



Henry Morgan

"Aut pax aut bellum"

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

HENRY MORGAN LIMITED ACN 602 041 770

Henry Morgan Limited

Managing Director's letter 2017

Dear Shareholder

I'd like to thank all shareholders for your continued support of the Company during the 2017 financial year.

In 2017, the Company achieved strong growth across all its investment classes, making profits from global macro trading and unlisted investments, and dramatically outperforming the market.

Revenue increased by 1493% from \$2,581,493 to \$41,134,561 and profit after tax increased by 1604% from \$1,240,815 to \$21,146,553.

The Company also paid a special dividend of 20 cents per share, franked to 9 cents per share.

The Board has welcomed three new independent Directors during the year: Vanessa Gunner, George Earl and Peter Ziegler. Their skills and experience have provided additional depth to Board discussions.

A Committee of Independent Directors is currently evaluating a bid by John Bridgeman Limited for the Company's stake in JB Financial Group Ltd, as announced to ASX on 26 May 2017. The proposed price of \$7.90 per share represents a premium of approximately 43% to the current carrying value of the Company's investment. The transaction would result in a gain of approximately \$12,800,000 to the Company before costs and taxes if it proceeds. It should be noted that the bid may not be accepted or proceed and it is subject to a number of conditions. A summary of the bid is included within *Future developments, prospects and business strategies* in the Directors Report on page 6 of this Report.

We look forward to a conclusion of this bid that achieves the Company's investment objectives and maximises value for the benefit of shareholders.

The Company's Investment Manager is emphasizing global macro trading and sees a number of opportunities, particularly in currency and equity markets in Europe and Asia. Historically, the Company has profited from global macro investments, and will be targeting future growth from this source.

Finally we note that trading in the Company's securities on the ASX was voluntarily suspended by the Company in order to avoid the market trading on an uninformed basis pending resolution with ASIC of certain matters concerning the Company's prospectus for the issue of bonus options. Those matters with ASIC have been resolved. In order to ensure that the market is fully informed trading in the Company's securities will remain suspended until the Company's calculation of its Net Tangible Asset backing has been independently reviewed by BDO Corporate Finance. We look forward to that review being completed shortly and trading in the Company's securities re-commencing.

We look forward to your continued support for the new financial year.



Stuart McAuliffe
Managing Director
Henry Morgan Limited

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Financial report for the year ended 30 June 2017
DIRECTORS' REPORT

The Directors present their report together with the financial statements of Henry Morgan Limited (the "Company") for the financial year ended 30 June 2017 and the auditor's report.

Directors

The following persons were directors of the Company during or since the end of the financial year up to the date of this report:

John McAuliffe AM – Non-Executive Chairman
 Stuart McAuliffe – Managing Director
 Rosario (Ross) Patane – Non-Executive Director
 Vanessa Gunner – Non-Executive Director (appointed 30 May 2017)
 Dr William (George) Earl – Non-Executive Director (appointed 19 July 2017)
 Peter Ziegler – Non-Executive Director (appointed 19 July 2017).

Particulars of each director's experience and qualifications are set out below.

Information relating to Directors and Company Secretaries

John McAuliffe AM	–	Non-Executive Chairman.
Qualifications	–	AM; LAPI; FAIB; ACTCB. Life Fellow of the Australian Institute of Valuers; Fellow of the Australian Institute of Building – Chartered Builder; Associate Papua New Guinea Institute of Valuers and Land Administrators; Registered Valuer, Queensland; Registered Valuer, Papua New Guinea; Associate Central Technical College Brisbane – Diploma in Building and Diploma in Quantity Surveying; and Member Real Estate Institute of Queensland.
Experience	–	John has had a long and distinguished career in both government and private sector roles. He has also lectured extensively at both the University of Queensland and the Queensland University of Technology in the areas of property valuation and surveying. John was awarded the Member of the Order of Australia in June 2007 for services to the community particularly through executive roles in the areas of health care, public housing management and to the property valuation industry.
Listed Company Directorships held	–	John has been Non-Executive Chairman of John Bridgeman Limited since 13 March 2015.
Interest in Shares and Options	–	John holds or has interests in entities that hold 1,800,000 ordinary shares.
Stuart McAuliffe	–	Managing Director.
Qualifications	–	BA; MEd; Grad Dip Legal Studies.
Experience	–	Stuart has over 25 years' experience investing in global equity, bond, currency and commodity markets. Stuart was previously an Associate Professor in the Faculty of Society and Design at Bond University.
Listed Company Directorships held	–	Stuart has been a Director of John Bridgeman Limited since 8 January 2015 and a Director of Benjamin Hornigold Ltd since 28 September 2016.
Interests in Shares and Options	–	Stuart holds or has interests in entities that hold 5,375,811 ordinary shares and 4,000 options.

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Rosario (Ross) Patane	–	Non-Executive Director, member of the Audit and Risk Committee.
Qualifications	–	BBus; CA; MAICD; FFin.
Experience	–	Ross is a chartered accountant with in excess of 25 years of experience in providing high level accounting related services. Ross is presently the Queensland Managing Principal of Crowe Horwath, a leading accounting and financial services business.
Listed Company Directorships held	–	Ross has been a Director of John Bridgeman Limited since 13 March 2015.
Interest in Shares and Options	–	Ross holds or has interests in 15,968 ordinary shares.
 Vanessa Gunner	–	 Non-Executive Director appointed 30 May 2017, member of the Audit and Risk Committee and Committee of Independent Directors.
Qualifications	–	BBus; GDipAppFinInv; CA ANZ; ACA; SA FIN; MAICD; MIOd.
Experience	–	Vanessa was formerly Interim Chief Operating Officer at Barclays Capital and Barclays Wealth for Corporate Real Estate Services, and has over 22 years of experience in Banking and Financial Services, Telecoms, Technology, Facilities Management, Pharmaceuticals, Transport, Publishing and Tech Start-ups. Her broad experience across over 20 bluechip companies includes leading strategic development, financial analysis and business modelling, programme and change management, business process re-design, systems integration, logistics, building new data platforms, organisational design and research and development, across jurisdictions including Europe, Middle East, Africa and the Asia Pacific.
Listed Company Directorships held	–	Nil.
Interest in Shares and Options	–	Vanessa holds no ordinary shares or options.
 Dr William (George) Earl	–	 Non-Executive Director appointed 19 July 2017, member of the Committee of Independent Directors.
Qualifications	–	Dip.QS; Grad.Dip (Property Development); MSc (Project Management); PhD (Finance).
Experience	–	George has had a long and illustrious academic career. George has held senior academic positions at a number of prestigious universities in Queensland and Asia, including the University of Queensland, the Queensland University of Technology, the National University of Singapore, the University of New South Wales and Dean of the Faculty of Business at Bond University. George has extensive experience in economics and property development valuation. He is Chairman of the National Affordable Housing Consortium and CEO of Sustainable Living Infrastructure Consortium.
Listed Company Directorships held	–	Nil.
Interest in Shares and Options	–	George holds no ordinary shares or options.

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Peter Ziegler	–	Non-Executive Director appointed 19 July 2017, Chairman of the Audit and Risk Committee and Chairman of the Committee of Independent Directors.
Qualifications	–	B Com (Hons); LLB (Hons); MFM (QLD); CA; FCPA; CTA.
Experience	–	Peter is a chartered accountant, chartered tax adviser and a solicitor. He is an experienced company director with a long career both as an advisor to, and as an executive in, industry. Peter has previously been a partner with Ernst & Young. Peter is currently Chairman of the ASX listed Australian Pacific Coal Limited.
Listed Company Directorships held	–	Chairman of Australian Pacific Coal Limited.
Interest in Shares and Options	–	Peter holds no ordinary shares or options.
 Jody Wright	–	 Company Secretary.
Qualifications	–	LLB.
Experience	–	Jody was admitted to practice as a Solicitor of the Supreme Court of Queensland in January 2001 and is a member of the Queensland Law Society. Jody has an extensive background in corporate governance, compliance, risk management, board advisory and commercial litigation. She has significant experience as in-house counsel and compliance manager across different industry spheres including financial services, insurance and investigative services.
 Kevin Mischewski	–	 Company Secretary appointed 10 August 2017.
Qualifications	–	CA; AGIA.
Experience	–	Kevin is a chartered accountant and member of the Governance Institute of Australia. He has held company secretary and chief financial officer roles for ASX listed and unlisted public companies. Kevin brings a wealth of experience as a finance and company administration executive. Kevin previously held the role as Company Secretary and Chief Financial Officer for ASX listed Australian Pacific Coal Limited.

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DIRECTORS' REPORT

Meeting of Directors

During the financial year, 8 meetings of Directors were held. Attendances by each director during the year were as follows:

	Board of Directors		Audit and Risk Management Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
John McAuliffe	8	8	1	1
Stuart McAuliffe	8	8	1	1
Ross Patane	8	8	1	1
Vanessa Gunner	1	1	-	-
George Earl	-	-	-	-
Peter Ziegler	-	-	-	-

Operating and financial review

Principal activities

The Company is a Listed Investment Company ("LIC") providing investors with the opportunity to gain exposure to an actively managed investment portfolio. The investment portfolio invests in global markets through derivative instruments providing exposure to equities, equity indices, bonds, currencies and commodities. The Company also invests in listed and unlisted securities with the aim of achieving above average returns (whilst limiting volatility) over the medium to long term.

