

MERCANTILE INVESTMENT COMPANY LIMITED

ABN 15 121 415 576 and Controlled Entities

CORPORATE GOVERNANCE STATEMENT 2019

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 guides and monitors the business and affairs of the Company, on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the third edition of the ASX Corporate Governance Council's (CGC) Principles and Recommendations.

| Corporate Governance Council Recommendation | Compliance | Disclosure |
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| Principle 1 – Lay solid foundations for management and oversight | | |
| 1.1 | A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management. | Complies. |
| | | <p>The Company's Board Charter sets out the specific responsibilities of the board of the Company (Board) and those delegated to Gabriel Radzyminski, (Director).</p> <p>The Board is responsible for providing strategic guidance and for contributing to the development of the corporate strategy and performance objectives, including:</p> <ul style="list-style-type: none"> • Strategic and financial performance • Executive Management • Audit and Risk Management and reporting • Strategic Planning • Corporate Governance • Shareholder Communication <p>The Chairman and the Director have been appointed to manage the Company's portfolio and together have discretion to manage and do all things considered necessary or desirable in relation to the Portfolio.</p> <p>The Board appoints the Chairman and Company Secretary.</p> |
| 1.2 | A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. | Complies. |
| | | <p>(a) The Board is responsible for ensuring it is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance.</p> <p>(b) This will necessarily include undertaking background and other checks before appointing a person or putting them forward to security holders as a candidate for election as a director, as well as providing all material information relevant to a decision for election as a director. The qualifications, experience and special responsibilities of the Board members are set out in the Annual Report.</p> |
| 1.3 | A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment. | Complies. |
| | | The directors have received a letter of engagement setting out the terms of their appointment. |
| 1.4 | The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | Complies. |
| | | The Board has appointed an experienced Company Secretary who is directly accountable to the Board. |

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| Corporate Governance Council Recommendation | Compliance | Disclosure |
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| <p>1.5 A listed entity should:</p> <p>(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:</p> <p>(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or</p> <p>(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.</p> | <p>Does not comply.</p> | <p>As the Company has no full time employees and given the size of the Board, a diversity policy has not been established. The Board's composition is reviewed on an annual basis. In the event a vacancy arises, the Board will consider diversity in its nomination process. The Company is not a relevant employer under the Workplace Gender Equality Act.</p> |
| <p>1.6 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p> | <p>Complies.</p> | <p>The performance of directors is informally assessed and reviewed by the Board annually.</p> <p>The Board reviews its performance by discussion and by individual communication with the Chairman and by reference to generally accepted board performance standards.</p> <p>An informal review was conducted during the period ended 30 June 2019 and it is the current view that the Board's composition, level of functionality and competency is appropriate for the scale and nature of the Company's business.</p> |
| <p>1.7 A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p> | <p>Complies.</p> | <p>The Company has one executive director, Mr Gabriel Radzynski. The Chairman in consultation with the full Board, conducts the process of evaluating his performance.</p> <p>A performance evaluation was undertaken in June 2019.</p> |

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| Principles and Recommendations | Compliance | Disclosure |
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| Principle 2 – Structure the Board to add value | | |
| <p>2.1 The board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <ol style="list-style-type: none"> 1. has at least three members, a majority of whom are independent directors; and 2. is chaired by an independent director, and disclose the charter of the committee, the members of the committee; and 3. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings: OR <p>(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.</p> | Complies. | <p>The Board has established a Nomination & Remuneration Committee to ensure that the Directors and other senior management of the Company are appropriately remunerated; and the human resources policies and practices are consistent with and complementary to the strategic direction and objectives of the Company as determined by the Board.</p> <ul style="list-style-type: none"> ▪ The Committee has three members, two of whom are independent non-executive directors. ▪ Katrina Langley, an independent Non-Executive Director, is the Chair. <p>The Board has adopted a Nomination & Remuneration Committee charter.</p> <p>In accordance with the information suggested in <i>Guide to Reporting on Principle 4</i>, the Company has disclosed full details of its Directors in the Directors' Report attached to the Annual Report including each director's qualifications, their membership of the committee, number of meetings held and attendance at Nomination & Remuneration Committee meetings, as applicable.</p> <p>The Nomination & Remuneration Committee meets as required. Given the size and scale of the Company, these matters are often dealt with at Board level with appropriate disclosures or exclusions from discussions where a director may have an interest. Attendance at the committee meetings is disclosed in the Directors' Report.</p> |
| <p>2.2 A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.</p> | Does not comply. | <p>The Company supports the appointment of Directors who bring a wide range of business, investment and professional skills and experience. While the Company does not have or disclose a formal skills matrix it does consider directors' attributes prior to any appointment. The qualifications, skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report and their attendance at Board and Committee meetings is included in the Annual Report.</p> |
| <p>2.3 A listed entity should disclose:</p> <p>(a) the names of the directors considered by the board to be independent directors;</p> <p>(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and</p> <p>(c) the length of service of each director.</p> | Complies. | <p>The Board members considered to be independent are:</p> <p>Mr James Chirside – Independent Non-executive Director – appointed 5/11/10 Ms Katrina Langley – Independent Non-executive Director – appointed 6/11/18 Mr Daniel Weiss - Independent Non-executive Director – appointed 25/02/12</p> |
| <p>2.4 A majority of the board of a listed entity should be independent directors.</p> | Complies. | <p>The Board is comprised of five Directors of whom three are considered independent and therefore complies with the best practice recommendation that boards contain a majority of independent Non-executive Directors.</p> <p>Sir Ron Brierley (Chairman) is not considered to be an independent director due to being a substantial shareholder of the Company. Mr Gabriel Radzynski undertakes executive functions and therefore is not considered to be independent. In determining the independence of its directors, the Company follows the guidelines as outlined in the CGC guidelines. The Board considers the current mix of skills and experience of the members of the Board best positions it to meet the requirements of the Company.</p> |
| <p>2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.</p> | Does not comply. | <p>Sir Ron Brierley as Chairman of the Board is not considered independent. The Company believes that an independent Chairman does not necessarily improve the function of the Board. The current Chairman's business and market experience gained over many years warrants his holding of this position.</p> |

