Henry Morgan

"Aut pax aut bellum"

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

HENRY MORGAN LIMITED ACN 602 041 770

Introduction
The directors present their report, together with the financial statements, of Henry Morgan Limited (referred to hereafter as the 'Company') for the year ended 30 June 2018.

Directors
The following persons were directors of Henry Morgan Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

John McAuliffe AM – Non-Executive Chairman
Stuart McAuliffe – Managing Director
Rosario (Ross) Patane – Non-Executive Director
Vanessa Gunner – Non-Executive Director
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 on directors

Name:	John McAuliffe, appointed as a Director 21 October 2015
Title:	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 Fellow of the Real Estate Institute of Queensland.
Experience and expertise:	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.
Other current directorships:	John has been Non-Executive Chairman of John Bridgeman Limited since 13 March 2015.
Former directorships (last 3 years):	Nil
Special responsibilities:	Non-executive Chairman
Interests in shares:	John holds or has a relevant interest in 1,800,000 ordinary shares.
Interests in options:	Nil

Name:	Stuart McAuliffe, appointed as a Director 26 September 2014
Title:	Managing Director
Qualifications:	BA; MEd; Grad Dip Legal Studies
Experience and expertise:	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.
Other current directorships:	Stuart has been a Director of John Bridgeman Limited since 8 January 2015 and a Director of Benjamin Hornigold Ltd since 28 September 2016
Former directorships (last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	Stuart holds or has a relevant interest in 5,379,811 ordinary shares.
Interests in options:	Nil

Name:	Rosario (Ross) Patane, appointed as a Director 31 March 2016
Title:	Non-Executive Director
Qualifications:	BBus; CA; GAICD; FFin
Experience and expertise:	Ross is a chartered accountant with in excess of 25 years of experience in providing high level accounting related services. Ross is presently the Senior Partner of the Crowe Horwath Corporate Finance team. Crowe Horwarth is a leading accounting and financial services business.
Other current directorships:	Ross has been a Director of John Bridgeman Limited since 13 March 2015.
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of the Audit and Risk Committee and member of the Committee of Independent Directors.
Interests in shares:	Ross holds or has a relevant interest in 15,968 ordinary shares.
Interests in options:	Nil

Name:	Vanessa Gunner, appointed as a Director 30 May 2017
Title:	Non-Executive Director
Qualifications:	BBus; GDipAppFinInv; CA ANZ; ACA; SA FIN; MAICD; MIoD
Experience and expertise:	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 blue-chip 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.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of the Audit and Risk Committee and former member of the Committee of Independent Directors.
Interests in shares:	Nil
Interests in options:	Nil

Name:	Dr William (George) Earl, appointed as a Director 19 July 2017
Title:	Non-Executive Director
Qualifications:	Dip.QS; Grad.Dip (Property Development); MSc (Project Management); PhD (Finance).
Experience and expertise:	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.
Other current directorships:	Nil
Former directorships (last 3 years):	Nil
Special responsibilities:	Member of the Committee of Independent Directors.
Interests in shares:	Nil
Interests in options:	Nil
Name:	Peter Ziegler, appointed as a Director 19 July 2017
Title:	Non-Executive Director
Qualifications:	B Com (Hons); LLB (Hons); MFM (QLD); CA; FCPA; CTA
Experience and expertise:	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.
Other current directorships:	Nil
Former directorships (last 3 years):	Chairman of Australian Pacific Coal Limited
Special responsibilities:	Chairman of the Audit and Risk Committee and Chairman of the Committee of Independent Directors.
Interests in shares:	Nil
Interests in options:	Nil

Name:	Jody Wright
Title:	Company Secretary (appointed 14 July 2016)
Qualifications:	LLB
Experience and expertise:	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.
Name:	Kevin Mischewski
Title:	Company Secretary (appointed 10 August 2017)
Qualifications:	CA; AGIA
Experience and expertise:	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.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee	
	Attended	Held	Attended	Held
John McAuliffe	13	14	N/A	N/A
Stuart McAuliffe	13	14	N/A	N/A
Ross Patane	14	14	4	4
Vanessa Gunner	12	14	4	4
George Earl	11	14	N/A	N/A
Peter Ziegler	14	14	4	4

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

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 Company is externally managed by John Bridgeman Limited ("JBL" also "the Investment Manager") pursuant to the Management Services Agreement (as amended) entered into by the parties on 12 March 2015. The Company 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 and in foreign currency banknotes with the aim of achieving above average risk-adjusted 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.
Review of operations
The following table provides a summary of financial highlights:

	2018 $	2017 $	Change $	Change %
Profit /(loss) before tax	(18,904,604)	30,161,713	(49,066,317)	(163%)
Net profit /(loss) after tax	(13,253,940)	21,146,533	(34,400,473)	(163%)
Net realised trading and investment gains	(1,605,946)	8,192,494	(9,798,440)	(120%)
Net unrealised trading and investment gains/(losses)	(11,082,845)	32,796,261	(43,879,106)	(134%)
Commissions paid to investment brokers	(1,921,011)	(1,402,433)	(518,578)	37%
Management and performance fee expense	(1,714,418)	(8,595,891)	6,881,473	(80%)
Dividends paid	-	(5,646,303)	5,646,303	(100%)
Basic earnings per share (cents)	(43.29)	96.15	(139.44)	(145%)
Return on capital employed (%)	(41%)	94%	(135%)	(144%)

The loss for the Company after providing for income tax amounted to $13,253,940 (30 June 2017: profit of $21,146,553).

Proposed transaction regarding the potential sale of the Company's unlisted investments and entering into an exclusive trading agreement

Pursuant to the transaction documentation with JB Financial Group, the Company was offered (in summary):

- the opportunity to exercise a put option to sell its direct and indirect shareholding in JB Financial Group Pty Ltd;
- an exclusive trading arrangement with minimum service standards with JB Trading House Pty Ltd; and
- a convertible note with JB Trading House which did not require any cash payment on the part of Henry Morgan.

JB Financial Group's offer was subject to certain conditions being satisfied by 30 September 2018. These conditions included the requirement to obtain an IER and the approval from the Company's shareholders. The IER was obtained with the independent expert concluding that the proposed transaction was both fair and reasonable to non-associated shareholders of HML. However, the Company has been unable to despatch the meeting materials (including the IER) to shareholders because ASX has not provided its approval for this despatch.

Review of fair value of material unlisted investments

Subsequent to the end of the financial year, the Company completed a review of the fair value of material unlisted investments as at 30 June 2018. The following adjustments to fair value of material unlisted investments have been recorded:

The Company's investment in JBFG was revalued downward by $4,632,620 to $24,877,500 (2017: upward by $23,210,014 to $29,510,120).

The Company's investment in BRL was revalued downward by $5,288,793 to $8,825,354 (2017: upward by $10,014,150 to $14,114,148).

Foreign Banknotes acquired

On the 15 September 2017, the Company acquired foreign currency banknotes to the value of $3,414,659. The banknotes are traded and managed by JBFX Wholesale Pty Ltd (JBFX), a wholly owned subsidiary of JBFG, on behalf of the Company under a services agreement which provides for a minimum return to the Company of 9% per annum (pa.) on the Australian dollar value of the banknotes. Realised returns on the banknotes in excess of 9% pa. are retained by JBFX as a fee for trading the banknotes on behalf of the Company.

On 21 November 2017, $2,900,000 was converted to Australian dollars by the Company. As at 30 June 2018, the Company held $645,604 worth of foreign currency banknotes. As the Company is the owner of the banknotes, any foreign exchange movement in the value of the banknotes is for the account of the Company. For the year ended 30 June 2018, the Company recorded an unrealised foreign exchange gain of $130,945 and earned a return of $91,304 on the banknotes.

Proprietary trading commenced

On 16 October 2017, the Company entered into a profit-sharing agreement with Genesis Proprietary Trading Pty Ltd ("Genesis"), a wholly owned subsidiary of JBFG. Under the agreement, trading profits earned or losses incurred, in excess of $20,000 per month, by traders engaged by the Investment Manager using Genesis funding and trading platform are shared between Genesis and the Company in the ratio of 5% and 95%, respectively. After an initial term of three months the agreement continues on a monthly basis unless terminated with 30 days' notice by either party or terminated for cause by Genesis. As at 30 June 2018, the Company's share in realised trading profit of $101,588 has been accrued.