Business model and objectives

The Company aims to deliver shareholder returns by providing an actively managed portfolio with diversification across products and global markets, thereby allowing the Board, key management and shareholders' interests to be aligned.

Operating results

The following table provides a summary of financial highlights:

	2017	2016
	\$	\$
Profit before tax	30,161,713	1,772,593
Net profit after tax	21,146,553	1,240,815
Net realised investment gains	8,192,494	3,365,426
Net unrealised investment gains/(losses)	32,796,261	(833,940)
Commissions paid to investment brokers	(1,402,433)	(347,161)
Management and performance fee expense	(8,595,891)	-
Dividends paid	(5,646,303)	-
Basic earnings per share (cents)	96.15	15.24
Return on capital employed	93.87%	10.65%

The net profit after tax for the Company amounted to \$21,146,553 (2016: \$1,240,815), included in the net profit after tax is a net realised and unrealised gain on financial instruments of \$40,988,755 (2016: \$2,531,486); management and performance fees paid of \$8,595,891 (2016: nil) and commissions paid of \$1,402,433 (2016: \$347,161). The income tax expense associated with the net profit derived was \$9,015,160 (2016: \$531,778).

During the year, investments were made in unquoted securities of two companies. Revaluation of the carrying value of these investments, to reflect changes in the fair value of these assets, contributed \$33,224,164 to the net gain on financial instruments.

The Company's investment in JB Financial Group Ltd ("JBFG") (formerly JB Broking Pty Ltd), was revalued by \$23,210,014 from its acquisition cost of \$6,300,106 to its fair value of \$29,510,120. The Company's investment in Bartholomew Roberts Ltd ("BRL") was revalued by \$10,014,150 from its acquisition cost of \$4,099,998 to its fair value of \$14,114,148.

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Acquisitions

On 8 August 2016, the Company acquired 25% of the issued shares of JBFG. JBFG was incorporated on 11 July 2016. During the year the Company provided \$6,250,000 in additional capital to JBFG and increased its ownership to 37.3%. Subsequent issues of additional shares to third parties diluted the Company's holding in JBFG to 21.19% as at the end of the period.

On 2 November 2016, the Company acquired 50% of the issued capital of K-Ching Holdings Pty Ltd and K-Ching Pty Ltd ("K-Ching") for a total consideration of \$300,000. K-Ching is an established business involved in retailing using vending machines.

The Company acquired 1,497,616 shares in BRL in three tranches during the year for a total consideration of \$4,096,394. At the end of the period the Company held 37.29% of BRL.

Changes in equity

On 6 September 2016, the Company completed a placement of 1,686,256 fully paid ordinary shares at \$1.10 per share with one free listed option per share. The options have an exercise price of \$1.00. The placement raised \$1,854,882 before costs.

On 28 September 2016, the Company announced it had completed a Share Purchase Plan offer. The offer was on the same terms as the above placement and resulted in the issue of 572,809 fully paid ordinary shares at \$1.10 per share with one free listed option per share. The issue raised \$630,090 before costs.

During the year, 11,740,274 options were exercised raising \$11,740,274 in share capital.

On 8 March 2017, in accordance with the Dividend Reinvestment Plan ("DRP") announced 19 January 2017, 1,239,801 fully paid ordinary shares were issued to those shareholders that elected to participate in the Company's DRP for a total subscription of \$1,763,624.

In accordance with the share buy-back notice issued 13 December 2016, 230,000 fully paid ordinary shares of the Company were bought back on 30 June 2017 at a cost of \$485,189; being at an average cost of \$2.11 per share.

Exchange listing status

Trading in the Company's securities on the Australian Securities Exchange ("ASX") was voluntarily suspended by the Company on 8 June 2017 in order to avoid the market trading on an uninformed basis pending resolution with ASIC of certain matters concerning the Company's prospectus for the issue of bonus options. Those matters with ASIC have been resolved. In order to ensure that the market is fully informed trading in the Company's securities will remain suspended until the Company's calculation of its Net Tangible Asset backing has been independently reviewed by BDO Corporate Finance. The Company looks forward to that review being completed shortly and trading in the Company's securities re-commencing.

Further information is available in the announcements made by the Company to the ASX which can be accessed at <http://www.henrymorgan.com.au>.

Significant changes in state of affairs

Apart from the matters discussed in this Report, there were no other significant changes in the state of affairs of the Company during the financial year.

Events after the reporting period

Other than the following, the Directors are not aware of any significant events since the end of the reporting period that may significantly impact the operations or the operating results of the Company.

On 10 July 2017, the Company loaned \$450,000 to Growth Point Capital Pty Ltd, which is a subsidiary of the Investment Manager, on commercial terms.

Dividends paid or recommended

A special dividend of \$0.20 per share was declared by the Company on 19 January 2017 and paid on 13 March 2017. This special dividend was 45% franked. The total dividend entitlement of \$5,646,303 was distributed by way of the issue of 1,239,801 fully paid ordinary shares to participants in the Company's DRP, with a total value of \$1,763,624 with the balance of this special dividend being payable by way of cash totalling \$3,882,679.

Future developments, prospects and business strategies

The Company will continue operating as a LIC. The Company invests in global markets through derivative instruments providing exposure to equities, equity indices, bonds, currencies and commodities and also in listed and unlisted securities. The Company's aim is to achieve above average returns (whilst limiting volatility) over the medium to long term.

The Company intends to follow a long-term philosophy of seeking undervalued assets across all asset classes globally, including but not limited to currencies, global equities and precious metals.

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On 26 May 2017, the Investment Manager announced that it proposed to acquire all of the shares held by the Company in JBFG being at that time, approximately 35% of JBFG's issued shares at \$7.90 per share. The proposal is conditional upon due diligence, documentation, any required regulatory and securities exchange approvals and such independent expert's reports as may be required. The proposed consideration of \$42,265,000 is payable in cash in two tranches, with 50% payable on completion and the second tranche of 50% one year later. Additional consideration is payable under the proposed transaction if the price of shares in JBFG are demonstrated to have increased by 10% over the \$7.90 purchase price within one year of JBL's acquisition of HML's shares in JBFG. The additional consideration would be 50% of the confirmed increase in the value of the purchased shares. The independent Directors of the Company have commissioned BDO Corporate Finance (QLD) to complete an independent expert's report on the proposed transaction.

Further information about the likely developments in the investment of the Company's funds have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Business risks

The following exposures to business risk may affect the Company's ability to achieve its objectives:

- Any variations in global or local equity markets, global or local bond markets or in the value of the Australian dollar against other major currencies.
- Any investment decisions made by the Investment Manager (John Bridgeman Limited) that may lead to negative returns being realised by the Company resulting in the Company suffering a financial loss in the short or longer term. The Company considers that the Investment Manager has robust systems and processes in place to manage the business risks that are incurred. The investment approach of the Investment Manager is based on the experience of the staff of the Investment Manager, research into past data and the application of research into mathematical models that attempt to forecast or understand resultant financial risk and returns. However, there is a risk that the Investment Manager's investment management systems may not be profitable and the Company may suffer a loss.

Environmental issues

The Company has no direct exposure to environmental regulations.

Directors' interest

The relevant interest of each director in shares or options over such instruments issued by the Company and other related body corporates, as notified by the directors to the ASX in accordance with S205G(a) of the *Corporations Act 2001*, at the date of this report is as follows:

Director	Ordinary shares	Options over ordinary shares
John McAuliffe	1,800,000	-
Stuart McAuliffe	5,375,811	4,000
Ross Patane	15,968	-
Vanessa Gunner	-	-
George Earl	-	-
Peter Ziegler	-	-

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Shares under option

Unissued shares under option

Details of options issued as at report date are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
4 February – 28 September 2016	31 August 2018	\$1.00	4,513,791
			<hr/> 4,513,791

Option holders do not have any right to participate in any other issues of shares or to acquire any other interests in the Company.

Option grant dates are noted above including those issued during or since the end of the year.

For details of options issued to Directors and executives as remuneration, refer to the Remuneration Report.

No person entitled to exercise any of the above options has or has any right by virtue of the option to participate in any share issue of any other body corporate.

Shares issued on exercise of options

During and since the year ended 30 June 2017, the following shares were issued pursuant to the exercise of options:

Class of Securities	Issue Date	Issue Price	Number issued
Fully paid ordinary shares	5 January – 30 June 2017	\$1.00	11,740,274
			<hr/> 11,740,274

Indemnifying officers or auditor

During the year, the Company entered into an agreement to indemnify and agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure all directors and managers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity as a Director or manager of the Company, other than conduct involving a wilful breach of duty in relation to the Company. Disclosure of details of the nature of the liabilities covered by, or the amount of the total premium paid in respect of, the insurance contract is prohibited under the terms of the contract.

Non-audit services

The Board of Directors 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 reason:

- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

There were no fees paid or payable to KPMG for non-audit services provided during the year ended 30 June 2017.

Proceedings on behalf of Company

No person has applied for leave of the court to bring proceedings on behalf of the Company or to 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 since the end of the previous financial year.

Auditor's independence declaration

The lead auditor's independence declaration for the year ended 30 June 2017 has been received and can be found on page 13 of the financial report.

