



Henry Morgan

HENRY MORGAN LIMITED  
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19 June 2018

Ms Lisa Banh  
Senior Listings Advisor, Listings Compliance  
ASX Compliance Pty Ltd  
20 Bridge Street  
SYDNEY NSW 2000

Email: lisa.banh@asx.com.au

Dear Ms Banh,

**HENRY MORGAN LIMITED (“HML”): ASX QUERY**

HML’s responses to each question as set out in your letter dated 13 June 2018 are as follows:

1. Refer to Annexure A.
2. Refer to the table below:

<b>Historic costs of investments as at 30 April 2018</b>	
Listed investments	\$3,012,075
Investment in JB Financial Group Pty Ltd	\$6,300,106
Investment in Bartholomew Roberts Pty Ltd	\$4,099,998
Investment in K-Ching	\$300,000

3. The Company’s policy is that all valuations must reflect the market value (or if there is no market value, the fair value) of the Company’s assets. Fair value is the price the Company would expect to receive to sell an asset or would have to pay to transfer a liability in an orderly (ie. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

In assessing the fair value of an unlisted investment, a number of valuation methods are generally considered by the Company, including the following commonly used methodologies utilised in the investment markets when undertaking valuations of securities:



- a. **Comparable Market Data:** This methodology involves the identification of comparable sale transactions and trading multiples. Comparable company data such as revenue or earnings trading multiples are obtained and used as the basis for valuing the investment. Recent transactional pricing is also used as a common method of comparison.
- b. **Historical Cost or Net Realisation of Assets:** The net assets or cost based approach to valuation of an investment is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities should equal the value of the investment or entity. The Company considers that this approach is generally not appropriate where investments are employed productively and are earning more than the cost of capital involved in their acquisition. However, the Company considers that this is a valid valuation approach for recently made or acquired investments if the cost of the investment is reflective of its current arm's-length market value. This could be based on the investment cost of the asset to the company itself, or the value at which other third party investors have recently invested in the same asset.
- c. **Capitalisation of Future Maintainable Earnings:** This methodology ascertains the value of an investment based on the capitalisation of its future maintainable earnings. The Company generally considers that this method is appropriate in valuing an investment when there is a history of earnings, its assets are established and it is assumed that its earnings are sufficiently predictable to be indicative of the investment's ongoing earnings potential.
- d. **Discounted Cash Flow:** This methodology is based on determining the net present value of an investment's future cash flows. The Company considers that this valuation method is suited to new investments and situations where cash flows are not sufficiently predictable or where significant cash outflows will be incurred and there is uncertainty as to the timing of cash inflows being earned.

In determining the value of the Company's unlisted investments, the Company considers the following sources:

- a. trading multiples of comparable listed companies with publicly available financial data;
- b. valuation multiples at which transactions involving the sale of comparable companies have occurred; and/or
- c. industry reports that provide trading multiple data by industry.

Issues considered by the Company when selecting the most appropriate valuation method or methods to be utilised, and the basis for their implementation in determining the valuation of the Company's unlisted investments, include:

- The historical financial performance of the investment to date;
- Revenue growth achieved to date and forecast growth expected;
- Life cycle stage of the assets employed;
- The industry in which the business operates;



- Potential for the assets employed to achieve growth in market share and whether the relevant overall market is also growing or in decline;
- Geographical locations in which the relevant business trades and opportunities available to expand;
- Competitors currently in the market and barriers to entry for new competitors;
- Key management in place to drive growth; and
- The general and specific economic climate in which the relevant business operates.

The Company considers all of the above factors in determining the value of its unlisted investments.

The Company's unlisted investments primarily relate to its direct and indirect (through Bartholomew Roberts Pty Ltd) interests in JB Financial Group Pty Ltd. The following table indicates the valuation techniques used in measuring Level 3 fair values for unlisted investments measured at fair value, 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"> <li>- Forecast earnings.</li> <li>- Market multiple of 14.6 times.</li> </ul>	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>- The forecast earnings were higher (lower); or</li> <li>- The market multiple was higher (lower)</li> </ul>

4. The Company's estimate of fair value for its unlisted investments used in calculating each month-end NTA backing figure in the Announcement of 8 June 2018 is considered to comply with the requirement in ASX's definition of net tangible asset backing. The Company considers that the value ascribed to each of the Company's unlisted investments does not exceed their recoverable amount.
5. The decrease in the NTA backing before tax reported on 15 May 2017 relative to 31 May 2017 related to:



- a. a decrease in assets included at variable A, being \$3.585 million cash and receivables, principally from payment of brokerage, share buy-back, investments, management fees, working capital expenses and income tax,
- b. an increase of \$2.505 million in liabilities included in the calculation of variable L relating to accrued expenses, management fees and performance fees, and
- c. an increase of 55,697 in the number of shares on issue included in variable N.