Acquisitions by JB Financial Group Pty Ltd ("JBFG")

The Company has a material interest in JBFG, which is included in Investments at fair value through the profit or loss account. The Company is aware of the following acquisitions which were made by JBFG or its subsidiaries during the year ended 30 June 2018.

On 3 July 2017, Risk and Security Management Pty Ltd ("RSM"), a wholly owned subsidiary of JBFG, acquired 100% of the issued shares in Australian Legal Support Group Pty Ltd ("ALSG") for consideration of $3,963,680. ALSG provides mercantile services.

On 12 September 2017, JBFG acquired 100% of the issued shares in Genesis for consideration of $11,247,287. Genesis is one of Australia's largest proprietary trading companies.

On 19 September 2017, JBFG acquired American Express Wholesale Currency Services ("AMEX") assets for a nominal fee. The acquisition included the purchase of a state-of-the-art secured vault facility and the assumption of a lease over the premises containing the vault. Former AMEX employees were employed through a wholly-owned subsidiary of JBFG for their expertise in the field.

On 16 November 2017, JBFG acquired 100% of the issued shares in Growth Point Capital Pty Ltd ("GPC") (former name 'Schuh Group Finance Pty Ltd') for $999,999. GPC is a consumer credit and mortgage broking business.

On 17 November 2017, JBFG acquired 100% of Capital Credit Pty Ltd (former name Growth Point Capital Pty Ltd) ("CC") from joint owners BRL and Growth Point Ventures Pty Ltd for a total consideration of $158. CC holds debt ledger assets that it has purchased from arm's length parties.

Changes in equity

During the year, 5,000 options were exercised at $1 per share raising $5,000 in share capital and a further 1,731,782 options were exercised at $1 per share after the end of the year between 16 August and 31 August 2018.

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 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. However, while those matters with ASIC have been resolved, trading in the Company's securities has remained suspended. On 13 August 2018, the ASX advised that the Company's securities would continue to be suspended from trading pending further enquiries about the draft meeting materials lodged with ASX on 10 August 2018 and the associated transactions referred to in those materials. The meeting materials refer to a planned shareholder meeting in respect of the proposed transaction regarding the potential sale of the Company's unlisted investments and the entering into of the exclusive trading agreement referred to above in the Review of Operations. As at the date of this report, the Company is not aware of any outstanding matters that must be resolved to enable resumption of trading of the Company's securities on the ASX. The Company looks forward to 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 the 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.

Matters subsequent to the end of the financial year
No matter or circumstance, other than the following, has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Sale of shares in a buy-back transaction

On 3 August 2018, 1,398,573 shares held by the Company in the Investment Manager, John Bridgeman Limited, were sold back to the Investment Manager at $2.05 for every one share with its attached option in a buy-back transaction. The sale on 3 August 2018 had the effect of cancelling the purchase of those shares and options which were purchased at that same price on 17 November 2017. After this buy-back, the Company holds 55,000 shares in the Investment Manager and no options.

Loan to John Bridgeman Limited

On 8 August 2018, the Company made a loan of $2,411,000 to the Investment Manager for a term of one year at 11.5% pa interest.

Exercise and expiry of listed options
The Company raised additional capital of $1,731,782 between 16 and 31 August 2018 from the issue of ordinary shares pursuant to the exercise of listed options by option holders. All unexercised options over unissued ordinary shares in the Company expired on 31 August 2018.

Intention for off-market bid for shares in the Company
On 10 September 2018, John Bridgeman Limited announced its intention to make an off-market takeover offer to acquire all of the issued shares in the Company that it currently does not own and all of the issued shares and options in Benjamin Hornigold Limited ('BHD') that it does not own. The offers are not interdependent.

The proposed offer for HML is for accepting shareholders in HML to receive 0.95 JBL shares for each HML share. The offer is subject to 50.1% acceptance conditions. Further information is available in the announcements made by the Company to the ASX which can be accessed at:
https://henrymorgan.com.au/investor-centre/announcements.html

Dividends
There were no dividends paid, recommended or declared during the current financial year.

Likely developments and expected results of operations
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. The Company also invests in listed and unlisted securities and in foreign currency banknotes with the aim of achieving above average risk-adjusted 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.

The proposed transaction referred to in the Review of Operations if completed, will provide an opportunity for the Company to reduce its current investment in unlisted securities.

Business risk
Some of the material business risks that may affect the Company's ability to achieve its objectives include:

- 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 which may lead to negative financial 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 financial risk and returns. However, there is a risk that the Investment Manager's investment management systems may not be profitable in the short or longer term, and the Company may suffer a loss.

- Reduced liquidity in investments undertaken, with the level of liquidity in the Company's unlisted investments being a function of market conditions and the business environment.

Environmental regulation
The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Shares under option
There are no options over unissued ordinary shares in the Company at the date of this report. Those options granted between 4 February and 28 September 2017 which had not been exercised by 31 August 2018 expired on that date.

Shares issued on the exercise of options
The following shares were issued pursuant to the exercise of options during the year ended 30 June 2018 and subsequent to the end of this financial year:

Class of Securities	Issue date	Issue price	Number issued
Fully paid ordinary shares	11 October 2017 and August 2018	$1.00	1,736,782

Indemnification and insurance of officers
The Company has indemnified the directors and executives of the Group, to the extent permitted by law, against certain liabilities and legal costs incurred by them in their capacity as a director or executive.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The Company has not during or since the end of the financial year indemnified, or agreed to indemnify, the auditor of the Company or any related entity against a liability incurred by the auditor.

Non-audit services
There were no non-audit services provided during the financial year by the auditor.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave 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 part of those proceedings.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor
KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

Remuneration report (audited)

This Remuneration Report outlines the remuneration arrangements of the Company for the year ended 30 June 2018. 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 2018 financial year, the KMP for the Company comprised the directors of the Company, as set out below. The Company has no other executives. The remuneration report details the key management personnel remuneration arrangements for the Company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Remuneration Framework

The objective of the Company's remuneration framework is 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 framework to be appropriate and effective in its ability to attract and retain high-quality KMP, as well as to create an alignment of interests between directors, management, shareholders and other stakeholders. The Board's framework for determining the nature and amount of remuneration for KMP of the Company is as follows:

- The remuneration arrangements are developed and approved by the Board.
- All KMP receive a fixed director's fee which is based on a range of 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 in the Company, however Directors, including non-executive Directors, were granted options by the Investment Manager in the year ended 30 June 2016.
- 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, for their services as directors, is a maximum of $450,000 for the year including any statutory superannuation (2017: $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 directors for their services as directors is subject to approval by shareholders at the Annual General Meeting.

In addition the Company's Securities Trading Policy prohibits directors and KMP for using the Company's shares as collateral in any financial transaction, including margin loan arrangements.

Performance-based remuneration

There is currently no performance-based remuneration paid directly by the Company to its Directors. However, performance-based remuneration measures may be implemented in the future to provide a further alignment of interests between all stakeholders.

Performance conditions linked to remuneration

There are currently no performance conditions linked to remuneration.

Consequences of performance on shareholder wealth

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

	2018 $	2017 $	2016 $
Net profit/ (loss) after tax	(13,253,940)	21,146,553	1,240,812
Dividends paid	-	5,646,303	-
Net profit after tax growth (%)	(162.7%)	1604%	n/a
Change in share price during the year (cents)	n/a	99	(5)
Return of capital through share buy-back and cancellation	-	485,189	-
Return on average capital employed (%)	(40.93%)	93.87%	10.65%

Employment details of members of Key Management Personnel

Remuneration and other terms of employment for key management personnel are formalised in service agreements. The following table provides employment details of persons who were KMP of the Company during the financial period.