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Remuneration Report (audited)

This Remuneration Report outlines the remuneration arrangements of the Company for the year ended 30 June 2017. The report details the remuneration arrangements for the key management personnel (KMP) within the Company. KMP are defined as those persons having authority and responsibility for planning, directing and controlling activities of the Company, including any director.

During the 2017 financial year, the KMP for the Company comprised the directors of the Company, as set out below. The Company has no other executives. The investment operations of the Company are managed by the Investment Manager under a Management Services Agreement.

The Remuneration Report has been prepared and audited in compliance with the *Corporations Act 2001*.

Remuneration policy

The remuneration policy of the Company has been designed to align KMP objectives with shareholder and business objectives by providing fixed remuneration to Board members. The Board of Henry Morgan Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP, as well as to create goal congruence between directors, management, shareholders and other stakeholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the Company is as follows:

- The remuneration policy is developed and approved by the Board.
- All KMP receive a fixed director's fee which is based on factors including relevant industry standards.
- Non-executive directors do not receive performance-related remuneration and are not entitled to participate in equity based incentive plans.
- The Board reviews KMP packages annually by reference to the Company's performance and comparable information from industry sectors.

Total remuneration available to the Directors (including executives) is a maximum of \$200,000 plus any statutory superannuation (2016: \$200,000). Any increase in the aggregate amount of director's fees in excess of this amount must be approved by a resolution of the Company's shareholders.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. 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.

In addition, the Board's remuneration policy prohibits directors and KMP from using the Company's shares as collateral in any financial transaction, including margin loan arrangements.

Relationship between remuneration policy and company performance

The remuneration policy has been tailored to align the goals between shareholders and Directors. The method applied to achieve this aim is via issue of options by the Investment Manager to the Directors to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

Performance-based remuneration

There is currently no performance-based remuneration paid directly by the Company. Performance-based remuneration is paid to the Investment Manager pursuant to the Investment Management Agreement. However, performance-based remuneration measures may be implemented in the future to provide an even greater alignment of interests between all stakeholders.

Performance conditions linked to remuneration

There are currently no performance conditions linked to remuneration.

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Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the Board has regard to the following measures in respect of the current financial year.

	2017	2016
	\$	\$
Net profit after tax	21,146,553	1,240,815
Dividends paid	5,646,303	Nil
Net profit after tax growth	1,604%	N/A
Change in share price since listing	0.99	(0.05)
Return of capital through share buy-back and cancellation	485,189	-
Return on average capital employed	93.87%	10.65%

Employment details of members of Key Management Personnel

The following table provides employment details of persons who were during the financial period KMP of the Company. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

2017	Position Held as at 30 June 2017 and any Change during the Period	Details (Duration and Termination)	Proportions of Elements of Remuneration Not Related to Performance	
			Fixed Salary	Total
			%	%
Current KMP				
John McAuliffe	Non-Executive Chairman	No fixed term	100	100
Stuart McAuliffe	Managing Director	No fixed term	100	100
Ross Patane	Non-Executive Director	No fixed term	100	100
Vanessa Gunner	Non-Executive Director (appointed 30 May 2017)	No fixed term	100	100
George Earl	Non-Executive Director (appointed 19 July 2017)	No fixed term	100	100
Peter Ziegler	Non-Executive Director (appointed 19 July 2017)	No fixed term	100	100

2016	Position Held as at 30 June 2016 and any Change during the Period	Details (Duration and Termination)	Proportions of Elements of Remuneration Not Related to Performance	
			Fixed Salary	Total
			%	%
Current KMP				
John McAuliffe	Non-Executive Chairman (appointed 21 October 2015)	No fixed term	100	100
Stuart McAuliffe	Managing Director	No fixed term	100	100
Ross Patane	Non-Executive Director (appointed 31 March 2016)	No fixed term	100	100
Previous KMP				
Simon Richardson	Previous Executive Director	Resigned 31 March 2016	100	100

Remuneration expense details for the period ended 30 June 2017

The following table of benefits and payments represents the components of the current period remuneration expenses for each member of KMP of the Company. Such amounts have been calculated in accordance with Australian Accounting Standards.

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Table of benefits and payments for the period ended 30 June 2017

2017	Short-term Benefits				Post-employment Benefits		Long-term Benefits		Equity-settled Share-based Payments		Cash-settled Share-based Payments	Termination Benefits	Total
	Salary, Fees and Leave	Profit Share and Bonuses	Non-monetary	Other	Super and super equivalents	Other	Incentive Plans	LSL	Shares/Units	Options/Rights			
	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Current KMP													
John McAuliffe	58,265	-	-	-	5,535	-	-	-	-	-	-	-	63,800
Stuart McAuliffe	52,070	-	-	-	4,947	-	-	-	-	-	-	-	57,017
Ross Patane	52,237	-	-	-	4,963	-	-	-	-	-	-	-	57,200
Vanessa Gunner	3,653	-	-	-	347	-	-	-	-	-	-	-	4,000
George Earl	-	-	-	-	-	-	-	-	-	-	-	-	-
Peter Ziegler	-	-	-	-	-	-	-	-	-	-	-	-	-
Total KMP	166,225				15,792								182,017

2016	Short-term Benefits				Post-employment Benefits		Long-term Benefits		Equity-settled Share-based Payments		Cash-settled Share-based Payments	Termination Benefits	Total
	Salary, Fees and Leave	Profit Share and Bonuses	Non-monetary	Other	Super and super equivalents	Other	Incentive Plans	LSL	Shares/Units	Options/Rights			
	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Current KMP													
John McAuliffe	29,132	-	-	-	2,768	-	-	-	-	-	-	-	31,900
Stuart McAuliffe	26,119	-	-	-	2,481	-	-	-	-	-	-	-	28,600
Ross Patane	13,059	-	-	-	1,241	-	-	-	-	-	-	-	14,300
Previous KMP													
Simon Richardson	13,059	-	-	-	1,241	-	-	-	-	-	-	-	14,300
Total KMP	81,369	-	-	-	7,731	-	-	-	-	-	-	-	89,100

Cash bonuses, performance-related bonuses and share-based payments

No options or bonuses were granted as remuneration to KMP during the period.

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KMP Shareholdings

The number of ordinary shares of the Company held by each KMP of the Company, directly or indirectly or by their associates during the financial period is as follows:

	Balance at 1 July 2016	Granted as Remuneration during the Period	Issued on Exercise of Options during the Period	Other Changes during the Period	Balance at 30 June 2017
Current KMP					
John McAuliffe	900,000	-	900,000	-	1,800,000
Stuart McAuliffe	5,000	-	57,902	347,826	410,728
Ross Patane	5,000	-	7,000	3,968	15,968
Vanessa Gunner	-	-	-	-	-
George Earl	-	-	-	-	-
Peter Ziegler	-	-	-	-	-
	910,000	-	964,902	351,794	2,226,696

The number of options in Henry Morgan Limited held by each KMP, directly or indirectly, or by their associates during the financial period is as follows:

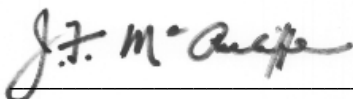
	Balance at 1 July 2016	Granted as Remuneration during the Period	Exercise of Options during the Period	Other Changes during the Period	Balance at 30 June 2017
Current KMP					
John McAuliffe	900,000	-	(900,000)	-	-
Stuart McAuliffe	59,000	-	(57,902)	902	2,000
Ross Patane	5,000	-	(7,000)	2,000	-
Vanessa Gunner	-	-	-	-	-
George Earl	-	-	-	-	-
Peter Ziegler	-	-	-	-	-
	964,000	-	(964,902)	2,902	2,000

There have been no other transactions involving equity instruments other than those described in the tables above relating to options and shareholdings.

Other transactions with KMP and/or their related parties

There were no other transactions conducted between the Company and KMP or their related parties, other than those disclosed above relating to equity and compensation that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



Mr John McAuliffe AM, Chairman

Dated: 27 October 2017

CORPORATE GOVERNANCE STATEMENT

The Company's Corporate Governance Statement, prepared in accordance with the third edition of Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council, can be found at:

<http://www.henrymorgan.com.au/wp-content/uploads/2016/11/Corporate-Governance-Statement-1.pdf>



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Henry Morgan Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Henry Morgan Limited for the financial year ended 30 June 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A stylized, handwritten signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Simon Crane, written in black ink.

Simon Crane
Partner

Brisbane
27 October 2017

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Henry Morgan Limited ACN 602 041 770
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		\$	\$
Investment income			
Net gain on financial instruments at fair value through profit or loss	B1	40,988,755	2,531,486
Interest income	B1	34,625	50,007
Dividend income	B1	111,181	-
Total investment income		41,134,561	2,581,493
Expenses			
Management and performance fees	B2	(8,595,891)	-
Commissions paid to investment brokers		(1,402,433)	(347,161)
Accounting and audit costs		(166,093)	(78,821)
Consultancy costs		(124,412)	(83,891)
Directors' fees		(182,017)	(89,100)
Stock exchange listing and share registry associated costs		(28,863)	(138,996)
Other expenses		(473,139)	(70,931)
Total expenses		(10,972,848)	(808,900)
Profit before income tax		30,161,713	1,772,593
Income tax expense	B6	(9,015,160)	(531,778)
Net profit after income tax		21,146,553	1,240,815
Other comprehensive income			
Other comprehensive income for the period		-	-
Total comprehensive income for the period attributable to members of the Company		21,146,553	1,240,815
Earnings per share		Cents	Cents
– Basic earnings per share	B4	96.15	15.24
– Diluted earnings per share	B4	82.57	15.24

The accompanying notes form part of these financial statements.