Please refer to Annexure A.

6. The decrease in the NTA backing after tax reported on 15 May 2017 relative to 31 May 2017 related to:
  - a. a decrease in assets included at variable A, being \$3.585 million cash and receivables, principally used in payment of brokerage, share buy-back, investments, management fees, working capital expenses and income tax,
  - b. an increase of \$2.505 million in liabilities included in the calculation of variable L relating to accrued expenses, management fees and performance fees,
  - c. an increase of \$3.804 million in liabilities included in the calculation of variable L relating to provisions for income tax, and
  - d. an increase of 55,697 in the number of shares on issue included in variable N.

Please refer to Annexure A.

7. HML considers the NTA backing figures in the Company's Announcement of 8 June 2018 are sufficiently robust to report to the market under Listing Rule 4.12. The Company considers that Leadenhall's report referred to in that announcement validates the methodology that HML has used to calculate each NTA and the reasonableness of the NTA calculations presented. The reported NTA backing figures have utilised applicable accounting standards and generally recognised valuation methodologies that are considered applicable to all investments (both listed and unlisted) held by the Company. The statement made in Footnote 1 recognises the inherent uncertainty involved with the use of accounting estimates and judgments, including valuations, adopted in financial reports. The type of caution suggested in Footnote 1 in the ASX Announcement of 8 June 2018 is not uncommon in many Listed Investment Company estimates of their NTAs.
8. Leadenhall has provided the following response:

*"Leadenhall is currently in the process of preparing an independent expert's report ("IER") for HML in relation to a proposed transaction, the terms of which HML is currently finalising ("Proposed Transaction"). Our IER will include a valuation of HML's unlisted investments. In relation to the valuation of HML's unlisted investments, to date we have:*

- analysed the nature of the businesses undertaken by the respective companies*
- analysed the historical and projected earnings of those companies*
- analysed the financial position of the companies*
- identified multiples implied by market trading and other transaction involving comparable entities*
- assessed preliminary valuation ranges for the unlisted investments.*

*We confirm that the valuation of unlisted investments adopted by HML in its calculation of NTA as at 31 May 2018 is within our preliminary valuation range. This range will be*



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*updated to reflect changes in the underlying businesses and market conditions up to the point of concluding our report and may also be refined as we conclude our analysis.*

*We have not disclosed our draft valuation ranges because we do not wish to compromise our independence in accordance with RG112 in relation to the Proposed Transaction. We are also concerned that it may be confusing to shareholders should our final valuation conclusions differ to the preliminary conclusions, due to changes in market conditions or the businesses, over a relatively short period."*

9. Other than as noted by the Company and ASX in previous ASX announcements, HML confirms that it is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
10. HML's responses to the questions above have been authorised and approved in accordance with the Company's published continuous disclosure policies or otherwise by its board or an officer with delegated authority from the board to respond to ASX on disclosure matters.

