Our Ref: CS:CS:20180488
Your Ref:

6 December 2018

ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 20000

Attention: **Company Announcements**

By fax: **1300 135 638**

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Dear Sir/Madam

John Bridgeman Limited (NSX:JBL) off-market takeover bid for Henry Morgan Limited (ASX:HML)

We act for Henry Morgan Limited.

In accordance with item 14 of section 633(1) of the Corporations Act 2001 (**Corporations Act**), please find attached a copy of the target's statement and accompanying independent expert's report in relation to the Company's response to the off market takeover bid for all of the ordinary shares by John Bridgeman Limited (**Target's Statement).**

The Target's Statement has been lodged with the Australian Securities and Investments Commission and served on JBL today.

Yours sincerely

Caroline Snow

Caroline Snow
Partner
AJ & Co Lawyers

Henry Morgan

Target's Statement

In response to the offer by John Bridgeman Limited (JBL) to acquire all of shares in Henry Morgan Limited (HML)

The Voting Directors of HML recommend that, in the absence of a Superior Proposal, you ACCEPT the JBL Offer to purchase all of your HML Shares for 0.95 JBL Shares per HML Share.

The Independent Expert has concluded that the JBL Offer is not fair but reasonable for HML Shareholders not Associated with JBL.

This is an important document and requires your immediate attention.

If you are in doubt as to how to deal with this document, you should consult your legal, financial or other professional adviser immediately.

AJ&CO **Legal Adviser**

Important Notices

Nature of this document

This document is a Target's Statement dated 6 December 2018 issued by Henry Morgan Limited ACN 602 041 770 (**HML**) in accordance with Division 3 of Part 6.5 of the Corporations Act, in response to the off-market takeover bid announced on 10 September 2018 by John Bridgeman Limited ACN 603 477 185 (**JBL**).

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 11. That section also sets out some rules of interpretation which apply to this Target's Statement.

Investment decision and no account of personal circumstances

The Voting Directors of HML recommend that you read this Target's Statement and the Bidder's Statement in full and seek independent advice if you have any queries in respect of the JBL Offer. This Target's Statement should not be taken as personal financial, investment or tax advice, as each of HML's Shareholder's deliberations and decisions will depend upon their own individual financial situation, tax position, investment objectives and particular needs. You should seek independent financial, taxation, legal or other professional advice before making a decision whether or not to accept the Offer.

Forward-looking statements

This Target's Statement may contain forward-looking statements, which include all statements other than statements of historical fact. HML Shareholders should note that forward-looking statements are only expectations or predictions and are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of HML. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward looking statement.

The risks, variables and other factors that may affect the forward-looking statements include matters specific to the sectors in which HML operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; the price performance of HML Shares, including the risk of possible price decline in the absence of the JBL Offer or other takeover or merger speculation; and risks associated with the business and operations of HML.

None of HML, its officers, advisers, employees, nor any other person (including any person involved in the preparation of this Target's Statement), subject to the Corporations Act, gives any representation or warranty (express or implied) or gives any assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statements, or any events or results expressed or implied in any forward-looking statements, except to the extent required by law. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements.

The forward-looking statements in this Target's Statement reflect views held as at the date of this Target's Statement.

ASIC and ASX

A copy of this Target's Statement was lodged with ASIC on 6 December 2018 and provided to the ASX on 6 December 2018. Neither ASIC nor ASX, nor any of their respective officers, takes any responsibility for the content of this Target's Statement.

Disclaimer as to information

The information in this Target's Statement about JBL has been compiled from, or is otherwise based on, information obtained from either JBL, or publicly available sources, and has not been independently audited or verified by HML or its advisers. Accordingly, HML does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information. If any information obtained from JBL or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward-looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward-looking statements.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes responsibility for that report. Neither HML nor any of its officers, advisers or employees assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of HML, in relation to the information which it has provided to the Independent Expert.

Foreign shareholders

The release, publication or distribution of this Target's Statement in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations. This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

Privacy

HML has collected your information from the register of HML Shareholders for the purpose of providing you with this Target's Statement. The type of information HML has collected about you includes your name, contact details and information about your holding of HML Shares. Without this information, HML would be hindered in its ability to issue this Target's Statement.

The Corporations Act requires the name and address of HML Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the Link Market Services, and print and mail service providers) and may be required to be disclosed to regulators such as ASIC.

Further information

If you would like more information about HML Shares which you hold, please contact the HML Registry, Link Market Services on 1300 660 106 (within Australia) or +61 1300 660 106 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday.

Henry Morgan

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Key Dates

Announcement Date	10 September 2018
Date of the Bidder's Statement	31 October 2018
Offer Period Commences	6 November 2018
Date of this Target's Statement	6 December 2018
Last date for JBL to provide Notice of Status of Conditions[1]	7 January 2019
Offer Period ends (unless extended by JBL)	14 January 2019

Further Information

HML Shareholders may call 1300 660 106 (within Australia) or +61 1300 660 106 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST) if they have any queries in relation to the JBL Offer.

[1] If the Offer Period is extended, this date will be taken to be postponed for the same period.

Letter from Directors

Dear Shareholders,

Background

On 10 September 2018 (**Bid Announcement Date**), JBL announced its intention to make an unsolicited takeover offer for all of the HML Shares in which it does not have a Relevant Interest (JBL Offer). At the Bid Announcement Date, JBL held a Relevant Interest in 3,579,811 HML Shares and Voting Power of approximately 11.07%.

Subject to satisfaction or waiver of the Defeating Conditions, at the date of this Target's Statement, JBL holds a Relevant Interest in 18,889,972 HML Shares and Voting Power of approximately 58.40%. Shareholders should note that approximately 14,431,344 of these HML Shares have withdrawal rights under the JBL Offer which are available to HML Shareholders who accepted prior to 22 November 2018. These withdrawal rights expire one month from receipt of the Supplementary Bidder's Statement.

Under the terms of the JBL Offer, you are being offered 0.95 JBL Shares per HML Share.

The Voting Directors have carefully reviewed the JBL Offer and the Independent Expert's Report and recommend that in the absence of a Superior Proposal, HML Shareholders accept the JBL Offer for their HML Shares.

In these circumstances, and in forming their recommendation, your Voting Directors have carefully considered the following:

- the scale of the Merged Group compared with the potential impact of HML remaining a micro-cap listed investment company listed on the ASX;
- the impact of the suspension of trade of HML Shares on the ASX since 17 June 2017; and
- the liquidity which may be available for HML Shareholders in the event that the JBL Offer is successful and the fact that HML Shareholders will own shares in the Merged Group noting that position is highly dependent on the available market for JBL Shares on the NSX.

The Independent Expert has concluded that the JBL Offer is not fair but is reasonable to HML Shareholders not Associated with JBL.

As at the date of this Target's Statement, no Superior Proposal has emerged. The Voting Directors consider that it is unlikely a superior offer will emerge from another bidder, given JBL's role as HML's investment manager and its current Relevant Interest in HML Shares.

These, and other, reasons for recommending that you accept the JBL Offer, in the absence of a Superior Proposal, are discussed in more detail in Section 1 of this Target's Statement.

Further important information

This Target's Statement contains HML's formal response to the JBL Offer. The Independent Expert's Report is set out in Annexure B. We strongly encourage you to read all the information contained in this Target's Statement carefully (including the Independent Expert's Report) and to seek independent advice before deciding whether or not to accept the JBL Offer.

The JBL Offer is scheduled to close at 7:00pm (Sydney time) on 14 January 2019. To accept the JBL Offer, you should follow the instructions outlined in the Bidder's Statement, the Acceptance Form and Section 4.2 of this Target's Statement.

No action is required if you decide not to accept the JBL Offer.

HML Shareholders should note that there are risks associated with continuing investment in HML as well as risks associated with accepting the JBL Offer. The key risks are set out in Section 8 of this Target's Statement. Many of these risks are outside the control of HML and its Directors and cannot be mitigated.

If you need any more information about the JBL Offer, we recommend that you seek professional advice, or call 1300 660 106 (within Australia) or +61 1300 660 106 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).

Yours faithfully

P.C. Ziegler

Peter Ziegler
Non-Executive Director
Chairman, Independent Board Committee
Henry Morgan Limited

6 December 2018

1. Reasons why you should accept the JBL Offer

This Section 1 summarises the key reasons why, after consideration of the Independent Expert's Report and all other relevant matters, the Voting Directors recommend to HML Shareholders that they accept the JBL Offer, in the absence of a Superior Proposal.

The Offer Consideration under the JBL Offer is 0.95 JBL Shares per HML Share.

1.1 The Independent Expert has concluded that the JBL Offer is not fair but is reasonable for HML Shareholders not Associated with JBL

The IBC appointed the Independent Expert to prepare an Independent Expert's Report on the JBL Offer. The Independent Expert concluded that the JBL Offer is not fair but is reasonable for HML Shareholders not Associated with JBL.

The Independent Expert considers that the JBL Offer is reasonable to HML Shareholders not Associated with JBL given the relatively higher execution risks and uncertain timeline and net proceeds associated with the limited alternatives available to HML Shareholders not Associated with JBL.

The Independent Expert has valued 100% of the HML Shares at a price of between 85 cents and 93 cents per HML Share, whilst the fair market value of the JBL Offer Consideration is between 57 cents and 63 cents per HML Share.

The Independent Expert considers that the JBL Offer is not fair to HML Shareholders not Associated with JBL. The Independent Expert has determined that the value of a HML Share is above the fair market value of the JBL Offer Consideration in the Merged Group (on a minority basis) offered to HML Shareholders as consideration. Accordingly the JBL Offer is not fair.

However, the Independent Expert has opined that the JBL Offer is less 'unfair' if the acquisition of JB Financial Group Pty Ltd proceeds and becomes part of the Merged Group. Further details regarding the proposed acquisition of JB Financial Group Pty Ltd by JBL is set out in section 4.1 of the Bidder's Statement (as amended by section 3.5 of the Supplementary Bidder's Statement). If the JB Financial Group Pty Ltd acquisition does proceed, the Independent Expert has estimated that this would increase the value of a share in the Merged Group by approximately 9 cents.

A copy of the Independent Expert's Report is attached to this Target's Statement as Annexure B. The Voting Directors encourage HML Shareholders to read the Independent Expert's Report in its entirety before making a decision as to whether or not to accept the JBL Offer.

As HML has been suspended from trade on the ASX since 8 June 2017 and is otherwise a thinly traded stock, its last trading price may not be a reliable guide to the fair value of HML Shares.

1.2 The JBL Offer is an all-scrip offer which delivers certain value for your HML Shares

Subject to the Defeating Conditions, the Offer Consideration of 0.95 JBL Shares per HML Share provides HML Shareholders with the opportunity to realise value for their entire HML Shareholding.

The Independent Expert has valued 100% of the HML Shares at a price of between 85 cents and 93 cents per HML Share, whilst the fair market value of the JBL Offer Consideration is between 57 cents and 63 cents per HML Share.

If you accept the JBL Offer, you will cease to be exposed to the risks associated with an investment in HML (see Section 8.1 of this Target's Statement).

If you retain your HML Shares, the price which you will be able to realise is more uncertain and you will continue to be exposed to the risks associated with being a HML Shareholder. The key risk factors for remaining a HML Shareholder are discussed in Section 8.1.

If you accept the JBL Offer, subject to satisfaction or waiver of the Defeating Conditions, you will:

(a) receive 0.95 JBL Shares for each of your HML Shares;

(b) not incur any brokerage fees which would likely be incurred if you were to sell your HML Shares on-market (assuming reinstatement of HML Shares on the ASX); and

(c) subject to you providing the relevant documents to JBL with your acceptance, receive your Offer Consideration within one month of the later of:

  (i) the JBL Offer being accepted by you; and

  (ii) the date on which all the Defeating Conditions have been freed or fulfilled,

  but in any event, within 21 days of the end of the Offer Period (assuming all Defeating Conditions have been satisfied or waived).

The JBL Offer is subject to various Defeating Conditions, including JBL acquiring greater than 50.1% of the HML Shares. HML Shareholders should note that a number of these conditions are outside the control of HML and (in certain cases) JBL.

The Defeating Conditions are summarised in Section 7.3 and set out in full in Annexure A of this Target's Statement. HML Shareholders should refer to Section 7.4 of this Target's Statement for further information on the status of the Defeating Conditions.

1.3 The JBL Offer will result in a Merged Group which may offer a diversified investment

HML is a listed investment company:

(a) which seeks to provide investors with the opportunity to gain exposure to an investment Portfolio which is actively managed the investment manager, JBL; and

(b) with an investment strategy that seeks to take advantage of imbalances in global market valuations through the active management of investments, predominantly in global exchange traded futures contracts including equity market indices, fixed income, currencies and commodities and fixed income futures.

In contrast, the principal activities of JBL consist of providing investment management services to listed and unlisted investment companies, including HML, Bartholomew Roberts Pty Ltd, BHD and the JB High Alpha Fund, as well as investing either directly or indirectly in listed and unlisted companies in a variety of sectors.

In addition to the relevant investment management services agreement, JBL holds the following interests in each of those entities:

(a) 9.78% in HML;

(b) 51.71% in Bartholomew Roberts Pty Ltd; and

(c) 0.19% in BHD.

JBL has indicated in its Bidder's Statement that it intends to continue to act as investment manager under the current terms of the Management Services Agreement with HML if the JBL Offer is successful.

In addition, JBL has indicated that it intends to proceed with its current offer to acquire all of the shares that it currently does not own in JB Financial Group Pty Ltd to provide complementary income streams from JBL's investment management arm as well as the operational businesses within JB Financial Group Pty Ltd. The Voting Directors encourage you to carefully read section 4.1 of the Bidder's Statement and section 3.5 of the Supplementary Bidder's Statement, which contain more details regarding JB Financial Group Pty Ltd and JBL's intentions. Information regarding the business of JB Financial Group Pty Ltd is also detailed in the Independent Expert's Report included in this Target's Statement.

If the JBL Offer is successful, your investment in JBL will be an investment in the Merged Group which will include operations as an investment manager with HML becoming a subsidiary investment company.

You may believe that an investment in the Merged Group (which may comprise any combination of JBL, HML and JB Financial Group Pty Ltd or JBL, JB Financial Group Pty Ltd, HML and/or BHD if the Concurrent Offer is successful) may meet your investment objectives.

1.4 The JBL Offer Consideration will trade on the NSX

JBL is listed on the NSX.

The JBL Offer Consideration will trade on the NSX. The NSX is an alternative Australian securities which has a financial and continuous disclosure regime which largely corresponds to the regime of the ASX. Securities listed on the NSX trade through brokers on the CHESS platform.

The NSX is a smaller exchange than the ASX (where HML shares are currently listed). HML has been suspended from trade on the ASX since 8 June 2017. At the date of this Target's Statement, the ASX has indicated that it will not lift the suspension at this time, pending their further queries. However, the ASX is currently unable to specify the nature of their further queries or the estimated date by which HML will receive these queries.

HML is taking every reasonable step to have the suspension lifted and is ensuring that it is doing all things lawfully required to enable this to happen for the benefit of HML Shareholders. However, there is no certainty as to when or if the suspension will be lifted.

The Offer Consideration for your HML Shares is JBL Shares which will be listed on the NSX. As a result, these JBL Shares will be able to be sold on-market to exit your investment if you so desire.

1.5 No Superior Proposal has emerged as at the date of this Target's Statement

As at the date of this Target's Statement, no alternative proposals to the JBL Offer have been put to HML or are currently under consideration by HML, and the Voting Directors are not aware of any other offer or proposal that might be an alternative to the JBL Offer.

In light of JBL's Relevant Interest in 3,579,811 HML Shares, Voting Power of 11.07% (as at the date of the Bidder's Statement) and its role as investment manager to HML, the Voting Directors consider that it is unlikely that a Superior Proposal will be forthcoming before the end of the Offer Period.

If a competing proposal is received prior to the end of the Offer Period, the Voting Directors will carefully consider the proposal and advise HML Shareholders of their recommendation.

1.6 There are risks to not accepting the JBL Offer

If you choose not to accept the JBL Offer, there are a number of potentially adverse consequences of which you should be aware.

(a) You will continue to be exposed to the risks associated with being a HML Shareholder

There are a number of risks which may affect the future operating and financial performance of HML. If you choose not to accept the JBL Offer, you will continue to be exposed to these risks associated with being a HML Shareholder, including in relation to:

(i) the risk that HML will not be reinstated to trading on the ASX;

(ii) the risk that the ASX will exercise its discretion under the ASX Listing Rules to remove HML from the official list of the ASX;

(iii) the risk that even if reinstated, the risk of suspension from the ASX continues to such an extent that the HML Board considers steps to delist HML from the ASX;[2] or

(iv) HML business risks may affect HML's ability to achieve its objectives including:

(A) any variation in global or local equity markets, global or local bond markets or in the value of the Australian dollar against other major currencies; and

(B) any investment decisions made by JBL in its capacity as HML's investment manager that may lead to negative returns being realised by HML.

[2] HML Shareholder approval would be required for HML to take steps to remove HML from the official list of the ASX. Shareholder approval is not required in circumstances where the ASX exercises its discretion to remove HML from the official list of the ASX.

The investment approach of JBL is based on the experience of JBL's staff, research into past data and the application of research into mathematical models that attempt to forecast or understand resultant financial risk and returns.

However, there can be no assurance of HML's profitability and HML Shareholders may suffer a loss in either the short or longer term.

HML Shareholders should refer to Section 8 for further information regarding the risks associated with an investment in HML.

(b) HML Share price may fall if the JBL Offer is unsuccessful

The Voting Directors believe that if the JBL Offer is unsuccessful and no alternative Superior Proposal emerges, the HML Share price may, in the event HML is reinstated to the official list of the ASX, trade below the implied value of the Offer Consideration.

(c) Risk of compulsory acquisition

If the Defeating Conditions are satisfied or waived, and JBL proceeds to compulsory acquisition following the end of the Offer Period (which it has stated that it intends to do where it is entitled to do so), your HML Shares will be compulsorily acquired and you will receive the same consideration that you would have received under the JBL Offer. However, you are unlikely to receive the consideration at the same time as those HML Shareholders who accept the JBL Offer.

(d) Risk of becoming a minority shareholder

The JBL Offer is presently subject to a 50.1% minimum acceptance Defeating Condition, which JBL has not as at the date of this Target's Statement indicated it would waive. If JBL waives this Defeating Condition (and all other Defeating Conditions are waived or satisfied), and you have not accepted the JBL Offer by the end of the Offer Period in respect of all of your HML Shares, you may become a minority HML Shareholder in a company controlled by a single large HML Shareholder, being JBL. JBL will have control of the company (to the extent it acquires Relevant Interests in at least 50.1% of HML Shares) which may reduce liquidity of HML Shares.

This may make it more difficult to sell your HML Shares outside the JBL Offer at current price levels. Refer to Section 8.1 regarding the possible implications of becoming a minority HML Shareholder.

There is also a possibility of HML being delisted following the JBL Offer, depending on the level of acceptances. JBL has stated in its Bidder's Statement that where it acquires between 50.1% and 90% of HML Shares, it intends to procure that HML be removed from the official list of the ASX (subject to HML Shareholder approval where necessary). This means you may be a shareholder in an unlisted company controlled by JBL with no exit mechanism for your investment other than an off-market transfer of your shares.

2. Reasons why you may decide not to accept the JBL Offer

This Section 2 summarises the key reasons why you may decide not to accept the JBL Offer.

2.1 You may wish to remain a HML Shareholder

If you accept the JBL Offer, you will no longer be entitled to participate in the future financial performance of HML or directly exercise the rights of being a HML Shareholder.

Section 5 of this Target's Statement contains information about HML, and Section 8 contains information about the risks of remaining a HML Shareholder, which you should consider in making your decision.

2.2 You may disagree with the Voting Directors' recommendation or the conclusions of the Independent Expert

You may believe that the Offer Consideration of 0.95 JBL Shares per HML Share is insufficient and you may hold a different view as to the value of HML Shares to both the Voting Directors and the Independent Expert.

2.3 The Merged Group may not meet your investment objectives

HML is a listed investment company which invest in global markets through derivative instruments providing exposure to equities, equity indices, bonds, currencies and commodities. In addition, HML also invests in listed and unlisted securities and in foreign currency banknotes, with an aim of achieving above average risk adjusted returns.

In contrast the principal activities of JBL consist of providing investment management services to listed investment companies, including HML, as well as investing either directly or indirectly in listed and unlisted companies in a variety of sectors.

You may believe that an investment in the Merged Group (which may comprise any combination of JBL and HML or JBL, HML and BHD if the Concurrent Offer is successful), may be less desirable than an investment in HML depending on your investment objectives.