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| <p>2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.</p> | <p>Does not comply.</p> | <p>Due to the relatively uncomplicated nature of the Company's operations, its size and the fact that directors are chosen based on prior knowledge and experience in the sector, the Board induction process is of an informal nature. New Directors are fully briefed about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of Directors. Directors receive a formal letter of appointment setting out the key terms and conditions and corporate expectations relevant to that appointment. Directors are individually responsible for maintaining relevant and up to date skills and knowledge.</p> |
| <p>Principle 3 – Act ethically and responsibly</p> | | |
| <p>3.1 A listed entity should:</p> <p>(a) have a code of conduct for its directors, senior executives and employees; and</p> <p>(b) disclose that code or a summary of it.</p> | <p>Complies.</p> | <p>The Company has adopted a formal code of conduct. This is incorporated into the Company's Corporate Governance Charter. The Company requires all its directors to comply with the standards of behaviour and business ethics in accordance with the law and the code of conduct. These include acting honestly and with integrity and fairness in all dealings.</p> <p>The Company has made its Corporate Governance Charter publicly available on its website.</p> |
| <p>Principle 4 – Safeguard integrity in corporate reporting</p> | | |
| <p>4.1 The board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <ol style="list-style-type: none"> 1. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and 2. is chaired by an independent director, who is not the chair of the board; <p>and disclose:</p> <ol style="list-style-type: none"> 3. the charter of the committee; 4. the relevant qualifications and experience of the members of the committee; and <p>(b) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(c) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.</p> | <p>Complies.</p> | <p>The Board has established an Audit & Risk Committee to focus on issues relevant to the integrity of the Company's financial reporting and provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial statements.</p> <ul style="list-style-type: none"> ▪ The Committee has three members, all of whom are independent non-executive directors. ▪ James Chirnside, an independent Non-Executive Director, is the Chair. <p>The Board has adopted an Audit & Risk Committee charter which is available on the Company's website.</p> <p>In accordance with the information suggested in <i>Guide to Reporting on Principle 4</i>, the Company has disclosed full details of its Directors in the Directors' Report attached to the Annual Report including each director's qualifications, their membership of the committee, number of meetings held and attendance at Audit & Risk Committee meetings.</p> <p>The Audit & Risk Committee meets at least twice per annum. Attendance at the committee meetings is disclosed in the Directors' Report.</p> <p>The members of the Audit & Risk Committee are appointed by the Board and recommendations from the committee are presented to the Board for further discussion and resolution.</p> |
| <p>4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</p> | <p>Complies.</p> | <p>The Executive Director and the Company's external accountant provide written confirmation to the Board that the Company's Financial Reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and that this statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.</p> |

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| Principles and Recommendations | | Compliance | Disclosure |
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| 4.3 | A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | Complies. | The external auditors are requested to attend the Annual General Meeting and are available to answer shareholders' questions regarding the conduct of the audit and preparation of the Auditor's Report. |
| Principle 5 – Make timely and balanced disclosure | | | |
| 5.1 | A listed entity should: <ul style="list-style-type: none"> (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it. | Complies. | <p>The Company's Continuous Disclosure Policy is designed to promote transparency and investor confidence and ensure that all interested parties have an equal opportunity to obtain information which is issued by the Company. The Company is committed to complying with the continuous disclosure obligations contained in the Listing Rules of the Australian Securities Exchange (ASX) and under the Corporations Act, and ensuring that all shareholders and the market have an equal opportunity to obtain and review full and timely information about the Company's securities.</p> <p>Disclosure of such price-sensitive information to the ASX must not be delayed and is disclosed, in the first instance, to the ASX and only after receiving confirmation that a release of this disclosure has been made to the market will it then be placed on the Company's website. Material information must not be selectively disclosed (i.e. to analysts, the media or shareholders) prior to being announced to the ASX, and all media releases must be referred to the Chairman for approval prior to any announcement.</p> |
| Principle 6 – Respect the rights of shareholders | | | |
| 6.1 | A listed entity should provide information about itself and its governance to investors via its website. | Complies. | The Company's website has a dedicated section for News and endeavours to publish on the website all important company information and relevant announcements made to the market. |
| 6.2 | A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors. | Complies. | <p>The Company is committed to:</p> <ul style="list-style-type: none"> • ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way through the annual and half yearly reports, Investor Presentations, ASX releases, general meetings and the Company's website; • complying with continuous disclosure obligations contained in the applicable ASX Listing Rules and the Corporations Act in Australia; and • encouraging shareholder participation at general meetings. |
| 6.3 | A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders. | Complies. | The Board encourages full participation of shareholders at the Company's annual general meetings and any other general meetings to ensure a high level of accountability and identification with the Company's strategy. The external auditor will also be invited to attend the annual general meeting of shareholders and will be available to answer any questions concerning the conduct, preparation and content of the auditor's report. |
| 6.4 | A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically. | Complies. | The Company's registrar, Link Market Services, provides the option for shareholders to receive and send communications electronically. Shareholders are encouraged to create an online account at https://investorcentre.linkmarketservices.com.au/Login/Login |