Name:	John McAuliffe
Title:	Non-Executive Chairman
Agreement commenced:	13 March 2015
Term of agreement:	No fixed term
Details:	Director's fees are 100% of remuneration

Name:	Stuart McAuliffe
Title:	Managing Director
Agreement commenced:	8 January 2016
Term of agreement:	No fixed term
Details:	Director's fees are 100% of remuneration

Name:	Ross Patane
Title:	Non-Executive Director
Agreement commenced:	31 March 2016
Term of agreement:	No fixed term
Details:	Director's fees are 100% of remuneration

Name:	Vanessa Gunner
Title:	Non-Executive Director
Agreement commenced:	30 May 2017
Term of agreement:	No fixed term
Details:	Director's fees are 100% of remuneration

Name:	George Earl
Title:	Non-Executive Director
Agreement commenced:	19 July 2017
Term of agreement:	No fixed term
Details:	Director's fees are 100% of remuneration

Name:	Peter Ziegler
Title:	Non-Executive Director
Agreement commenced:	19 July 2017
Term of agreement:	No fixed term
Details:	Director’s fees are 100% of remuneration

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Details of remuneration

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.

Table of benefits and payments for the period ended 30 June 2018

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2018	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary $**	**Super-annuation $**	**Long service leave $**	**Equity-settled $**	**Total $**
Non-Executive Directors:							
John McAuliffe	48,334	-	-	-	-	-	48,334
Ross Patane	52,000	-	-	-	-	-	52,000
Vanessa Gunner	48,000	-	-	-	-	-	48,000
George Earl	43,357	-	-	2,429	-	-	45,786
Peter Ziegler	100,890	-	-	-	-	-	100,890
Executive Directors:							
Stuart McAuliffe	46,166	-	-	-	-	-	46,166
	338,747	-	-	2,429	-	-	341,176

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

2017	Short-term benefits: Cash salary and fees $	Short-term benefits: Cash bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Equity-settled $	Total $
Non-Executive Directors:							
John McAuliffe	63,800	-	-	-	-	-	63,800
Ross Patane	57,200	-	-	-	-	-	57,200
Vanessa Gunner	4,000	-	-	-	-	-	4,000
Executive Directors:							
Stuart McAuliffe	57,017	-	-	-	-	-	57,017
	182,017	-	-	-	-	-	182,017

Cash bonuses, performance-related bonuses and share-based payments
No options or bonuses were granted as remuneration to KMP during the period.

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

	Balance at 1 July 2017	Granted as remuneration during the period	Issued on exercise of options during the period	Other change during the period	Balance at 30 June 2018
Current KMP					
John McAuliffe	1,800,000	-	-	-	1,800,000
Stuart McAuliffe	5,379,811[1]	-	-	-	5,379,811[1]
Ross Patane	15,968	-	-	-	15,968
Vanessa Gunner	-	-	-	-	-
George Earl	-	-	-	-	-
Peter Ziegler	-	-	-	-	-
	7,195,779	-	-	-	7,195,779

[1] Includes 3,165,083 Henry Morgan Limited shares held by John Bridgeman Limited (an entity not controlled by Stuart McAuliffe).

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

	Balance at 1 July 2017	Granted as remuneration during the period	Issued on exercise of option during the period	Other changes during the period	Balance at 30 June 2018
Current KMP					
John McAuliffe	-	-	-	-	-
Stuart McAuliffe	4,000	-	-	-	4,000
Ross Patane	-	-	-	-	-
Vanessa Gunner	-	-	-	-	-
George Earl	-	-	-	-	-
Peter Ziegler	-	-	-	-	-
	4,000	-	-	-	4,000

There have been no other transactions involving equity instruments other than those described in the tables above or elsewhere in this report 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 or elsewhere in this report 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 concludes the remuneration report, which has been audited.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Mr Stuart McAuliffe
Managing Director

30 September 2018

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 2018 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.

KPMG

KPMG

Simon Crane
Partner

Brisbane
30 September 2018

Henry Morgan Limited
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Henry Morgan Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	2018 $	2017 $
Revenue	5	(12,429,630)	41,134,561
Total revenue		(12,429,630)	41,134,561
Expenses			
Management and performance fees	6	(1,714,418)	(8,595,891)
Impairment of assets	10	(250,000)	-
Accounting and audit costs		(1,465,454)	(166,093)
Broker commissions		(1,921,011)	(1,402,408)
Directors' fees		(333,047)	(182,017)
Finance costs		(42,413)	(687)
Legal fees		(378,945)	(320,589)
Other expenses		(369,686)	(305,163)
Total expenses		(6,474,974)	(10,972,848)
Profit/(loss) before income tax (expense)/benefit		(18,904,604)	30,161,713
Income tax (expense)/benefit	7	5,650,664	(9,015,160)
Profit/(loss) after income tax (expense)/benefit for the year attributable to the owners of Henry Morgan Limited		(13,253,940)	21,146,553
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Henry Morgan Limited		(13,253,940)	21,146,553
		Cents	**Cents**
Basic earnings per share	19	(43.29)	96.15
Diluted earnings per share	19	(43.29)	82.57

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Henry Morgan Limited
Statement of financial position
As at 30 June 2018

	Note	2018 $	2017 $
Assets			
Cash and cash equivalents	8	314,729	9,116,799
Balances held with brokers	9	122,073	3,476,677
Term deposits	11	52,018	188,908
Derivative financial assets	12	60,139	7,976
Current tax receivable	7	187,746	1,005,041
Loans and receivables	10	374,267	1,005,782
Investments at fair value through profit or loss	13	36,491,504	47,164,879
Prepayments		16,644	14,465
Total assets		37,619,120	61,980,527
Liabilities			
Trade and other payables	15	166,828	5,222,432
Derivative financial liabilities	14	70,794	429,343
Deferred tax liability	7	3,011,374	8,709,688
Total liabilities		3,248,996	14,361,463
Net assets		34,370,124	47,619,064
Equity			
Issued capital	17	30,882,999	30,877,999
Retained profits		3,487,125	16,741,065
Total equity		34,370,124	47,619,064

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

Henry Morgan Limited
Statement of changes in equity
For the year ended 30 June 2018

	Issued capital $	Retained profits $	Total equity $
Balance at 1 July 2016	15,403,795	1,240,815	16,644,610
Profit after income tax expense for the year	-	21,146,553	21,146,553
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	21,146,553	21,146,553
Transactions with owners in their capacity as owners:			
Shares issued on exercise of options	15,988,870	-	15,988,870
Shares bought back and cancelled	(485,189)	-	(485,189)
Costs associated with capital raising, net of tax	(29,477)	-	(29,477)
Payment of dividend	-	(5,646,303)	(5,646,303)
Balance at 30 June 2017	30,877,999	16,741,065	47,619,064

	Issued capital $	Retained profits $	Total equity $
Balance at 1 July 2017	30,877,999	16,741,065	47,619,064
Loss after income tax benefit for the year	-	(13,253,940)	(13,253,940)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(13,253,940)	(13,253,940)
Transactions with owners in their capacity as owners:			
Shares issued on exercise of options	5,000	-	5,000
Balance at 30 June 2018	30,882,999	3,487,125	34,370,124

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

Henry Morgan Limited
Statement of cash flows
For the year ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Net proceeds on sale of investments		(1,774,516)	7,315,504
Management and performance fees paid		(5,221,744)	(3,539,224)
Payments from / (to) brokers for initial trading margin		3,354,603	5,797
Commissions paid to investment brokers		(2,727,653)	(765,235)
Payments for operating and administrative expenses		(2,657,037)	(765,810)
Proceeds from sale of shares		3,850,069	3,987,535
Purchase of investments		(3,073,475)	(18,594,288)
Proceeds from repayment of foreign currency notes		2,900,000	-
		(5,349,753)	(12,355,721)
Payment for foreign currency notes		(3,414,659)	-
Proceeds from foreign currency notes revenue		86,587	-
Dividends received		-	111,181
Interest received		7,829	33,584
Interest and other finance costs paid		(43,427)	-
(Payment) / receipt of money received in error		(495,672)	495,189
Income taxes received / (paid)		714,120	(1,745,143)
Net cash used in operating activities	26	(8,494,975)	(13,460,910)
Cash flows from investing activities			
Receipt from placement of term deposit		137,905	4,862,095
Payments for maturity of term deposit		-	(1,003)
Payments for related party loan		(450,000)	(1,461,438)
Net cash from/(used in) investing activities		(312,095)	3,399,654
Cash flows from financing activities			
Proceeds from exercise of options	18	5,000	13,740,057
Payments for listing costs on issue of shares		-	(42,111)
Dividends paid		-	(3,827,153)
Net cash from financing activities		5,000	9,870,793
Net decrease in cash and cash equivalents		(8,802,070)	(190,463)
Cash and cash equivalents at the beginning of the financial year		9,116,799	9,307,262
Cash and cash equivalents at the end of the financial year	8	314,729	9,116,799

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

Note 1. Reporting Entity

Henry Morgan Limited ("the Company") is an ASX-listed public investment company domiciled in Australia. These financial statements as at and for the year ended 30 June 2018 comprise the Company only.