The composition of the Merged Group could potentially result in various outcomes and prospects for the Merged Group. The Merged Group will be listed on the NSX, which is an alternate exchange in Australia.

2.4 You may not wish to own shares which are listed on the NSX

JBL Shares are listed on the NSX. The level of liquidity of JBL Shares on the NSX may be lower than on other, large and more established markets such as the ASX.

However, HML Shareholders should note that whilst HML Shares are listed on the official list of the ASX, they are currently suspended from trade and there is no certainty that they will be re-instated by the ASX. As a result, there is no on market liquidity in HML Shares at this time.

2.5 You may consider that there is a potential for a Superior Proposal to emerge

You may believe that a Superior Proposal for all HML Shares could emerge in the future.

However, as at the date of this Target's Statement, no alternative or Superior Proposal has been received, and the Voting Directors consider it unlikely that a Superior Proposal will emerge.

2.6 The tax consequences of the JBL Offer may not be suitable to your financial position

If you accept the JBL Offer, it may result in taxation consequences for you, including exposure to CGT. Please refer to Section 9 of this Target's Statement for further information. However, HML Shareholders should not rely on the disclosure of taxation considerations in Section 9 of this Target's Statement as being advice on their own affairs.

The Voting Directors encourage HML Shareholders to consult with their independent taxation advisers regarding the taxation implications of accepting the JBL Offer given their own particular circumstances.

2.7 Other matters

In considering whether to accept the JBL Offer, the Voting Directors encourage you to:

(a) read both this Target's Statement (including the Independent Expert's Report) and the Bidder's Statement in their entirety;

(b) consider the current and future prospects of HML;

(c) have regard to your individual risk profile, portfolio strategy, tax considerations and financial circumstances;

(d) obtain independent financial advice from your own broker or financial adviser regarding the JBL Offer; and

(e) obtain taxation advice on the consequences for you of accepting the JBL Offer.

3. Frequently asked questions

This Section 3 answers some commonly asked questions about the JBL Offer. It is not intended to address all relevant issues for HML Shareholders. This Section should be read together with all other parts of this Target's Statement (including the Independent Expert's Report).

Question	Answer
Who is offering to purchase my HML Shares?	The JBL Offer is being made by JBL, which: • at the date of the Bidder's Statement holds a Relevant Interest in 3,579,811 HML Shares, and Voting Power of approximately 11.07%; and • at the date of this Target's Statement holds a Relevant Interest in 18,889,972 HML Shares and Voting Power of approximately 58.40% (noting that approximately 14,431,344 of these HML Shares continue to be subject to withdrawal rights as described in section 5 of the Supplementary Bidder's Statement and section 7.6 of this Target's Statement. These withdrawal rights expire one month from receipt of the Supplementary Bidder's Statement. JBL is the investment manager of HML. Further information in relation to JBL is set out in Section 6of this Target's Statement.
What is JBL offering for my HML Shares?	The Offer Consideration under the JBL Offer is 0.95 JBL Shares per HML Share.
What is the Bidder's Statement?	The Bidder's Statement is the document prepared by JBL setting out the terms of the JBL Offer, a copy of which was originally dated and lodged with ASIC and released on the ASX on 1 November 2018. It is varied by the Supplementary Bidder's Statement prepared by JBL varying the terms of the JBL Offer which was originally dated and lodged with ASIC and released on the ASX on 22 November 2018.
What is this Target's Statement?	This Target's Statement is HML's formal response to the JBL Offer. The Target's Statement contains information to help you decide whether to accept the JBL Offer for your HML Shares.
What choices do I have as an HML Shareholder?	As an HML Shareholder, you have the following choices in respect of your HML Shares: (a) accept the JBL Offer; (b) sell some or all of your HML Shares on-market (noting that this option is only available to HML Shareholders in circumstances where HML is readmitted to trade on the ASX during the Offer Period), unless you have previously accepted the JBL Offer and have not

Question	Answer
	validly withdrawn your acceptance (see below); (c) sell some or all of your HML Shares off-market, unless you have previously accepted the JBL Offer and have not validly withdrawn your acceptance (see below); (d) withdraw your previous acceptance of the JBL Offer (see below); or (e) reject the JBL Offer by doing nothing. There are several implications in relation to each of the above choices. A summary of these implications is set out in Sections 4 and 8 of this Target's Statement. You should seek legal, financial and taxation advice from your professional adviser regarding the action that you should take in relation to the JBL Offer.
What are the Voting Directors recommending?	The Voting Directors recommend that you ACCEPT the JBL Offer, in the absence of a Superior Proposal. The reasons for the Voting Directors' recommendation are set out in Section 1 of this Target's Statement This recommendation has been made after consideration of all relevant factors, including the opinion of the Independent Expert contained in the Independent Expert Report included with this Target's Statement.
What does the Independent Expert say?	The Independent Expert has concluded that the JBL Offer is not fair but is reasonable to HML Shareholders not Associated with JBL. The Independent Expert considers that the JBL Offer is reasonable to HML Shareholders not Associated with JBL given the relatively higher execution risks and uncertain timeline and net proceeds associated with the limited alternatives available to HML Shareholders not Associated with JBL. The Independent Expert has valued 100% of the HML Shares at a price of between 85 cents and 93 cents and per HML Share, whilst the fair market value of the JBL Offer Consideration is between 57 cents and 63 cents per HML Share. The Independent Expert considers that the JBL Offer is not fair to HML Shareholders not Associated with JBL. The Independent Expert has determined that the value of an HML Share is above the fair market value of the JBL Offer Consideration in the Merged Group (on a minority basis) offered to HML Shareholders as consideration. Accordingly the JBL Offer is not fair. However, the Independent Expert has opined that the JBL Offer is less 'unfair' if the acquisition of JB Financial Group Pty Ltd proceeds and becomes part of the Merged Group. Further details regarding the proposed acquisition of JB Financial Group Pty Ltd by JBL is set out in section 4.1 of the

Question	Answer
	Bidder's Statement (as amended by section 3.5 of the Supplementary Bidder's Statement). If the JB Financial Group Pty Ltd acquisition does proceed, the Independent Expert has estimated that this would increase the value of a share in the Merged Group by approximately 9 cents. A copy of the Independent Expert's Report is attached to this Target's Statement as Annexure B. You should read the Independent Expert's Report carefully.
Are there any reasons why I might not accept the JBL Offer?	Possible reasons for not accepting the JBL Offer are set out in Section 2 of this Target's Statement.
How do I accept the JBL Offer?	Instructions on how to accept the JBL Offer are set out in Section 4.2 of this Target's Statement, Section 1 of the Bidder's Statement and the Acceptance Form which accompanies the Bidder's Statement. If you want to accept the JBL Offer, you should follow these instructions carefully to ensure that your acceptance is valid.
How do I reject the JBL Offer?	To reject the JBL Offer, you do not need to do anything.
When does the JBL Offer close?	The Offer Period must remain open for at least 1 month. It is currently scheduled to close at 7:00pm (Sydney time) on 14 January 2019 but can be extended in certain circumstances. The Voting Directors will keep you informed if there are any material developments in relation to the JBL Offer. HML Shareholders are also encouraged to monitor the HML website at https://www.henrymorgan.com.au for any updates released by HML to ASX on the JBL Offer.
What will happen if a Competing Proposal or Superior Proposal emerges?	The Voting Directors will carefully consider any Competing Proposal or Superior Proposal and will advise you whether the Competing Proposal affects their recommendation that you accept the JBL Offer. However, at the date of this Target's Statement the Voting Directors consider it unlikely that a Superior Proposal will emerge. Importantly if you accept the JBL Offer, you will be unable to withdraw your acceptance and accept a Superior Proposal if one emerges, except in limited circumstances (which are set out below and in Section 7.6 of this Target's Statement).
I have accepted the JBL Offer before receipt of this Target's Statement - what should I do?	JBL's Offer was lodged on 1 November 2018. The Bidder's Statement was dispatched to HML Shareholder between 6 November 2018 and 9 November 2018. On 22 November 2018, JBL varied its Offer by the Supplementary Bidder's Statement and extended the closing date of the Offer from 7 December 2018 to 14 January 2019.

Question	Answer
	The effect of the notice of extension of the Offer's closing date is that HML Shareholders who accepted the JBL Offer before 22 November 2018 now have withdrawal rights. These withdrawal rights are explained in the Supplementary Bidder's Statement and in section 7.6 of this Target's Statement. If you wish to withdraw your acceptance sent before 22 November 2018 you must complete the Withdrawal Form which is attached to the Supplementary Bidder's Statement.
If I accept the JBL Offer after receipt of this Target's Statement, can I withdraw my acceptance?	You only have limited rights to withdraw your acceptance of the JBL Offer. These rights are described in Section 7.6 of this Target's Statement. If you accept the JBL Offer and it becomes unconditional, you will be obliged to sell your HML Shares to JBL and you will receive the Offer Consideration under the JBL Offer.
Can JBL withdraw the JBL Offer?	JBL may be able to withdraw the JBL Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent. JBL may not withdraw the JBL Offer if you have already accepted it. If the Defeating Conditions are not satisfied, JBL may withdraw the JBL Offer.
What happens if JBL increases the Offer Consideration?	If you accept the JBL Offer and JBL subsequently increases the Offer Consideration and the JBL Offer becomes unconditional, you will receive the increased consideration for your HML Shares. However, the increased Offer Consideration will not be available to HML Shareholders who have sold their HML Shares on-market (in the event HML is re-admitted to trade on the ASX during the Offer Period) or off-market by way of off-market transfer.
Can I accept the JBL Offer for only some of my HML Shares?	No, you cannot accept the JBL Offer for only some of your HML Shares. You may only accept the JBL Offer for all of your HML Shares.
Will I be forced to sell my HML Shares?	You cannot be forced to sell your HML Shares unless JBL proceeds to compulsorily acquire HML Shares under Chapter 6A of the Corporations Act. In summary, JBL will need to acquire a Relevant Interest in at least 90% (by number) of the HML Shares (under the JBL Offer or otherwise). If JBL acquires 90% or more of all HML Shares and proceeds to compulsorily acquire all HML Shares on issue, then you will be paid the same consideration as is payable by JBL under the JBL Offer, however you will receive it later than you would have had you accepted the JBL Offer.

Question	Answer
	Please refer to Section 7.9 of this Target's Statement for more information about the compulsory acquisition process.
What are the risks of accepting or rejecting the JBL Offer?	A non-exhaustive list of risks in accepting or rejecting the JBL Offer is set out in Section 8 of this Target's Statement, and the Bidder's Statement and Supplementary Bidder's Statement. These risks include: (a) liquidity risks; (b) ASX and NSX listing considerations; (c) JBL Shares and the available market for JBL Shares; (d) JBL Shareholder approval risk; (e) HML Shares and the available market; (f) Synergy risks for the Merged Group and JBL; (g) JBL performance risk; (h) HML performance risk; (i) Conflicts of interest risk; and (j) Regulatory risk. You should carefully consider the risk factors that could affect the performance of HML, JBL and the Merged Group in making a decision regarding the JBL Offer. Many of these risks are outside the control of HML and its Directors, and cannot be mitigated.
Is the JBL Offer conditional?	Yes, the JBL Offer is subject to a range of conditions (**Defeating Conditions**), being (in a summary form): (k) 50.1 percent minimum acceptance condition; (l) no Prescribed Occurrences; (m) no regulatory action; (n) obtaining any required Regulatory Approvals; (o) third party consents; and (p) no Material Adverse Change. JBL may choose to waive certain Defeating Conditions in accordance with the terms of the JBL Offer. See Section 7.3 of this Target's Statement for further detail on certain Defeating Conditions. The Defeating Conditions are also set out in full at Annexure A of this Target's Statement.
What happens if the Defeating Conditions are not satisfied or waived?	If the Defeating Conditions are not satisfied or waived by JBL before the JBL Offer closes (or, in the case of the Defeating Condition relating to Prescribed Occurrences, within 3 Business Days after the end of the Offer Period), the JBL Offer will lapse. You will then be free to deal with your HML

Question	Answer
	Shares as you see fit, even if you had accepted the JBL Offer. If the Defeating Conditions are satisfied or waived by this time, you will be paid the Offer Consideration by JBL (subject to the terms of the JBL Offer in the Bidder's Statement).
What is the Concurrent Offer?	On 10 September 2018 JBL announced that it had also made an off market takeover bid for all of the Shares and options in Benjamin Hornigold Limited (ASX: BHD). The Offer for BHD is not interdependent with the JBL Offer for HML Shares. In other words, completion of JBL's Offer to acquire HML Shares is not conditional upon the success of the JBL Offer described in this Target's Statement. JBL is also the investment manager of BHD.
Is the JBL Offer conditional on the success of the Concurrent Offer?	No, the JBL Share is not dependent on the Concurrent Offer. The JBL Offer and the Concurrent Offer could potentially result in various outcomes for JBL and the Merged Group. Some of these potential outcomes are explored in section 7 of the Bidder's Statement.
What is HML's current dividend policy?	HML's dividend policy is to pay up to 50% of realised net profit after tax in dividends to shareholders on a quarterly basis. Payment of dividends by HML depends upon: (a) the availability of distributable earnings; (b) the Company's franking credit position, operating results, available cash flows, financial condition, taxation position, future capital requirements, general business and financial conditions; and (c) other factors the Board considers relevant. HML did not pay, declare or recommend any dividends during the financial year ended 30 June 2018. HML does not propose to pay a dividend at this time.
When will I receive the Offer Consideration if I accept the JBL Offer?	If you accept the JBL Offer, you will have to wait for the JBL Offer to become unconditional before you will be sent your Offer Consideration. See Section 7.7 of this Target's Statement for further information.
What are the tax implications of accepting the JBL Offer?	A general outline of the tax implications of accepting the JBL Offer is set out in Section 9 of this Target's Statement. You should consult with your taxation adviser for detailed advice before making a decision whether or not to accept the JBL Offer.

Question	Answer
Who should I call if I have questions?	If you have any further queries in relation to the JBL Offer or how to accept the JBL Offer, you should call 1300 660 106 (within Australia) or +61 1300 660 106 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).

4. Your choices as a HML Shareholder

4.1 What are your choices?

If you are a HML Shareholder, you have three choices available to you:

(a) accept the JBL Offer;

(b) sell some or all of your HML Shares on-market;

(c) sell some or all of your HML Shares off-market;

(d) reject the JBL Offer and do nothing; or

(e) if you accepted the JBL Offer prior to 22 November 2018 and now wish to reject the JBL Offer, complete the Withdrawal Form.

HML Shareholders should note that they will only be able to sell some or all of their HML Shares on-market in the event HML is re-admitted to trade on the ASX during the Offer Period.

The Voting Directors encourage you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your HML Shares.

4.2 Accept the JBL Offer

Your Voting Directors recommend that you ACCEPT the JBL Offer, in the absence of a Superior Proposal. This recommendation has been made after consideration of all relevant factors by the Voting Directors, including the opinion of the Independent Expert contained in the Independent Expert Report included with this Target's Statement.

(a) How to accept the JBL Offer

If you choose to accept the JBL Offer, then your acceptance must be received by JBL before the end of the Offer Period. Instructions on how to accept the JBL Offer are set out in Section 1 of the Bidder's Statement and on the Acceptance Form that accompanies the Bidder's Statement. If you want to accept the JBL Offer, you should follow these instructions carefully to ensure that your acceptance is valid.

How you accept the JBL Offer depends on the nature of your holding:

(i) if your HML Shares are in an Issuer Sponsored Holding and you want to accept the JBL Offer, you should complete and deliver the Acceptance Form in sufficient time to ensure that it is received by JBL's share registry before the end of the Offer Period;

(ii) if your HML Shares are in a CHESS Holding and you want to accept the JBL Offer, you should:

(A) instruct your Controlling Participant (normally your broker) to initiate acceptance of the JBL Offer on your behalf in accordance with Rule 14.14 of the ASX Settlement Operating Rules;

(B) complete and deliver the Acceptance Form in sufficient time so that your Controlling Participant (normally your broker) has sufficient time to effect your acceptance before the end of the Offer Period; or

(C) give instructions to your Controlling Participant (normally your broker) in sufficient time to allow your Controlling Participant to initiate your acceptance under the CHESS system before the end of the Offer Period; or

(iii) if you are a Participant and you want to accept the JBL Offer, acceptance of the JBL Offer must be initiated in accordance with Rule 14.14 of the ASX Settlement Operating Rules before the end of the Offer Period.

(b) Effect of acceptance

If you accept the JBL Offer and it becomes or is declared unconditional, you will be entitled to be paid the Offer Consideration by JBL in accordance with the terms of the JBL Offer (see Section 7.7 of this Target's Statement for further information on timing for issue of the Offer Consideration).

The effect of acceptance of the JBL Offer is described in more detail in Section 7.5 of this Target's Statement. You should read these provisions in full to understand the effect that your acceptance will have on your ability to exercise the rights attaching to your HML Shares.

It is worth noting that accepting the JBL Offer would (subject to the possible withdrawal rights set out in Section 7.6 of this Target's Statement):

(i) prevent you from participating in any competing Superior Proposal that may emerge;

(ii) commit you to selling all of your HML Shares to JBL with no right to payment until the JBL Offer becomes, or is declared, unconditional; and

(iii) prevent you from otherwise selling your HML Shares.

The taxation implications of accepting the JBL Offer depend on a number of factors and will vary according to your particular circumstances. A general outline of the Australian taxation consequences of accepting the JBL offer is set out in Section 9 of this Target's Statement. You should seek your own specific professional advice regarding the taxation consequences for you in accepting the JBL Offer.

4.3 Sell your HML Shares on-market

During a takeover, shareholders in a target company may still sell their shares on-market for cash provided that they have not accepted a takeover offer for those shares.

The latest price for HML Shares on the ASX may be obtained from ASX's website www.asx.com.au under the code HML.

HML has been suspended from trade on the ASX since 17 June 2017, and may remain suspended for the duration of the Offer Period.

In the event HML is re-admitted to trade on the ASX during the Offer Period, HML Shareholders are free to sell their HML Shares on-market on the ASX at any time, provided they have not already accepted the JBL Offer (or if a HML Shareholder has accepted the JBL Offer, that HML Shareholder has validly withdrawn that acceptance and in circumstances where HML has been re-admitted to trade on the ASX during the Offer Period).

HML Shareholders who sell their HML Shares on-market:

(a) will lose the ability to accept the JBL Offer, or to participate in any other Superior Proposal that may emerge;

(b) may receive more or less for their HML Shares than the consideration under the JBL Offer;

(c) are likely to incur a brokerage charge; and

(d) will be paid the net proceeds of sale on the second Business Day after the date of trade, and will not have to wait for satisfaction or waiver of the Defeating Conditions and the end of the Offer Period, as would be the case if accepting into the JBL Offer.

HML Shareholders who sell their HML Shares on-market may be liable for CGT or income tax on the sale and may incur a brokerage charge (see Section 9 of this Target's Statement). You should seek your own specific professional advice regarding the taxation consequences for you of selling your HML Shares on-market.

HML Shareholders who wish to sell their HML Shares on-market should contact their stockbroker for instructions on how to effect that sale. HML Shareholders should note that any sale on-market can only occur if HML is readmitted to trade on the ASX.

4.4 Sell your HML Shares off-market

You may still sell your HML Shares off-market during the Offer Period if you are able to identify a third party who wishes to acquire your HML Shares.

You will be paid the net proceeds of the sale on transfer and will not have to wait for satisfaction or waiver of the Defeating Conditions and the end of the Offer Period, as would be the case if you were accepting the JBL Offer.

HML Shareholders who sell their HML Shares off-market may be liable for CGT or income tax on the sale (see Section 9 of this Target's Statement). You should seek your own specific professional advice regarding the taxation consequences of selling your HML Shares off-market.

4.5 Reject the JBL Offer and do nothing

If you do not wish to accept the JBL Offer and wish to retain your HML Shares, you do not need to take any action.

If you do not accept the JBL offer and JBL becomes entitled to compulsorily acquire your HML Shares under the Corporations Act (which entitlement it intends to exercise, as discussed in the Bidder's Statement), you may receive your consideration later than HML Shareholders who choose to accept the JBL Offer.

Please refer to Section 7.9 of this Target's Statement for further details on compulsory acquisition.

Further, if the JBL Offer is successful (i.e. the Defeating Conditions are satisfied or waived) but JBL does not become entitled to compulsorily acquire your HML Shares, you will remain a minority shareholder in HML with potential adverse implications, including those described at Sections 1.6 and 8.1 of this Target's Statement.

4.6 If you accepted the JBL Offer prior to 22 November 2018 and now wish to reject the JBL Offer, complete the Withdrawal Form

If you accepted the JBL Offer pursuant to the Bidder's Statement prior to 22 November 2018 and on receipt of the Supplementary Bidder's Statement, this Target's Statement and the Independent Expert Report no longer wish to accept the JBL Offer, you have withdrawal rights under the Corporations Act.