Yours faithfully

**Kevin Mischewski**  
Company Secretary  
**Henry Morgan Limited**

# ANNEXURE A



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	30 April 2017	31 May 2017	30 Jun 2017	31 Jul 2017	31 Aug 2017	30 Sep 2017	31 Oct 2017
<b>Variable A (Total assets)</b>							
Cash & receivables	15,038,280	11,453,121	13,802,631	14,131,242	12,035,546	7,706,450	6,390,940
Foreign currency banknotes	0	0	0	0	0	3,448,087	3,520,582
Derivative financial assets	0	0	7,976	-2,221	40,092	19,783	2,410
Listed investments	5,812,358	5,407,431	3,240,612	3,407,304	3,847,957	3,424,648	3,190,876
Unlisted investments:							
Investment in JB Financial Group Pty Ltd	29,574,000	29,510,120	29,510,120	29,510,120	29,510,120	29,510,120	29,510,120
Investment in Bartholomew Roberts Pty Ltd	14,114,148	14,114,148	14,114,148	14,114,148	14,114,148	14,114,148	14,114,148
Investment in K-Ching	0	300,000	300,000	300,000	300,000	300,000	300,000
<b>Total Variable A</b>	<b>\$64,538,786</b>	<b>\$60,784,820</b>	<b>\$60,975,486</b>	<b>\$61,460,592</b>	<b>\$59,847,863</b>	<b>\$58,523,235</b>	<b>\$57,029,076</b>
<b>Variable I (Intangible assets)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Variable L (Total liabilities)</b>	<b>\$3,905,122</b>	<b>\$11,214,344</b>	<b>\$14,361,463</b>	<b>\$14,257,934</b>	<b>\$12,100,790</b>	<b>\$11,500,057</b>	<b>\$10,107,278</b>
<b>NTA after tax (A - I - L)</b>	<b>\$60,633,664</b>	<b>\$49,570,476</b>	<b>\$46,614,023</b>	<b>\$47,202,659</b>	<b>\$47,747,073</b>	<b>\$47,023,178</b>	<b>\$46,921,799</b>
Provision for tax	3,905,122	8,709,687	8,709,687	8,709,687	8,709,687	8,709,687	8,709,687
<b>NTA before tax (NTA after tax + Provision for tax)</b>	<b>\$64,538,785</b>	<b>\$58,280,163</b>	<b>\$55,323,711</b>	<b>\$55,912,346</b>	<b>\$56,456,760</b>	<b>\$55,732,865</b>	<b>\$55,631,486</b>
<b>Variable N (Number of shares on issue)</b>	<b>29,591,832</b>	<b>29,647,529</b>	<b>30,610,140</b>	<b>30,610,140</b>	<b>30,610,140</b>	<b>30,610,140</b>	<b>30,615,140</b>
<b>NTA backing after tax per share</b>	<b>\$2.0490</b>	<b>\$1.6720</b>	<b>\$1.5228</b>	<b>\$1.5421</b>	<b>\$1.5598</b>	<b>\$1.5362</b>	<b>\$1.5326</b>
<b>NTA backing before tax per share</b>	<b>\$2.1810</b>	<b>\$1.9658</b>	<b>\$1.8074</b>	<b>\$1.8266</b>	<b>\$1.8444</b>	<b>\$1.8207</b>	<b>\$1.8171</b>

# ANNEXURE A



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	30 Nov 2017	31 Dec 2017	31 Jan 2018	28 Feb 2018	31 Mar 2018	30 Apr 2018
<b>Variable A (Total assets)</b>						
Cash & receivables	6,448,404	6,324,595	6,664,804	2,449,257	2,221,284	3,973,580
Foreign currency banknotes	694,735	684,216	679,809	700,506	717,021	721,113
Derivative financial assets	0	636,818	395,663	322,231	341,843	322,231
Listed investments	5,871,065	6,544,098	6,467,188	5,502,950	5,023,489	2,964,299
Unlisted investments:						
Investment in JB Financial Group Pty Ltd	29,510,120	29,510,120	29,510,120	31,779,000	31,779,000	31,779,000
Investment in Bartholomew Roberts Pty Ltd	14,114,148	14,114,148	14,114,148	14,114,148	14,114,148	14,114,148
Investment in K-Ching	300,000	300,000	300,000	300,000	300,000	300,000
<b>Total Variable A</b>	<b>\$56,938,471</b>	<b>\$58,113,995</b>	<b>\$58,131,733</b>	<b>\$55,168,091</b>	<b>\$54,496,785</b>	<b>\$54,174,371</b>
<b>Variable I (Intangible assets)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Variable L (Total liabilities)</b>	<b>\$10,086,599</b>	<b>\$9,892,935</b>	<b>\$10,096,285</b>	<b>\$10,468,277</b>	<b>\$10,066,915</b>	<b>\$9,980,571</b>
<b>NTA after tax (A - I - L)</b>	<b>\$46,851,872</b>	<b>\$48,221,060</b>	<b>\$48,035,447</b>	<b>\$44,699,815</b>	<b>\$44,429,870</b>	<b>\$44,193,800</b>
Provision for tax	8,709,687	8,917,894	8,917,894	9,598,558	9,598,558	9,598,558
<b>NTA before tax (NTA after tax + Provision for tax)</b>	<b>\$55,561,560</b>	<b>\$57,138,954</b>	<b>\$56,953,342</b>	<b>\$54,298,372</b>	<b>\$54,028,428</b>	<b>\$53,792,357</b>
<b>Variable N (Number of shares on issue)</b>	<b>30,615,140</b>	<b>30,615,140</b>	<b>30,615,140</b>	<b>30,615,140</b>	<b>30,615,140</b>	<b>30,615,140</b>
<b>NTA backing after tax per share</b>	<b>\$1.5303</b>	<b>\$1.5751</b>	<b>\$1.5690</b>	<b>\$1.4601</b>	<b>\$1.4512</b>	<b>\$1.4435</b>
<b>NTA backing before tax per share</b>	<b>\$1.8148</b>	<b>\$1.8664</b>	<b>\$1.8603</b>	<b>\$1.7736</b>	<b>\$1.7648</b>	<b>\$1.7571</b>



