Harvey Norman Holdings Limited

A.C.N. 003 237 545

A1 RICHMOND ROAD
HOMEBUSH WEST N.S.W. 2140
LOCKED BAG 2
SILVERWATER DC, N.S.W 1811

Telephone: (02) 9201 6111
Facsimile: (02) 9201 6250

14 November 2017

Australian Securities
Exchange Limited Exchange
Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sirs

Response by HVN to Australian Shareholders Association AGM Voting Intentions

The Company encloses a copy of correspondence sent, or shortly to be sent, to the Australian Shareholders Association.

Yours faithfully
Harvey Norman Holdings Limited

per: Chris Mentis - Company Secretary

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14 November 2017

Ms Diana D'ambra
Chairman
Australian Shareholders' Association
227 Elizabeth Street
Sydney NSW 2000

Attention: **Judith Fox, CEO**

By Email: **Judith.fox@asa.asn.au**

Dear Ms D'ambra

Harvey Norman Holdings Limited (Company)
Australian Shareholders' Association (ASA)
Annual Report of the Company for the financial year ended 30 June 2017 (Annual Report)

We refer to:

1. the upcoming annual general meeting for the Company scheduled to occur on 16 November 2017 (**AGM**); and
2. the email from Allan Goldin, director of the ASA, to Chris Mentis, Chief Financial Officer of the Company, sent 6 November 2017, which attached a document containing the voting intentions of the ASA at the AGM (**Voting Intentions Document**). A copy of the Voting Intentions Document is enclosed for your information.

The ASA has made a number of comments and posed questions in the Voting Intentions Document.

Thank you for your correspondence.

Our responses to the comments and questions are set out below.

Item 1 Consideration of accounts and reports

1. After a year which the Company described as the best ever, why did Harvey Norman surprisingly reduce dividends?

The amount of the dividend was determined after careful consideration of all relevant circumstances of the Company.

2. Or maybe they didn’t want to borrow even more money to pay the dividend. Since the last drawdown brought to $530M the amount utilised of their $610 million

facility. Which raises the question of why did HVN not negotiate an extension of the $200 million due next month, last year when they extended the repayment of the other two tranches?

Management of the Company carefully manages the credit facilities of the Company and makes recommendations to the board about the credit facilities of the Company. The board at all times acts in the best interests in the Company, including in relation to matters involving borrowing by the Company.

3. The Franchising operations segment result increased by $36.38 million so why did the net cash flows from franchisees fall by $66,766 million?

The movement is described and explained in the Operating and Financial Review on page 29 of the Annual Report.

In particular, we draw your attention to the last paragraph of page 29 of the Annual Report, which states:

> "*Net cash flows from operating activities decreased by $12.55 million, or 2.9%, to $425.14 million for the 2017 financial year, from $437.69 million in the prior year. Net receipts from franchisees are affected by the movement in the aggregate amount of financial accommodation provided to franchisees for the 2017 financial year relative to the movement in the previous financial year. During the 2017 financial year, net receipts from franchisees decreased by $66.77 million as the movement in the aggregate amount of financial accommodation provided to franchisees exceeded the movement in the aggregate amount of financial accommodation provided for the 2016 financial year, aligned with the increased inventory reserves held by purchasing franchisees during the current year in order to drive franchisee sales revenue. This was offset by a $41.40m increase in gross revenue from franchisees.*"

4. Is it correct that 2017 Receivables from Franchisees of $535,488 is lower than the 2016 comparable figure of $942,934, as the amount Derni (Harvey Norman subsidiary) would advance franchisees to pay third party debts that remained unpaid at balance date, has been removed from this calculation?

The movement in *Receivables from franchisees* is set out and explained in Note 7 *Trade and other receivables (current)* on page 97 and Note 17 *Trade and other payables (current)* on page 109 of the Annual Report.