To exercise your withdrawal rights, you must withdraw your acceptance by giving notice to JBL within one month of the day after the date on which you received the Supplementary Bidder's Statement.

The Withdrawal Form is attached to the Supplementary Bidder's Statement.

Your withdrawal rights are explained in more detail in section 7.6 of this Target's Statement and section 5 of the Supplementary Bidder's Statement.

5. Information relating to HML

5.1 Introduction

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

5.2 History

HML is an Australian company registered on 26 September 2014. It was admitted to the official list of the ASX on 4 February 2016.

5.3 Overview of business strategy

HML is a listed investment company. HML has entered into the Management Services Agreement with JBL who is engaged as HML's investment manager.

HML invests in global markets through derivative instruments providing exposure to equities, equity, indices, bonds, currencies and commodities. HML 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.

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

HML aims to deliver HML Shareholders returns by providing an actively managed portfolio with diversification across products and global markets.

5.4 HML historical financial information summary

On 1 October 2018, HML released its full year results in the Full Year Report for the full year ended 30 June 2018. HML financial reports, including the full year results release, are available on HML website at www.henrymorgan.com.au.

HML's financial position as at 30 June 2018 can be summarised as follows:

(a) Total assets of $37,619,120;

(b) Net assets of $34,370,124;

(c) Cash and cash equivalents net of debt of $314,729;

For the year ended 30 June 2018, the following results were recorded:

(d) Revenue of -$12,429,630; and

(e) Net loss of $13,253,940.

5.5 Director and Senior Management Profiles

John McAuliffe AM, LAPI, FAIB, ACTCB | Non-Executive Chairman

John was awarded the Order of Australia in June 2007 for service to the community particularly through executive roles in the areas of health care and public housing management, and to the property valuation industry.

John has a strong relationship with both Federal and State Governments and Departmental Secretaries and Directors General. He was a senior bureaucrat in the Federal Government until 2000 and was also called upon to provide advice on a range of issues. As Chairman of the Brisbane Housing Company he regularly meets with both Federal and State Ministers on housing issues and has provided advice to Andrew Fraser when he was the Treasurer on stock transfer of the Government's Housing portfolio. John is also working on a range of other confidential matters with the Government.

In 1989 John was awarded the Kenneth Campbell Memorial Award for professional excellence and outstanding service to The Australian Institute of Valuers and Land Economists.

Since 1966 John has been a senior lecturer (part-time) at the Queensland University of Technology for Land Valuation, Investment Theory and Land Studies in the Built Environment and the Surveying School. Those lectures involve students in degree courses in Building, Quantity Surveying and Land Surveying. John has also lectured for 15 years at the University of Queensland on Property Valuation and during this period also lectured to valuation students in degree course at the Gatton Agricultural College and to Diploma students in Brisbane. John wrote the correspondence papers for the final year valuation students.

John was previously the chairman of the board of the Holy Spirit Hospital, Brisbane and Mater Health Services, Brisbane. He is a former member of the board of the Mount Olivet Hospital and is chairman of Brisbane Housing Company, Multicap, Catholic Property, Brisbane and Freedom Aged Care and a director of Holy Cross Laundry and Lady Bowen Trust.

John's other qualifications include:

- Life Fellow of the Australian Institute of Valuers and Land Economists;
- Fellow of the Australian Institute of Building - Chartered Builder;
- Associate Papua New Guinea Institute of Valuers and Land Administrators;
- Registered Valuer, Queensland and New South Wales;
- Registered Valuer, Papua New Guinea;
- Associate Central Technical College Brisbane - Diploma in Building and Diploma in Quantity Surveying; and
- Member Real Estate Institute of Queensland.

John McAuliffe was appointed as Chairman of the Board in March 2015. He has been Non-Executive Chairman of JBL since 13 March 2015.

Stuart McAuliffe BAMed, GradDip (Legal Studies) | Managing Director

Stuart has over 25 years' experience investing in global equity, bond, currency and . commodity markets, capital venture and strategic management. He has pioneered innovative research into the correlation and causation between different global equity and currency markets over short, medium and long term time periods. As the senior executive responsible for investments, he uses a 'layered' approach combining multiple time frame fundamental analysis in markets and diversification through asset ownership and ventures.

In 2012, Stuart was the founding investment manager for the Aliom Managed Futures Fund No 1, a wholesale investor fund targeting absolute returns above average equity returns. He has since averaged 148% average annual return before fees (107.49% after fees, with average fees 2% of capital and 23% of performance).

Stuart is of the belief that great investment decisions are derived from an in depth understanding of historical forces. Stuart's Bachelor Degree was a Bachelor of Arts from University of Queensland earning a double major in Modern History and a Major in Ancient History. Courses focused on military strategy including the campaigns of Julius Caesar, Napoleon and General George Patton and he credits this early training as the basis for his innovative future strategies and tactics in investment markets and opportunity identification. As an Associate Professor at Bond University, Stuart has lectured nationally and internationally in the fields of economic forecasting, valuation modelling, financial structures and risk management. His specialisations included the short- to long-term effects of central bank policy and the pricing of extreme valuations at market peaks and troughs. He has designed and developed proprietary indices measuring economic leading indicators and their probable effects on equity and real estate markets.

Stuart McAuliffe was appointed as Managing Director in January 2015. He has been Managing Director of JBL since 8 January 2015.

Ross Patane BBus, ACA, MAICD, FFIN | Non-Executive Director

Ross is a chartered accountant with in excess of 25 years' experience in providing business reconstruction, asset securitisation, corporate advisory, property advisory and wealth management services.

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From 2012 to March 2018, Ross was the Queensland Managing Partner of Crowe Horwath, a leading accounting and financial services business. He currently holds the role of Senior Partner of the Corporate Finance team and has national oversight of the hotel, tourism and leisure industry consulting team. Ross' previous director roles include terms as non-executive Chairman of Qbiotics, a leading Queensland biotechnology company, and appointment by the Queensland Government to be a Member of the Board of Trustees of the Queensland Art Gallery and Gallery of Modern Art (QAGOMA) and chair of the QAGOMA Audit and Risk Committee. He has held a number of positions as director or non-executive director of AFSL licensees and responsible entities and as a member of compliance committees pursuant to the Corporations Act. Ross brings a strong commercial and strategic focus to complex transactions, drawing on years of experience as the lead advisor in mergers and acquisitions, valuations, due diligence, structured finance deals, investment management, equity raising and debt and equity capital markets transactions, with detailed knowledge and understanding of corporate governance, corporate finance and financial markets.

Ross Patane was appointed as a Director in March 2015 and has been a director of JBL since 13 March 2015.

Peter Ziegler BCom (Hons), LLB (Hons), MFM | Non-Executive Director

Peter holds honours degrees in commerce and law, and a Master's degree in financial management from the University of Queensland. Amongst other professional qualifications, Peter is a chartered accountant, chartered tax advisor and a solicitor. He is an experienced company director and has had a long career both as an advisor to, and as an executive in, industry. Peter has previously been a partner with Ernst & Young. Peter was previously Chairman of the ASX listed Australian Pacific Coal Limited. Peter brings a wealth of commercial and advisory experience that can be utilised in the best interests of the Company.

Vanessa Gunner BBus, GDipAppFinIv, CA ANZ, ACA, SA FIN, MAICD, MIoD | Non-Executive Director

Vanessa was formerly Interim Chief Operating Officer at Barclays Capital and Barclays Wealth for Corporate Real Estate Services and has over 22 years of experience in banking and financial services, telecoms, technology, facilities management, pharmaceuticals, transport, publishing and tech start-ups. Her broad experience across over 20 bluechip companies includes leading strategic development, financial analysis and business modelling, programme and change management, business process redesign, systems integration, logistics, building new data platforms, organisational design and research and development, across jurisdictions including Europe, Middle East, Africa and the Asia Pacific.

Vanessa was appointed 30 May 2017 as member of the Audit and Risk Committee and Committee of Voting Directors.

Jody Wright | Co-company secretary

Jody Wright was admitted to practice as a Solicitor of the Supreme Court of Queensland in January 2001 and is a member of the Queensland Law Society.

Jody has an extensive background in corporate governance, compliance, risk management, board advisory and commercial litigation.

She has significant experience as in-house counsel and compliance manager across different industry spheres including financial services, insurance and investigative services.

Kevin Mischewski | Co-company secretary

Kevin Mischewski 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.

Kevin holds a Bachelor of Business, is a Member of the Institute of Chartered Accountants in Australia, Member of the Governance Institute of Australia AGIA and is a Registered Tax Agent.

6. Information relating to JBL

6.1 Disclaimer

The JBL Offer is being made by JBL.

The following information and the information on JBL in this Target's Statement is based on publicly available information, including information in the Bidder's Statement, and has not been independently verified by HML. HML does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information.

The information on JBL in this Target's Statement should not be considered comprehensive. Further information about JBL is set out in the Bidder's Statement.

6.2 Overview and JBL's interest in HML

The JBL Offer is being made by JBL.

At the date of the Bidder's Statement, JBL held a Relevant Interest in 3,579,811 HML Shares and Voting Power of 11.07%.

At the date of this Target's Statement, JBL holds a Relevant Interest in 18,889,972 HML Shares and Voting power of 58.40%, noting that approximately 14,431,344 of these HML Shares (representing 44.61%) have withdrawal rights as they represent HML Shares accepted into the JBL Offer prior to lodgement of the Supplementary Bidder's Statement.

6.3 JBL Directors and Senior Management

The current Directors and senior management of JBL are:

(a) John McAuliffe AM, LAPI, FAIB, ACTCB, Non-Executive Chairman;

(b) Stuart McAuliffe BAMed, GradDip (Legal Studies), Managing Director;

(c) Ross Patane BBus, ACA, MAICD, FFIN, Non-Executive Director;

(d) Jody Wright, Co-company secretary; and

(e) Kevin Mischewski, Co-company secretary.

Each JBL Director and the listed members of the JBL senior management team are also HML directors and members of the HML senior management team. Their professional profiles are detailed in Section 5 of this Target's Statement.

6.4 JBL's intentions upon acquisition of 90% or more of HML Shares

This section sets out JBL's current intentions if it acquires 90 percent or more of the HML Shares and is entitled to proceed to compulsory acquisition of the outstanding HML Shares.

Compulsory acquisition

If it becomes entitled to do so, JBL intends to compulsorily acquire any outstanding HML Shares under section 661B Corporations Act.

In those circumstances, JBL is also entitled to acquire HML Shares issued after the Offer closes but before the compulsory acquisition notice is given (under section 661A(4)(b) Corporations Act), up to six weeks after the notices are given (under section 661A(4)(c) Corporations Act).

JBL also has the right, under part 6A.2 Corporations Act, to seek to compulsorily acquire any of the HML Options which it has not acquired or have not been exercised if JBL:

(a) achieves 90 percent voting power in HML; and

(b) holds full beneficial interests in at least 90 percent by value of all securities of HML that are either HML Shares or convertible into HML Shares.

Amend HML constitution

JBL intends to amend the constitution of HML to reflect its status as a wholly-owned subsidiary of JBL and will seek to convert HML from a public company to a proprietary company.

ASX listing

After conclusion of the compulsory acquisition process, JBL intends to procure that HML be removed from the official list of ASX.

Directors

JBL intends to replace all members of the HML Board and of the board of any company on which HML has nominee directors with JBL nominee directors.

Those nominees have not yet been identified by JBL. Profiles for each of the Directors of JBL are set out in Section 6.3 of the Bidder's Statement.

Operations

In terms of HML's operations, JBL has stated that it intends to:

(a) evaluate the performance, prospects and strategic relevance of HML investments to JBL;

(b) consider whether to realise any of HML's investments and make a return of capital;

(c) explore other investment strategies for HML; and

(d) make appropriate provisions for any of HML's ongoing liabilities,

JBL has further stated in Section 8.1 of the Bidder's Statement that following close of the JBL Offer, it is JBL's intention to undertake a further detailed review of HML, including its operations, assets and structure with a view to determining its intention for HML, and will take action as it considers desirable to achieve optimum integration and synergies.

6.5 JBL's intention upon acquisition of between 50% and 90% of HML Shares

To the extent JBL acquires a Relevant Interest in between 50% and 90% of HML Shares, but is not entitled to proceed to Follow On Compulsory Acquisition, and the 90% minimum acceptance Defeating Condition is waived by JBL, JBL has stated that its intentions are as follows:

This section sets out JBL's current intentions if, by virtue of acceptance of the Offer, it was to gain effective control of HML but was not entitled to proceed to compulsory acquisition of the outstanding HML Shares.

Compulsory acquisition

If JBL does not become entitled to compulsorily acquire HML Shares under section 661B Corporations Act, it may nevertheless become entitled to exercise the general compulsory acquisition power under part 6A.2 Corporations Act in the future. JBL intends to exercise that power over the HML Shares if it becomes entitled to do so.

ASX listing

ASX guidance indicates that ASX would likely approve an application for HML to be removed from the official list of ASX without the need for shareholder approval if an application is made within a month of the end of the Offer period if:

(a) at the end of the Offer, JBL owns or controls at least 75% of the HML Shares and the Offer remained open for at least two weeks after JBL attained ownership or control of at least 75% of the HML Shares; and

(b) the number of HML Shareholders (other than JBL) having holdings with a value of at least $500 is fewer than 150.

In addition, ASX guidance indicates that the ASX would likely approve an application for HML to be removed from the official list of the ASX with shareholder approval, and where such removal is sought later than 12 months after the close of the Offer, JBL would be entitled to vote on the resolution approving the removal. JBL intends to apply to the ASX for HML to be removed from the official list of the ASX if it is able to make such an application to the ASX and it is approved.

6.6 JBL's intention upon acquisition of less than 50% of HML Shares

To the extent JBL gains effective control of less than 50% of HML Shares, and the 50.1% minimum acceptance Defeating Condition is waived by JBL, JBL has stated that it intends to endeavour to implement its intentions as outlined in Section 6.5 to the extent it is able to do so, subject to the limitations noted in that section.

7. Details about the JBL Offer

7.1 Offer Consideration

The Offer Consideration under the JBL Offer is 0.95 JBL Shares per HML Share.

7.2 Offer Period

The JBL Offer will be open for acceptance from 6 November 2018 until 14 January 2019 (7:00pm Sydney time), unless extended or withdrawn.

While the JBL Offer is still subject to the Defeating Conditions, JBL may extend the Offer Period at any time:

(a) before giving the notice of status of Defeating Conditions (referred to in Section 7.4 of this Target's Statement); and

(b) after giving the notice of status of Defeating Conditions in the event of those circumstances in relation to a competing offer for HML Shares referred to in section 650C(2) of the Corporations Act.

However, if the JBL Offer is unconditional (i.e. all the Defeating Conditions are satisfied or waived), JBL may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last 7 days of the Offer Period:

(c) JBL improves the Offer Consideration under the JBL Offer; or

(d) JBL's Voting Power in HML increases to more than 50%,

in which case, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

7.3 Defeating Conditions of the JBL Offer

The JBL Offer is subject to the satisfaction or waiver (as applicable) of various Defeating Conditions which are set out in full in Annexure A of this Target's Statement.

The key Defeating Conditions are summarised as follows:

(a) a 50.1% minimum acceptance condition in respect of HML Shares;

(b) JBL receiving all necessary Regulatory Approvals and there being no adverse action by any Regulatory Authority in respect of the HML Group or the JBL Offer;

(c) no Prescribed Occurrences;

(d) no Material Adverse Change in HML; and

(e) no third party exercising, or proposing to exercise any rights it has as a result of the JBL Offer, which would have a material adverse effect on the HML Group and each such third party providing its consent or waiver to the relevant event before the end of the Offer Period.

In respect of the Defeating Conditions, HML Shareholders should note the following:

(a) 50.1% minimum acceptance condition in respect of HML Shares.

Defeating Condition 1 is a 50.1% minimum acceptance condition. JBL has not, at the date of this Target's Statement indicated whether it will waive this condition. As at the date of this Target's Statement, the acceptances received by JBL from HML Shareholders exceed 50.1%. Despite these acceptances, JBL has advised[3] that it will not confirm the minimum acceptance condition has been satisfied until the withdrawal rights period has expired. The withdrawal rights period is due to expire one month from lodgement of the Supplementary Bidder's Statement and notice of extension of the closing date of the Offer.

(b) Regulatory Approval and no regulatory action condition.

Defeating Condition 2 relates to receipt of all necessary Regulatory Approvals, and no action being taken by a Regulatory Authority, in respect of the JBL Offer.

7.4 Status of Defeating Conditions

Schedule 2 of the Bidder's Statement indicates that, unless the Offer Period is extended, JBL will give a notice of status of the Defeating Conditions for the JBL Offer (Condition Notice) to the ASX and HML by 7 January 2019 (subject to variation in accordance with the Corporations Act).

JBL is required to set out in its Condition Notice:

(a) whether the JBL Offer is free of Defeating Conditions;

(b) whether, so far as JBL knows, the Defeating Conditions have been fulfilled on the date the Condition Notice is given; and

(c) JBL's Voting Power in HML (including Voting Power acquired as a result of acceptances received under the JBL Offer).

If the Offer Period is extended before the date on which JBL gives the Condition Notice, the date for giving the Condition Notice will be postponed for the same period, and JBL is required to notify HML Shareholders of the new date for JBL to give the Condition Notice.

If a Defeating Condition is satisfied or waived (so that the JBL Offer becomes free of that Defeating Condition) before the date on which the Condition Notice is required to be given, JBL must, as soon as practicable after it has been satisfied, give the ASX and HML a notice that states that the particular Defeating Condition has been satisfied.

7.5 Effect of acceptance

The effect of acceptance of the JBL Offer is set out in Section 4.2 of this Target's Statement.

In summary, HML Shareholders who accept the JBL Offer while it remains subject to Defeating Conditions will give up their right to sell their HML Shares on ASX or otherwise

[3] JBL NSX Announcement, 21 November 2018.

deal with their HML Shares while the JBL Offer remains open, unless they withdraw their acceptance in accordance with the terms of the JBL Offer (see Section 7.6 below).

Such HML Shareholders will also lose their ability to accept a Superior Proposal (if one emerges), unless the JBL Offer is still conditional and they withdraw their acceptance in accordance with the terms of the JBL Offer.

If you accept the JBL Offer and it becomes unconditional, you will be obliged to sell your HML Shares to JBL and you will receive the Offer Consideration under the JBL Offer for those HML Shares.

7.6 Withdrawal of your acceptance

Acceptance made before 22 November 2018

If you accepted the JBL Offer after receipt of the Bidder's Statement but before 22 November 2018, which is a date before the receipt of this Target's Statement and the accompanying Independent Expert Report, you have withdrawal rights pursuant to section 650E of the Corporations Act.

You must exercise your withdrawal rights by no later than the date one month from receipt of the Supplementary Bidder's Statement).

A withdrawal notice withdrawing an acceptance must:

(a) if a HML Shareholder's Shares are in a CHESS Holding:

  (i) be in a form of a Valid Originating Message transmitted to ASX Settlement by the Controlling Participant for that CHESS Holding in accordance with the ASX Settlement Operating Rules; or

  (ii) be in the form of notice in writing to JBL setting out the information that JBL requires to enable it to transmit a Valid Message to ASX Settlement on behalf of the HML Shareholder in accordance with the ASX Settlement Operating Rules; or

(b) otherwise be in a form consistent with the Withdrawal Form annexed to the Supplementary Bidder's Statement and this Target's Statement.

If, as a HML Shareholder you choose to exercise this withdrawal right and return the Withdrawal Form correctly completed so that is received by JBL within one month of the day after the day on which you received this Supplementary Bidder's Statement, your acceptance of the Offer will be cancelled and your HML Shares the subject of the Withdrawal Notice will be transferred back into your name(s) and you will remain a HML Shareholder.

Withdrawal Forms must be mailed to:

Link Market Services Limited
Henry Morgan Limited (HML) Takeover
Locked Bag A14
SYDNEY SOUTH NSW 1235
Australia

If, as a HML Shareholder you withdraw your acceptance of your Offer and you are entitled to withdraw your acceptance, JBL must, before the end of the 14 days after the day it receives the Withdrawal Notice:

(a) return to you any documents that you sent to JBL with the acceptance of your Offer or destroy such documents, at JBL's discretion; and

(b) transfer into your name in HML's issuer sponsored subregister such number of HML Shares to which the Withdrawal Notice relates, or if your HML Shares are in a CHESS Holding, transmit a Valid Message that authorises the releases of those HML Shares from the Offer Accepted Subpositions in which those shares have been reserved in accordance with the ASX Settlement Operating Rules.