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.

The financial statements were authorised by the Board of Directors on 30 September 2018.

The annual financial statements of the Company as at and for the year ended 30 June 2018 are available at www.henrymorgan.com.au

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

The following Accounting Standards and Interpretations are most relevant to the Company:

AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities
The Company has applied AASB 2013-5. The amendments allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard.

In considering and determining that the Company meets the definition of an investment entity, management have considered the structure of the entity as a whole, the existence of exit strategies and the number of different investments that the Company holds.

AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses
The Company has adopted AASB 2016-1 from 1 July 2017. The amendments to AASB 112 'Income Taxes' clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
The Company has adopted AASB 2016-2 from 1 July 2017. The amendments to AASB 107 'Statement of Cash Flows' require the disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, financial assets and liabilities at fair value through profit or loss, and derivative financial instruments.

Note 2. Significant accounting policies (continued)

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Investments and other financial assets
Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or (ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of financial assets at amortised cost
The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Note 2. Significant accounting policies (continued)

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2018. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

AASB 9 Financial Instruments
The Company is required to adopt IFRS 9 Financial Instruments from 1 July 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. It includes guidance on classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance and derecognition of financial instruments from IAS 39.

Classification of financial assets and financial liabilities
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics.

The standard includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where there is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. The Company currently holds a convertible loan note where the host contract is valued at amortised cost and the embedded derivative is valued at FVTPL (see note 11). Under the new standard, the entire hybrid contract would be valued at FVTPL. Based on the Company's assessment, it is not expected that this will have a material impact on the value of the Company's financial assets.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised on profit or loss, under IFRS 9 these fair value changes are generally presented as follows:
- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Based on the Company's assessment, this standard is not expected to have a material impact on the classification of financial assets and financial liabilities of the Company. This is because:
- the financial instruments classified as held for trading under IAS 39 (derivatives) will continue to be classified as such under IFRS 9;
- financial instruments currently measured at FVTPL under IAS 39 are designated within this category because they are managed on a fair value basis in accordance with the investment strategy. Accordingly, these financial instruments will be mandatorily measured at FVTPL under IFRS 9; and
- financial instruments currently measured at amortised cost are cash balances and receivables. These instruments meet the solely payments of principal and interest (SPPI) criterion and are held in a held to collect business model. Accordingly, they will continue to be measured at amortised cost under IFRS 9.

Impairment of financial assets
IFRS 9 replaces 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investment in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:
- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Note 2. Significant accounting policies (continued)

Based on the Company's assessment, changes to the impairment model are not expected to have a material impact on the financial assets of the Company. This is because:
- the majority of the financial assets are measured at FVTPL and the impairment requirements do not apply to such instruments; and
- the financial assets at amortised cost are short term (i.e. no longer than 12 months), of high credit quality or highly collateralised. Accordingly, the ECLs on these assets are expected to be small.

Hedge accounting
The Company does not apply hedge accounting. Therefore, IFRS 9 hedge accounting related changes do not have an impact on the financial statements of the Company.

Disclosures
IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Company has completed an analysis to identify data gaps against current processes and is designing the changes in systems and controls that it believes will be necessary to capture the required data.

Transition
Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:
- the Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 July 2018.

The following assessments have to be made by the Company on the basis of the facts and circumstances that exist at the date of initial application:
- the determination of the business model within which a financial asset is held.
- the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

AASB 15 Revenue from Contracts with Customers
The main objective of this standard is to provide a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The standard is applicable for annual reporting periods beginning on or after 1 January 2018.

The Company’s main source of income is investment income in the form of gains on listed & unlisted shares and derivatives, as well as interest and dividend income. All of these income types are outside the scope of AASB 15. The standard was assessed as not having a material impact on the Company’s results in the current or future reporting periods. The Company will adopt this standard for annual reporting periods commencing on 1 July 2018.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other factors, including expectations of future events, which management believe to be reasonable under the circumstances. The resulting accounting judgements and estimates may be different from the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Fair value measurement hierarchy
The Company is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what matters are significant to the determination of fair value. Accordingly, the category within which the asset or liability is placed can be subjective.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

The fair value of regularly traded quoted instruments is based on current market prices, otherwise management make an assessment on the bid ask spread of the market price and will use a value within that range. The fair value of privately held investments (and instruments that are linked to their value) which are not currently traded in public market are estimated using valuation techniques, such as the Income Approach, the Market Approach and the Cost Approach; these valuation approaches are included in Level 3 of the hierarchy. 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 liquidity value, subsequent third party equity financing, significant change in actual or potential operating performance resulting in a change in valuation, and other pertinent information.

Significant valuation issues are reported to the Board.

Income tax
The Company is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognises liabilities for tax issues based on the Company's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences and tax losses only if the Company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 4. Operating segments

Operating segments are identified based on the financial information reviewed by the Board (representing the Chief Operating Decision Maker) in assessing the performance and determining the allocation of resources. As the Company operates in only the financial services segment, all results presented in this financial report relate to this segment.

The Company operates in only one geographical segment being Australia.

Note 5. Revenue

	2018 $	2017 $
Net gains/ (losses) on financial instruments measured at fair value through profit or loss		
Net realised (losses) / gains from trading activities	(1,353,148)	8,267,427
Net unrealised (losses) / gains from trading activities	(70,794)	412,573
Net realised losses from investment activities	(252,798)	(74,933)
Net unrealised (losses) / gains from investment activities	(11,012,051)	32,383,688
	(12,688,791)	40,988,755
Other revenue		
Foreign exchange gains on foreign currency banknotes (a)	130,945	-
Trading fee on foreign currency banknotes (a)	91,304	-
Dividends	7,199	111,181
Interest	29,713	34,625
	259,161	145,806
Revenue	(12,429,630)	41,134,561

(a) refer to Note 13 for details regarding these revenue items in respect of foreign currency banknotes.

Accounting policy for revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Note 5. Revenue (continued)

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

Net gain on investments
Gains and losses arising from changes in fair value of investments held are recognised in the statement of profit or loss and other comprehensive income in the period in which they arise.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Note 6. Management and performance fees

In accordance with the Management Services Agreement ("MSA") dated 12 March 2015, the Investment Manager will receive a management fee of 2% per annum (plus GST) calculated and paid monthly in arrears based on the net tangible assets of the Company and a performance fee paid quarterly in arrears. The performance fee is calculated as 23% of the investment return at the end of the last day of the relevant quarter.

The investment return is defined as the percentage by which the mark-to-market value (excluding estimated taxes) at the end of the last day of the relevant quarter exceeds the mark-to-market value (excluding estimated taxes) 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 back and payment of dividends.

The Investment Manager has charged management fees of $1,194,780 (30 June 2017: $796,168) and performance fees of $519,638 (30 June 2017: $7,799,723) during the period. As at 30 June 2018 all fees payable to the Investment Manager were paid.