In particular, we draw your attention to the last sentence of page 97 of the Annual Report, which states:

> "…*there was no constructive obligation by Derni to any supplier to any franchisee and no committed commercial advance to any franchisee.*"

5. As Derni (Harvey Norman subsidiary) is no longer guaranteeing the debts of the franchisees, how many have had to hand their franchises back, gone into receivership or declared bankruptcy since this new policy was announced?

The relevant arrangements between Derni and each franchisee are described in Note 7(a) *Receivables from franchisees* on page 97 of the Annual Report. No action by Derni described in this Note, caused any franchisees to "*hand their franchises back*", go into receivership or declare bankruptcy, as asserted or implied in the question.

6. Although Derni (Harvey Norman subsidiary) is no longer guaranteeing debts, since the announcement how much have they either paid directly to suppliers in satisfaction of franchisees debts or loaned/gave to franchisees directly so they would have sufficient funds to pay external debt as well as other normal business running costs?

Please refer to notes 7(a) *Receivables from franchisees* and 7(b) *Receivables from franchisees neither past due nor impaired* on pages 97 - 98 of the Annual Report, which are self-explanatory.

In particular:

(a) the following paragraphs of the 2nd last paragraph of Note 7(a):

> *"HNHL and each subsidiary of HNHL (including Derni) is not the purchaser of any goods supplied by a supplier to a franchisee and is not a party to the standard trading terms between a supplier and a purchasing franchisee"*
>
> *"HNHL and each subsidiary of HNHL is not responsible for the discharge of any obligations of a franchisee under any contract with a supplier, does not provide any guarantees or otherwise owe any responsibilities to a supplier in respect of any purchase of goods by a franchisee from that supplier and does not, at any time, have possession of or title to any goods supplied by a supplier to a franchisee"*
>
> "*Derni may from time to time provide financial accommodation in the form of a revolving line of credit to a franchisee, at the request of a franchisee, to assist the franchisee to acquire inventory from a supplier. Derni receives a payment direction from each franchisee to pay and apply the proceeds of each drawdown of financial accommodation to the supplier, in satisfaction of the debt owed by the franchisee to the supplier for the acquired inventory*"

(b) the following statement in the 2nd paragraph of Note 7(a) and the last paragraph of Note 7(b):

> "*Receivables from franchisees are current and neither past due nor impaired as at 30 June 2017.*"

The Company does not control any franchisee. Each franchisee is independent and carries on its own business.

7. Do Trade Receivables include monies owed by franchisees for rent, franchisees fees or any other sum advanced to them? If yes what % of the total is made up of this?

Please refer to Note 7(a) *Receivables from franchisees* on page 97 of the Annual Report, which is self-explanatory. In particular, the following statement in this Note:

> "*The receivables from franchisees balance of $535.45 million as at 30 June 2017 comprises the aggregate of the balances due from each franchisee to Derni*"

Receivables from franchisees does not include a debt owed by a franchisee to:

- a franchisor for unpaid franchise fees; or

- the consolidated entity for unpaid rent.

At balance date, there was no debt owed by any franchisee to:

- a franchisor for unpaid franchise fees; or
- the consolidated entity for unpaid rent.

8. Do Finance leases include any loans that were made to any franchisees or any entity associated with them? If so what % is this of the total?"

Finance lease receivables does not include any loans to any franchisee or any entity associated with a franchisee.

9. There is a commercial loan to KEH Partnership of $73.60 million (2016 $61.82M) and advances to mining camp of $31.15 million, what comprises the remainder of the total $144,432 Trade Receivables? Can you please provide a breakdown of the $48,305 past due and impaired? The +90 days past due and not impaired?

The amount of the $144,432 million referred to in Note 7(f) *Non-trade debts receivable and provision for doubtful debts* on page 100 of the Annual Report does not include any receivable from a franchisee.

Receivables from franchisees were current and neither past due nor impaired as at 30 June 2017.

A breakdown of *Non-trade debts receivable* is contained in the table in Note 7(f) on page 100 of the Annual Report.