Henry Morgan Limited ACN 602 041 770
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	2017	2016
		\$	\$
ASSETS			
Cash and cash equivalents	C1	9,116,799	9,307,262
Balances held with investment brokers	C2	3,476,677	3,482,473
Receivables and prepayments	C3	1,020,247	104,903
Term deposits	D2	188,908	5,050,000
Derivative assets	D1	7,976	137,861
Investments held at fair value	D1	47,164,879	-
Current tax receivable		1,005,041	-
Deferred tax assets	B6	-	340,488
TOTAL ASSETS		61,980,527	18,422,987
LIABILITIES			
Derivative liabilities	D1	429,343	971,801
Payables	C4	5,222,432	18,826
Current tax payable		-	787,750
Deferred tax liabilities	B6	8,709,688	-
TOTAL LIABILITIES		14,361,463	1,778,377
NET ASSETS		47,619,064	16,644,610
EQUITY			
Share capital	E1	30,877,999	15,403,795
Retained earnings		16,741,065	1,240,815
TOTAL EQUITY		47,619,064	16,644,610

The accompanying notes form part of these financial statements.

Henry Morgan Limited ACN 602 041 770
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Note	Share Capital	Retained Earnings	Total
		\$	\$	\$
Balance at 1 July 2015		1,000	-	1,000
Comprehensive income				
Profit for the period		-	1,240,815	1,240,815
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	1,240,815	1,240,815
Transactions with owners, in their capacity as owners, and other transfers				
Issue of share capital	E1	15,600,000	-	15,600,000
Costs associated with capital raising, net of tax	E1	(197,205)	-	(197,205)
Total transactions with owners, in their capacity as owners, and other transfers		15,402,795	-	15,402,795
Balance at 30 June 2016		15,403,795	1,240,815	16,644,610
Year ended 30 June 2017				
Comprehensive income				
Profit for the year		-	21,146,553	21,146,553
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	21,146,553	21,146,553
Transactions with owners, in their capacity as owners, and other transfers				
Issue of share capital	E1	15,988,870	-	15,988,870
Shares bought back and cancelled	E1	(485,189)	-	(485,189)
Costs associated with capital raising, net of tax	E1	(29,477)	-	(29,477)
Payment of dividends	B5	-	(5,646,303)	(5,646,303)
Total transactions with owners, in their capacity as owners, and other transfers		15,474,204	(5,646,303)	9,827,901
Balance at 30 June 2017		30,877,999	16,741,065	47,619,064

The accompanying notes form part of these financial statements.

Henry Morgan Limited ACN 602 041 770
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net proceeds on sale of investments		7,315,504	3,365,426
Dividends received		111,181	-
Interest received		33,584	-
Net payments from/(to) investment brokers for initial trading margin		5,797	(3,482,473)
Commissions paid to investment brokers		(765,235)	(347,161)
Management and performance fees paid		(3,539,224)	-
Income tax paid		(1,745,143)	-
Payments for operating and administrative expenses		(765,810)	(497,809)
Net cash provided by / (used in) operating activities	C1	650,654	(962,017)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for placement of term deposit		(1,003)	(5,000,000)
Proceeds from maturity of term deposit		4,862,095	-
Proceeds from sale of shares		3,987,535	-
Payments for purchase of investments		(18,594,288)	-
Payments for purchase of financial assets held as security		-	(50,000)
Loans advanced		(1,461,438)	-
Monies received in error, reimbursable		495,189	-
Net cash used in investing activities		(10,711,910)	(5,050,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		13,740,057	15,601,000
Payments for listing costs on issue of shares		(42,111)	(281,721)
Dividends paid		(3,827,153)	-
Net cash provided by financing activities		9,870,793	15,319,279
Net increase/(decrease) in cash and cash equivalents		(190,463)	9,307,262
Cash and cash equivalents at beginning of year		9,307,262	-
Cash and cash equivalents at end of the year	C1	9,116,799	9,307,262

The accompanying notes form part of these financial statements

A ABOUT THIS REPORT

A1. REPORTING ENTITY

Henry Morgan Limited (the "Company") is a listed investment company domiciled in Australia and listed on the Australian Securities Exchange ("ASX"). Its registered office is at Level 9, 123 Eagle Street, Brisbane, Queensland, 4000.

The Company was established to invest primarily in exchange traded futures contracts, listed and unlisted equities together with exchange traded futures options.

The investment objective of the Company is to achieve satisfactory risk adjusted financial returns over the medium to long term. The investment activities of the Company are managed by John Bridgeman Limited ("the Investment Manager") under a Management Services Agreement ("MSA").

These financial statements as at and for the year ended 30 June 2017 comprise the Company only.

The financial statements were authorised for issue by the Board of Directors on 27 October 2017.

A2. BASIS OF ACCOUNTING

The Company is a for-profit entity and these financial statements have been prepared on the historical cost basis except for financial instruments which have been disclosed at fair value through the Statement of Profit or Loss.

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report complies with the International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

All amounts have been rounded to the nearest whole dollar unless otherwise stated.

A3. USE OF JUDGEMENTS AND ESTIMATES

The Directors evaluate estimates and judgements incorporated into the financial statements 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, sourced both externally and from within the Company.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

When measuring the fair value of an asset or a liability, the Company uses quoted prices on an active market as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as described in D1.

Determining the fair value of shares in unlisted entities

During the period, there were investments in unquoted securities of two companies. The carrying values of these unquoted securities were increased to reflect changes in the fair value of these assets. This revaluation of these securities contributed \$33,224,164 to the net gain on financial instruments.

A number of different valuation models were considered in respect of the adjustment to the carrying value of these securities. The valuation methodology which the Company applied was a multiple of forward-looking price-earnings ("P/E Multiple"). The P/E Multiple valuation approach is a common valuation technique employed in Australia for both listed and unlisted securities. The P/E Multiple valuation approach is commonly used by major broking firms and investment banks to provide a robust assessment of value.

The Company's investment in JBFG was revalued by \$23,210,014 from its cost of \$6,300,106 to a fair value of \$29,510,120. The Company's investment in BRL was revalued by \$10,014,150 from its cost of \$4,099,998 to a fair value of \$14,114,148. The revaluation of the Company's investment in BRL reflected BRL's direct interest in JBFG.

The fair value of these investments has been determined by the application of a multiple of 14.9 times to the JBL management forecasts of earnings for the financial year ending 30 June 2018. Market data was used to determine the appropriate P/E multiple, however, given JBFG's unique investment profile there is not one clearly comparable individual or group of companies. Accordingly, a number of companies from a range of industries, which are considered by management to be peers of JBFG's businesses, were assessed in aggregate in determining the aforementioned 14.9 P/E multiple.

The Directors believe that the valuation approach adopted to determine the value of these unlisted investments at 30 June 2017 is appropriate. The Directors also note that share issues to third parties in recent arm's length transactions have taken place at prices reflecting valuations in excess of the 14.9 P/E multiple employed in determining the carrying value of these investments at 30 June 2017.

B COMPANY PERFORMANCE**B1. REVENUE AND OTHER INCOME**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the Company, recovery of the consideration is probable and the amount of revenue can be measured reliably.

- **Net gain on financial instruments at fair value through profit or loss** – Gains and losses arising from changes in the fair value of investments held and on sale of investments will be recognised in the statement of profit or loss and other comprehensive income in the year in which they arise.
- **Interest income** – interest income is recognised as it accrues, taking into account the effective yield on the financial asset.
- **Other income** – other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured.

	2017	2016
	\$	\$
<i>Net gain on financial instruments at fair value through profit or loss</i>		
Net realised gains	8,192,494	3,365,426
Net unrealised gains/(losses)	32,796,261	(833,940)
	<hr/> 40,988,755	<hr/> 2,531,486
<i>Interest income</i>		
Loans	1,042	-
Term deposits	33,583	50,007
	<hr/> 34,625	<hr/> 50,007
<i>Dividend income</i>		
Listed Australian entities	111,181	-
	<hr/> 111,181	<hr/> -

B2. MANAGEMENT AND PERFORMANCE FEES

In accordance with the MSA dated 12 March 2015, the Investment Manager is entitled to receive a management fee of 2.0% per annum plus Goods and Services Tax (GST) calculated and paid monthly in arrears based on the net tangible assets ("NTA") of the Company; and a performance fee paid quarterly in arrears. The terms of the performance fee are 23% of the investment return at the end of the last day of the relevant quarter.

Investment return is defined as the percentage by which the mark to market value at the end of the last day of the relevant quarter exceeds the mark to market value at the end of the last day of the quarter immediately prior to the relevant quarter, excluding any additions to or reductions in equity in the Company during the relevant quarter including dividend reinvestments, new issues, the exercise of share options, share buy backs and payment of dividends.

The Investment Manager has charged management fees of \$796,168 and performance fees of \$7,799,723 including GST during the year. The management fee was charged for the first time in relation to the quarter ended 30 September 2016. During the year ended 30 June 2016, the Investment Manager advised the Company that it would waive all management and performance fees that were otherwise payable in respect of the financial year ended 30 June 2016.