Words defined in the ASX Settlement Rules have the same meaning unless the context otherwise requires.

Acceptance made after 22 November 2018

If you accept the JBL Offer after 22 November 2018 (even if it remains subject to the Defeating Conditions) you will not be able to sell or otherwise deal with your HML Shares, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.

HML Shareholders may only withdraw their acceptance of the JBL Offer if:

(a) the Defeating Conditions are not satisfied or waived by the end of the Offer Period. In that situation, you will be free to deal with your HML Shares; or

(b) JBL varies the JBL Offer in a way that postpones the time when JBL is required to satisfy its obligations (i.e. to pay the Offer Consideration) by more than 1 month; for example, if JBL further extends the Offer Period by more than 1 month, while the JBL Offer is still conditional.

7.7 Receipt of Offer Consideration

(a) When consideration is received

Subject to Section 7.7(b) of this Target's Statement, JBL will pay you the Offer Consideration to which you are entitled within one month of the later of:

(i) the date that you accept the JBL Offer; and

(ii) if the JBL Offer is subject to Defeating Conditions, the date the JBL Offer becomes unconditional.

In any event, you will be paid within 21 days after the end of the Offer Period (assuming all Defeating Conditions of the JBL Offer are satisfied or waived).

(b) Where additional documents are required

Where the Acceptance Form requires additional documents to be given with your acceptance (such as a power of attorney):

(i) if you provide JBL with the necessary documents with your acceptance, JBL will provide the consideration in accordance with Section 7.7(a) of this Target's Statement;

(ii) if you provide JBL with the necessary documents after acceptance and before the end of the Offer Period and the JBL Offer is still subject to Defeating Conditions at the time that JBL is given the documents, JBL will pay you the Offer Consideration to which you are entitled within the earlier of:

(A) one month after the contract resulting from your acceptance of the JBL Offer becomes unconditional; or

(B) 21 days after the end of the Offer Period;

(iii) if you provide JBL with the necessary documents after acceptance and before the end of the Offer Period and the JBL Offer is unconditional at the time that JBL is given the documents, JBL will pay you the Offer Consideration to which you are entitled within the earlier of:

(A) one month after JBL is given the relevant documents; or

(B) 21 days after the end of the Offer Period;

(iv) if you provide JBL with the necessary documents after the acceptance and after the end of the Offer Period, JBL will pay you the Offer Consideration to which you are entitled within 21 days after JBL is given the relevant documents, but if at the time JBL is given the relevant documents the JBL Offer is still subject to a Defeating Condition, JBL will provide you with the Offer Consideration to which you are entitled within 21 days after the contract becomes unconditional; or

(v) if you do not provide JBL with the necessary documents within one month after the end of the Offer Period, JBL is entitled in its sole discretion, to rescind the contract resulting from your acceptance of the JBL Offer.

7.8 Lapse of JBL Offer

The JBL Offer will lapse if the Defeating Conditions are not satisfied or waived by the end of the Offer Period (or, in the case of Defeating Conditions relating to no Prescribed Occurrences, within 3 Business Days after the end of the Offer Period). In this case, all acceptances of the JBL Offer will be void and have no effect. In that situation, you will be free to deal with your HML Shares as you see fit.

7.9 Consequences of JBL acquiring 90% or more of HML Shares

If JBL acquires 90% of HML Shares (by number) and the JBL Offer becomes unconditional, JBL will be entitled to proceed to compulsory acquisition of all outstanding HML Shares. JBL has stated that it intends to compulsorily acquire all outstanding HML Shares at the end of the Offer Period under Part 6A.1 of the Corporations Act if it is entitled to do so (**Follow On Compulsory Acquisition**).

Even if JBL does not become entitled to undertake a Follow On Compulsory Acquisition, JBL may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 of the Corporations Act if it subsequently acquires sufficient HML Shares to give it a Relevant Interest in 90% (by number) of HML Shares (**General Compulsory Acquisition**). JBL has stated that it intends to exercise this power if it reaches the 90% threshold in the future.

The two types of compulsory acquisition under Chapter 6A of the Corporations Act are discussed below.

Follow On Compulsory Acquisition

Under Part 6A.1 of the Corporations Act, if, at the end of the Offer Period, JBL has (together with its Associates):

(a) a Relevant Interest in at least 90% (by number) of HML Shares; and

(b) acquired at least 75% (by number) of HML Shares that JBL offered to acquire under the JBL Offer,

then JBL will be entitled to compulsorily acquire any outstanding HML Shares for which it did not receive acceptances, on the same terms as the JBL Offer. JBL has stated that it intends to exercise this power if it is entitled to do so.

If these thresholds are met, JBL will have up to 1 month after the end of the Offer Period within which to give compulsory acquisition notices to HML Shareholders who have not accepted the JBL Offer. HML Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant HML Shareholders to establish to the satisfaction of a court that the terms of the JBL Offer do not represent "fair value".

JBL must also offer to buy out remaining HML Shares held by HML Shareholders if JBL (and its Associates) have a Relevant Interest in at least 90% of HML Shares (by number) at the end of the Offer Period.

HML Shareholders should be aware that if they do not accept the JBL Offer and their HML Shares are compulsorily acquired, those HML Shareholders will face a delay in receiving the Offer Consideration compared with HML Shareholders who have accepted the JBL Offer. However, these HML Shareholders will be paid the last price offered by JBL for HML Shares under the JBL Offer.

General Compulsory Acquisition

HML Shareholders should also be aware that if JBL does not become entitled to compulsorily acquire HML Shares in accordance with Part 6A.1 of the Corporations Act, JBL may nevertheless become entitled to exercise general compulsory acquisition rights under Part 6A.2 of the Corporations Act, if JBL (or together with its related bodies corporate) acquires full beneficial interests in at least 90% (by value) of HML Shares and JBL:

(a) lodges a compulsory acquisition notice with ASIC within 6 months of achieving that 90% holding;

(b) proposes a cash sum for the compulsory acquisition of all HML Shares; and

(c) obtains the report of an expert stating whether, in the expert's opinion, the terms proposed in the notice represent fair value for the HML Shares.

JBL has stated that it intends to exercise this power if it reaches the 90% threshold in the future. If HML Shareholders with at least 10% of HML Shares the subject of the compulsory acquisition notice object to the acquisition before the end of the one month objection period, JBL may apply to a court for approval of the acquisition of the HML Shares the subject to the compulsory acquisition notice.

8. Risk factors

In considering this Target's Statement and the JBL Offer, HML Shareholders should be aware that there are a number of risks which may affect the future operating and financial performance of HML.

8.1 Risks associated with rejecting the JBL Offer and continuing as a HML Shareholder

This Section describes some of the potential risks associated with HML's business and an investment in HML's. An investment in HML exposes investors to the specific and general risks facing HML business. Each of these risks could, if they eventuate, have a material adverse effect on your investment. If any of the risks eventuate, they could also have a material adverse effect on HML's business, financial condition, operating and financial performance and return to HML Shareholders. Many of the circumstances giving rise to these risks are beyond the control of HML, its Directors and management.

The risk factors set out below are not exhaustive. Additional risks of which HML is unaware or that HML currently considers to be immaterial also have the potential to have a material adverse effect on HML's business, financial condition and operating and financial performance.

HML Shareholders should carefully consider and evaluate HML and its business and whether they should continue to hold HML Shares, having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors, as set out below. HML Shareholders should examine the full content of this Target's Statement and may wish to consult their financial or other advisers before deciding whether or not to accept the JBL Offer.

8.2 Risks specific to an investment in HML

(a) Current suspension from trading on ASX

HML Shares have been suspended from trading on the ASX since 8 June 2017. In relation to the continuing suspension of trading in HML Shares, the ASX has indicated that it will not lift the suspension at this time, pending their further queries. As at the date of this Target's Statement the ASX has not specified the nature of their further queries or the estimated date by which HML will receive these queries or any action which HML can take to be reinstated to the official list of the ASX.

The ASX has a discretion under the ASX Listing Rules to remove an entity from the official list of the ASX if, in the ASX's opinion:

(i) the listed entity is unable or unwilling to comply with, or breaks, a listing rule;

(ii) the entity has no quoted securities; or

(iii) the ASX determines that the removal is appropriate for some other reason.

There is a risk that the ASX could exercise its discretion under the ASX Listing Rules and determine that HML is no longer capable of being listed on the ASX. There is no mechanism for automatic removal of HML from the official list, however the discretion of the ASX under the Listing Rules is broad and the ASX has not articulated to HML as to the steps it can take to cease being suspended.

HML is taking every reasonable step to have the suspension lifted, and is ensuring that it is doing all things lawfully required to enable this to happen for the benefit of HML Shareholders. However in the absence of any clarification from the ASX to HML there is no certainty as to when, or if, the suspension will be lifted.

If HML is removed from the official list of the ASX, HML Shares will be unlisted and you will only be able to transfer or sell your shares off-market.

(b) Re-admission of HML Shares to the ASX

HML Shares have been suspended from trading on the ASX since 17 June 2017. If the ASX determines that HML is able to be re-admitted to trading on the ASX it is possible that HML Shares may trade at a significant discount to the last trading price of $1.99 per HML Share given the elapse of time since HML Shareholders were able to facilitate on-market transactions for their HML Shares and general market sentiment.

(c) Liquidity risk

There is risk that HML's underlying investment portfolio may not be easily sold when the investment manager decides it is an appropriate time for investments within the portfolio to be sold. A lack of liquidity could result in a loss if the delay in the sale of an investment results in the decline in value of the investment. This will be especially relevant to any investments in products which are not exchange traded such as unlisted equities.

(d) Listed investment company risks

HML is a listed investment company. The share price of a listed investment company may trade at a premium or discount to net tangible asset backing per share. The operations and financial performance of listed investment companies are driven by a number of factors, including:

(i) domestic and international financial markets;

(ii) domestic and international economic and political events; and

(iii) the applicable regulatory environment in Australia and internationally.

(e) Market risk

Investment returns are influenced by general market factors internationally and by factors specific to each security. In particular, the market price of the shares in many listed entities have in recent times experienced wide fluctuations which in many cases reflect a diverse range of non-entity specific influences including:

(i) general economic conditions, including change in inflation rates, short-term or long term interest rates, exchange rates and commodity prices;

(ii) variations in the local and global markets for listed securities;

(iii) domestic and international economic conditions;

(iv) changes in investor confidence generally and in relation to specific sectors of the market;

(v) natural disasters, global hostilities and acts of terrorism;

(vi) changes to government policy, legislation or regulation including in relation to taxation and other policy changes; and

(vii) the inclusion or removal of stocks from major market indices.

(f) Currency risk

For investments in global assets which have currency exposure, there is potential for adverse movements in exchange rates to reduce their Australian dollar value and, therefore, the value of HML's portfolio.

Foreign exchange fluctuations may have a positive or adverse impact on the investment returns of HML. HML's foreign currency exposure may be over or under hedged or not hedged at all. It may not always be possible to hedge all foreign currency exposures and there is no guarantee that any hedging will be successful. HML may also hedge the exposure of other investments in HML against investment loss, but is under no obligation to do so. There is no guarantee that any hedging will be successful. The cost of implementing hedging may be significant.

(g) Derivatives risk

There is a risk that the use of derivatives can have a negative impact on HML's portfolio due to an adverse movement in the underlying asset or where the position is difficult or costly to reverse or maintain. Derivative instruments include futures, futures options, over-the-counter products, exchange-traded options, swaps and forward contracts.

The value of all derivatives is 'derived' from underlying assets, such as company shares, commodities and bonds. Derivatives such as futures and options may be used by HML:

(i) in seeking to offset the risk of price variations of securities;

(ii) as an alternative to purchasing the underlying security;

(iii) to seek to take advantage of any opportunities for profit which may exist in the market from time to time; and

(iv) in the management of currency and interest rate risk.

In all cases, there must be cash and/or underlying assets available to meet the exposure positions of the derivative instruments.

Risks associated with using derivatives include the value of the derivative failing to move in line with the underlying asset, potential illiquidity of the derivative, HML not being able to meet payment obligations as they arise, regulatory risk and counterparty risk (this is where the counterparty to the derivative contract cannot meet its obligations under the contract). HML employs derivatives for investment, hedging, leverage and investment implementation and exit purposes.

General risks such as liquidity, counterparty or market risks can be magnified by the use of derivatives because of the leverage effect they exert on HML. HML seeks to manage these risks by maintaining adequate cash and physical asset cover for derivative positions and also by regularly monitoring derivative positions and only entering into transactions with reputable counterparties via recognised exchanges where possible. If HML enters into any derivative transaction with any other counterparty, it will seek to ensure the counterparty is creditworthy and viable.

(h) Possibility of future HML Share price depreciation

The Voting Directors cannot predict whether the HML Share price would in fact decrease or increase in the absence of the JBL Offer, as there may be other reasons for share price movements. There is a risk that HML Shares may trade at a price below the implied value of the Offer Consideration if the JBL Offer does not proceed and no superior alternative proposal emerges.

(i) Minority ownership consequences and liquidity risk

The JBL Offer is presently subject to a 50.1% minimum acceptance condition, which JBL has not as at the date of this Target's Statement indicated it would waive. If JBL waives this Defeating Condition (and all other Defeating Conditions are waived or satisfied), JBL may be in a position where it holds less than 50.1% of HML Shares.

Depending upon the number of HML Shareholders who accept the JBL Offer, this may have a number of implications for remaining HML Shareholders who do not accept the JBL Offer, including:

(i) JBL may be in a position, either alone or in conjunction with one or more of the other HML Shareholders, to control or significantly influence the composition of the HML Board, management and the strategic direction of the businesses of HML and its subsidiaries although no forecast is made as to whether that will occur;

(ii) the liquidity of HML Shares may be lower in the event trading in HML Shares on the ASX recommences;

(iii) if JBL becomes entitled at some later time to exercise any compulsory acquisition rights under the Corporations Act, it may (and has stated that it intends to) exercise those rights;

(iv) in the event that a change of control results from the JBL Offer, this may have material adverse consequences for a significant number of leases to which HML is party, which may adversely affect HML's financial position and financial performance; and

(v) if the number of HML Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then the ASX mayde-list HML. If this occurs, any remaining HML Shareholders will not be able to sell their HML Shares on-market.

(j) Ability to attract and retain key personnel

There is a risk that changes in these factors may occur which would inhibit HML's ability to hire and retain employees. As a result, HML financial and operating performance may be adversely impacted if HML cannot find suitably qualified employees or adequately incentivise team members.

8.3 Risks associated with accepting the JBL Offer and becoming a JBL Shareholder

If you accept the JBL Offer, you will receive JBL Shares. There are certain risks associated with accepting the JBL Offer, including:

(a) You will not be able to sell your HML Shares on market.

If you accept the JBL Offer, you will no longer be able to sell your HML Shares on-market, unless you are entitled to withdraw your acceptance of the JBL Offer in the limited circumstances described in Section 7.6 of this Target's Statement. There is a possibility that the HML Share price on the ASX may exceed the price offered pursuant to the JBL Offer in the future (though the Voting Directors can give no assurances and make no forecast of whether this will occur). In addition, there is a possibility that HML will not be re-admitted to trade on the ASX during the Offer Period which will mean you are unable to trade your HML Shares on-market. This will mean you will only be able to sell your HML Shares off-market.

(b) Possibility of a Superior Proposal emerging

A third party with a Superior Proposal may emerge (although the Voting Directors can give no assurances that this will occur). Once you have accepted the JBL Offer, you will not be able to accept Superior Proposal for your HML Shares (should such a proposal eventuate) as you will have entered a binding contract for the sale of your HML Shares. However, as at the date of this Target's Statement, the Voting Directors are not aware of a proposal by anyone to make a Superior Proposal. The Voting Directors consider that it is unlikely that a superior proposal will be forthcoming before the end of the Offer Period.

(c) JBL Shareholder approval required

The JBL Offer for HML Shares is a change in the nature and scale of the activities of JBL which requires approval by JBL Shareholders pursuant to the NSX Listing Rules.

In addition, JBL Shareholder approval is required for JBL to acquire all of the HML Shares which are held by the Interested Directors (either directly or indirectly through their Associates) under the JBL Offer.

These resolutions will be considered by JBL Shareholders at an extraordinary general meeting to be held on 24 December 2018. At that meeting, JBL Shareholders will also consider the same resolutions as they relate to the Concurrent Offer. The resolutions to be considered by JBL Shareholders are not interdependent.

If JBL Shareholder approval is not received, the requisite Defeating Condition will not be satisfied and JBL would need to assess how it proceeds with the JBL Offer.

(d) Issue of JBL Shares as consideration

HML Shareholders are being offered consideration under the JBL Offer that consists of a specified number of JBL Shares (rather than a number of JBL Shares with a specified market value). The market value of JBL Shares at the time at which they are received by HML Shareholders may vary from their market value on the date that HML Shareholders accept the JBL Offer. Accordingly, market fluctuations could affect the value of the consideration paid (in the form of JBL Shares) under the Offer and the value of an accepting shareholder's investment in JBL.

JBL is not obliged to make any adjustment in the consideration payable under the Offer if the value of JBL Shares changes during the Offer Period. Some HML Shareholders may not intend to continue to hold JBL Shares and may wish to sell them on the NSX.

There is a risk that if a significant number of HML Shareholders seek to sell their JBL Shares that the share price of JBL may be adversely impacted.

Further, JBL Shares issued to certain Foreign Shareholders will be sold on the NSX. The sale of these JBL Shares could also have a material adverse effect on JBL and the price of JBL Shares.

(e) NSX

JBL Shares are listed on the NSX. The NSX is a small and medium enterprise focused listed stock exchange. As with the ASX, the NSX is the holder of an Australian Market Licence issued by the Minister in accordance with Chapter 7 of the Corporations Act.

The NSX operates a regulated, transparent, orderly and highly efficient market. It operates the NASDAQ OMX trading system. Settlement of securities occur in CHESS, facilitated by more than 20 brokers in Australia and one online broker.

A full list of NSX brokers is available on the NSX's website: https://www.nsx.com.au/investing/broker-directory/

Your existing broker or online broker may not trade on the NSX. You may need to engage the services of another broker if you wish to sell the JBL Shares you receive if you accept the JBL Offer.

(f) Liquidity

JBL Shares are listed on the NSX.

The level of liquidity on the NSX market has the potential to be lower than on larger, established markets such as the ASX. As a result, the number of investors willing to buy and sell securities at any particular time is potentially less.

Your existing broker or online broker may not trade on the NSX. You may need to engage the services of another broker if you wish to sell the JBL Shares you receive if you accept the JBL Offer.

The Voting Directors encourage you to read the JBL's analyses in section 9 of its Bidder's Statement and section 3.8 of its Supplementary Bidder's Statement.

(g) Synergy risks

Whilst the directors of JBL expect certain synergies to be realised in the Merged Group, achievement of these synergies is not certain. The synergies may not be realised to their full extent or may be realised over a longer period of time than the Directors of JBL expect, or, less likely, not at all. This could have a material adverse impact on the financial performance of JBL.

(h) Taxation consequences

The taxation consequences of disposing of your HML Securities pursuant to the JBL Offer depend on a number of factors and your particular circumstances. A general outline of certain Australian taxation consequences of such a disposal is set out in Section 9 of this Target's Statement. You should seek your own specific professional tax advice as to the taxation implications applicable to your circumstances.

(i) Management Services Agreement

JBL is the current manager of HML pursuant to the Management Services Agreement. The success and profitability of HML significantly depends on the ability of the Manager to make investments that increase in value over time. The continued engagement of JBL as manager of HML's portfolio of investments is a risk. If the Management Services Agreement is terminated, HML will need to identify and engage a suitable replacement either externally or employ appropriately qualified investment professionals internally.

Under the Management Services Agreement with HML, JBL as manager is entitled to be paid both a Management Fee and a Performance Fee.

In accordance with the Management Services Agreement, the investment manager (being JBL) 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 HML 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 Performance Fee is based on the market value of the Portfolio at the end of each financial quarter. There is a risk that the Performance Fee may create an incentive for JBL to make investments on behalf of HML that are riskier and more speculative than would be the case in the absence of such a fee. The payment of the Performance Fee to JBL may therefore add to the risk and volatility of the Portfolio's underlying investments.

The investment return is defined as the percentage by which the mark-to-market value (excluding estimates 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 reduction in equity in HML during the relevant quarter including dividend reinvestments, new issues, the exercise of share options, share buy back and payment of dividends.

In the financial year ended 30 June 2018 JBL charged management fees of $1,194,780 (30 June 2017: $796,168) and performance fees of $519,638 (30 June 2017: $7,799,723).

(j) Conflict of interest

JBL also acts as investment manager for other entities including Bartholomew Roberts Pty Ltd and the JB High Alpha Fund. It is possible that JBL as manager may, in the course of its business, have potential conflicts of interest which may not be managed effectively and may be detrimental to HML and HML Shareholders and/or the Merged Group.