In Note 7(f), the Company disclosed that at balance date, the amount of the non-trade debts receivable that was:

(a) *neither past due nor impaired* ($38.759m) consists of non-trade debts receivable from related entities (including joint ventures and joint venture partners) and unrelated entities;

(b) *past due but not impaired, +90 days* ($57.368m) primarily consists of:

   (i) the non-trade debts receivable from a retail joint venture net of related provision for doubtful debts, of $38.67m (being $73.6m - $34.93m, refer to Note 7(f)(i)); and

   (ii) the non-trade debts receivable from mining camp joint ventures net of related provision for doubtful debts, of $17.92m (being $31.15m - $13.23m, refer to Note 7(f)(ii)); and

(c) *past due and impaired, +90 days* ($48.305m) primarily consists of:

   (i) the provision for doubtful debts relating to the non-trade debts receivable from a retail joint venture of $34.93m (refer to Note 7(f)(i)); and

   (ii) the provision for doubtful debts relating to the non-trade debts receivable from mining camp joint ventures of $13.23m (refer to Note 7(f)(ii)).

10. OMNI Channel is a very important ingredient in the Harvey Norman strategy, can you give us some examples of its success:

Relevant information in relation to the OMNI Channel is set out on pages 30 – 31 of the Annual Report. Further disclosure of "examples of success" could prejudice the competitive position of franchisors.

11. On average how many customers a day engage with the company thru Harvey Norman Voice?

Franchisees engage with consumers using Harvey Norman Voice. The requested information is confidential information of each franchisee.

12. How many customers in a year use Click and Collect?

Franchisees engage with consumers using Click and Collect. The requested information is confidential information of each franchisee.

13. In key business risks why do you not list Amazon and other internationally players substantially increasing their presence in Australia?

Amazon is but one of many existing and potential competitors. The relevant risks of and to the existing strategy are set out in the *Summary of Key Business Risks* in the Operating and Financial Review on pages 31 – 32 of the Annual Report.

14. How many year do you think a Company should employ the same Audit firm?

The Company strictly complies with all requirements of the *Corporations Act 2001* (Cth), including but not limited to the provisions which relate to the appointment of an auditor.

15. For many years Harvey Norman has been virtually alone in having a non-independent majority on it's board, why do you consider that to be good corporate governance?

Please refer to the Corporate Governance Statement on pages 63 – 64 of the Annual Report. In particular, the disclosures in relation to the structure of the board of the Company.

16. Come December 2017 Harvey Norman will be unique among the ASX 200 in having the only totally non independent board, how is that a benefit for shareholders?

The question is based on a false assumption. The Company does not have a "*totally non independent board*".

17. Why does Harvey Norman think that not undertaking any board renewal since 2005 has benefited the board's ability to provide strategic direction in a new and changing world?

Please refer to the Corporate Governance Statement on pages 63 – 64 of the Annual Report, which is self-explanatory.

Item 2 Adoption of Remuneration Report

We note your comments in this item.

Item 3 Re-election of Gerald Harvey as a Director

We note your comments in this item.

Item 4 Re-election of Chris Mentis as a Director

We note your comments in this item.

Item 5 Re-election of Graham Charles Paton as a Director

We note your comments in this item.

Thank you again for your questions and comments.

If you have any queries or wish to discuss this letter further, please do not hesitate to contact Chris Mentis on (02) 9201 6122 or chris.mentis@au.harveynorman.com.au.

Kind regards,
Harvey Norman Holdings Limited

per: Chris Mentis – Chief Financial Officer

cc. Allan Goldin (allangoldin@gmail.com)

Harvey Norman (HVN) 2017 AGM Voting Intentions

Harvey Norman (HVN) 2017 AGM Voting Intentions

Public

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Company/ASX Code :	Harvey Norman Holdings Ltd (HVN)
Registry :	Boardroom Pty Ltd
Poll/Show of Hands :	Poll
Webcast :	No
Venue :	11.00am, Tattersalls Club 181 Elizabeth Street Sydney, New South Wales
Monitor :	Mr Allan Goldin
AGM Details / NoM :	Thursday 16th November, 2017

Corporate Governance not words found in Harvey Norman's Vocabulary

This company is monitored by Allan Goldin.