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 entities controlled by the Investment Manager for the purposes of the accounting standards
For the period ended 30 June 2018, 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 $1,304,107 including GST (2017: $584,816) have been charged to the Company and $5,413 is recognised as a trade payable as at 30 June 2018 (2017: $584,816). Information on additional transactions are included in Note 24.

Note 7. Income tax

	2018 $	2017 $
Income tax expense/(benefit)		
Deferred tax - origination and reversal of temporary differences, and movement to current	(5,650,664)	9,015,160
Aggregate income tax expense/(benefit)	(5,650,664)	9,015,160
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Profit/(loss) before income tax (expense)/benefit	(18,904,604)	30,161,713
Tax at the statutory tax rate of 30%	(5,671,381)	9,048,514
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Prior year non deductible legal fees	20,717	-
Tax offset for franked dividends	-	(33,354)
Income tax expense/(benefit)	(5,650,664)	9,015,160

	2018 $	2017 $
Deferred tax liability		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Unrealised gains on financial assets	6,655,919	9,838,878
Unrealised gains on trading assets	18,045	-
Accrued expenses	(41,162)	(33,000)
Capital raising costs (deductible over 5 years)	(57,550)	(85,061)
Tax losses	(3,323,867)	(1,011,129)
Capitalised expenses to form part of cost base	(171,576)	-
Interest receivable	(68,435)	-
Deferred tax liability	3,011,374	8,709,688

	2018 $	2017 $
Income tax refund due		
Income tax refund due	187,746	1,005,041

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses except when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Note 7. Income tax (continued)

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 8. Cash and cash equivalents

	2018 $	2017 $
Cash at bank	46,867	4,152,523
Cash held with investment brokers - unrestricted	267,862	4,964,276
	314,729	9,116,799

Accounting policy for cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Balances held with brokers

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

	2018 $	2017 $
Balances held with brokers	122,073	3,476,677

Note 10. Loans and receivables

	2018 $	2017 $
Trade receivables	113,228	918,721
Short-term loan (a)	221,884	-
Other receivables	39,155	87,061
	374,267	1,005,782

(a) On 10 July 2017, the Company entered into a short term agreement with Growth Point Capital Limited ("GPC") (a controlled entity of the Investment Manager for accounting standard purposes). A maturity date of one year from the advance date applies, together with a 5% p.a. interest rate. Should the Company elect, the loan may be repaid wholly or in part by way of shares of Growth Point Capital.

On the 10 July 2018, the loan was extended until 7 January 2020. Management have considered the recoverability of the loan and have impaired the asset by $250,000 based on estimates of the recoverable amount that Growth Point Capital Limited is expected to be able to repay. Subsequent to the year end, all of the accrued interest and 5% of the loan capital has been repaid.

Accounting policy for trade and other receivables
Trade and other receivables are recognised at amortised cost, less any provision for impairment.

Note 11. Term deposits

	2018 $	2017 $
Term deposits	52,018	188,908

The term deposit accrues a fixed interest rate

Refer to note 16 for further information on fair value measurement.

Note 12. Derivative financial assets

	2018 $	2017 $
Derivative financial assets	60,139	7,976

Refer to note 16 for further information on fair value measurement.

Note 13. Investments at fair value through profit or loss

	2018 $	2017 $
Listed ordinary shares (a)	2,043,046	3,240,611
Unlisted ordinary shares	33,802,854	43,924,268
Foreign currency banknotes (b)	645,604	-
	36,491,504	47,164,879

Refer to note 16 for further information on fair value measurement.

(a) Listed ordinary shares consisted of 1,453,573 shares in the Investment Manager and 68,039 shares in Benjamin Hornigold Ltd. Of the shares in the Manager, 1,398,573 of those shares were bought back by the Investment Manager on 3 August 2018 (refer to Events after the reporting period) for $2,867,074 ($2.05 per share) cash which was the price paid for the shares on 17 November 2017. Refer to note 16 for details on the fair value measurement at the reporting date.

(b) Foreign currency banknotes are held in the custody of JBFX (a controlled entity of the Investment Manager for accounting purposes). JBFX has secure storage facilities and operates a wholesale foreign currency business. The banknotes are traded and managed by JBFX on behalf of the Company under a services agreement which provides for a minimum return to the Company of 9% per annum on the Australian dollar value of the banknotes. Realised returns over 9% per annum on the banknotes are retained by JBFX as a fee for trading the banknotes on behalf of the Company. As the owner of these banknotes, any foreign exchange movement in the value of the banknotes accrues to the Company. The Company has designated the instrument at fair value through profit or loss. The Company earned $91,304 trading fee and a foreign exchange gain of $130,945 on the banknotes during the year. $4,717 of the fee remained collectable at 30 June 2018.

Note 14. Derivative financial liabilities

	2018 $	2017 $
Derivative financial instruments	70,794	429,343

Refer to note 20 for further information on financial instruments.

Refer to note 16 for further information on fair value measurement.

Note 15. Trade and other payables

	2018 $	2017 $
Trade payables	25,327	961,009
Management and performance fees payable	-	3,580,141
Accrued expenses	137,004	114,000
Withholding tax payable	-	55,526
Other payables	4,497	511,756
	166,828	5,222,432

Refer to note 20 for further information on financial instruments.

Accounting policy for trade and other payables
These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 16. Fair value measurement

Fair value hierarchy
The following tables detail the Company's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

- 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Listed ordinary shares	48,308	-	1,994,738	2,043,046
Derivative financial assets	-	-	60,139	60,139
Unlisted ordinary shares	-	-	33,802,854	33,802,854
Foreign currency banknotes	-	645,604	-	645,604
Total assets	48,308	645,604	35,857,731	36,551,643
Liabilities				
Derivative financial liabilities	70,794	-	-	70,794
Total liabilities	70,794	-	-	70,794

- 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Listed ordinary shares	3,240,611	-	-	3,240,611
Unlisted ordinary shares	-	-	43,924,268	43,924,268
Derivative financial assets	7,976	-	-	7,976
Total assets	3,248,587	-	43,924,268	47,172,855
Liabilities				
Derivative financial liabilities	429,343	-	-	429,343
Total liabilities	429,343	-	-	429,343

There were no transfers between levels during the financial year other than the transfer of listed shares in the Investment Manager, from Level 1 to Level 3.

Note 16. Fair value measurement (continued)

The carrying amounts of cash and cash equivalents, balances held with brokers, term deposits, loans and receivables and trade and other payables approximate their fair values due to their short-term nature.

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data and relies as little as possible on entity specific estimates.

Valuation techniques for fair value measurements categorised within Level 3

On 17 November 2017, the Company acquired 1,398,573 shares in JBL at $2.05 per share, with an attached option per share. The options may be exercised at any time until their maturity term of two years. Due to the lack of market activity for the listed options, a Black Scholes pricing model was utilised in valuing these options. As at 30 June 2018, the options were valued at $60,139. The inputs into the model to value the options were:

-Exercise price per share $2.05
-Underlying price per share $1.37
-Expected volatility (weighted average) 34.35%
-Risk-free rate 2.5%
-Dividend yield 0.0%
-Time to maturity 511 days

The following tables indicate the valuation techniques used in measuring Level 2 and 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. External valuation reports have been referenced in determining the fair value at 30 June 2018.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Unlisted shares	Market comparison technique - Valuations model based on market multiples derived from quoted prices of companies comparable to the investee entity and the expected earnings of the investee entity	- Forecast earnings - Market multiples	The estimated fair value would increase (decrease) if - the forecast earnings were higher (lower); or - the market multiple was higher (lower)
Unlisted shares	The net asset value technique is used to determine the value of the investee entity		The estimated fair value would increase (decrease) if the net asset value increases (decrease)
Listed shares in an inactive market	Revenue multiple	- Forecast earnings - Market multiple	The estimated fair value would increase/(decrease) if - the forecast earnings were higher (lower); or - the market multiple was higher (lower).
Listed options in an inactive market	Black-Scholes pricing model	Expected volatility applied to use of the Black-Scholes option pricing model	The estimated fair value would increase/(decrease) if the volatility was (higher) or lower.
Foreign currency banknotes	The fair value is determined using quoted spot exchange rates at the reporting date in the respective currencies	Not applicable	Not applicable