(k) Derivatives risk

Risks associated with using derivatives include the value of the derivative failing to move in line with the underlying asset, potential illiquidity of the derivative, HML not being able to meet payment obligations as they arise, regulatory risk and counterparty risk (this is where the counterpart to the derivative contract cannot meet its obligations under the contract). JBL employs derivatives for investment, hedging, leverage and investment implementation and exit purposes.

General risks such as liquidity and counterparty or market risks (as further detailed in this Section 8) can be magnified by the use of derivatives because of the leverage effect they exert on JBL. JBL manages this risk by maintaining adequate cash and physical asset cover for derivative positions and also by regularly monitoring derivative positions and only entering into transactions with reputable counterparties via recognised exchanges.

(l) Performance of JBL

In the Bidder's Statement and Supplementary Bidder's Statement, JBL raised a number of risks related to the general performance of JBL which HML Shareholders should be mindful of when making a decision. For completeness, a summary of these risks are set out below:

(i) "JBL may require additional funding to undertake its capital expenditure program for the Merged Group;

(ii) JBL may be unable to achieve its objectives as investment manager of the entities for which it acts in this capacity;

(iii) JBL is dependent upon the talent and experience of its key personnel and may be negatively impacted if such people leave;

(iv) the level of liquidity of JBL Shares on the NSX market may be lower than on other, larger and more established markets;

(v) a fall in equity markets, bond markets or a lack of change in the Australian dollar against other currencies may discourage the movement of money into or out of equity markets and adversely impact the value of JBL's assets;

(vi) risks associated with using derivatives for investment, hedging, leverage and investment implementation and exit purposes;

(vii) risks associated with taking short futures positions;

(viii) dependence by JBL upon its investment management agreements;

(ix) JBL's ability to achieve its performance objectives, produce returns that are positive or compare favourably against its peers;

(x) JBL may invest in companies which may mean that achieving a return on investment is more difficult than in larger capitalised or listed companies;

(xi) concentration risk may mean that poor performance in a specific market may significantly affect JBL;

(xii) overseas investments of JBL are subject to exchange rate volatility which may reduce the value of JBL's assets;

(xiii) entities upon which JBL's investments depend may default on their obligations to JBL;

(xiv) governments or regulators may pass laws, create policy or implement regulation that affects JBL or its assets;

(xv) JBL's investments may be difficult or impossible to sell;

(xvi) changes in the prices of future positions held by JBL may result in loss of principal or large movements in JBL's share price within short or long periods of time;

(xvii) leverage risk may mean that gains and losses may be significantly greater than those in a company that is not leveraged;

(xviii) JBL's investment approach is based upon the experience of the investment manager and research into data and mathematical models that attempt to forecast returns, risk, correlation and transaction costs, which may mean that the investment system implemented by JBL may not generate profitable trading signals;

(xix) JBL may be exposed to certain risks in respect of collateral delivered to counterparties in respect of derivatives arrangements; and

(xx) JBL may not be undertake its investment activities if it ceases to be an authorised representative of JB Markets Pty Ltd (AFSL No. 323182)."

The Voting Directors of HML encourage shareholders to carefully read Section 9.2 of the Bidder's Statement and the Questions and Answers section set out in Section 2 of the Bidder's Statement (as amended by the Supplementary Bidder's Statement).

8.4 General Risks

(a) Fluctuation in price of HML Shares

There are general risks associated with investments in equity capital. The trading price of HML Shares may fluctuate with movements in equity capital markets in Australia and internationally. This may result in the market price for HML Shares being more or less than the Offer Consideration.

Generally applicable factors which may affect the market price of shares include general movements in Australian and international stock markets, investor sentiment, Australian and international economic conditions and outlook, changes in interest rates and the rate of inflation, changes to government regulation and policies, announcement of new technologies and geo-political instability, including international hostilities and acts of terrorism.

The market for JBL Shares may also be affected by a wide variety of events and factors including variations in JBL's operating results, recommendations by securities analysts, and the operating and trading price performance of other listed investment management industry entities that investors consider to be comparable to JBL. Some of these factors could affect JBL's share price regardless of JBL's underlying operating performance.

(b) Government and regulatory factors

Government or regulatory policies may change, which could have an impact on the economic environment and general market conditions. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of HML.

(c) Interest rate fluctuations

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect HML's cost of servicing these borrowings which may adversely affect its financial position. In addition, interest rate fluctuations may impact the amount of credit which is made available to potential borrowers.

9. Tax consequences

The taxation consequences of accepting the JBL Offer depend on a number of factors and will vary depending on your particular circumstances.

This is not intended to be an authoritative or complete statement of the tax position applicable to any given HML Shareholder.

The following are general comments made in relation to Australian resident HML Shareholders who are subject to Australian tax on the disposal of their HML Shares and hold their HML Shares on capital account. This summary does not address the consequences for any other HML Shareholder (in particular, it does not address the tax consequences for a HML Shareholder who is a non-resident or holds their HML Shares as revenue assets or trading stock).

In general terms, if you accept the JBL Offer, you will trigger a CGT event. Any net capital gain will be included in your calculation of taxable income and taxed at your marginal tax rate.

Your income tax liabilities will depend on your personal circumstances and the decisions you make. The comments in this Section are general and do not address all of the taxation consequences for any HML Shareholder. This summary does not constitute, and should not be relied upon, as tax advice. This summary is based on Australian income tax law and practice applicable as at the date of this Target's Statement. This may change at any time and without notice.

All HML Shareholders should obtain independent taxation advice which is particular to their own personal circumstances, prior to accepting the JBL Offer.

Neither HML nor any of its officers or advisers accepts any liability or responsibility in respect of any statement concerning taxation consequences, or in respect of the taxation consequences themselves.

10. Additional information

10.1 Issued capital

As at the date of this Target's Statement, HML had 32,346,922 fully paid ordinary shares on issue. There are no options or preference shares of any class on issue.

10.2 Substantial holders

According to the substantial holder notices given to HML as at the date of this Target's Statement, the substantial shareholders of HML and the number of HML Shares held by those substantial shareholders directly, and the number of HML Shares in which those substantial shareholders and their Associates have a Relevant Interest are:

Name	Number of HML Shares directly held	% of issued capital of HML	Number of HML Shares in which hold a Relevant Interest	Voting Power
Stuart McAuliffe	62,902	0.19%	5,379,811	16.63%
Stuart Capital Pty Ltd	4,022,293	12.43%	4,022,293	12.43%
John Bridgeman Limited	3,165,083	9.78%	3,579,811	11.07%
John Hawkins Pty Ltd	0	0.00%	3,579,811	11.07%
Henry Avery Partners Pty Ltd	351,826	1.09%	3,579,811	11.07%
John McAuliffe	0	0.00%	4,965,083	15.35%
Tetue Pty Ltd	1,800,000	5.56%	1,800,000	5.56%

10.3 Notice of JBL's Voting Power

As at the Bid Announcement Date, JBL held a Relevant Interest in 3,579,811 of HML's issued capital and Voting Power in HML of 11.07%.

JBL is required to notify the ASX, NSX and HML before 9.30am on the next trading day during the Offer Period where there is a movement of at least 1% in its Voting Power in HML Shares (being the Relevant Interests in HML Shares held by it and its Associates) as compared with its last substantial holder notice.

As at the date of this Target's Statement, JBL held a Relevant Interest in 18,889,972 HML Shares and held Voting Power in HML of 58.40%, noting that approximately 14,431,344 of these HML Shares (representing 44.61%) have withdrawal rights as they represent HML Shares accepted into the JBL Offer prior to lodgement of the Supplementary Bidder's Statement.

10.4 Directors of HML

As at the date of this Target's Statement, the Directors of HML are:

Name	Position
John McAuliffe AM	Chairman
Stuart McAuliffe	Managing Director
Ross Patane	Non-Executive Director
Peter Ziegler	Non-Executive Director
Vanessa Gunner	Non-Executive Director

Section 5.5 of this Target's Statement provides professional profiles of each of the Directors.

For the purpose of assessing the JBL Offer and in light of the Association between Mr John McAuliffe, Mr Stuart McAuliffe and Mr Ross Patane with JBL, HML has formed the IBC, which comprises 2 Independent Non-Executive Directors, being Mr Peter Ziegler and Ms Vanessa Gunner. The IBC has full delegated authority to deal with all aspects of the JBL Offer.

Given their Association with JBL, each of John McAuliffe AM, Stuart McAuliffe and Mr Ross Patane are not considered to be an independent director of HML in relation to the JBL Offer. Accordingly, they have not participated in the consideration given by the IBC and the Voting Directors to the JBL Offer, or the review of this Target's Statement, until this Target's Statement was presented to the full HML Board for approval.

10.5 Recommendation of Voting Directors

Each of the Voting Directors unanimously recommend that HML Shareholders ACCEPT the JBL Offer, in the absence of a Superior Proposal, for the reasons set out in this Target's Statement (particularly the matters discussed in Section 1).

If you hold HML Shares as a short term investment, and you decide that you wish to sell your HML Shares now, you should consider either accepting the JBL Offer or, in the event HML is re-admitted to trade on the ASX during the Offer Period and the ASX price for the HML Shares (less brokerage costs) is above the Offer Consideration, selling your HML Shares on-market.

10.6 Recommendation of Mr John McAuliffe AM

Given Mr John McAuliffe AM's Association with JBL, he has abstained from making a recommendation as to whether HML Shareholders should accept or reject the JBL Offer.

10.7 Recommendation of Mr Stuart McAuliffe

Given Mr Stuart McAuliffe's Association with JBL, he has abstained from making a recommendation as to whether HML Shareholders should accept or reject the JBL Offer.

10.8 Recommendation of Mr Ross Patane

Given Mr Ross Patane's Association with JBL, he has abstained from making a recommendation as to whether HML Shareholders should accept or reject the JBL Offer.

10.9 Interests of Directors in HML Shares

As at the date of this Target's Statement, the number of HML Shares in which each Director has a Relevant Interest are set out below:

Director	Number of HML Shares in which Director has a Relevant Interest
John McAuliffe AM	1,800,000
Stuart McAuliffe	3,579,811
Ross Patane	15,968
Peter Ziegler	Nil
Vanessa Gunner	Nil

Each Director intends to ACCEPT the JBL Offer in respect of their HML Shares, in the absence of a Superior Proposal.

10.10 Recent dealings in HML Shares by Directors

No Director has acquired or disposed interests in any HML Shares in the four months ending on the Bid Announcement Date.

10.11 Directors' interests and dealings in JBL

None of the Directors have directly acquired or disposed of any securities of JBL, or any related body corporate of JBL in the 4 months preceding the date of this Target's Statement. However, as disclosed in the Bidder's Statement and as noted in substantial shareholder notices lodged by JBL in respect of its shareholding in HML, each of John McAuliffe AM and Stuart McAuliffe is an Associate of JBL.

10.12 Impact of the JBL Offer on HML' senior management and Director arrangements

(a) Director arrangements

As a result of the JBL Offer, no benefit (other than a benefit permitted by the Corporations Act) will or may be given to a Director in connection with their retirement from office in HML or a related body corporate of HML.

HML does not propose and, except as otherwise disclosed in this Target's Statement, is not aware of any proposal in connection with the JBL Offer that will confer a benefit:

(i) on any person in connection with the retirement of that person from a board or managerial office of HML or related body corporate of HML; or

(ii) that will or may be given to any person in connection with the transfer of the whole or any part of HML undertaking or property.

Other than as disclosed in this Target's Statement, no Director has agreed to receive, or is entitled to receive, any benefit from JBL which is conditional on, or is related to, the JBL Offer, other than in their capacity as a holder of HML Shares.

No agreement has been made between any Director and any person in connection with, or conditional upon, the outcome of the JBL Offer, other than in their capacity as a holder of HML Shares.

Other than those disclosed in the Target's Statement, no Director has any interest in any contract entered into by JBL.

10.13 Material contracts

HML is not, after due inquiry, aware of any material contract, including the Management Services Agreement, that has been entered into by HML that contains a change of control provision that may be triggered if JBL acquires HML Shares as a result of the JBL Offer.

10.14 Status of discussions regarding alternative proposals

While the Voting Directors will continue to explore any interest received from third parties subject to their obligations under the Act, no Superior Proposal has emerged to date and the Voting Directors can give no assurance that any alternative proposal will emerge, proceed or result in a Superior Proposal.

The Voting Directors will keep HML Shareholders informed of any material developments in this regard.

10.15 Material litigation

HML is not subject to any actual, pending or threatened litigation so far as the Directors are aware.

10.16 Consents

Each person named in this Section 10.16 of this Target's Statement as having given its consent to being named in, or to the inclusion of a statement in, this Target's Statement:

(a) has not authorised or caused the issue of this Target's Statement;

(b) does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based, other than those statements which have been included in this Target's Statement with the consent of that person; and

(c) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to their name and any statements or reports which have been included in this Target's Statement with the consent of that person.

Independent Expert

Leadenhall Corporate Advisory Pty Ltd has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to:

(a) be named in this Target's Statement as the independent expert engaged by HML in the form and context in which it is named;

(b) the inclusion of the Independent Expert's Report and statements noted next to its name, and the references to that report or statements, in the form and context in which they are included in the Target's Statement; and

(c) the inclusion of other statements in this Target's Statement that are based on or referable to statements made in the Independent Expert's Report or statements that are based on or referable to other statements made by those persons in the form and context in which they are included in the Target's Statement.

Other persons

AJ & Co Lawyers has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as HML Australian legal adviser in the form and context in which it is named.

Link Market Services Limited has given, and has not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to be named in this Target's Statement as HML's Registry in the form and context in which it is named.

10.17 Reliance on ASIC Class Orders

ASIC has published various Class Orders that modify, or exempt parties from compliance with, the operation of various provisions of Chapter 6 of the Corporations Act. HML has relied on this Class Order relief.

As permitted by ASIC Class Order CO 13/521, this Target's Statement contains statements which are made by JBL, or based on statements made by JBL, in documents lodged with ASIC or given to the operator of a prescribed financial market in compliance with the listing rules of the prescribed financial market (including the ASX). Pursuant to this Class Order, the consent of JBL to which such statements are attributed is not required for the inclusion of these statements in this Target's Statement.

HML Shareholders are entitled to obtain from HML free of charge any document which contains such a statement. If you would like to receive a copy of any of those documents, or the relevant part of the documents containing the statements (free of charge) during the Offer Period, please contact HML.

As permitted by ASIC Class Order CO 13/523, this Target's Statement may include or be accompanied by certain statements that:

(a) fairly represent what purports to be a statement by an official person;

(b) are a correct and fair copy of, or extract from, what purports to be a public official document; or

(c) are a correct and fair copy of, or extract from, a statement which has already been published in a book, journal or comparable publication.

Pursuant to this Class Order, the consent of such persons to whom statements are attributed is not required for the inclusion of those statements in this Target's Statement.

This Target's Statement includes references to the Bidder's Statement. JBL has not consented to these references being included in, or referred to, in the form and context in which they are included.

10.18 Continuous disclosure

HML is a disclosing entity under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require HML to notify the ASX of information about specified matters and events as they occur for the purpose of making that information available to the market.

In particular, HML has an obligation (subject to limited exceptions) to notify the ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of HML Shares. This obligation has continued to be complied with whilst HML has been suspended from trade on the ASX.

Copies of the documents filed with the ASX may be obtained from the ASX website at www.asx.com.au and HML website at www.henrymorgan.com.au.

Copies of documents lodged with ASIC in relation to HML may be obtained from, or inspected at, an ASIC office. HML Shareholders may obtain a copy of:

(a) the Annual Report;

(b) the Half-Yearly Report;

(c) HML's Constitution; and

(d) any document lodged by HML with the ASX between the release of the Annual Report and the date of this Target's Statement,

free of charge upon request by contacting HML, or from the ASX website at www.asx.com.au. The Annual Report, Half-Yearly Report and this Target's Statement are also available on HML website at www.henrymorgan.com.au.

HML Shareholders are also encouraged to monitor the HML website at www.henrymorgan.com.au for any updates on the JBL Offer.

The following announcements have been lodged on HML's ASX platform since the lodgement of the HML full year financial report on 1 November 2018:

Date	Description of Announcement
06.12.2018	Change in substantial holding from JBL
05.12.2018	Change in substantial holding from JBL
04.12.2018	Change in substantial holding from JBL
03.12.2018	Change in substantial holding from JBL
29.11.2018	Change in substantial holding from JBL
29.11.2018	Results of Annual General Meeting
28.11.2018	Change in substantial holding from JBL
27.11.2018	JBL Update and ongoing progress of JBL Takeover BIds
27.11.2018	JBL Offer Update

Date	Description of Announcement
27.11.2018	Change in substantial holding from JBL
27.11.2018	Change in substantial holding from JBL
26.11.2018	Change in substantial holding from JBL
23.11.2018	TOV: BHD & HML – Panel receives applications
23.11.2018	Supplementary Bidder's Statement
23.11.2018	Extension of Takeover Offer Period
23.11.2018	Change in substantial holding from JBL
22.11.2018	Final director's interest notice from Dr George William Earl
22.11.2018	Change in substantial holding from JBL
21.11.2018	Director Resignation – Dr George William Earl
21.11.2018	Update on off-market takeover bid for Henry Morgan from JBL
21.11.2018	Change in substantial holding from JBL
19.11.2018	Change in substantial holding from JBL
16.11.2018	Change in substantial holding from JBL
15.11.2018	Change in substantial holding from JBL
14.11.2018	Change in substantial holding from JBL
14.11.2018	Net Tangible Asset Backing
13.11.2018	Response to ASX Query
12.11.2018	Change in substantial holding from JBL
09.11.2018	Change in substantial holding from JBL
09.11.2018	Clarification regarding Bidder's Statement for HML and BHD
09.11.2018	JBL dispatch of Bidder's Statement and Offer Completed
02.11.2018	JB Financial Group 2018 Annual Report
02.11.2018	Corporate Governance Statement
02.11.2018	Appendix 4G
01.11.2018	Bidder's Statement – Off Market Bid

10.19 Insurance and indemnities

HML has entered into standard form of deeds of indemnity with its Directors against all liabilities which they may incur in the performance of their duties as Directors or officers of HML, except liability to HML or a related body corporate, liability for a pecuniary penalty or compensation order under the Corporations Act, and liabilities arising from conduct involving a lack of good faith. Subject to the Corporations Act, HML is obliged to meet the full amount of all such liabilities in accordance with the terms of the deeds of indemnity.

In addition, each Director is indemnified, as authorised by HML's constitution, against personal liability arising from their respective positions with HML and its related bodies corporate.

HML holds a directors' and officers' insurance policy on behalf of current Directors and officers of HML and its Controlled Entities.

10.20 No other material information

This Target's Statement is required to include all the information that HML Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the JBL Offer, but only to the extent to which it is reasonable for HML Shareholders and their respective professional advisers to expect to find this information in this Target's Statement, and only if the information is known to any Independent Director of HML.

In deciding what information should be included in this Target's Statement, the Voting Directors have had regard to:

(a) the nature of HML Shares;

(b) matters that HML Shareholders may reasonably be expected to know;

(c) the fact that certain matters may reasonably be expected to be known to the professional advisers of HML Shareholders; and

(d) the time available to HML to prepare this Target's Statement.

The Voting Directors are of the opinion that the information that HML Shareholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the JBL Offer is in one or more of:

(a) the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);

(b) HML Annual Reports and releases to the ASX before the date of this Target's Statement;

(c) documents lodged by HML with ASIC before the date of this Target's Statement; and

(d) the information contained in this Target's Statement.

The Voting Directors have assumed that, for the purposes of preparing this Target's Statement, the information in the Bidder's Statement is accurate. However, the Voting Directors and their advisers do not take any responsibility for the contents of the Bidder's Statement, and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

11. Definitions and Interpretation

11.1 Definitions

$	means Australian dollars, unless otherwise stated.
Acceptance Form	means the acceptance form enclosed within the Bidder's Statement.
Accounting Standards	means the rules about how a company must prepare its accounts in, prescribed by or specified under, the Corporations Act.
AEST	means Australian Eastern Standard Time.
Announcement Date	means 10 September 2018, being the date of announcement of the JBL Offer.
Annual Report	means HML's 2018 Annual Report.
ASIC	means the Australian Securities & Investments Commission.
Associate	in the context of a body corporate includes: (a) a director, secretary and shareholder of the body corporate; (b) a body corporate that is a Related Body Corporate; (c) a director, secretary and shareholder of that Related Body Corporate; (d) the trustee of any trust under which the persons described in clauses (a), (b) and (c) or any of them, may benefit; (e) any person who is a related party for the purposes of section 228 Corporations Act; and (f) in the particular matter to which the associate reference relates, any person or persons with whom the body corporate: (i) is acting or proposes to act in concert; or (ii) is or proposes to become associated, whether formally or informally.
ASX	means ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it.
ASX Listing Rules	means the Listing Rules of ASX and any other rules of ASX which are applicable, each as amended or replaced from time to time, except to the extent of any express written waiver by ASX.