The Company has appointed the Investment Manager for an initial term of five years unless terminated earlier in accordance with the terms of the MSA. After the initial five-year term, the Company at a general meeting may resolve by ordinary resolution to terminate the MSA on three months' notice after the resolution is passed, or for the MSA to be extended in accordance with its terms.

If the MSA is terminated without cause, the Investment Manager is entitled to a termination payment. The termination payment will be equal to 5% of the NTA backing of each share in each class of shares in the Company as calculated under the Listing Rules multiplied by the number of shares on issue in that class of shares as at the termination date. The percentage of NTA backing in respect of the calculation of the termination payment will be reduced on a pro-rata basis in accordance with the length of time served by the Investment Manager under the MSA.

Other transactions with the Investment Manager and/or their subsidiaries

For the period ended 30 June 2017, JB Markets Pty Ltd, (a controlled entity of the Investment Manager for the purposes of the Accounting Standards) provided investment broking services on an arm's length basis to the Company. Brokerage fees of \$584,816 have been expensed by the Company and are recognised as a payable as at 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

B3. SEGMENTS

Operating segments are identified based on financial information which is regularly reviewed by the Managing Director (representing the Chief Operating Decision Maker) in assessing performance and determining the allocation of resources.

As the Company operates in only one segment, all results of the Company are presented in this financial report and relate to the financial services segment for the current and prior financial years.

The Company operates in one geographical segment, being Australia.

B4. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding for the year.

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares on issue and ordinary shares that the Company expects to issue through the exercise of outstanding options for the year, as outlined below.

	2017 \$	2016 \$
a. Reconciliation of earnings to profit:		
Profit attributable to ordinary equity holders	21,146,553	1,240,815
Earnings used to calculate basic EPS	21,146,553	1,240,815
Earnings used in the calculation of dilutive EPS	21,146,553	1,240,815
	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	21,993,679	8,141,984
Weighted average number of dilutive options outstanding	3,615,428	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	25,609,107	8,141,984
c. Basic earnings per share (cents)	96.15	15.24
Diluted earnings per share (cents)	82.57	15.24

In the calculation of diluted earnings per share, only those options with an exercise price lower than the average market price of ordinary shares of the Company during the period are considered when calculating the effect of options.

B5. DIVIDENDS

The following dividends were declared and paid by the Company for the year.

	2017 \$	2016 \$
A special dividend of 20 cents per qualifying ordinary share (2016: nil)	5,646,303	-
	5,646,303	-

	2017 \$	2016 \$
Dividend franking account		
Amount of franking credits available to shareholders of Henry Morgan Limited for subsequent financial years	656,213	-
	656,213	-

The ability to utilise the franking credits is dependent upon the Company's ability to declare and frank these dividends.

B6. INCOME TAX

The income tax expense / (benefit) for the year comprises current income tax expense / (benefit) and deferred tax expense / (benefit).

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 / (benefit) is charged or credited outside of the Statement of Profit or Loss when the tax relates to items that are recognised outside of the Statement of Profit or Loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the year when the deferred tax asset is realised or the deferred tax liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related tax asset or liability.

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.

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 tax asset and liability will occur in future years in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Income tax

	2017	2016
	\$	\$
Tax expense / (benefit)		
Current tax	-	787,750
Deferred tax	9,015,160	(255,972)
Income tax expense / (benefit)	9,015,160	531,778

Deferred tax recognised in equity

Share listing costs	(12,633)	(84,516)
	(12,633)	(84,516)

Numerical reconciliation between income tax and result before tax

Profit before tax	30,161,713	1,772,593
Income tax using domestic corporate tax rate 30% (2016: 30%)	9,048,514	531,778
Decrease in income tax expense due to:		
Franking credits received	(33,354)	-
Income tax expense / (benefit)	9,015,160	531,778

B6. INCOME TAX (Continued)**Deferred tax**

In line with the Company's existing accounting policy, the Company has exercised judgement in determining the recognition of deferred tax balances.

The deferred tax liability figure in the Statement of Financial Position comprises:

	2017	2016
	\$	\$
Deferred tax assets/(liabilities):		
Unrealised (gains) / losses on financial assets	(9,838,878)	250,182
Accrued expenses	33,000	5,368
Capital raising costs (deductible over 5 years)	85,061	99,940
Tax losses	1,011,129	-
Interest receivable	-	(15,002)
Deferred tax assets / (liabilities)	(8,709,688)	340,488

The Company has no unrecognised deferred tax assets.

C OPERATING ASSETS AND LIABILITIES**C1. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, deposits available on-demand with banks and unrestricted cash held with investment brokers. Cash and cash equivalents having maturities of 3 or less months from their date of acquisition are measured at the gross value of the outstanding balance.

	2017	2016
	\$	\$
a. Components of cash and cash equivalents		
Cash at bank	4,152,523	3,291,832
Cash held with investment brokers - unrestricted	4,964,276	6,015,430
	9,116,799	9,307,262
b. Reconciliation of profit after income tax to net cash provided by / (used in) operating activities		
Profit after income tax	21,146,553	1,240,815
Adjustments for:		
Unrealised profits on share trading	(412,573)	-
Unrealised gain on investments	(32,383,688)	833,940
	(11,649,708)	2,074,755
Changes in:		
Cash payments due from investment brokers	5,797	(3,482,473)
Trade and other receivables	555,093	(104,903)
Deferred tax asset / (liability)	9,062,809	(255,972)
Trade and other payables	4,469,454	18,826
Provisions for income tax	(1,792,791)	787,750
Net cash provided by / (used in) operating activities	650,654	(962,017)
c. There were no non-cash financing or investing activities		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

C2. BALANCES HELD WITH INVESTMENT BROKERS

The Company places cash with investment brokers as security against open derivative positions with use of these funds restricted until these open derivative positions are settled.

	2017	2016
	\$	\$
Balances held with investment brokers	3,476,677	3,482,473
	<u>3,476,677</u>	<u>3,482,473</u>

C3. RECEIVABLES AND PREPAYMENTS

Receivables are initially recognised at fair value and subsequently measured at amortised cost.

	2017	2016
	\$	\$
Current		
Prepayments	14,465	16,052
Trade receivables	918,721	-
Other receivables	87,061	88,851
	<u>1,020,247</u>	<u>104,903</u>

C4. PAYABLES

All payables and trade creditors are recognised at the time when the Company becomes liable for the debt incurred.

	2017	2016
	\$	\$
Current		
Trade creditors	961,009	888
Accrued expenses	114,000	17,938
Withholding tax payable	55,526	-
Management and performance fees	3,580,141	-
Other payables	511,756	-
	<u>5,222,432</u>	<u>18,826</u>

D FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**D1. FINANCIAL INSTRUMENTS****a) Accounting classifications and fair values**

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions to the instrument. For financial assets, trade date accounting is adopted, which is equivalent to the date that the Company commits itself to purchase or sell the assets.

Initial measurement, subsequent measurement & classification

Financial instruments are initially measured at fair value. Transaction costs related to financial instruments measured at fair value are expensed to the Statement of Profit or Loss and Other Comprehensive Income immediately.

Financial instruments are subsequently measured at fair value. Current market prices for all quoted investments are used to determine fair value. For all unlisted securities that are not traded in an active market, valuation techniques are applied to determine fair value, including recent arm's length transactions and reference to the third-party valuation of similar instruments.

The Company classifies its financial instruments into the following categories:

i. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified at fair value when they are held for trading. Realised and unrealised gains and losses arising from changes in fair value are included in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

D1. FINANCIAL INSTRUMENTS – a) (Continued)*ii. Term deposits*

Term deposits are short-term deposits with a maturity of more than 3 months and less than one year. The Company measures term deposits at amortised cost using the effective interest method. The effective interest rate is the interest rate that exactly discounts the estimated future cash payments and receipts through the expected life of the deposit. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the term deposit.

iii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services but also incorporate other types of contractual monetary assets. After initial recognition, these loans and receivables are measured at amortised cost using the effective interest method, less any provision for impairment. Any change in their value is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Derecognition

Financial assets are derecognised where the contractual right to the receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Impairment of financial assets

At the end of the reporting period the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Impairment on loans and receivables is recorded through the use of an allowance account; all other impairment losses on financial assets at amortised cost are taken and directly offset against the asset's carrying value.

Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Profit or Loss and Other Comprehensive Income.

Fair value measurement and the fair value hierarchy

The fair value of quoted instruments are based on current bid prices. Factors considered in determining the fair value of these investments include, but are not limited to, market conditions, purchase price, nature of investment, estimation of their liquidity, subsequent equity financing involving third parties or a significant change in their operating performance or potential and other pertinent information. Significant valuation assumptions are reported to the Board for its consideration and approval.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability are categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The following table presents a comparison of the carrying value and fair value of the Company's financial assets and liabilities, including their levels in the fair value hierarchy. It does not include information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of this fair value.