13 June 2018

Mr Kevin Mischewski  
Company Secretary  
Henry Morgan Limited  
GPO Box 3112  
Brisbane QLD 4000

By email: [kmischewski@henrymorgan.com.au](mailto:kmischewski@henrymorgan.com.au)

Dear Mr Mischewski,

**Henry Morgan Limited (“HML”): ASX Query**

ASX Limited (“ASX”) refers to the following:

A. HML’s announcement titled “Completion of NTA Review by independent expert” released on the ASX Market Announcements Platform on 8 June 2018 (“Announcement”) announcing the completion by Leadenhall Corporate Advisory Pty Ltd (“Leadenhall”) of its review of HML’s historical valuations of HML’s unlisted investments included in the net tangible asset backing of HML’s quoted securities.

B. The following section (“Section 2.1”) in the report by Leadenhall attached to the Announcement :

*“2.1. Our approach*

*Our approach in reviewing the valuation of the HML Unlisted Investments since 1 July 2017 included:*

- Discussions with the external auditors of HML to understand the approach adopted and key findings in respect of auditing the fair value of the HML Unlisted Investments as at 30 June 2017 and the half-year review as at 31 December 2017.*
- Discussions with HML and JBFG management in respect of the approach to estimating the value of the HML Unlisted Investments over the period and the key changes to the businesses and/or operating environments since.*
- Consideration of the components of the independent valuation work we have undertaken to date in respect of the IER that relate specifically to the HML Unlisted Investments.”*

C. Footnote 1 at the bottom of the first page of the Announcement which says, in part, “Apart from the annual audit and half year review undertaken by HML’s auditor, KPMG, the indicative estimates are based primarily on internal data and, being estimates, should not be relied upon by any party” (“Footnote 1”).

D. The following NTA estimates announced by HML during 2017:

	5/1/17	3/2/17	15/2/17	7/3/17	17/3/17	13/4/17	15/5/17
NTA before unrealised tax	\$2.0827	\$2.1268	\$1.968	\$1.951	\$2.039	\$2.046	\$2.181
NTA after tax	\$1.8395	\$1.8704	\$1.8025	\$1.884	\$1.946	\$1.951	\$2.049

and specifically HML’s announcement titled “Unadjusted net tangible assets” released on the ASX Market Announcements Platform on 15 May 2017 disclosing an estimate of the diluted NTA before unrealised tax of \$2.181 and a diluted NTA after tax of \$2.049 per share.



E. The following definition of “net tangible asset backing” in listing rule 19.12:

net tangible asset backing for the purpose of rule 4.12 in relation to a +class of +securities,

$$\frac{(A - I - L)}{N}$$

A = total assets. In calculating this, the value of investments at the end of the month are calculated at “net market value” (that is, the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of the disposal). The value of investments, except quoted +securities of listed entities, is calculated at cost or valuation. Valuation must not exceed the recoverable amount.

Note: The net market value definition is taken from Australian Accounting Standard AASB 1023.