ASX Settlement	means ASX Settlement Pty Ltd (ACN 008 504 532), the body that administers the CHESS system in Australia.
ASX Settlement Operating Rules	means the settlement rules of ASX Settlement Pty Limited (ABN 49 008 504 532), the body which administers the CHESS system in Australia), a copy of which is available at www.asx.com.au.
BHD	means Benjamin Hornigold Limited (ACN 614 854 045) and each of its Controlled Entities and, where relevant, means one or more of those Controlled Entities, as the context requires.
Bid Announcement Date	means 10 September 2018, being the day on which JBL announced its intention to make the Bid.
Bid Implementation Agreement	means the bid implementation agreement entered into by JBL and HML on the Bid Announcement Date.
Bidder's Statement	means JBL's bidder's statement under part 6.5 division 2 of the Corporations Act in relation to the JBL Offer dated 31 October 2018 as varied by the Supplementary Bidder's Statement.
Business Days	means a business day as defined in the ASX Listing Rules
CGT	means capital gains tax under the *Income Tax Assessment Act 1997* (Cth).
CHESS	means Clearing House Electronic Subregister System, which provides for electronic security transfer in Australia.
CHESS Holding	means a holding of HML Shares on the CHESS sub-register of HML.
Competing Proposal	means a proposal for a takeover bid, scheme of arrangement or other corporate transaction involving HML or HML Shares that would compete with the Offer or mean that a Defeating Condition would not be fulfilled.
Concurrent Offer	means the offer made by JBL for all of the shares and options in BHD, an entity also managed by JBL, pursuant to a bidder's statement dated on or about the date of this Bidder's Statement in respect of HML Shares.
Controlling Participant	means the broker or Non-Broker Participant who is designated as the controlling participant for shares in a CHESS Holding under the ASX Settlement Operating Rules.

Condition Notice	means has the meaning given in Section 7.4 of this Target's Statement.
Controlled Entities	means has the meaning given in the Accounting Standards.
Controlling Participant	means the Participant who is designated as the controlling participant for HML Shares in a CHESS Holding in accordance with the ASX Settlement Operating Rules.
Corporations Act	means *Corporations Act 2001* (Cth).
Defeating Conditions	means the conditions of the JBL Offer, as described in Annexure A of this Target's Statement.
Director	means a director of HML.
Follow On Compulsory Acquisition	has the meaning given in Section 7.9 of this Target's Statement.
Foreign Shareholder	means a HML Shareholder whose address on the HML share register is in a jurisdiction other than Australia or its external territories or New Zealand.
General Compulsory Acquisition	has the meaning given in Section 7.9 of this Target's Statement.
GST	has the meaning it has in the GST Act.
GST Act	means the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).
HML	means Henry Morgan Limited (ACN 602 722 985) and each of its Controlled Entities and, where relevant, means one or more of those Controlled Entities, as the context requires.
HML Board	means the board of Directors of HML.
HML Share	means a fully paid ordinary share in the capital of HML.
HML Shareholder	means a holder of HML Shares.
IBC	means the Independent Board Committee established by the HML Board to consider the JBL Offer and comprising Mr Peter Ziegler and Ms Vanessa Gunner.
Independent Expert	means Leadenhall Corporate Advisory Pty Ltd ABN 11 114 534 619 AFSL 293586.

Independent Expert's Report	means the report prepared by the Independent Expert, a copy of which is attached to this Target's Statement as Annexure B.
Interested Director	has the meaning given to that term in the Bidder's Statement.
Issuer Sponsored Holding	means a holding of HML Shares on HML issuer sponsored sub-register.
JBL	means John Bridgeman Limited (ACN 603 477 185) and its Subsidiaries.
JBL Offer	means the offer by JBL to acquire HML Shares on the terms and conditions contained in the Bidder's Statement.
JBL Share	means a fully paid ordinary share in the capital of JBL.
JBL Shareholder	means a holder of JBL Shares.
Last Trading Date	means 8 June 2017, being the last day on which HML Shares traded on the ASX suspension of trading in HML Shares.
Link Market Services	means Link Market Services Limited ABN 54 083 214 537 of Level 21, 10 Eagle Street, Brisbane Queensland 4000
Management Services Agreement	means the management services agreement between JBL and HML (as amended) dated 12 March 2015.
Material Adverse Change	means: (a) any matter, event or circumstance which happens, is announced or becomes known to JBL or HML after the date of the Bid Implementation Agreement which (individually or when aggregated with all those matters, events or circumstances) has resulted in or is likely to result the value of consolidated net assets of the JBL Group or the HML Group (as those terms are defined in the Bid Implementation Agreement) being reduced by at least 20% against what they would have been but for the matters, events or circumstances; or (b) JBL or HML becomes aware, prior to the end of the Offer Period, that JBL or HML has breached its continuous disclosure obligations under the NSX Listing Rules or ASX Listing Rules (as applicable) and, had a reasonable bidder or target in similar circumstances to JBL or HML known of the

	information giving rise to such breach prior to the Announcement Date, it would have resulted in that reasonable bidder offering less Consideration or greater Consideration under the Takeover Bid (as those terms are defined in the Bid Implementation Agreement), but does not include: (c) any matter, event or circumstance arising from changes in economic or business conditions which impact on HML and its competitors in a similar manner or JBL; (d) any change in taxation rates or taxation laws which impact on HML and its competitors in a similar manner; (e) any change in accounting policy required by law; (f) any change occurring directly or indirectly as a result of any matter, event or circumstance required by the Bid Implementation Agreement, the Proposal or the transactions contemplated by them; or (g) any matter, event or circumstance which has been disclosed prior to execution of the Bid Implementation Agreement or which is approved in writing by the other party.
Merged Group	means JBL and each of its Subsidiaries (including HML) which will exist as a result of the takeover bid as constituted by the Offers, should the takeover proceed to its conclusion.
Non-Broker Participant	means a non-broker participant under the ASX Settlement Operating Rules.
NSX	means the National Stock Exchange of Australia ABN 11 000 902 063.
NSX Listing Rules	means the Listing Rules of NSX and any other rules of ASX which are applicable, each as amended or replaced from time to time, except to the extent of any express written waiver by NSX.
Offer Consideration	means 0.95 JBL Shares per HML Share, being the consideration to be provided to HML Shareholders under the JBL Offer, as set out in Section 7.1 of this Target's Statement.
Offer Period	means the period from 6 November 2018 until 7:00pm (Sydney time) on 14 January 2019, unless the JBL Offer is further extended or withdrawn.
Participant	has the meaning given in the ASX Settlement Operating Rules.

Prescribed Occurrence	has the meaning given in section 13.1 of the Bidder's Statement.
Register Date	means 1 November 2018, being the date set by JBL under section 633(2) of the Corporations Act.
Regulatory Approval	has the meaning given in section 13.1 of the Bidder's Statement.
Regulatory Authority	has the meaning given in section 13.1 of the Bidder's Statement.
Relevant Interest	has the meaning given in the Corporations Act.
Section	means a section of this Target's Statement.
Subsidiaries	has the meaning given to that term in section 9 of the Corporations Act
Superior Proposal	means a Competing Proposal that: (a) is actually proposed or offered; and (b) in the determination of the HML Board, acting reasonably and in good faith and satisfying its fiduciary and statutory duties (on advice from its financial and legal advisers): (i) would be likely to be completed substantially in accordance with its terms; and (ii) if completion of that Competing Proposal occurred, it would result in a transaction more favourable to HML Shareholders than the Offer; and (iii) that determination has been communicated by written notice to JBL and JBL has not matched or bettered the Competing Proposal within two Business Days of receipt of that notice.
Supplementary Bidder's Statement	means the supplementary bidder's statement lodged by JBL on 22 November 2018 varying the Bidder's Statement.
Target's Statement	means this document, being HML's target statement.
Voting Power	has the meaning given in section 610 of the Corporations Act.
Voting Directors	Mr Peter Ziegler and Ms Vanessa Gunner.
Withdrawal Form	means the withdrawal form attached to the Supplementary Bidder's Statement providing withdrawal rights to HML Shareholders who

accepted the JBL Offer between 6 November 2018 and 22 November 2018.

In this Target's Statement, unless the context requires otherwise:

(a) words and phrases have the same meaning (if any) given to them in the Corporations Act;

(b) words importing the singular include the plural and vice versa and a word of any gender includes the corresponding words of any other gender;

(c) if a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;

(d) the word including or any other form of that word is not a word of limitation;

(e) a reference to a person or an expression importing a natural person includes an individual, the estate of an individual, a corporation, a regulatory authority, an incorporated or unincorporated association or parties in a joint venture, a partnership and a trust;

(f) a reference to a party includes that party's executors, administrators, successors and permitted assigns, including persons taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;

(g) a reference to a party, clause, schedule, exhibit, attachment or annexure is a reference to a party, clause, schedule, exhibit, attachment or annexure to or of this Target's Statement, and a reference to this Target's Statement includes all schedules, exhibits, attachments and annexures to it;

(h) a reference to an agency or body if that agency or body ceases to exist or is reconstituted, renamed or replaced or has its powers or function removed (obsolete body), means the agency or body which performs most closely the functions of the obsolete body;

(i) a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances, or by laws amending, varying, consolidating or replacing it;

(j) a reference to a statute includes any regulations or other instruments made under it (delegated legislation) and a reference to a statute or delegated legislation or a provision of either includes consolidations, amendments, re- enactments and replacements;

(k) headings and bold type are for convenience only and do not affect the interpretation of this Target's Statement;

(l) a reference to time is a reference to time in Brisbane, Queensland; and

(m) a reference to dollars, $, cents and currency is a reference to the lawful currency of the Commonwealth of Australia.

12. Approval of Target's Statement

This Target's Statement is dated 6 December 2018 (being the date on which this Target's Statement was lodged with ASIC) and has been approved by a resolution of the Directors of HML.

Signed for and on behalf of HML:

Mr Peter Ziegler
Non-Executive Director

6 December 2018

13. Corporate Directory

13.1 Directors

Mr John McAuliffe AM
Mr Stuart McAuliffe
Mr Ross Patane
Mr Peter Ziegler
Ms Vanessa Gunner

13.2 Company Secretary

Mr Kevin Mischewski
Ms Jody Wright

13.3 Registered Office

Level 9, Riverside Centre
123 Eagle Street
BRISBANE QLD 4000

13.4 Legal Adviser

AJ & Co Lawyers
Level 18, Waterfront Place
1 Eagle Street
BRISBANE QLD 4000

13.5 HML Registry

Link Market Services Limited
Level 21, 10 Eagle Street
BRISBANE QLD 4000

Annexure A Defeating Conditions of the JBL Offer

The JBL Offer and any contracts resulting from acceptance of the JBL Offer are subject to fulfilment of the following conditions (**Defeating Conditions**):

1. (**Minimum acceptance**) Before the end of the Offer Period, the Bidder has a Relevant Interest in at least 50.1% (by number) of Target Shares.

2. (**Regulatory Approvals**) Before the end of the Offer Period, the Regulatory Approvals are:

    2.1. granted, given, made or obtained unconditionally, or on the basis of conditions that impose only non-material requirements incidental to the approval or consent;
    2.2. remain in full force and effect; and
    2.3. do not become subject to any notice, indication or intention to revoke, suspend, restrict, modify or renew them.

3. (**No regulatory action**) Between the Announcement Date and the end of the Offer Period:

    3.1. no preliminary or final decision, order or direction is made or issued by any Regulatory Authority;
    3.2. no action, proceeding or investigation is announced, commenced or threatened by any Regulatory Authority; and
    3.3. no application is made to any Regulatory Authority (other than by the Bidder or any Associate of the Bidder),

    which is likely to or purports or threatens to restrain, prohibit, impede or otherwise adversely affect the making of the Offer, consideration of the Offer by the Target, the acquisition of the Target Shares by the Bidder, the provision of the Target Shares to the Bidder, the rights of the Bidder in respect of the Target and the Target Shares, the rights of the Target in respect the Bidder and the Bidder Shares or the continued operation of the businesses of the Target or its Subsidiaries or the Bidder and its Subsidiaries (other than any action or decision by or application to ASIC or the Takeovers Panel in exercise of the powers or discretions conferred by the Corporations Act).

4. (**No Prescribed Occurrences**) Between the Announcement Date and the end of the Offer Period, there is no occurrence of a Prescribed Occurrence.

5. (**No Material Adverse Change**) Between the Announcement Date and the end of the Offer Period, there is no occurrence of a Material Adverse Change.

6. (**Target Options**) Before the end of the Offer Period all of the Target Options expire or are exercised, cancelled or transferred to the Bidder or are the subject of agreements or arrangements entered into between the Bidder and the relevant holder of the Target Options that will cause the Target Options to expire, be cancelled or transferred to the Bidder.

7. (**Third party consents**) All other approvals of a third party which the Bidder or the Target determines acting reasonably are necessary to undertake and successfully complete the Takeover Bid are obtained

Annexure B Independent Expert's Report

HENRY MORGAN LIMITED

Proposed Acquisition By John Bridgeman Limited

Independent Expert's Report and Financial Services Guide

6 December 2018

6 December 2018

The Independent Directors
Henry Morgan Limited
GPO Box 3112
Brisbane QLD 4001

Dear Directors,

Independent Expert's Report for Henry Morgan Limited

1. Introduction

Henry Morgan Limited ("**HML**") is a listed investment company ("**LIC**") listed on the Australian Securities Exchange ("**ASX**") but its shares are currently suspended from trading. HML's investments are currently managed by John Bridgeman Limited ("**JBL**"), an investment management business established in January 2015 that is focused on investing in global markets.

HML and JBL are part of a group of companies with a range of inter-relationships including cross-ownership, financing arrangements and investment management activities which include:

- The main investment of both HML and JBL is JB Financial Group Pty Ltd ("**JBFG**"), an unlisted financial services business with operating businesses encompassing foreign exchange retailing, securities brokerage and trading and a mercantile services business. HML has an effective 29.8% in JBFG through a 19.9% direct interest and an indirect interest through a 30.1% interest in Bartholomew Roberts Pty Ltd ("**BRL**"), an unlisted investment company whose main investment is a 32.9% interest in JBFG. JBL also holds significant stakes in both JBFG and BRL.
- JBL is currently the investment manager for HML, BRL and Benjamin Hornigold Limited ("**BHD**"), a LIC with a focus on investing in global markets. Investments currently comprise foreign currency traded by JBFG's foreign currency business and loans advanced to JBFG and JBL.
- In addition to JBFG and BRL, JBL has direct investments in HML and BHD. HML and BHD also have small interests in JBL.
- Stuart McAuliffe is the managing director of JBL and HML and the Executive Chairman of BHD and sits on the board of JBL, HML and BHD. JBL and HML also have two other common directors in addition to Mr McAuliffe.

Further details on the ownership structures and other relationships of HML, BHD and JBL are set out in Section 1 of our detailed report.

Whilst HML and BHD are listed on the ASX, the companies have been in trading halts and/or suspended from trading since June 2017 and July 2018 respectively.

JBL has been listed on the National Stock Exchange of Australia ("**NSX**") since May 2015, although its shares have been in trading halts and/or suspended (primarily voluntarily) from trading on a number of occasions.

2. Proposed Transaction

On 10 September 2018, JBL announced its intention to launch an off-market takeover bid for 100% of the shares in HML not already owned by JBL for 0.95 JBL shares for each HML share ("**HML Offer**"). On the same day, JBL also announced an off-market takeover bid for BHD for 0.65 JBL shares for each BHD share ("**BHD Offer**") and 0.5 JBL options for each BHD option ("**BHD Option Offer**"). The HML Offer and BHD Offer are not interdependent. We refer to the HML Offer and the BHD Offer collectively as the '**Proposed Transactions'**.

As at 6 December 2018 JBL and its associates had a 58.4% relevant interest in HML and a 37.1% relevant interest in BHD.

3. Purpose of the report

As JBL and HML have common directors (John McAuliffe, Stuart McAuliffe and Ross Patane), the independent directors of HML have requested Leadenhall to prepare an independent expert's report ("**IER**") to assess whether the HML Offer is fair and reasonable to HML shareholders not associated with JBL ("**HML Non-Associated Shareholders**") in accordance with Section 640 of the Corporations Act 2001 ("**Section 640**"). This report is to accompany the Target's Statement to be sent to shareholders of HML in order to assist the HML Non-Associated Shareholders in their consideration of the HML Offer.

We note that separately we have been engaged by the independent directors of BHD to prepare an IER in order to assess whether the BHD Offer is fair and reasonable to BHD shareholders not associated with JBL ("**BHD Non-Associated Shareholders**"). Our IER in respect of the BHD Offer was issued on the same date as this report and is available on the ASX and BHD website. Our conclusion was that the BHD Offer was not fair but reasonable to BHD Non-Associated Shareholders.

4. Basis of evaluation

In order to assess whether the HML Offer is fair and reasonable we have:

- Assessed whether the HML Offer is fair by comparing the value of a HML share (on a control basis) to the fair market value of the proposed consideration, being the value of 0.95 JBL shares after the Proposed Transactions ("**Enlarged JBL**") on a minority basis.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to HML Non-Associated Shareholders outweigh the disadvantages.

Further details of the basis of evaluation are provided in Section 2 of our detailed report.

5. The HML Offer is not fair

Conclusions

Our fairness assessment of the HML Offer is summarised below.

Table 1: Fairness summary

Fairness summary		
$/share	**Low**	**High**
Assessed Value per share (control basis)	0.85	0.93
Consideration		
Assessed value of Enlarged JBL (minority basis) per share	0.60	0.67
JBL shares issued as consideration	0.95	0.95
Fair market value of consideration	**0.57**	**0.63**
Fair (unfair) amount per share	**(0.28)**	**(0.29)**

Source: Leadenhall analysis
Note: Table subject to rounding

As set out above, we have determined that the value of a HML share (on a control basis) is above the fair market value of 0.95 shares in Enlarged JBL (on a minority basis) to be received as consideration. Accordingly the HML offer is not fair.

Value of HML

In determining the value of a HML share (on a control basis) we have estimated the value of the net assets of HML by aggregating the fair market value of each of HML's investments and considering any other assets and liabilities as set out below:

Table 2: HML summary

$'000	Low	High
Investments		
Interest in JBFG	18,725	21,400
Interest in BRL	5,404	6,348
Interest in JBL	55	55
Interest in BHD	35	37
Foreign currency notes	661	661
Related party loans	2,660	2,660
Total investments	**27,541**	**31,162**
Other net liabilities		
Net cash	572	572
Other net assets	913	913
Deferred taxes (net)	(207)	(1,409)
Management agreement termination	(370)	(401)
Other realisation costs	(1,065)	(825)
Total other net liabilities	**(156)**	**(1,150)**
Assessed net asset value	**27,384**	**30,012**
Number of shares ('000)	32,347	32,347
Value per share ($)	**0.85**	**0.93**

Source: Leadenhall analysis
Note: Table subject to rounding

Key assumptions adopted in our assessed value of HML include:

- We have assumed that the investments of HML (including investments in JBFG and loans to JBL) could be realised in an orderly basis.
- HML's primary investment is a direct and indirect holding in JBFG. JBFG's ability to operate as a going concern was a significant risk highlighted by its auditors at 30 June 2018. Whilst this risk remains, the JBFG directors consider that this risk has significantly reduced since 30 June 2018 due to a significant reduction in the current asset deficiency and the recent completion of $7 million in third party funding received by JBFG on 30 November 2018. We have therefore prepared our analysis of JBFG on a going concern basis.
- We have estimated the value of JBFG using a sum of the parts ("**SOTP**") analysis of each of the underlying businesses as set out in Section 11. In undertaking this analysis, we have also considered recent transactions in the shares of JBFG as well as HML's most recently audited carrying value of its investments in JBFG. As HML owns a minority stake in JBFG we have conducted this analysis on a minority basis. Our assessed value of a JBFG share is $3.50 per share to $4.00 per share. We note that this is below the valuation of JBFG adopted by HML of $4.65 per share due to the following factors:
  - The value of JBFG at 30 June 2018 adopted by HML included a premium for control whereas our valuation has been conducted on a minority basis as HML does not control JBFG.