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| Principles and Recommendations | Compliance | Disclosure |
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| Principle 7 – Recognise and manage risk | | |
| <p>7.1 The board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of which:</p> <ol style="list-style-type: none"> (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, <p>and disclose</p> <ol style="list-style-type: none"> (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR <p>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.</p> | Complies. | <p>As disclosed in 4.1 The Board has established an Audit & Risk Committee to focus on issues relevant to the integrity of the Company's financial reporting and provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial statements.</p> <ul style="list-style-type: none"> ▪ The Committee has three members, all of which are independent non-executive directors. ▪ James Chirnside, an independent Non-Executive Director, is the Chair. <p>The Board has adopted an Audit & Risk Committee charter.</p> <p>In accordance with the information suggested in <i>Guide to Reporting on Principle 4</i>, the Company has disclosed full details of its Directors in the Directors' Report attached to the Annual Report including each director's qualifications, their membership of the committee, number of meetings held and attendance at Audit & Risk Committee meetings.</p> <p>The Board of the Company takes a proactive approach to the Company's risk management and internal compliance and control system.</p> <p>The Board with assistance as required from the Audit & Risk Committee is responsible for ensuring that risks and mitigation of these risks are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified.</p> |
| <p>7.2 The board or a committee of the board should:</p> <ol style="list-style-type: none"> (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place. | Complies. | <p>The Board considers risk management in making all of its investment decisions at Board meetings and at other times throughout the year and ensures that the significant risks facing the Company are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with.</p> |
| <p>7.3 A listed entity should disclose:</p> <ol style="list-style-type: none"> (a) if it has an internal audit function, how the function is structured and what role it performs; OR (b) if it does not have an internal audit function, that fact and the processes it employs for evaluation and continually improving the effectiveness of its risk management and internal control processes. | Complies. | <p>As a listed investment company with limited operational complexity, the Company does not believe it requires an internal audit function. The Board works to identify and manage operational, financial and compliance risks which could prevent the Company from achieving its objectives.</p> |
| <p>7.4 A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p> | Complies. | <p>A summary of risks including market price, currency, interest rate and credit are included in Note 13 in the 2019 Annual Report.</p> |

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

| Principles and Recommendations | Compliance | Disclosure |
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| Principle 8 – Remunerate fairly and responsibly | | |
| 8.1 | <p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p> | <p>Complies.</p> <p>The Board has established a Nomination & Remuneration Committee to ensure that the Directors, and other senior management of the Company are appropriately remunerated; and the human resources policies and practices are consistent with and complementary to the strategic direction and objectives of the Company as determined by the Board.</p> <ul style="list-style-type: none"> ▪ The Committee has three members, all of whom are independent non-executive directors. ▪ Katrina Langley, an independent Non-Executive Director, is the Chair. <p>The Board has adopted a Nomination & Remuneration Committee charter.</p> <p>In accordance with the information suggested in <i>Guide to Reporting on Principle 4</i>, the Company has disclosed full details of its Directors in the Directors' Report attached to this Annual Report including each director's qualifications, their membership of the committee, number of meetings held and attendance at Nomination & Remuneration Committee meetings.</p> <p>The Nomination & Remuneration Committee meets as required. Given the size and scale of the Company, these matters are often dealt with at Board level with appropriate disclosures or exclusions from discussions where a director may have an interest. Attendance at the committee meetings is disclosed in the Directors' Report.</p> |
| 8.2 | <p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p> | <p>Complies.</p> <p>The details of the remuneration paid to Directors are included in the Remuneration Report of the 2019 Annual Report.</p> |
| 8.3 | <p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p> | <p>Not applicable.</p> <p>The Company does not have an equity based remuneration scheme.</p> |

MVT's corporate governance practices were in place for the financial year ended 30 June 2019 and to the date of signing the Directors' Report.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by Mercantile Investment Company Limited, refer to our website: www.mercantileinvestment.com.au