Note 16. Fair value measurement (continued)

Level 3 assets and liabilities
Movements in level 3 assets and liabilities during the current financial year are set out below:

	Listed ordinary shares on inactive market $	Listed options on inactive market $	Unlisted shares $	Total $
Balance at 1 July 2016	-	-	-	-
Gains recognised in profit or loss	-	-	33,224,164	33,224,164
Additions	-	-	10,700,104	10,700,104
Balance at 30 June 2017	-	-	43,924,268	43,924,268
Transfers into level 3	110,000	-	-	110,000
Additions	2,867,074	60,139	-	2,927,213
Losses recognised in profit or loss	(982,336)	-	(10,121,414)	(11,103,750)
Balance at 30 June 2018	1,994,738	60,139	33,802,854	35,857,731

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

	Increase $	Decrease $
Forecast earnings on unlisted shares (5% movement)	6,238,372	(6,238,372)
Earnings multiple on unlisted shares (15% movement)	3,586,749	(3,586,749)
Forecast revenue listed shares (5% movement)	8,000	(8,000)
Forecast multiple on listed shares (15% movement)	24,000	(24,000)

The valuation of the listed share options includes significant inputs that are subject to change and may have a material impact on the fair value of the options including the of expected volatility. However, as the exercise price of the Company's listed share options is less than the value of the Company's ordinary shares, if there was to be an increase/decrease by 5% in the estimate of expected volatility the impact on the fair value of the options is not expected to be material.

Accounting policy for fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market or, in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

Note 16. Fair value measurement (continued)

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on their market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken. This analysis includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 17. Issued capital

	2018 Shares	2017 Shares	2018 $	2017 $
Ordinary shares - fully paid	30,615,140	30,610,140	30,882,999	30,877,999

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2016	15,601,000		15,403,795
Fully paid ordinary shares issued	6 September 2016	1,686,256	$1.10	1,854,882
Fully paid ordinary shares issued	28 September 2016	572,809	$1.10	630,090
Share issue costs	-	-	$0.00	(29,477)
Fully paid ordinary shares issued under dividend reinvestment plan	13 March 2017	1,239,801	$1.42	1,763,624
Fully paid ordinary shares issued on exercise of options	January 2017	1,247,772	$1.00	1,247,772
Fully paid ordinary shares issued on exercise of options	February 2017	9,123,679	$1.00	9,123,679
Fully paid ordinary shares issued on exercise of options	March 2017	15,015	$1.00	15,015
Fully paid ordinary shares issued on exercise of options	April 2017	105,500	$1.00	105,500
Fully paid ordinary shares issued on exercise of options	May 2017	55,697	$1.00	55,697
Fully paid ordinary shares issued on exercise of options	June 2017	1,192,611	$1.00	1,192,611
Ordinary shares cancelled following their on-market buy-back	7 June 2017	(230,000)	$2.11	(485,189)
Balance	30 June 2017	30,610,140		30,877,999
Fully paid ordinary shares issued on exercise of options	11 October 2017	5,000	$1.00	5,000
Balance	30 June 2018	30,615,140		30,882,999

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of, and amounts paid on, the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options on issue
At 30 June 2018 there were 4,513,791 options over ordinary shares in the Company, exercisable at $1.00 per share which expired on 31 August 2018. Refer to note 25, Events after reporting period, for details of options exercised up to 31 August 2018.

Note 17. Issued capital (continued)

Capital risk management
The Company's objective when managing capital is to safeguard its ability to continue as a going concern so that it can provide returns for shareholders, benefits for other stakeholders and maintain an optimum capital structure to reduce its cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company would look to raise capital when an opportunity to invest in a business or company is seen as a value accretive transaction relative to the current Company's share price at the time of the investment.

Accounting policy for issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 18. 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 11 October 2017 5,000 shares were issued on exercise of options. As at 30 June 2018, 4,513,791 options (2017: 4,518,791) remained outstanding.

	2018	2017
Options outstanding:		
Opening balance	4,518,791	14,000,000
6 September 2016: Issue of options accompanying shares issued in a placement.	-	1,686,256
28 September 2016: Issue of options accompanying shares issued pursuant to a Share Purchase Plan.	-	572,809
Fully paid ordinary shares issued on exercise of options at $1.00 per share:		
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)
October 2017	(5,000)	-
Closing balance	4,513,791	4,518,791

Refer to note 25, Events after reporting period, for details of options exercised up to 31 August 2018.

Note 19. Earnings per share

	2018 $	2017 $
Profit/(loss) after income tax attributable to the owners of Henry Morgan Limited	(13,253,940)	21,146,553
	Cents	**Cents**
Basic earnings per share	(43.29)	96.15
Diluted earnings per share	(43.29)	82.57

Note 19. Earnings per share (continued)

In the calculation of diluted earnings per share, only 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 the options. In the case of a loss, the options are considered to have no dilutionary impact and consequently the diluted and the basic earnings per share are the same.

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	30,613,743	21,993,679
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	-	3,615,428
Weighted average number of ordinary shares used in calculating diluted earnings per share	30,613,743	25,609,107

Accounting policy for earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Note 20. Financial instruments

Financial risk management objectives
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 Investment Manager has been given the discretionary authority to manage and undertake investments on behalf of the Company.

The Investment Manager is required to act in accordance with the MSA and to report to the Board regularly on the portfolio's performance, material actions of the Investment Manager during the quarter and an explanation of the Investment 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 in relation to investments in its role as Investment Manager for the Company. The engagement of an experienced Investment Manager is designed to minimise financial risk 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 reviewing that the Company's approach to risk management, internal control systems and other processes.

Market Risk

Note 20. Financial instruments (continued)

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.

(i) The Company is predominantly exposed to market risk from its investment activities. This exposure may arise from investing in derivatives on regulated future exchanges. The Company seeks to reduce this risk through a number of measures including diversification 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's market risk is managed on a daily basis by the Investment Manager in accordance with the agreed policies and procedures in the MSA.

(ii) Foreign 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 the Australian dollar.

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 sees a significant risk of currency weakness in currencies other than the Australian dollar.

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:

	2018 $	2017 $
United States Dollar	144,546	1,917,167
Great Britain Pound	29,526	871,473
Hong Kong Dollar	(569,693)	1,090,469
Japanese Yen	15,697	401,727
Euro	148,642	158,115
Korean Won	4,018	835,583
New Zealand Dollar	53,602	-
Other	186,692	66
Total	13,030	5,274,600

The following table sets out the impact on the Company's profit and net assets from possible currency movements increase (decrease):

	AUD strengthened			AUD weakened		
- 2018	% change	Effect on profit before tax	Effect on equity	% change	Effect on profit before tax	Effect on equity
United States Dollar	3%	(4,336)	(4,336)	3%	4,336	4,336
Great Britain Pound	3%	(886)	(886)	3%	886	886
Hong Kong Dollar	3%	17,091	17,091	3%	(17,091)	(17,091)
Japanese Yen	3%	(471)	(471)	3%	471	471
Euro	3%	(4,459)	(4,459)	3%	4,459	4,459
Korean Won	3%	(121)	(121)	3%	121	121
New Zealand Dollar	3%	(1,608)	(1,608)	3%	1,608	1,608
Other	3%	(5,601)	(5,601)	3%	5,601	5,601
		(391)	(391)		391	391

Note 20. Financial instruments (continued)

- 2017	AUD strengthened % change	AUD strengthened Effect on profit before tax	AUD strengthened Effect on equity	AUD weakened % change	AUD weakened Effect on profit before tax	AUD weakened Effect on equity
United States Dollar	3%	(57,515)	(57,515)	3%	57,515	57,515
Great Britain Pound	3%	(26,144)	(26,144)	3%	26,144	26,144
Hong Kong Dollar	3%	(32,714)	(32,714)	3%	32,714	32,714
Japanese Yen	3%	(12,052)	(12,052)	3%	12,052	12,052
Euro	3%	(4,743)	(4,743)	3%	4,743	4,743
Korean Won	3%	(25,067)	(25,067)	3%	25,067	25,067
Other	3%	(2)	(2)	3%	2	2
		(158,237)	(158,237)		158,237	158,237

The sensitivity analysis is based on the assumption that the Australian dollar strengthened or weakened by the indicated 3% sensitivity rate 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.