- Our assessed value of JBFG's interest in JB Trading House Pty Ltd ("**JBTH**"), the broking business of JBFG, is significantly lower than JBL's assessed value. JBTH is currently reliant on internal trading volumes from HML and BHD with future growth expected to be generated from third party clients. We consider that a potential buyer of JBTH would be unlikely to attribute full value to internal trading volumes due to the uncertainty over the duration of these volumes in the absence of any contractual requirement. Furthermore, we consider JBL's limited track record of generating sustained positive trading performance for HML and BHD in excess of brokerage costs would constrain the fair market value of trading volumes from HML and BHD.

- We have allowed for an estimate of likely realisation costs in the event the portfolio was to be realised including management agreement termination costs, potential tax leakage and transaction costs.

JBL has received indicative acceptances from the vast majority of JBFG shareholders (except HML) to acquire all of the shares in JBFG that JBL does not already own for consideration comprising 3 JBL Shares and 1 JBL Option per JBFG share ("**JBFG Transaction**"). Due to the extended time period that this transaction has been contemplated and that additional approvals are required in order to complete the JBFG Transaction, there is a risk that this transaction does not proceed. Based on our assessed values of JBFG and JBL this transaction is dilutive to existing JBFG shareholders (including HML). For the purpose of our analysis we have assumed that the JBFG Transaction does not proceed as this is the most conservative basis for evaluating the offer for HML shareholders.

Further details of our assessed value of HML are are set in Section 10 of our detailed report.

We highlight that our assessed value of a HML share should not be considered to reflect the price at which HML shares would trade if the HML Offer lapses and the current trading suspension of HML shares is lifted. The price at which HML shares would trade in this scenario will depend on a range of factors including the likely significant selling pressures when/if HML shares are able to be traded again as well as other factors such as the level of acceptances of the HML Offer, operational performance of JBFG, ongoing fees/cost to be incurred by HML as well as other macro-economic conditions including the regulatory and political environment. As a result of these factors we consider it likely that HML shares would trade below our assessed value range in this situation.

Enlarged JBL value

In determining the fair market value of a share in Enlarged JBL (on a minority basis) we have undertaken a SOTP analysis for each of JBL's underlying investments and businesses (as well as other net assets/liabilities).

The value of a share in Enlarged JBL, will vary depending on the number of HML and BHD shareholders that accept the respective offers. For the purpose of our analysis above we have assumed 100% acceptance of the HML Offer and the BHD Offer. We note that varying the level of acceptances does not impact our conclusion on the HML Offer.

If the HML Offer and the BHD Offer proceed, Enlarged JBL will comprise investments in JBFG, BRL, HML and BHD as well as its funds management business. In determining the fair market value of a share in Enlarged JBL (on a minority basis) we have:

- Determined the value of JBL's interest in BRL, HML and JBFG based on our assessed value as per our valuation of HML.
- We have not attributed any value associated with synergies from the Proposed Transactions since our underlying values for BHD and HML do not include the ongoing costs which are expected to be avoided by Enlarged JBL. Furthermore, we consider there are significant risks in achieving other synergies.
- We consider that the current levels of back-office support costs as well as listing costs and governance/director costs would be required on an ongoing basis. We have assumed ongoing corporate costs for Enlarged JBL of $1.4 million per year and have deducted $5.6 million to allow for these costs on an ongoing basis.
- Included the dilutionary impact of options on issue and to be issued pursuant to the BHD Offer.
- Applied a discount for lack of control ("**DLOC**") of 10% to reflect that HML Non-Associated Shareholders will have a minority position in Enlarged JBL. Our discount is modest compared to other generally observed ranges for DLOCs as our valuation for the underlying components of JBL (in particular JBFG) have been prepared on a minority basis.

- Applied a discount for lack of marketability ("**DLOM**") of 10% to reflect that whilst shares in Enlarged JBL will be listed:
  - Enlarged JBL will be listed on the NSX which is likely to limit liquidity and access to some investors (which may not have a mandate to invest on NSX) relative to an ASX listing.
  - JBL shares have historically been extremely illiquid and there has not been any significant improvement since announcement of the Proposed Transactions. For example, excluding the required buyback by JBL, only 16,515 shares have traded in the 12 months to 30 November 2018 which represents less than 0.1% of shares on issue.
  - Enlarged JBL would be an investment holding company with a wide range of investments. In general, investment holding companies trade at a discount to their underlying net asset values to reflect the lack of liquidity of the underlying investments and that the underlying net asset value may not be realised until the investments are sold and the company's assets are distributed to shareholders. Furthermore, the absence of a track record by JBL of generating operating cash flow and the complexity of the underlying businesses may limit investors ability to fully understand the underlying strategy and operations of these businesses which is likely to result in investors further discounting the intrinsic value of the underlying businesses.

Our assessed value of Enlarged JBL is set out below:

Table 3: Enlarged JBL summary

$'000	Low	High
Investments		
100% interest in HML	28,783	31,200
100% interest in BHD	14,125	14,979
Interest in JBFG	7,005	8,006
Interest in BRL	9,277	10,898
Total investments	**59,191**	**65,082**
Other net liabilities		
External funds management business	-	100
Corporate costs	(5,600)	(5,600)
Net debt	(4,103)	(4,103)
Related party loans	(3,122)	(3,122)
Other net assets	2,415	2,415
Deferred taxes	-	-
Total net liabilities	**(10,410)**	**(10,310)**
Assessed value of Enlarged JBL	**48,781**	**54,772**
Dilutive impact of options	(1,281)	(1,844)
Assessed valued of Enlarged JBL after options	**47,500**	**52,929**
Discount for lack of control	5%	5%
Assessed value of Enlarged JBL (marketable minority basis)	**45,125**	**50,282**
Discount for lack of marketability	10%	10%
Assessed value of Enlarged JBL (illiquid minority basis)	**40,612**	**45,254**
Number of JBL shares on issue ('000)	67,762	67,762
Value per share ($)	**0.60**	**0.67**

Source: Leadenhall analysis
Note: Table subject to rounding

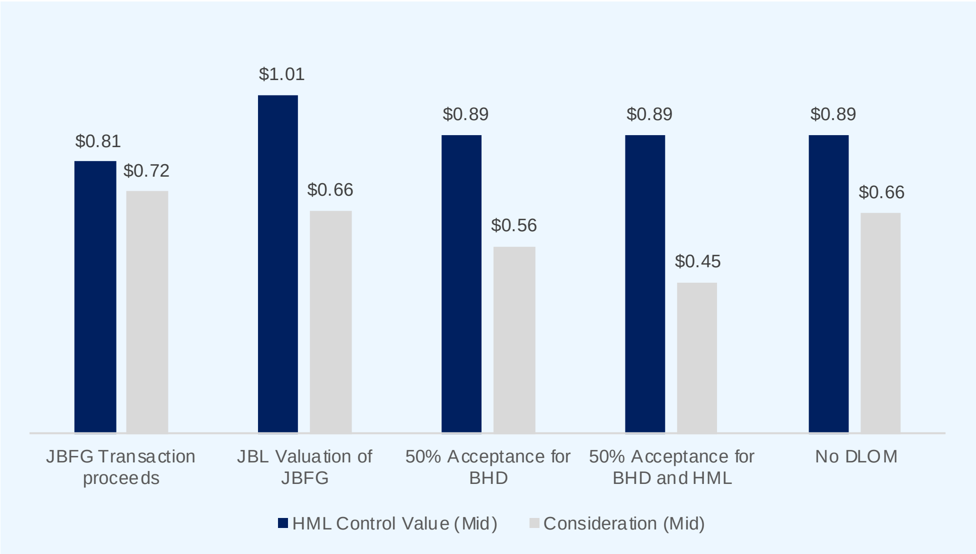
Further details of our assessed value of Enlarged JBL are are set in Section 14 of our detailed report.

We highlight that our assessed value of a share of Enlarged JBL should not be considered to reflect the price at which Enlarged JBL shares would trade if the offer(s) proceed or otherwise. The price at which JBL shares will trade will depend on a range of factors including the level of acceptances for the Proposed Transactions, available liquidity as well as other factors such as operational performance of JBL and its investments, ongoing costs as well as other macro-economic conditions and the regulatory and political environment.

Sensitivities

There are a number of subjective assumptions required to be made in respect of the evaluation of the HML Offer which we have summarised in the chart below:

Figure 4: Sensitivity / scenario summary



Source: Leadenhall analysis

In respect of the above:

- JBL has received indicative acceptances from all JBFG shareholders (except HML) to acquire all of the shares in JBFG that JBL does not already own for 3 JBL Shares and 1 JBL Option per JBFG share. For our assessment of fairness we have assumed that the JBFG Transaction does not proceed as that is the most conservative approach to assess the offer for HML shareholders. As set out above, alternate assumptions would not change our conclusion on the HML Offer. We note that if the JBFG Transaction does proceed this is accretive to the value of a share of Enlarged JBL by approximately $0.09 per share which would make the offer less 'unfair' as set out above.
- Our assessed value of JBFG is less than the most recent valuation adopted by HML and included in the audited financial statements as at 30 June 2018. As set out above, our conclusion is not impacted even if we were to utilise the price per share for JBFG implied by the current carrying value of HML's interest in JBFG.
- The value of a share in Enlarged JBL will vary depending on the number of HML and BHD shareholders that accept the respective offers. For the purpose of our analysis above we have assumed 100% acceptance of the HML Offer and the BHD Offer as this is the most favourable scenario for HML Shareholders who accept the HML Offer. As set out above, varying the level of acceptances does not impact our conclusion.
- To the extent that liquidity in JBL shares improves substantially if the Proposed Transactions proceed, it is possible that the DLOM applied in our valuation could be reduced over time. As set out above, even if no DLOM is included our conclusion on the HML Offer does not change.

6. The HML Offer is reasonable

Introduction

In determining whether the HML Offer is reasonable to HML Non-Associated Shareholders, we have considered whether the advantages of the transaction outweigh the disadvantages.

Further details of the basis of evaluation are provided in Section 2 of our detailed report.

Advantages

Limited compelling alternatives are available to HML

HML was established to invest in a global macro strategy with limited (<10%) exposure to unlisted investments. However, after shareholder approval was granted to remove the unlisted investment cap in order to invest in JBFG, HML's investment portfolio and returns have largely been driven by its investment (directly and indirectly) in JBFG. The original investment case for JBFG has failed to deliver as anticipated which has resulted in slower growth and more capital required than previously envisaged.

HML's current trading suspension and significant exposure to unlisted complex investments are substantial impediments to investors realising returns through distributions or capital appreciation in the near-term. Furthermore, it is unlikely that HML would be able to attract additional capital in its current form due to these issues as well as the small scale of the vehicle and the perceived conflicts of interest with JBL.

Even if the trading suspension is lifted, HML's ability to exit their investment in JBFG will be constrained as there are unlikely to be any third-party buyers of JBFG other than JBL since JBL already exerts significant influence, if not practical control over JBFG and, shareholders other than HML have accepted an offer from JBL to acquire all the shares in JBFG that it does not already own. If completed, this would result in JBL owning at least 80% of JBFG. JBL is therefore likely the only buyer for HML's interests in JBFG and BRL but it does not have the financial capacity to pay to acquire HML's interests for cash.

Our assessed value of HML on a control basis assumes that the net assets of HML are realised on an orderly basis. However, the alternatives available to HML Non-associated Shareholders to realise a value superior to the HML Offer are subject to considerable risks and uncertainty since:

- JBL's existing interest in HML (subject to any withdrawal of acceptances for the HML Offer) would likely act as a significant impediment to any third party considering a takeover offer for HML as well as restrict the ability of HML shareholders who do not accept the HML Offer to change investment manager in order to implement an alternate investment strategy.
- If HML resumes trading and continues to operate in its current form as a LIC, on-going management fees, listing costs, external directors fees and other costs will continue to be incurred which, due to the small scale of HML and uncertain investment returns, is likely to erode shareholder value in the absence of any trading gains or realised returns from unlisted investments.
- Based on the acceptances received, it seems probable that the JBFG Transaction will proceed irrespective of the result of the HML Offer. To the extent that the JBFG Transaction proceeds, it is value dilutive to existing JBFG shareholders (including HML) which represents a risk to shareholders who do not accept the HML Offer.
- Even if HML were to divest its assets and return the net proceeds to shareholders, there is likely to be an extended timeframe to do so which may also result in significant additional costs. Furthermore, it is possible that the value realised would be lower than our assessed value of HML's assets due to the likely limited number of potential acquirers of these assets other than JBL.

Based on the above, we consider that on balance, the alternatives available to HML are subject to comparatively higher execution risks, longer timelines and lower values relative to the HML Offer.

JBL has a relevant interest in HML in excess of 50% based on current acceptances

As at 6 December 2018 JBL had a 58.4% relevant interest in HML. Whilst these acceptances can be withdrawn up until the closing of the HML Offer, there is the potential for JBL to further increase their interest in HML through further acceptances up until the close of the HML Offer (which could be extended). JBL may also increase its stake in HML on-market over time once the HML Offer expires.

If JBL achieves a relevant interest in HML in excess of 75%, it is its current intention to delist HML. Shareholders who do not accept the HML Offer would therefore be subject to significant liquidity risks holding unlisted shares in HML.

If JBL obtains between 50.1% and 90% of HML shares it will not be entitled to compulsorily acquire the remaining HML Shares (at that time, although it may in future become entitled to do so). In such a scenario, JBL will have effective control of HML, including:

- The ability to replace all current HML directors with JBL nominees.
- Control over the operating strategy including evaluating the performance and strategy of HML which may include realising the investments of HML, exploring other strategies and making appropriate provisions for any of HML's ongoing liabilities.
- A voting majority (and the ability to block any special and ordinary resolution).

As a result of JBL's existing interest in HML (subject to any acceptances which may be withdrawn), HML Non-Associated Shareholders that do not accept are exposed to the risk that JBL may substantially change HML (including its operations, listing status, etc.) without their approval being required.

Enlarged JBL shares may provide access to greater liquidity

HML shares have not traded since June 2017 and remain suspended with no timeline for trading to resume. We understand that HML is taking every reasonable step to have the suspension lifted. In the absence of the HML Offer it would seem reasonable to assume that, once there is a clear path forward as to the structure of HML, and the resolution of perceived related party concerns[1] (and ASX is satisfied that any disclosure or other issues have been resolved), the trading suspension would be lifted. However, there is no certainty as to when or if the suspension will be lifted or that HML will not be subject to further suspensions in the future. If and when trading was to resume in HML, the share price of HML will be exposed to a number of downside risks upon resumption of trading including:

- It is likely HML will be exposed to significant selling pressures due to excess demand for liquidity due to the extended trading halt.
- Ongoing demand for HML shares will likely be constrained by:
  - Adverse sentiment due to extended trading suspension and ongoing issues with regulators.
  - The scale of HML has been reduced due to fee/cost leakage (which will continue in the absence of the HML Offer) and asset write-downs which may reduce the investor universe going forward.
  - The potential for the perceived ongoing conflicts of interest with JBL and the dependence on JBFG for future returns.
- Dividends appear to be unlikely in the near-term.

As a result of these factors we consider it likely that HML shares would trade below our assessed value range in this situation.

Shareholders who accept the HML Offer will receive shares in Enlarged JBL that are currently trading on the NSX and could provide some access to liquidity for shareholders that desire to realise all or part of their investment in the near-term. Enlarged JBL also has the potential to facilitate greater liquidity over time through a broader shareholder base and larger market capitalisation which may appeal to some investors relative to HML in its current form.

However, the ability for HML shareholders to achieve any significant increase in liquidity is subject to substantial risks as discussed below in our assessment of the disadvantages of the offer.

[1] Unless otherwise noted, interpreted as it pertains to the definition of 'Closely Related Parties' in the Accounting Standards which is different than the definition prescribed by the Corporations Act.

The share price of Enlarged JBL may benefit from potential synergies

Enlarged JBL may benefit from potential scale benefits as well as costs savings and other synergies of the combined group from:

- Combining investment processes and structures as well as support functions.
- In the event that acceptances for the HML Offer and/or the BHD Offer exceed 75% and JBL delisted HML and/or JBL, listing and other governance costs would be reduced.

However, the extent of shareholders realising these benefits is likely to be constrained by:

- The ability to achieve any cost reductions or other synergies will be dependent on the level of acceptances of the HML Offer and BHD Offer.
- Based on recent trading in JBL shares, the likelihood of the market pricing in any benefits seems remote at this stage given the lack of liquidity of JBL shares as mentioned above. Since the announcement of the Proposed Transactions on 10 September 2018 and the release of the initial bidder's statement by JBL on 1 November 2018 there has been virtually no trading in JBL shares (other than the required buyback of shares by JBL).
- Timing of any distributable cash flow benefits from synergies is uncertain.

Disadvantages

Any increase in liquidity available to HML shareholders is subject to substantial risks

Whilst the HML Offer may provide access to liquidity for some shareholders who accept the HML Offer, there are considerable risks as to when and if enhanced liquidity will be available to HML shareholders since shares in JBL:

- Are listed on the NSX which is likely to limit liquidity and access to some investors (which may not have a mandate to invest on NSX) relative to an ASX listing. Any near-term prospects for Enlarged JBL to seek an ASX listing seem limited due to the ongoing trading suspensions for JBL's existing managed vehicles.
- Have historically been extremely illiquid and there has not been any significant improvement since announcement of the Proposed Transactions. For example, excluding the required buyback by JBL only 16,515 shares have traded in the 12 months to 30 November 2018 which represents less than 0.1% of shares on issue.
- Are likely to be exposed to uncertainty and/or headwinds in the near-term due to:
  - Selling pressures due to sustained trading suspension of HML and BHD and likely desire for immediate liquidity for some shareholders and potentially any institutional shareholders that aren't able to trade in NSX listed securities.
  - Shares in Enlarged JBL may attract an ongoing discount for the complexity of the operations and dependency on future earnings growth to generate distributable income. Future returns for shareholders in Enlarged JBL may be dependent on the management team delivering a sustained track record of positive earnings growth (from trading and/or operating businesses) and/or favourable exit of the underlying investments.

Accepting the HML Offer will result in a significant change in the characteristics of the investment

If shareholders accept the HML Offer, the profile of their investment will change significantly, in particular:

- Enlarged JBL will have increased exposure to the existing investment and management teams of JBL and JBFG. This may not be desirable for some shareholders due to the mixed investment track record of JBL and the seemingly difficult relationship between JBL and some regulators which may persist.
- Shares will be traded on NSX rather than ASX which may result in reduced liquidity as discussed above. Furthermore, NSX listing may not provide the same level of minority protections as ASX. Whilst NSX has some similar levels of protection for related party transactions and continuous disclosure, there are some exceptions. For example, information provided to shareholders in the event an NSX company were to acquire or divest a substantial asset from a related party as the NSX has broader discretion of when to require an IER in these situations whereas ASX Listing Rule 10 is more prescriptive.

- If JBL achieves sufficient acceptances and delists HML, HML investors will no longer receive net tangible assets ("**NTA**") reports. The frequency of revaluations of investments will likely decrease which will provide less transparency over the ongoing performance of unlisted investments.
- HML shareholders will not control JBL.

The HML Offer is subject to a number of conditions

The HML offer is subject to a number of conditions including:

- A minimum acceptance of 50.1% of shares (including JBL's existing interest in HML).
- Regulatory approvals.
- No regulatory actions are taken against HML that adversely affect the HML Offer.
- All necessary third party approvals are obtained.

Furthermore, the NSX has required that JBL obtain shareholder approval in respect of the Proposed Transactions. Consequently there is a risk that the HML Offer will not proceed.

Tax implications

As set out in Section 9 of the Target's statement, if shareholders accept the HML Offer it may crystallise a tax event whereby any net capital gain will be included in shareholders taxable income and taxed at their marginal tax rate.

7. Conclusion on reasonableness

The Proposed Transaction is reasonable

In concluding that the HML Offer is reasonable we have had primary regard to the following:

- On one hand the HML Offer poses a number of risks for HML Non-Associated Shareholders in respect of:
  - A significant change in the risk profile of the investment whereby HML shareholders will increase their exposure to unlisted investments and the JBL management and investment teams. However, shareholders who accept the HML Offer will have their interests aligned with JBL and will not be exposed to any potential value leakage from management and performance fees.
  - The uncertainty as to when or if shares of Enlarged JBL will experience any meaningful liquidity. Even if share trading volumes increase there is likely to be persistent downward pressure on the Enlarged JBL share price in at least the near-term due to selling pressures from shareholders of HML and BHD who have not had any access to liquidity due to trading suspensions.
  - Uncertainty in respect of future distributions available to Enlarged JBL Shareholders.
- However, we consider that the alternatives available to HML Non-Associated Shareholders are limited since:
  - JBL has a relevant interest in HML in excess of 50% (subject to any withdrawals of acceptances) which may allow JBL to determine future investment decisions of HML in addition to control of the management rights of HML. JBL's existing interest in HML is also likely to preclude any other takeover offers for HML or other corporate activity from a third party.
  - Due to JBL's existing interest in JBFG and expectation that the JBFG Transaction will procced, HML has a dependency on JBL to be able to realise HML's investment in JBFG. HML is unlikely to be able to divest its interest in JBFG other than to, or in conjunction with, JBL.
  - Remaining a stand-alone ASX listed entity with the existing investment portfolio poses significant risks for HML as it is likely that, in the absence of any significant profits from trading, shareholder value would be eroded through cash leakage from management fees, listing fees and other administration costs. Furthermore, it is likely that HML's share price would be depressed when/if trading resumes due to likely significant selling volumes due to the extended trading suspension.
  - We consider that any other strategies to realise the value of the existing portfolio in the near-term would be subject to significant risks, costs and uncertainties and, based on the existing acceptances of the offer would require the approval and/or participation of JBL.