I = intangible assets.

L = total liabilities ranking ahead of, or equally with, claims of that +class of +securities. In calculating this, total liabilities include each of the following.

- Provisions for tax on realised income and gains.
- Provisions for tax on estimated unrealised income and gains. Alternatively, the entity may disclose the net tangible asset backing per +security before and after providing for the estimated tax on unrealised income and gains.
- Provisions for declared, but unpaid, dividends or distributions if the +securities are still quoted on a basis that includes the dividend or distribution on the date on which the net tangible asset backing is reported.
- Provisions for unpaid management fees earned.

Example: Liabilities ranking ahead of, or equally with, fully paid ordinary shares in a parent entity will include all liabilities, preference share entitlements, and outside equity interests.

N = total number of +securities on issue in that +class. In calculating this, partly paid +securities which are in that +class when paid up are taken into account by assuming that the unpaid amount is paid.

Having regard to the above, ASX asks HML to respond separately to each of the following questions and requests for information:

1. Using the formula for net tangible asset backing extracted above, please provide a detailed breakdown of how HML has calculated each month end NTA backing figure in the Announcement, showing separately for each month the values attributed to each asset included in variable “A” and the values attributed to each of variables “I”, “L” and “N”.
2. Please provide the historic cost for each of the assets included in variable “A” in the NTA backing estimate as at 30 April 2018.

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3. Please describe in detail the process by which HML estimated the fair value of its unlisted investments for the purposes of reporting the month end NTA backing figures in the Announcement, including the “level 3 inputs” it took into account in accordance with Accounting Standard AASB 13. To the extent that these inputs include prices paid by other investors to acquire shares in the unlisted entities, please indicate the dates of these transactions, the parties to the transactions, the number of shares acquired and the prices at which they were acquired.
  4. Please specifically confirm that HML’s estimate of the fair value for its unlisted investments used in calculating each month end NTA backing figure in the Announcement complies with the requirement in ASX’s definition of net tangible asset backing that the value ascribed to such investments does not exceed their recoverable amount.
  5. Please explain the basis for the drop in the NTA backing before tax reported on 15 May 2017 of \$2.181 and the NTA backing before tax reported for 31 May 2017 in the Announcement of \$1.9658. In answering this question, please also provide the values attributed to each asset included in variable “A” and the values attributed to each of variables “I”, “L” and “N” from the formula for net asset backing, in the 15 May 2017 calculation.
  6. Please explain the basis for the drop in the NTA backing after tax reported on 15 May 2017 of \$2.049 and the NTA backing after tax reported for 31 May 2017 in the Announcement of \$1.672. In answering this question, please also provide the values attributed to each asset included in variable “A” and the values attributed to each of variables “I”, “L” and “N” from the formula for net asset backing, in the 15 May 2017 calculation.
  7. Please explain the basis on which HML considers that the NTA backing figures in the Announcement are sufficiently robust to report to the market under Listing Rule 4.12, given the statement in Footnote 1 that they “...should not be relied upon by any party”.
  8. Noting the statement in Section 2.1 of the Leadenhall Report that their review included “*Consideration of the components of the independent valuation work we have undertaken to date in respect of the IER that relate specifically to the HML Unlisted Investments*”, please advise specifically what independent valuation work Leadenhall has performed in relation to HML’s unlisted investments, what valuations it ascribed to those investments and the basis for those valuations.
  9. Please confirm that HML is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
  10. Please confirm that HML’s responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policies or otherwise by its board or an officer with delegated authority from the board to respond to ASX on disclosure matters.

#### **When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, **by not later than 9.30am AEST on Monday, 18 June 2018.**

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, HML’s obligation is to disclose the information “immediately”. This may require the information to be disclosed before the deadline set out in the previous paragraph.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent to me by e-mail at [lisa.banh@asx.com.au](mailto:lisa.banh@asx.com.au). It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

#### **Listing Rules 3.1 and 3.1A**

In responding to this letter, you should have regard to HML’s obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

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It should be noted that HML's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

If you have any queries or concerns about any of the above, please contact me immediately.

Kind regards

*[Sent electronically without signature]*

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**Lisa Banh**

Senior Adviser, Listings Compliance (Sydney)

T 02 9227 0000

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