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, including unlisted equities. The Investment Manager's investment decision process is fundamental to the management of price risk of all investments.

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.

An increase of 2% 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 $122,073 (2017: $6,800,372). A decrease of 2% in market prices would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

The sensitivity level demonstrated each year depends on the specific derivative contract open positions held at the balance date. The level is based on the initial margin percentage required to buy the derivative positions. The initial margin percentage requirement is considered to be a fair indicator of the perceived volatility of the derivative.

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:

Note 20. Financial instruments (continued)

2018	Non-interest Bearing $	Floating interest rate $	Fixed interest rate $	Total $
Financial Assets				
Cash and cash equivalents – at bank	46,867	-	-	46,867
Cash and cash equivalents – held with investment brokers (unrestricted)	267,862	-	-	267,862
Balances held with investment brokers (restricted)	122,073	-	-	122,073
Receivables	152,383	-	221,884	374,267
Term deposit	-	-	52,018	52,018
Foreign exchange bank notes	645,604	-	-	645,604
Derivative financial asset	60,139	-	-	60,139
	1,294,928	-	273,902	1,568,830

2017	Non-interest rate 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

Interest rate risk sensitivity analysis

Note 20. Financial instruments (continued)

As the financial assets at 30 June 2018 and 30 June 2017 were either non-interest bearing or have fixed interest, a change in interest rates applicable at the reporting date would not have affected the Company's profit or net assets.

Maturity Analysis
Total assets of $37,619,120 consist of $3,594,382 in current assets and $34,024,738 in non-current assets as follows:

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

Current tax receivable is a current asset expected to be received within six months.

Loans and receivables are all current and expected to be received within 3 months except for $221,884 which relates to a loan made to Capital Credit Pty Ltd.

Prepayments are current and will be amortised within 12 months.

Investments at fair value through profit or loss of $36,491,504 include $2,688,650 of current assets consisting of $2,043,046 of listed shares which have been sold since the end of the year and $645,604 of foreign banknotes able to be liquidated within one month.

Liabilities of $3,248,996 include current trade and other payables and derivative financial liabilities of $237,622 and non-current deferred tax of $3,011,374.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has a strict code for credit risk control, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Company obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Company does not hold any collateral.

Cash and balances held with brokers are held with highly rated Australian retail banks (AA-) and trading activities are conducted through regulated stockbrokers. Receivables are from unrated parties. The financial assets are categorised as follows:

	2018 $	**2017 $**
Risk Rating		
AA- Bank	98,885	4,341,431
A Broker	389,935	8,440,952
Unrated	1,080,010	1,005,783
Total	1,568,830	13,788,166

The maximum exposure to credit risk for derivatives is any unrealised profit earned and margins paid on the derivative positions that the Company held at the reporting date, foreign banknotes provided to others for trading and for loans and receivables. The credit risk exposure for cash and deposit holdings 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.

As at 30 June 2018, $5,389 of receivables were past due but not impaired, (2017: nil). A loan included in receivables is not overdue but has been impaired by $250,000 to $221,884 as detailed in Note 10.

Note 20. Financial instruments (continued)

Liquidity risk
Liquidity risk management requires the Company to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

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:

30 June 2018	Carrying amount	Contracted cash flow	At call	6 months or less
Financial liabilities				
Open derivative positions	70,794	70,794	-	70,794
Payables	166,828	166,828	-	166,828
	237,622	237,622	-	237,622

30 June 2017	Carrying amount	Contracted cash flow	At call	6 month or less
Financial liabilities				
Open Derivative positions	429,343	429,343	-	429,343
Payable	5,222,432	5,222,432	-	5,222,432
	5,651,775	5,651,775	-	5,651,775

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 21. Key management personnel disclosures

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 2018.

The total remuneration paid to KMP of the Company during the period is as follows:

	2018 $	2017 $
Short-term employee benefits	338,747	182,017
Post-employment benefits	2,429	-
	341,176	182,017

Post-employment benefits

These amounts represent superannuation and superannuation equivalents paid to KMP.

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by the auditor of the Company:

	2018 $	2017 $
Audit services -		
Audit or review of the financial statements	134,000	113,935

Note 23. Contingent liability

The Company has no contingent liabilities at 30 Jun 2018. (2017:nil)

Note 24. Related party transactions

Related party disclosures in accordance with the Accounting Standards are provided on the basis that the Investment Manager has significant economic influence over investment performance and variable returns to the Investment Manager. The Investment Manager is John Bridgeman Limited. For the purpose of the Accounting Standards only, the Investment Manager may be considered to be a related party of the Company, not withstanding the fact the Investment Manager does not exercise control over the financial and operating policies of the Company.

Transactions with the Investment Manager and entities controlled by the Investment Manager for the purposes of the accounting standards are as follows:
(i) Management and performance fee paid to the Investment Manager and reimbursement charges for time involved in accounting and professional services incurred by the Investment Manager.
(ii) Brokerage fees paid to JB Markets Pty Ltd for investment broking services provided to the Company.
(iii) Proprietary trading profit-sharing arrangement with Genesis Trading Pty Ltd.
(iv) Provision of foreign banknotes to JBFX Wholesale Pty Ltd on a fee basis for trading purposes.
(v) The Company holds shares in JBFG. An unrealised loss of $4,632,620 was recorded in the estimated value of this investment in the year ended 30 June 2018 (2017: unrealised gain $23,210,014).
(vi) The Company holds shares in JBL. An unrealised loss of $982,336 was recorded in the estimated value of this investment in the year ended 30 June 2018 (2017: unrealised gain $22,000).
(vii) The Company holds shares in BRL. An unrealised loss of $5,288,793 was recorded in the estimated value of this investment in the year ended 30 June 2018 (2017: unrealised gain $10,014,150).

Note 24. Related party transactions (continued)

Key management personnel
Disclosures relating to key management personnel are set out in note 21 and the Remuneration Report included in the Directors' Report.
The following transactions occurred with the Investment Manager and entities controlled by the Investment Manager for the purposes of the accounting standards:

	2018 $	2017 $
Sales/revenue earned:		
Foreign currency gain/(loss) on bank notes traded through JBFX	130,945	-
Trading fee charged on foreign currency bank notes traded through JBFX	91,304	-
Interest earned on loan to GPC	21,884	-
Profit Sharing with Genesis Proprietary Trading Pty Ltd	101,588	-
Purchases/expenditure:		
Management and performance fees charged by Investment Manager	1,714,418	8,595,891
Charges for time involved in accounting, audit, legal and independent expert report input by Investment Manager	767,530	-
Brokerage fees charged by JBM	1,304,107	584,816
Other transactions:		
During the year the Company applied for and was allotted 1,398,573 ordinary shares and the same number of options over ordinary shares in the Investment Manager for $2,867,074. The Company held 55,000 shares in the Investment Manager at the end of the previous year which had been purchased on market.*		
These holdings at year end were valued at fair value of:	2,054,877	110,000

* On 3 August 2018 1,398,573 of those shares were bought back by John Bridgeman Limited for $2,867,074. Refer to note 16 for details of the fair value at the reporting date.

	2018 $	2017 $
Loans and receivables:		
Short-term loan to GPC (a)	221,884	-
Foreign currency banknotes deposited with JBFX (b)	645,604	-
Trading fee on foreign banknotes receivable from JBFX	4,717	-
Trade receivable from JBL	6,250	-
Proprietary trading profit share receivable from Genesis	101,588	-
Trade and other payables:		
Amounts owing (from)/to Investment Manager for management and performance fees	(6,251)	3,580,141
Amounts owing to JBM for brokerage fees	5,413	584,816

All outstanding balances are to be settled within 12 months of the reporting date.

(a) Refer to Note 10 for further detail.

(b) Refer to Note 13 for further detail.