Item 1 Consideration of accounts and reports

ASA Position

Unfortunately, despite requests, no one from the company would meet with this monitor. Alternative monitors were sought with no success. So the first part of this Voting Intention will be the questions we would have asked at the pre AGM meeting.

After a year which the Company described as the best ever, why did Harvey Norman surprisingly reduce dividends? Was it felt that it was prudent to preserve cash, was it justifiable caution for fear was a likely downturn on the horizon? Or did the Company want to buy another dairy farm, mining camp or some other unrelated acquisition?

Not Applicable

Or maybe they didn't want to borrow even more money to pay the dividend. Since the last drawdown brought to $530M the amount utilised of their $610 million facility. Which raises the question of why did HVN not negotiate an extension of the $200 million due next month, last year when they extended the repayment of the other two tranches?

The Franchising operations segment result increased by $36.38 million so why did the net cash flows from franchisees fall by $66,766 million?

Is it correct that 2017 Receivables from Franchisees of $535,488 is lower than the 2016 comparable figure of $942,934, as the amount Derni (Harvey Norman subsidiary) would advance franchisees to pay third party debts that remained unpaid at balance date, has been removed from this calculation?

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Although Derni (Harvey Norman subsidiary) is no longer guaranteeing debts, since the announcement how much have they either paid directly to suppliers in satisfaction of franchisees debts or loaned/gave to franchisees directly so they would have sufficient funds to pay external debt as well as other normal business running costs?

Do Trade Receivables include monies owed by franchisees for rent, franchisees fees or any other sum advanced to them? If yes what % of the total is made up of this?

Do Finance leases include any loans that were made to any franchisees or any entity associated with them? If so what % is this of the total?

There is a commercial loan to KEH Partnership of $73.60 million (2016 $61.82M) and advances to mining camp of $31.15 million, what comprises the remainder of the total $144,432 Trade Receivables? Can you please provide a breakdown of the $48,305 past due and impaired? The +90 days past due and not impaired?

WE naturally would have like to discuss the, Virtual Reality, flagship stores, current and future trading results but as we were not given the opportunity we will just rely on the commentary in the Annual Report except for a couple of matters that were not explained.

OMNI Channel is a very important ingredient in the Harvey Norman strategy, can you give us some examples of its success:

On average how many customers a day engage with the company thru Harvey Norman Voice?

How many customers in a year use Click and Collect?

In key business risks why do you not list Amazon and other internationally players substantially increasing their presence in Australia?

How many year do you think a Company should employ the same Audit firm?

For many years Harvey Norman has been virtually alone in having a non-independent majority on it's board, why do you consider that to be good corporate governance?

Come December 2017 Harvey Norman will be unique among the ASX 200 in having the only totally non independent board, how is that a benefit for shareholders?

Why does Harvey Norman think that not undertaking any board renewal since 2005 has benefited the board's ability to provide strategic direction in a new and changing world?

The following chart is normally checked and confirmed by the company but in Harvey Norman's case this was not possible, so we apologise for any errors.

(As at FYE)	**2017**	**2016**	**2015**
NPAT ($m)	452.9	351.3	268.9
Profit after tax and non-controlling interests ($m)	448.9	348.6	268.1
Share price ($)	3.85	4.61	4.50
Dividend (cents)	26	30	20
TSR (%)	(11.49)	8.09	60.16
EPS (cents)	40.35	31.36	24.51
CEO total remuneration, actual ($m)	3.41	3.08	2.93

For the 2017 financial year, the CEO's total actual remuneration was 40.77 times the Australian Full time Adult Average Weekly Total Earnings (based on May 2017 data from the Australian Bureau of Statistics).

Note - For May 2017, the Full-time adult average weekly total earnings (annualised) was $83,636.80 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings", Trend(a)).

Item 2 Adoption of Remuneration Report

ASA Position

Against

As 85% of the ASX 100 companies defer a portion of their STI, Harvey Norman does not. Then 92% of the ASX 100 who defer the STI do it into equity, Harvey Norman pays 100% cash.