D1. FINANCIAL INSTRUMENTS – a) (Continued)

2017	Carrying Amount				Fair value			
	Measured at fair value	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Listed shares	3,240,611	-	-	3,240,611	3,240,611	-	-	3,240,611
Unlisted shares	43,924,268	-	-	43,924,268	-	-	43,924,268	43,924,268
Derivative assets	7,975	-	-	7,975	7,975	-	-	7,975
	47,172,854	-	-	47,172,854	3,248,586	-	43,924,268	47,172,854
Financial liabilities measured at fair value								
Derivative liabilities	429,343	-	-	429,343	429,343	-	-	429,343
	429,343	-	-	429,343	429,343	-	-	429,343
2016	Carrying Amount				Fair value			
	Measured at fair value	Loans and receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Derivative assets	137,861	-	-	137,861	137,861	-	-	137,861
	137,861	-	-	137,861	137,861	-	-	137,861
Financial liabilities measured at fair value								
Derivative liabilities	971,801	-	-	971,801	971,801	-	-	971,801
	971,801	-	-	971,801	971,801	-	-	971,801

Financial asset and liabilities not measured at fair value

Cash, balances held with investment brokers, term deposits, trade and other receivables, and trade and other payables are recorded at their nominal amounts, given their short-term nature and that these carrying amounts approximate the fair value of these assets.

D1. FINANCIAL INSTRUMENTS (Continued)**b) Measurement of fair values***i. Valuation techniques and significant unobservable inputs*

The following tables indicate the valuation techniques used in measuring Level 3 fair values for financial instruments measured at fair value in the Statement of Financial Position, together with the significant unobservable inputs used in the measurement of their fair value:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Unlisted shares	1. For investments recently acquired, or where there is no indication of a material change in the value of the investment, the investments are carried at cost.		
	2. Market comparison technique – Valuation model based on market multiples derived from quoted prices of companies comparable to the investee entity and the expected earnings of the investee entity.	<ul style="list-style-type: none"> - Forecast earnings. - Market multiple of 14.9 times. 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> - The forecast earnings were higher (lower); or - The market multiple was higher (lower)

*ii. Level 3 Fair Values**Reconciliation of Level 3 fair values*

The following table shows a reconciliation of the opening balances to the closing balances for Level 3 fair values.

	2017	2016
	\$	\$
Balance at 1 July 2016	-	-
Purchases	10,700,104	-
Net change in fair value (unrealised)	33,224,164	-
Balance at 30 June 2017	43,924,268	-

Transfers out of Level 3

No financial instruments were transferred out of Level 3 during the period.

Sensitivity analysis

For Level 3 fair values, reasonably possible changes in the significant unobservable inputs would have the following effects.

	2017	
	\$	
	Increase	Decrease
Forecast earnings (5% movement)	2,181,213	(2,181,213)
Earnings multiple (15% movement)	6,543,640	(6,543,640)

D2. FINANCIAL RISK MANAGEMENT

This note presents information about the Company's objectives, policies and processes for measuring and managing risk.

The Company's investing activities are exposed to a variety of financial risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Company has appointed the Investment Manager with the discretionary authority under the MSA to manage and undertake investments in line with the Company's investment objective, investment strategy and guidelines.

The Investment Manager is always required to act in accordance with the MSA. The Investment Manager must report to the Board regularly on the portfolio's performance and material actions of the Investment Manager during the quarter together with an explanation of the Manager's material proposed actions for the upcoming quarter. The Investment Manager is also responsible for designing and implementing day-to-day risk management and internal control systems which identify material risks for the Company.

The oversight and management of the Company's risk management program has been conferred upon the Board of Directors. The Board is responsible for ensuring that the Company maintains effective risk management and internal control systems and processes.

a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices such as foreign exchange rates, interest rates, equity prices and credit spreads.

The Company is predominantly exposed to market risk from its investment activities. The exposure arises from investing in futures on regulated future exchanges and by investing in listed and unlisted equity securities. The Company seeks to reduce the market risk inherent in futures positions through a number of measures including diversifying across different futures markets, investing in a mixture of long and short positions and controlling the futures positions in each market to reflect the Company's assessment of volatility risk. The Company seeks to reduce the risk associated with listed and unlisted equity securities by a combination of diversity and strategic selection of investments relying on the skill and experience of the Investment Manager. The Company's market risk is managed on a daily basis by the Investment Manager in accordance with the policies and procedures in place that have been instituted pursuant to the MSA.

(i) Currency Risk

The Company invests in global futures and enters into transactions that are denominated in currencies other than its functional currency. Consequently, the Company is exposed to the movements in exchange rates that may have an adverse effect on the fair value of future cash flows of the Company's financial assets or financial liabilities denominated in currencies other than Australian dollars.

The Investment Manager considers currency valuations at the entity level when making investment decisions. However, the Company's investment portfolio is typically unhedged. Currency exposure may be hedged defensively where the Investment Manager perceives a significant risk of currency weakness.

The Company did not hold any derivative instruments to manage its exposure to currency risk at the reporting date.

The following table summarises the Company's net currency exposure from its financial assets and financial liabilities, monetary and non-monetary, at the reporting date:

	2017	2016
	\$	\$
United States Dollar	1,917,167	540,646
Great Britain Pound	871,473	846,454
Hong Kong Dollar	1,090,469	86,502
Japanese Yen	401,727	(24,652)
Euro	158,115	(452,258)
Korean Won	835,583	-
Canadian Dollar	66	-
	5,274,600	996,692

D2. FINANCIAL RISK MANAGEMENT – a) (Continued)*Currency risk sensitivity analysis*

The following table sets out the impact on the Company's profit and net assets from possible currency movements using a 3% variation in currency exchange rates:

	Sensitivity rates	Strengthened 2017	Weakened 2017	Strengthened 2016	Weakened 2016
	%	\$	\$	\$	\$
United States Dollar	3	(57,515)	57,515	(54,065)	54,065
Great British Pound	3	(26,144)	26,144	(67,716)	67,716
Hong Kong Dollar	3	(32,714)	32,714	(6,920)	6,920
Japanese Yen	3	(12,052)	12,052	1,972	(1,972)
Euro	3	(4,743)	4,743	36,181	(36,181)
Korean Won	3	(25,067)	25,067	-	-
Canadian Dollar	3	(2)	2	-	-

The sensitivity analysis is based on the assumption that the Australian dollar strengthened or weakened by the sensitivity rates against the other currencies. The sensitivity rates represent the Investment Manager's current estimate of a reasonably possible movement in foreign currency exchange rates given current exchange rates and historic volatility and assumes all other variables remain constant.

(ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table summarises the Company's exposure to interest rate risk at the reporting date:

2017	Non-interest bearing	Floating interest rate	Fixed interest rate	Total
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents – at bank	4,152,523	-	-	4,152,523
Cash and cash equivalents – held with investment brokers (unrestricted)	4,964,276	-	-	4,964,276
Balances held with investment brokers (restricted)	3,476,677	-	-	3,476,677
Receivables	1,005,782	-	-	1,005,782
Term deposit	-	-	188,908	188,908
	13,599,258	-	188,908	13,788,166

2016	Non-interest bearing	Floating interest rate	Fixed interest rate	Total
	\$	\$	\$	\$
Financial Assets				
Cash and cash equivalents – at bank	3,291,832	-	-	3,291,832
Cash and cash equivalents – held with investment brokers (unrestricted)	6,015,430	-	-	6,015,430
Balances held with investment brokers (restricted)	3,482,473	-	-	3,482,473
Receivables	88,851	-	-	88,851
Term deposit	-	-	5,050,000	5,050,000
	12,878,586	-	5,050,000	17,839,735

D2. FINANCIAL RISK MANAGEMENT – a) (Continued)*Maturity analysis*

Cash and cash equivalents, both at bank and held with investment brokers (unrestricted) are at call. Restricted balances held with investment brokers are monies secured against open trading positions. These monies are released by the investment broker on settlement of open positions. All trading positions are short-term in nature. Term deposits have a maturity of less than one year.

(iii) Price Risk

Market prices fluctuate due to a range of factors specific to the individual investments or factors affecting the market in general. Price risk exposure arises particularly from the Company's open derivative positions and equity positions.

The Investment Manager's investment decision process is fundamental to the management of price risk. The Investment Manager undertakes extensive assessment of market dynamics and considers the impact of key events, changes in leading indicators, and potential market volatility before investing, investing further capital or exiting investments. The additional general control that applies to the Company's investment portfolio is that no investment will be executed by the Investment Manager that will result in greater than 50% of the Company's total capital being invested in futures products.

Price risk sensitivity analysis

An increase of 7% in market prices applicable to open derivative positions and listed and unlisted securities at the reporting date would have increased the Company's profit and net assets by \$6,800,372 (2016: \$3,504,663). A decrease of 7% in market prices would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

b) Credit Risk

Credit risk is the risk of a counterparty failing to meet its financial obligations or contractual commitments resulting in a financial loss to the Company. The Company ensures all liquid assets are held with highly rated Australian banks and investment brokers.

Cash, balances held with investment brokers and term deposits are held with highly rated Australian banks. Trading activities are conducted through well recognised Australian investment brokers. These liquid assets are categorised as follows:

Risk rating	2017	2016
	\$	\$
Highly rated Australian Banks	4,341,431	8,341,832
Unrated counterparties	9,446,735	9,586,754
	<hr/>	<hr/>
	13,788,166	17,928,586

The maximum exposure to credit risk for derivatives is any unrealised profit and margins paid on the positions that the Company holds at the reporting date. The credit risk exposure for cash, deposit holdings and receivables is the carrying amount at the reporting date.

Transactions in listed securities and derivative contracts are entered into with approved investment brokers. The risk of default is considered low because payment is only made after the investment broker has received the securities and delivery of securities sold only occurs after the investment broker has received the payment for these securities.

At 30 June 2017, no receivables were past due or impaired (2016: nil).