Note 25. Events after the reporting period

Exercise of listed options to shares

The Company raised additional capital of $1,731,782 between 16 and 31 August 2018 from the issue of ordinary shares pursuant to the exercise of listed options.

Note 25. Events after the reporting period (continued)

Sale of shares in a buy-back transaction

On 3 August 2018, 1,398,573 shares held by the Company in the John Bridgeman Limited were bought back by John Bridgeman Limited at $2.05 for each share with its one attached option. The sale on 3 August 2018 had the effect of cancelling the acquisition of these shares (and attached options) which were purchased at that same price on 17 November 2017. Total cash received by the Company on disposal was $2,867,074. At 30 June 2018 the carrying amount of the shares and options disposed was $2,054,877. The net realised gain on the disposal of these securities was $812,197. After the buy-back the Company holds 55,000 shares in the Investment Manager and no options.

Loan to John Bridgeman Limited

On 8 August 2018 the Company made a loan of $2,411,000 to the John Bridgeman Limited for a term of one year at 11.5% pa interest.

John Bridgeman Limited's intention to make an off-market takeover for shares in the Company

On 10 September 2018, John Bridgeman Limited announced its intention to make an off-market takeover offer to acquire all of the issued shares in the Company that it currently does not own together with an off-market takeover offer to acquire all of the issued shares and options in BHD that it does not own. The offers are not interdependent.

The proposed offer in relation to the Company is for accepting shareholders to receive 0.95 John Bridgeman Limited shares for each share in the Company. The offer is subject to 50.1% acceptance conditions. Further information is available in the announcements made by the Company to the ASX which can be accessed at: https://henrymorgan.com.au/investor-centre/announcements.html

No other matter or circumstance has arisen since 30 June 2018 which has not otherwise been disclosed in this report that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 26. Reconciliation of profit/(loss) after income tax to net cash used in operating activities

	2018 $	2017 $
Profit/(loss) after income tax (expense)/benefit for the year	(13,253,940)	21,146,553
Adjustments for:		
Unrealised (gain)/loss on investments	11,012,051	(32,383,688)
Unrealised (gain)/loss on trading	(350,574)	(412,573)
Unrealised (gain)/loss on foreign exchange notes	(222,250)	-
Impairment of assets	250,000	-
Change in operating assets and liabilities:		
Decrease/(increase) in loans and receivables	(70,063)	555,093
Decrease/(increase) in deferred tax assets	(5,698,313)	9,062,809
Increase in prepayments	(2,179)	-
Decrease in term deposits	(1,015)	-
Balances held with brokers and proprietary trading platforms	3,354,603	5,797
Increase/(decrease) in trade and other payables	(5,031,015)	4,964,643
Increase/(decrease) in provision for income tax	817,295	(1,792,791)
Proceeds from sales of shares	2,955,238	3,987,535
Purchase of investments	(1,831,458)	(18,594,288)
Purchase of foreign currency notes	(423,355)	-
Net cash used in operating activities	(8,494,975)	(13,460,910)

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Mr Stuart McAuliffe
Managing Director

30 September 2018

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 2018 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 2018;
- 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; and
- 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

The ***Key Audit Matters*** we identified are:

- Valuation of investments in listed and unlisted entities;
- Management and performance fee expenses; and
- Related party transactions.

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were 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 these matters.

Valuation of investments in listed ($2,043,046) and unlisted entities ($33,802,854)

Refer to Note 13 to the Financial Report

The key audit matter

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

- the size of the balance, being 95% of total assets;
- the judgemental nature in the application of valuation techniques used to determine fair value, as opposed to quoted market prices. Of the total investments in listed entities of $2,043,046, an amount of $1,994,738 relates to equities not actively traded in the market. As a consequence, the quoted market price was not available to determine fair value at 30 June 2018;
- the valuation techniques applied to determine fair value of listed and unlisted investments require significant judgement, particularly where the valuation inputs to these models were not observable in the market. These judgements include:
  - forecast earnings;
  - forecast growth rates; and
  - implied earnings and revenue multiples.

  This necessitated additional audit focus on the suitability and consistency with generally accepted valuation principles;
- the complexity of valuation models and techniques applied in estimating the fair value of listed and unlisted investments; and
- the determination of the fair value hierarchy due to the degree of complexity and judgement applied in the determination of the valuation of investments in listed and unlisted entities.

How the matter was addressed in our audit

Our procedures included:

- working with our valuation specialists, we used our knowledge of the underlying businesses of the investees, to assess the Company's valuations, including significant judgements and assumptions. This included:
  - assessing the valuation methodologies applied and the integrity of the valuation models used, including the accuracy of the underlying data;
  - comparing the implied earnings and revenue multiples from comparable market transactions to the implied multiples from the Company's valuations;
  - comparing the forecast earnings contained in the valuation models to the investees' management forecasts and examining the forecast earnings based on our understanding of the business and the economic environment it operates in;
  - assessing the accuracy of the Company's forecasting by comparing previous forecasts to actual results;
  - assessing the valuation methodologies applied and the determination of the fair value hierarchy;
  - challenged the Company's significant forecast cash flow and growth assumptions. We compared key events to management's plan and strategy. We applied increased scepticism to forecasts in the areas where previous forecasts were not achieved. We used our knowledge of the Company, their past performance, business and customers, and our industry experience; and
  - assessing the disclosure of the quantitative and qualitative considerations when determining the fair value hierarchy in the financial report of the Company in accordance with Australian Accounting Standards.

The Company uses a complex model to perform their valuation of investments in unlisted entities. The models are largely manually developed, using internal sources as inputs to the assumptions. The investees' underlying businesses have not met prior forecasts, raising our concern for reliability of current forecasts. Complex modelling, particularly those unobservable inputs based on continued expansion of the underlying businesses, tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application. In assessing this Key Audit Matter, we involved senior audit team members and our valuation specialists, who understand the Company's investment profile, the businesses' of the underlying investments and the economic environment they operate in.	

Management and performance fee expenses ($1,714,418)	
Refer to Note 6 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The criteria for the determination of management and performance fees expenses ("fees") are set out in the Management Services Agreement. Fees charged by the Investment Manager, John Bridgeman Limited, are considered to be a Key Audit Matter due to: • the estimation uncertainty arising from the determination of net tangible assets due to the judgements required to determine the fair value of investments in listed and unlisted entities (as described above). This necessitated additional audit focus to assess the fees charged and paid to the Investment Manager.	Our procedures included: • evaluating the underlying data used in the determination of net tangible assets which is driven by the valuation of investments in listed and unlisted entities; • assessing other recharges from the Investment Manager which are not covered under the Management Services Agreement; and • assessing the fees charged by the Investment Manager based on the criteria set out in the Management Services Agreement and comparing these fees to the invoices raised by the Investment Manager and payments made by the Company.

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Related party transactions	
Refer to Note 24 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The Company is a Listed Investment Company, managed by John Bridgeman Limited, the Investment Manager. John Bridgeman Limited is also the parent entity of a diverse group of companies with complex cross shareholdings. There are significant transactions between the Company and entities controlled by John Bridgeman Limited. Related party transactions are considered a key audit matter due to: • the complex nature of the John Bridgeman Limited Group structure and the judgement required to identify related party transactions; • the quantum of related party transactions relative to the Company's financial position and performance; and • the complexity of the related party transactions and the judgement required to determine the appropriate accounting treatment under Australian Accounting Standards.	Our procedures included: • reading contracts, agreements and other relevant documentation to understand the nature, terms and conditions of the transactions; • assessing the related party transactions recorded against our understanding of the arrangement and our understanding of the Company's business; • evaluating the accounting treatment adopted by the Company against the requirements of Australian Accounting Standards, including the involvement of technical accounting specialists for complex related party transactions; and • assessing the disclosure of related party transactions in accordance with Australian Accounting Standards.

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 and 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; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 the 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_responsibilities/ar2.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 2018, 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 11 to 15 of the Directors' Report for the year ended 30 June 2018.

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

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Simon Crane
Partner

Brisbane
30 September 2018