Harvey Norman lists 10 executive Key Management Persons (KMP) but then, very unusually, shows that they are not treated equally, as only the 4 executive directors have the opportunity to participate in Short and Long term bonuses.

We happily note that HVN is one of the many ASX 200 companies who are voluntarily showing the actual take home pay of the KMP's.

The criteria for awarding the bonus are fine: 50% financial – return on net assets (RONA) and 50% on non-financial. The non-financial measures are clearly spelt out as is the achievement against each of the KPI. The amount of the bonus is also reasonable, but then we read that the four executive directors all received the exact same percentage as a bonus. Previously when the Company would talk to us, this was explained as, because they are working together in a cross functional manner, you have to start wondering how are each of them assessed as a bonus is normally for a person not a group.

Then we come to the LTI like everyone else it is an award of performance rights that on vesting converts into shares. The major problem is that the criteria is the same as the STI namely RONA. The only difference is STI is measured over 1 year and this one is an aggregate over 3. So if a KMP is getting their STI they are virtually certain to get the LTI. Conversely if they miss the STI in one year, the KMP is likely to feel that there is little chance that they will get the aggregate over 3 years so it becomes a disincentive.

The advantage of this otherwise disadvantage is that Harvey Norman predicts the likelihood of the LTI being awarded after the first and second year of the LTI assessment period.

The other disappointments are firstly it is measured over three years not a proper long term of 5 or 4 years. Secondly the number of performance rights are inflated in anticipation that if conditions are met over the next three years that when they vest into shares dividends will be missed. If this is a concern make the adjustment at the end when the bonus is actually earned, instead of at the beginning when maybe this might happen.

Last year we voted against the remuneration report, this year that possibly would have been different, but in reading the Annual Report and the Notice of Meeting, we did not discern any change, and as we have not had the opportunity to talk to the Company, we do not know if anything has changed so we must vote against it this year.

Item 3 Re-election of Gerald Harvey as a Director

ASA Position

Against

Mr Gerald Harvey was the co-founder of Harvey Norman Holdings Limited in 1982 with Mr Ian Norman. Mr Harvey has overall executive responsibility for the strategic direction of the consolidated entity and in particular, property investments.

Mr. Harvey holds 337,889,449 shares.

As much as we think it is wrong for a Company to have an executive Chairman realizing the reality of the situation we would usually always vote in favour or a Company founder and or a majority shareholder. However in this case as Mr. Harvey leads a board that through the intentional lack of renewal is about to be totally non- independent we will vote our undirected proxies against him.

Item 4 Re-election of Chris Mentis as a Director

ASA Position

Against

Mr Chris Mentis was appointed a director of the Company on 30 August 2007. He is the Chief Financial Officer and Company Secretary.

Mr. Mentis has 348,341 shares.

Mr. Mentis is an executive director on what is a non-independent controlled board and therefore we will be voting our undirected proxies against him.

Item 5 Re-election of Graham Charles Paton as a Director ASA Vote Against

ASA Position

Against

Mr Graham Charles Paton was appointed a director of the Company on 20 June 2005.

During his twenty-three years as a partner of an international chartered accounting practice, he was involved in the provision of professional services to the retail industry. He retired from public practice in July 2001. Mr Paton is an independent non-executive director of Gazal Corporation Limited, a company listed on the ASX

Mr. Paton holds 15,682 shares.

As Mr. Paton is held out nominally as an independent so our first inclination would be to vote for him, but firstly although he is paid $145,000 a year he holds shares worth less than $70,000 which demonstrates no alignment with shareholders or any confidence in the company.

Secondly the ASA guidelines, in line with the corporate governance of most of the ASX 200, realize that after 12 years on a board you can no longer be considered to be independent. As this is a board that will be totally non independent when Mr. Paton reached 12 years in a few months, we will vote our undirected proxies against this resolution.

The individual involved in the preparation of this voting intention has a shareholding in this company.