D2. FINANCIAL RISK MANAGEMENT (Continued)**c) Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The following table summarises the contractual maturity of the Company's financial liabilities at the reporting date:

	Carrying amount	Contractual cash flow	At call	6 months or less
	\$	\$	\$	\$
30 June 2017				
Financial liabilities				
Open derivative positions	429,343	429,343	-	429,343
Payables	5,222,432	5,222,432	-	5,222,432
Total	5,651,775	5,651,775	-	5,651,775

	Carrying amount	Contractual cash flow	At call	6 months or less
	\$	\$	\$	\$
30 June 2016				
Financial liabilities				
Open derivative positions	971,801	971,801	-	971,801
Current tax payable	787,750	787,750	-	787,750
Payables	18,826	18,826	-	18,826
Total	1,778,377	1,778,377	-	1,778,377

The Company's approach to managing liquidity risk is to ensure it has sufficient liquidity to meet all known liabilities. The ratio of liquid investments to outflows was 2.8 (2016: 10.9).

E CAPITAL STRUCTURE AND FINANCING**E1. CAPITAL AND RESERVES**

	Note	2017 \$	2016 \$
30,610,140 ordinary shares fully paid (2016: 15,601,000)		30,877,999	15,403,795
		30,877,999	15,403,795

The Company does not have authorised share capital or par value in respect of its issued shares.

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

Ordinary shares participate in dividends and the proceeds on winding-up of the Company in proportion to the number of shares held.

At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Henry Morgan Limited ACN 602 041 770

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

E1. CAPITAL AND RESERVES (Continued)

	Note	2017 Shares		2016 Shares	
a. Share capital					
Ordinary shares fully paid		30,610,140		15,601,000	
		2017		2016	
		Shares	\$	Shares	\$
b. Movements in shares on issue					
Balance at the beginning of the year		15,601,000	15,403,795	1,000	1,000
Ordinary shares issued on 23 December 2015 under the (replacement) prospectus		-	-	15,600,000	15,600,000
Share issue costs		-	-	-	(197,205)
Ordinary shares issued on 6 September 2016 at \$1.10 per share		1,686,256	1,854,882	-	-
Ordinary shares issued on 28 September 2016 at \$1.10 per share		572,809	630,090	-	-
Share issue costs		-	(29,477)	-	-
Ordinary shares issued under the dividend reinvestment plan at \$1.42 per share		1,239,801	1,763,624	-	-
<i>Fully paid ordinary shares issued on exercise of options at \$1.00 per share:</i>					
January 2017		1,247,772	1,247,772	-	-
February 2017		9,123,679	9,123,679	-	-
March 2017		15,015	15,015	-	-
April 2017		105,500	105,500	-	-
May 2017		55,697	55,697	-	-
June 2017		1,192,611	1,192,611	-	-
Ordinary shares cancelled on 7 June 2017 following their on-market buy-back		(230,000)	(485,189)	-	-
Balance of shares on issue at the end of the year		30,610,140	30,877,999	15,601,000	15,403,795

c. Options

In accordance with the Company's replacement prospectus of 23 December 2015, attached to each ordinary share issued under the prospectus was an option with an exercise price of \$1 per option, exercisable from the date of issue to 31 August 2018. On 23 December 2015, 15,600,000 options were issued. On 6 September 2016 and 28 September 2016 an additional 1,686,256 and 572,809 options were issued, respectively. At 30 June 2017, 4,518,791 options (2016: 14,000,000) remained outstanding.

E1. CAPITAL AND RESERVES (Continued)

	2017 Options	2016 Options
d. Movements in options on issue		
Balance at the beginning of the year	14,000,000	-
Options issued on 23 December 2015 under the replacement prospectus	-	15,600,000
Options cancelled ¹	-	(1,600,000)
Options issued on 6 September 2016	1,686,256	-
Options issued on 28 September 2016	572,809	-
<i>Fully paid ordinary shares issued on exercise of options at \$1.00 per share:</i>		
January 2017	1,247,772	-
February 2017	9,123,679	-
March 2017	15,015	-
April 2017	105,500	-
May 2017	55,697	-
June 2017	1,192,611	-
Balance at the end of the year	4,518,791	14,000,000

¹ As advised to ASX on 4 February 2016, 1,600,000 options previously held by John Bridgeman Limited were cancelled on 5 February 2016.

e. Capital management

Apart from leverage inherent in the Company's derivative positions, only equity capital is employed in the operations of the Company.

Refer to the discussion of risk management measures implemented by the Investment Manager in mitigating risks specific to the Company including market risk, credit risk and liquidity risk.

F OTHER**F1. KEY MANAGEMENT PERSONNEL**

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid when the Company has a legal obligation or constructive obligation to pay this amount as a result of past service provided by the employee and this obligation can be measured reliably. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted to their present value.

Refer to the remuneration report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Company's key management personnel (KMP) for the year ended 30 June 2017.

The KMP consists of the Directors. Total remuneration paid to KMP of the Company during the year are as follows:

	2017	2016
	\$	\$
Short-term benefits and fees	166,225	81,369
Post-employment benefits	15,792	7,731
	182,017	89,100

Short-term employee benefits and fees

In accordance with agreement reached by the Company with its Directors, Director's fees were only payable once the Company commenced operations. This occurred on 6 January 2016.

Post-employment benefits

These amounts represent superannuation and superannuation equivalents paid to KMP.

F2. RELATED PARTY TRANSACTIONS

All transactions with related parties are conducted on normal commercial terms and conditions, and include:

- (i) The management fee and performance fee to be paid to the Investment Manager (refer to B2).
- (ii) Brokerage fees paid to JB Markets Pty Ltd, (a controlled entity of the Investment Manager for the purposes of the accounting standards), which provided investment broking services to the Company (refer to B2).
- (iii) The compensation arrangements with the Chairperson and each of the Directors.
- (iv) The interest in the Company held directly and indirectly by the Chairperson, Directors and the Investment Manager (refer to the Directors' Report for details of directors' holdings).

At 30 June 2017, the following amounts were payable:

- (i) Management and performance fees, payable to the Investment Manager amounting to \$3,580,141.
- (ii) Brokerage fees (including GST) payable to JB Markets Pty Ltd, (a controlled entity of the Investment Manager for the purposes of the accounting standards), amounting to \$584,816.

Other transactions

During the year ended 30 June 2017, the Company acquired the following investments:

- (i) On 8 August 2016, the Company acquired 25% of the issued shares of JBFG for \$300. During the year the Company invested \$6,300,106 in additional capital in JBFG and increased its ownership to 37.3% of JBFG's issued shares. Subsequent issues of additional shares to other parties has diluted the Company's holding in JBFG to 21.19% as at the end of the period.
- (ii) The Company acquired 1,497,616 shares in BRL in three tranches during the year for total consideration payable of \$4,099,998. At the end of the period the Company held 37.29% of BRL's issued shares.

F3. CONTINGENT LIABILITIES

The Company has no contingent liabilities at 30 June 2017 (2016: nil).

F4. AUDITORS REMUNERATION

	2017	2016
	\$	\$
Auditors of the Company – KPMG		
Audit and review of financial statements (excluding GST)	113,935	41,000
In relation to other assurance, taxation and due diligence services	-	15,000
	113,935	56,000

F5. SUBSEQUENT EVENTS

Other than the following matter, the Directors are not aware of any significant events since the end of the reporting period.

On 10 July 2017, the Company advanced \$450,000 to Growth Point Capital Limited, which is a subsidiary of the Investment Manager, on arm's length commercial terms.

F6. SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

Significant accounting policies have generally been included within the respective note disclosures. In addition to those accounting policies disclosed previously, the accounting policies provided below are also considered significant in reporting the operations of the Company. The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

a) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income as net foreign exchange gains/(losses).

Translation differences on financial assets and liabilities carried at fair value are reported as part of their fair value gain or loss.

b) Trade and Other Payables

All payables and trade creditors are recognised when the Company becomes liable for the financial obligations incurred. Payables are initially recognised at their fair value and subsequently measured at amortised cost.

F6. SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS (Continued)**c) New accounting standards for application in future periods**

Australian Accounting Standards and Interpretations have recently been issued or amended which are not yet mandatory. The Company has not opted for early adoption for the annual reporting period ended 30 June 2017. The Company's assessment of the impact of the new or amended Accounting Standards and Interpretations that most relevant to the Company is discussed below:

(i) AASB 15 Revenue from Contracts with Customers (AASB 15)

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. AASB 15 is applicable for the 30 June 2019 financial statements. Early adoption is permitted for the Company but is not planned at this stage.

The Company is in the process of completing an initial impact assessment arising from the adoption of AASB 15. Revenue streams are being evaluated to assess the impact of AASB 15. The quantitative impact of the adoption of the new standard is not yet known, and cannot be reliably estimated.

(ii) AASB 9 Financial Instruments (AASB 9)

AASB 9 *Financial Instruments* (AASB 9) replaces AASB 139 and supersedes AASB 9 versions previously issued in December 2007 and December 2010. The new standard is effective for annual periods beginning on or after 1 January 2018 and applicable to the Company from 1 July 2018.

The new standard includes a model for reclassification and measurement, a single forward looking 'expected loss' impairment model and a reformed approach to hedge accounting. The Company has carried out a preliminary impact assessment of the new standard. No material impact is expected for the Company.

