Sale of investments | (373,500) | - | (373,500) |
| Return of Capital | (233,661) | - | (233,661) |
| Unrealised Gain recognised in other comprehensive income | - | 2,171,928 | 2,171,928 |
| Balance at 30 June 2019 | 4,800 | 6,630,077 | 6,634,877 |
| Sale of investments | - | - | - |
| Distribution | - | (321,620) | (321,620) |
| Unrealised Loss recognised in other comprehensive income | - | (699,542) | (699,542) |
| Balance at 31 December 2019 | 4,800 | 5,608,915 | 5,613,715 |

| | Unlisted domestic investments \$ | Unlisted international investments \$ | Total \$ |
|--|--|---|------------------|
| Consolidation | | | |
| Balance at 1 July 2018 | - | 280,634 | 280,634 |
| Acquisition of IPE portfolio | 8,594,101 | - | 8,594,101 |
| Unrealised Loss recognised in profit and loss | (1,264,046) | - | (1,264,046) |
| Balance at 30 June 2019 | 7,330,055 | 280,634 | 7,610,689 |
| Return of Capital | (915,716) | - | (915,716) |
| Unrealised Loss recognised in profit and loss | (1,566,648) | (176,724) | (1,743,372) |
| Balance at 31 December 2019 | 4,848,231 | 103,910 | 4,952,141 |

The level 3 assets unobservable inputs and sensitivity are as follows:

| | Impact on reserves December 2019 | June 2019 | Impact to post-tax profit December 2019 | June 2019 |
|---|--|--------------|---|--------------|
| Long term equity investments | | | | |
| Increase in fair value in long term equities by 5% | 203,497 | 240,514 | | |
| Decrease in fair value in long term, equities by 5% | (203,497) | (240,514) | | |
| Trading equities | | | | |
| Increase in fair value in trading equities by 5% | | | 179,515 | 275,887 |
| Decrease in fair value in trading equities by 5% | | | (179,515) | (275,887) |

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 7: Interest bearing liabilities

| | 31 December 2019 \$ | 30 June 2019 \$ |
|--|------------------------------------|--------------------------------|
| Unsecured notes | 22,308,700 | 22,308,700 |
| Less: capitalised costs | (300,486) | (379,098) |
| Non-current unsecured – notes at amortised cost | 22,008,214 | 21,929,602 |

These notes carry an interest entitlement of 8% per annum. The maturity date of the notes is 10 July 2021.

Note 8: Net loan and advances

| | 31 December 2019 \$ | 30 June 2019 \$ |
|--------------------------|------------------------------------|--------------------------------|
| Family law | 7,419,401 | 6,788,852 |
| Disbursement funding | 147,877 | 135,566 |
| Personal Injury | 3,955,985 | 3,552,929 |
| Other | - | 1,561,107 |
| Provision for impairment | (8,331,763) | (8,583,355) |
| | 3,191,500 | 3,455,099 |
| Funding to parent entity | 7,350,000 | - |
| Total | 10,541,500 | 3,455,099 |

The movement in the provision for impairment in respect of loans and advances for the periods is as follows:

| | 31 December 2019 \$ | 30 June 2019 \$ |
|-------------------------------------|------------------------------------|--------------------------------|
| Opening balance | 3,455,099 | 3,533,231 |
| Additions | 1,237,526 | 2,216,397 |
| Recoveries | (397,095) | (100,000) |
| Write offs | - | - |
| Allowance of expected credit losses | (1,104,030) | (2,194,529) |
| Funding to parent entity | 7,350,000 | - |
| | 10,541,500 | 3,455,099 |

Since the completion of the compulsory acquisition of the Company, funding of \$7,350,000 has been provided to the parent entity.

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Notes to the Interim Financial Report
For the half-year ended 31 December 2019**

Note 9: Trade and other payable

| | 31 December 2019 | 30 June 2019 |
|-----------------------------------|-----------------------------|-------------------------|
| | \$ | \$ |
| Unclaimed shareholders – secured* | 1,137,882 | 1,137,882 |
| Trade payables | 1,377,001 | 2,036,080 |
| Escrowed Port of Singapore | 2,175,911 | 1,586,391 |
| Loan from director^ | - | 6,000,000 |
| Sundry payables | 66,444 | 529,413 |
| | 4,757,238 | 11,289,766 |

* The balance of this liability relates to the MMX capital return payments which were returned to the Company by the Share Registry during the year, pending claims from previous MMX shareholders or remission to the Office of State Revenue. The balance is secured against the cash and cash equivalents of the Company.

^ During the year, the Company repaid Sir Ron Brierley \$6,000,000 as full payment for the outstanding loan amount. Interest was payable at the RBA cash rate per annum.

Note 10: Tax Consolidation and franking credit

On the 3rd of the December 2019, the Company became part of the SNC tax consolidated group under the tax consolidated regime. The tax agreement is effective from the income year ending 30 June 2020. The Australian Taxation Office has been notified of this decision.

As a result, the Company transferred \$14,049,945 of franking credits to SNC.

Note 11: Lease

AASB 16 Leases will be applicable for this half-year ended 31 December 2019.

The standard removes the classification of leases as either operating or finance leases, effectively treating all leases as finance leases and move all off-balance sheet operating leases onto the balance sheet.

On assessing the impact of AASB16, the Company determined that the current lease is deemed as a short-term lease and the lease for which the underlying asset is of a low value, therefore, the Company has selected practical expedients it does not recognise the right of use asset and liability.

Note 12: Events subsequent to balance date

No events have occurred subsequent to the balance date that would require adjustments to, or disclosure in the financial report.

**Mercantile Investment Company Limited
and Controlled Entities
ABN 15 121 415 576**

**Directors' Declaration
For the half-year ended 31 December 2019**

The Directors declare that:

1. the financial statements and notes, as set out on pages 5 to 19, are in accordance with the *Corporations Act 2001*, including:
 - (a) complying with Australian Accounting Standards AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the financial position of the consolidated entity as at 31 December 2019 and of its performance for the half-year ended on that date;
2. in the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors' made pursuant to section 303(5)(a) of the Corporations Act 2001 on behalf of the directors.



Gabriel Radzynski
Director

Signed this 27 day of February 2020

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Independent Auditor's Review Report

To the Members of Mercantile Investment Company Limited

ABN 15 121 415 576

Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report of Mercantile Investment Company Limited ("the company") and its controlled entities ("the consolidated entity"), which comprises the consolidated statement of financial position as at 31 December 2019, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a summary of significant accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: "*Review of a Financial Report Performed by the Independent Auditor of the Entity*", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporation Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134: "*Interim Financial Reporting*" and the *Corporations Regulations 2001*. As the auditor of Mercantile Investment Company Limited and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

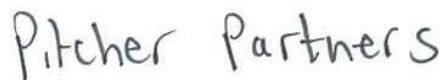
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Mercantile Investment Company Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the half year ended on that date; and
- (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*.



S S WALLACE

Partner



PITCHER PARTNERS

Sydney

27 February 2020