(iii) AASB 16 Leases (AASB 16)

AASB 16 introduces a single, on-balance-sheet, accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e, lessors continue to classify leases as finance or operating leases.

The standard is applicable for the 30 June 2020 financial statements. Early adoption is permitted for entities that apply AASB 15 *Revenue from Contracts with Customers*, but is not planned for use by the Company at this stage.

The Company has commenced performing an initial impact assessment. However, the Company does not expect any significant impact arising from AASB 16.

(iv) AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised losses (Amendments to AASB 112)

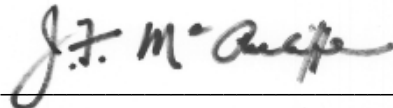
The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. The Company is assessing the potential impact on its financial statements resulting from the amendments. The Company does not expect any significant impact from the adoption of AASB 2016-1.

(v) AASB 2016-2 Disclosure Initiative (Amendments to AASB 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption by the Company being permitted. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

Henry Morgan Limited ACN 602 041 770
Financial report for the year ended 30 June 2017
DIRECTORS' DECLARATION

1. In the opinion of the directors of Henry Morgan Limited (the "Company"):
 - (a) the financial statements and notes that are set out on pages 15 to 35 and the Remuneration report in pages 9 to 12 in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2017 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) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by s 295A of the Corporations Act 2001 from the Managing Director and the Chief Financial Officer for the year ended 30 June 2017.
3. The directors draw attention to Note A2 to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.



Mr John McAuliffe AM, Chairman

Dated: 27 October 2017



Independent Auditor's Report

To the shareholders of Henry Morgan Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Henry Morgan Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2017
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period. One key audit matter has been identified in the audit of the Company.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of investments in unlisted entities

Refer to Note D1 to the Financial Report

The key audit matter

The valuation of investments in unlisted entities is considered a Key Audit Matter due to:

- the judgmental nature in the application of valuation techniques used to determine fair value, as opposed to quoted market prices. Judgement increased further where the valuation inputs to these models were not observable in the market. These judgements include forecast earnings, forecast growth rates, and implied earnings multiples. This necessitated additional audit focus on the suitability and consistency with generally accepted valuation principles;
- the complexity of valuation models and techniques applied by management in estimating the fair value of investments in unlisted entities; and
- the quantum of investments in unlisted entities to the financial position and financial performance of the Company.

In assessing this Key Audit Matter, we involved senior audit team members, and valuation specialists, who understand the Company's investment profile, the businesses' of the underlying investments and the economic environment they operate in.

How the matter was addressed in our audit

Our procedures included, amongst others:

- reading key transaction and corporate governance documents to understand the Company's investment objectives;
- working with our valuation specialists, we used our knowledge of the underlying businesses of the investees, to assess the Company's valuation, including significant judgements and assumptions. This included:
 - Assessing the integrity of the valuation model used, including the accuracy of the underlying calculation formulas;
 - Comparing the implied earnings multiples from comparable market transactions to the implied earnings multiple from the Company's valuation; and
 - Comparing the forecast earnings contained in the valuation model to investees' budgets and assessing the reasonableness of the forecast earnings based on our understanding of the business and the economic environment it operates in.

Other Information

Other Information is financial and non-financial information in Henry Morgan Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, including the Remuneration Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Henry Morgan Limited for the year ended 30 June 2017, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 9 to 12 of the Directors' Report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



KPMG



Simon Crane
Partner

Brisbane
27 October 2017

Henry Morgan Limited ACN 602 041 770
Financial report for the year ended 30 June 2017
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following information is current as at 16 October 2017

1. Shareholding

a. Distribution of Shareholders

Category (size of holding):	Number	
	Ordinary	Options
1 – 1,000	86	7
1,001 – 5,000	267	39
5,001 – 10,000	164	18
10,001 – 100,000	298	20
100,001 and over	35	5
	850	89

b. The number of shareholdings held in less than marketable parcels is Nil.

c. The names of the substantial shareholders listed in the Company's register are:

Shareholder:	Number
Ordinary	
Stuart McAuliffe	3,053,000
John McAuliffe	3,050,000
Henry Avery Partners Pty Ltd	2,150,000
John Hawkins Pty Ltd	2,150,000
The Trust Company (Superannuation) Limited <DIY Mater Plan>	785,900

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Ordinary share options

- These options have no voting rights.

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ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

e. 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Shares	% Held of Ordinary Shares
1. STUART CAPITAL PTY LTD <STUART INVESTMENT A/C>	4,022,293	13.14
2. JOHN BRIDGEMAN LIMITED	3,079,611	10.06
3. NILCOY PTY LTD <THE STUART FAMILY S/F A/C>	2,237,432	7.31
4. TETUE PTY LTD	1,800,000	5.88
5. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,535,840	5.02
6. VICTOR JOHN PLUMMER	1,000,001	3.27
7. BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	689,077	2.25
8. ELDERS FMC PTY LTD	567,633	1.85
9. HENRY AVERY PARTNERS PTY LTD	347,826	1.14
10. LYLE PATRICIA MARCUS	310,000	1.01
11. RAVENSWOOD SUPERANNUATION PTY LTD <THE GILBANK FAMILY SUPER A/C>	270,000	0.88
12. KEARNEY HOLDINGS (QLD)PTY LTD <JA KEARNEY S/F A/C>	269,059	0.88
13. MR JOHN ALFRED CLAREBROUGH & MRS PAMELA JUDITH CLAREBROUGH <WARRAWEE SUPER FUND A/C>	252,088	0.82
14. MRS MARGARET JOYCE STUART	250,000	0.82
15. MR ROBERT JOHN STUART	250,000	0.82
16. RUSSELL SERVICES PTY LTD <RUSSELL SERVICES S/F A/C>	250,000	0.82
17. PAVAO DAMJANOVIC DAMJANOVIC FAMILY	228,119	0.75
18. KNABLIG PTY LIMITED <THE GILBANK FAMILY A/C>	220,000	0.72
19. WELLINGTON CAPITAL PTY LTD <WELLINGTON INVEST FUND A/C>	210,000	0.69
20. WARRATAH INVESTMENTS PTY LTD	190,000	0.62
	17,978,979	58.74

f. 20 Largest Shareholders – Ordinary Share Options

Name	Number of Ordinary Share Options	% Held of Ordinary Share Options
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,398,994	30.96
2. ELDERS FMC PTY LTD	1,309,867	28.99
3. BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	412,511	9.13
4. MARK RUSSELL PALFREYMAN	200,000	4.43
5. MR JOHN ALFRED CLAREBROUGH & MRS PAMELA JUDITH CLAREBROUGH <WARRAWEE SUPER FUND A/C>	180,000	3.98
6. JOHN CHARLES MULHOLLAND	100,000	2.21

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ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Name	Number of Ordinary Share Options	% Held of Ordinary Share Options
7. MR GEORGE WOLSELEY CROUCH	90,909	2.01
8. LYLE PATRICIA MARCUS	90,000	1.99
9. MERRIC INVESTMENTS PTY LTD <MERRIC SUPER FUND A/C>	70,000	1.55
10. MR DAVID HEATH & MS PATRICIA JEFFERY <HEATH JEFFERY S/F A/C>	61,000	1.35
11. NEW WOOD ENTERPRISES LTD	50,000	1.11
12. MR WILLIAM WINSTON-SMITH	45,455	1.01
13. MR MICHAEL JOHN VAN DOORNIK	40,000	0.89
14. DYAB PTY LTD <DYAB R/F A/C>	25,000	0.55
15. BIG CUBE (WA) PTY LIMITED BIG CUBE SUPER FUND	25,000	0.55
16. KNABLIG PTY LIMITED <THE GILBANK FAMILY NO 2 A/C>	23,000	0.51
17. MRS HELEN BETH DAVIDGE	20,000	0.44
18. MS AMANDA SUSAN BULL	16,500	0.37
19. MR DAVID JOHN BULL	15,000	0.33
20. CATHAY HOLDINGS PTY LTD IAN WALTERS PRIVATE S/F	13,636	.30
	4,186,872	92.65

2. The Company Secretaries are Ms Jody Anne Wright and Mr Kevin John Mischewski.

3. The registered office of the Company is Level 9, 123 Eagle Street, Brisbane, Queensland 4000.
Telephone 1300 110 436.

4. Registers of securities are held at the following address:

QLD - Link Market Services, Level 15, 324 Queen Street, Brisbane, Queensland 4000.

5. **Stock Exchange Listing**

Quotation has been granted for all the ordinary shares and the ordinary share options of the Company on all Member Exchanges of the Australian Securities Exchange.

6. **On-market buy-back**

On 13 December 2016, the Company announced an on-market buy-back of up to 10% of its fully paid ordinary between 3 January 2017 and 29 December 2017. The maximum number of shares permitted to be purchased under the buy-back is 17,860,065. As at the date of this report the Company has bought back a total of 230,000 shares at an average cost of \$2.11 per share.

7. **Investments**

At 30 June 2017, the Company held the following investments

	\$
Shares and options in listed entities	3,240,611
Shares in unlisted entities	43,924,268
Derivative securities (represented by Balances held with investment brokers)	3,476,677
	50,641,556

8. **Transactions and management fees in respect of investments**

Throughout the period there were 224,394 transactions in respect of securities.

Brokerage totalled \$1,402,433.

Management and performance fees, including GST, totalled \$8,595,891.