We consider that on balance, the HML Offer is reasonable to HML Non-Associated Shareholders due to relatively higher execution risks and uncertain timeline and net proceeds to HML Non-Associated Shareholders associated with the limited alternatives available.

8. Opinion

In our opinion, the HML Offer is not fair but reasonable to HML Non-Associated Shareholders, in the absence of a superior proposal.

Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the analysis from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the HML Offer is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the HML Offer on their specific financial circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope, analysis and findings in more detail.

Yours faithfully

Dave Pearson
Director

Richard Norris
Director

Notes:

1. *All amounts stated in this report are in Australian dollars unless otherwise stated.*
2. *Tables in this report may not add due to rounding.*

LEADENHALL CORPORATE ADVISORY PTY LTD

ABN 11 114 534 619

Australian Financial Services Licence No: 293586

FINANCIAL SERVICES GUIDE

Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**" or "**we**" or "**us**" or "**our**" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In providing this report, we are required to issue this Financial Services Guide ("**FSG**") to retail clients. This FSG is designed to help you to make a decision as to how you might use this general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

Financial Services We are Licensed to Provide

We hold Australian Financial Services Licence 293586 which authorises us to provide financial product advice in relation to securities (such as shares and debentures), managed investment schemes and derivatives.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product. Our report will include a description of the circumstances of our engagement and the party who has engaged us. You will not have engaged us directly but will be provided with a copy of the report because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial service licensee authorised to provide the financial product advice contained in that report.

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Except for the fees referred to above, neither Leadenhall, nor any of its directors, consultants, employees or related entities, receive any pecuniary or other benefit, directly or indirectly, for or in connection with the provision of this report.

Remuneration or Other Benefits Received by our Employees, Directors and Consultants

All our employees receive a salary. Our employees are eligible for bonuses which are not based on the outcomes of any specific engagement or directly linked to the provision of this report. Our directors and consultants receive remuneration based on time spent on matters.

Referrals

We do not pay commissions or provide any other benefits to any person for referring clients to us in connection with the reports that we are licensed to provide.

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As the holder of an Australian Financial Services Licence, we are required to have a system in place for handling complaints from persons to whom we have provided reports. All complaints must be in writing, to the following address:

Leadenhall Corporate Advisory Pty Ltd
GPO Box 1572
Adelaide SA 5001

Email: office@leadenhall.com.au

We will try to resolve your complaint quickly and fairly and will endeavour to settle the matter within 14 days from the time the matter is brought to our attention.

If you do not get a satisfactory outcome, you have the option of contacting the Australian Financial Complaints Authority ("**AFCA**"). AFCA will then be able to advise you as to whether they can assist in this matter. AFCA can be contacted at the following addresses:

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001

Website: www.afca.org.au
Email: info@afca.org.au
Telephone: 1800 931 678 (free call)

Leadenhall's AFCA membership number is 12224

Compensation Arrangements

Leadenhall holds professional indemnity insurance in relation to the services we provide. The insurance cover satisfies the compensation requirements of the Corporations Act 2001.

6 December 2018

CONTENTS

1 THE PROPOSED TRANSACTION

1.1 Background

HML is a LIC with a stated strategy to take advantage of imbalances in global market valuations through the active management of investments, including in global exchange traded futures contracts such as equity market indices, fixed income, currencies and commodities and fixed income futures.

HML also has investments in listed equities and unlisted securities which include a 19.9% interest in JBFG an early stage financial services conglomerate, as well as a 30.1% interest in BRL, an unlisted investment company whose main investment is a 32.9% interest in JBFG. BRL also owns the exclusive rights to the 'Johnny Rockets' and 'WingStop' fast food franchises. Whilst HML is listed on the ASX, the company has been in a trading halt since June 2017 but has received no specific guidance from the ASX as to the reasons for the current suspension.

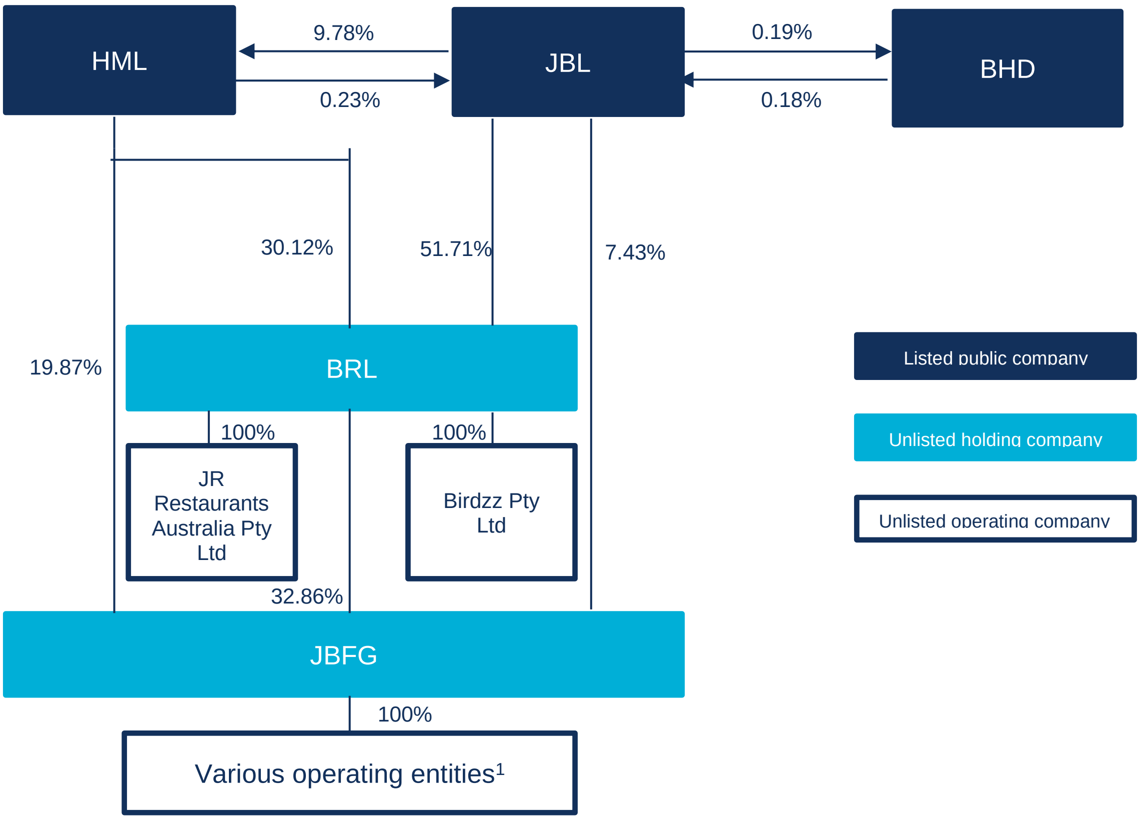
BHD is a LIC with a stated strategy on investing in global markets through exchange traded futures contracts, including equity market indices, fixed income, currencies and commodities, with the aim of achieving above average returns over the medium to long term. However, BHD's primary investments currently comprise foreign currency traded by JBFG's wholesale foreign currency business and a convertible loan advanced to JBFG. Whilst BHD is listed on the ASX, the company has been in a trading halt since July 2018 but has received no specific guidance from the ASX as to the reasons for the current suspension.

JBL was established in January 2015 and operates an investment management business focused on investing in global markets. JBL has been listed on the NSX since August 2015. JBL is currently the investment manager for HML, BRL and BHD as well as a small amount of external funds. JBL also holds investments in JBFG, BRL, HML and BHD.

Stuart McAuliffe is the managing director of JBL and HML and the Executive Chairman of BHD and sits on the board of JBL, HML and BHD.

The current structure of HML, JBL, BHD and other related entities is set out in the figure below.

Figure 1: Structure HML, JBL, BHD and related entities prior to the Proposed Transactions



1. Details of JBFG's operating subsidiaries are set out in Section 6.

1.2 Proposed transaction

On 10 September 2018, JBL announced their intention to launch an off-market takeover bid for 100% of the shares in HML not already owned by JBL for 0.95 JBL shares for each HML share. On the same day, JBL also announced an off-market takeover bid for BHD for 0.65 JBL shares for each BHD share and 0.5 JBL options for each BHD option. The HML and BHD offers are not interdependent. We refer to the HML Offer and the BHD Offer collectively as the 'Proposed Transactions.'

The investment exposure of JBL after the Proposed Transaction will vary based on the number of HML and BHD shareholders that accept the respective offers. Shareholders that accept the HML Offer will receive shares in Enlarged JBL which will be listed on the NSX. Post transaction, JBL intends to continue to act as investment manager for HML and BHD under the current management agreements. JBL also intends to proceed with the scrip offer to acquire all of the shares in JBFG that it does not already own that was announced in January 2018.

1.3 JBL's intentions if the offer is accepted:

If JBL acquires between 50% and 90% of the HML shares JBL intends to:

- Delist HML from the ASX if JBL obtains 75% of HML Shares.
- Replace all current HML directors with JBL nominees.
- Evaluate the performance and strategy of HML which may include realising the investments of HML, exploring other strategies and making appropriate provisions for any of HML's ongoing liabilities.

If JBL acquires 90% or more of the HML shares and is entitled to proceed to compulsory acquisition of the remaining HML shares, JBL intends to:

- Amend HML's constitution to reflect its status as a wholly-owned subsidiary of JBL and seek to convert HML from a public company to a proprietary company.
- Delist HML from the ASX
- Replace all existing HML directors with JBL nominees
- Evaluate the performance and strategy of HML which may include realising the investments of HML, exploring other strategies and making appropriate provisions for any of HML's ongoing liabilities.

1.4 Conditions

The HML offer is subject to a number of conditions which are summarised below:

- A minimum acceptance of 50.1% of shares (including JBL's existing interest in HML).
- All required regulatory approvals are granted.
- No regulatory actions are taken against HML that adversely affect the HML Offer.
- There are no prescribed occurrences, as described in the bid implementation agreement.
- There are no material adverse changes, as described in the bid implementation agreement.
- All necessary third party approvals are obtained.

2 SCOPE

2.1 Purpose of the report

Section 640 requires an independent expert's report to be prepared in relation to a takeover offer if either:

- The bidder's voting power in the target is 30% or more
- The bidder and target have one or more common directors

As JBL and HML have common directors (John McAuliffe, Stuart McAuliffe and Ross Patane), the independent directors of HML have requested Leadenhall to prepare an IER in accordance with Section 640. This report is to accompany the Target Statement to be sent to shareholders of HML in order to assist the HML Non-Associated Shareholders in their consideration of the HML Offer.

2.2 Basis of evaluation

Introduction

Section 640 requires an independent expert to assess whether a takeover offer is fair and reasonable to HML non-associated shareholders. Guidance on what an independent expert should consider and how 'fair and reasonable' should be defined is contained in Regulatory Guide 111: Content of Expert Reports ("**RG 111**") which states that there should be separate assessments of whether a takeover offer covered by Section 640 is 'fair' and whether it is 'reasonable'. Accordingly, we have considered the concepts of "fairness" and "reasonableness" separately as described below.

Fairness

According to RG 111.11 a takeover bid '*is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer*'. This analysis should be undertaken assuming knowledgeable and willing but not anxious parties acting at arm's length and 100% ownership of the target, irrespective of whether the consideration is scrip or cash. We have therefore assessed whether the HML Offer is fair by comparing the fair market value of a HML share on a control basis prior to the transaction (the securities subject to the offer) to the fair market value of the shares to be received in Enlarged JBL on a minority basis (the consideration).

For the purpose of our assessment we have utilised the concept of fair market value, which is defined by the International Glossary of Business Valuation Terms as:

> *The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.*

We consider this to be consistent with the basis of value contained in RG 111.57 and common market practice.

Special value is defined as the amount a specific purchaser is willing to pay in excess of fair market value. A specific purchaser may be willing to pay a premium over fair market value as a result of potential economies of scale, reduction in competition or other synergies they may enjoy arising from the acquisition of the asset. However, to the extent a pool of hypothetical purchasers could all achieve the same level of synergies the value of those synergies may be included in fair market value. Our assessed values do not include any special value in accordance with RG 111.

Reasonableness

In accordance with RG 111, we have defined the HML Offer as being reasonable if it is fair, or if despite not being fair, Leadenhall believes that there are sufficient reasons for HML Non-Associated Shareholders to vote in favour of the proposal. We have therefore considered whether the advantages to HML Non-Associated Shareholders of the Proposed Transactions outweigh the disadvantages. To assess the reasonableness of the Proposed Transactions we have considered the following significant factors recommended by RG 111.13:

- JBL's existing voting power in HML and any other significant holding blocks.
- The liquidity of the market in HML securities including the likelihood and timing of the removal of the current suspension in trading of HML shares.
- The impact of the transaction on the financial situation and solvency of HML.
- Opportunity costs.
- The alternative options available to HML and the likelihood of those options occurring.
- The bargaining position of HML.
- Tax losses, cash flow or other benefits that could be achieved by JBL as a result of the Proposed Transactions.
- Whether there is selective treatment of any security holder, particularly any related party.
- Any special value of HML to JBL.
- The value to an alternative bidder and likelihood of an alternative offer being made.

We have also considered the other significant advantages and disadvantages to HML Non-Associated Shareholders of the Proposed Transactions.

2.3 Individual circumstances

We have evaluated the HML Offer for HML Non-Associated Shareholders as a whole. We have not considered its effect on the particular circumstances of individual investors. Due to their personal circumstances, individual investors may place a different emphasis on various aspects of the HML Offer from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the HML Offer is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the HML Offer on their specific financial circumstances.

3 INDUSTRY ANALYSIS

3.1 Introduction and summary

JBL operates an investment management business primarily for HML and BHD. We have therefore included a brief analysis of the investment management (also known as funds management) industry in Australia. However, we note that JBL has a different investment focus and client base than many other fund managers and as such comparability is therefore limited.

HML and JBL have significant direct and indirect interests in JBFG. JBFG has a number of businesses each of which has different operations, although all broadly relate to service delivery, particularly financial services. As well as investment management, we have also analysed the key industries in which JBFG's investee companies operate which are:

- **Foreign exchange retailing:** JBFG participates in foreign exchange retailing through its investment in Crown Currency.
- **Securities brokerage and trading:** through a mix of internal development and acquisitions JBFG has built a substantial securities brokerage and trading business over the last two years.
- **Mercantile agency business:** over the last two years, JBFG has acquired a number of businesses operating in the mercantile agency industry predominantly providing field audit, repossession and recovery services.

JBFG also has investments in some smaller businesses operating in the credit services industry and HML and JBL also have investments in BRL, an unlisted investment company, that holds investments in two food and beverage franchising businesses. However, as these businesses are relatively small, a detailed industry analysis is not set out in this report. Further information about all of the investments of JBFG and BRL is provided in Sections 5 and 6 below.

Other than derivative contracts traded, BHD's primary investments are in foreign currency used by Crown Currency, the foreign exchange retailing business and a convertible loan advanced to JBFG. As such, no additional industry analysis is required for BHD.

3.2 Investment management

3.2.1 Introduction and overview

Fund managers allocate funds on behalf of clients, in order to meet specified investment goals. These investment services are provided to both institutional and retail clients for management and performance fees. Whilst JBL has a relatively complex structure with a number of investments in managed and other related entities, we consider funds management to be the most comparable industry, particularly in relation to the key revenue drivers. We have therefore provided a brief summary of the funds management industry in Australia.

As stated in the Australian Trade and Investment Commission ("**Austrade**") 2017 Trade and Investment Note, Australia's funds management industry is the largest in the Asia-Pacific region and the sixth largest in the world. As of 30 June 2018, according to the Australian Bureau of Statistics ("**ABS**"), the managed funds industry in Australia had $3.5 trillion of funds under management ("**FUM**"), predominantly constituted by superannuation funds. In addition, according to IBISWorld, Australia's funds management industry is growing at a faster rate than the overall economy by approximately 0.9% annually over a ten-year period to FY23. The size and growth of Australia's funds management industry has been underpinned by a number of factors:

- Australia's government-mandated superannuation scheme, with planned progressive increases from 9.5% of income to 12% by July 2025.
- An efficient regulatory environment and strong presence of leading global financial institutions.
- A sophisticated investor base and relatively affluent population with high savings rates.

3.2.2 Industry structure and participants

Superannuation funds are major investors in Australia's funds management industry consisting of large institutional fund managers (generally managing over $200 billion) and smaller boutique investment managers (generally managing between $300 million and $2 billion).

Smaller funds often have clear investment strategies but are disadvantaged due to their relative lack of resources compared with large institutional fund managers who are often mandated to invest in companies with relatively large market capitalisations. Therefore, returns of larger fund managers are often closely correlated to market indices and hence several boutique fund managers have emerged with the intention of generating alpha, or excess returns.

The number of industry participants has declined over the past five years, primarily due to consolidation to take advantage of scale benefits. Economies of scale include:

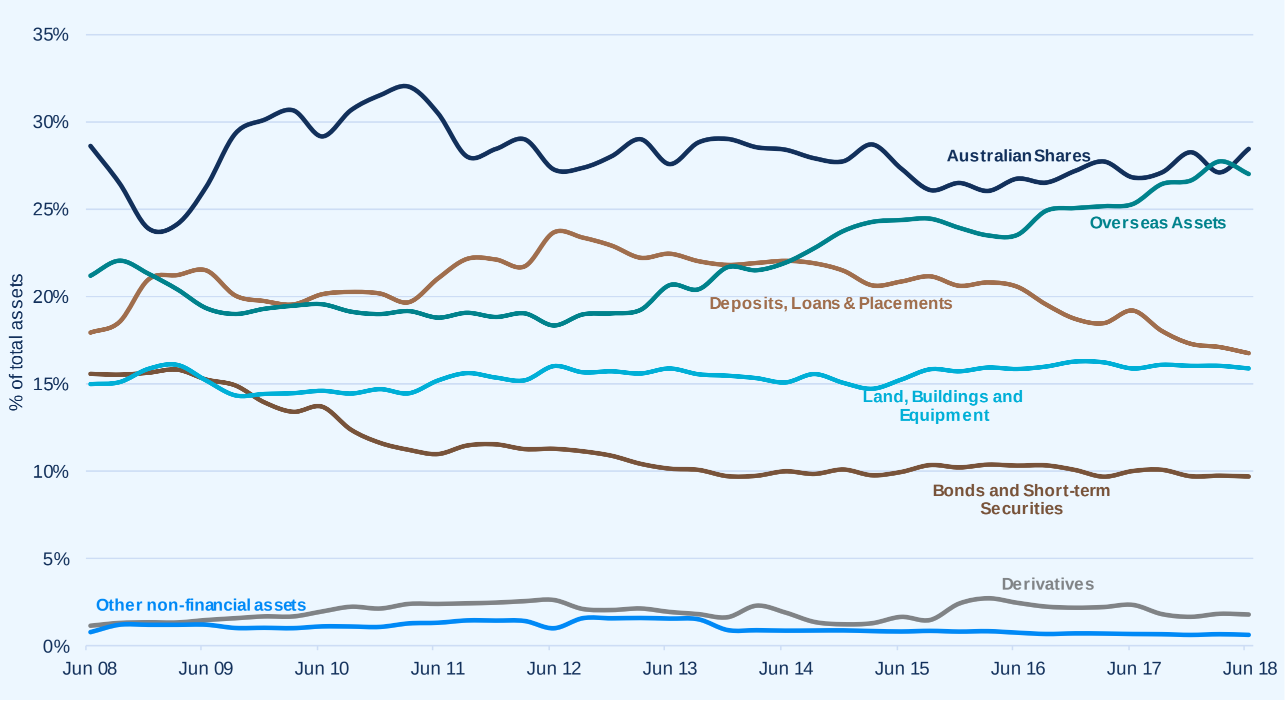
- Having a greater distribution reach.
- Access to a more diverse range of financial advisers.
- A broader product portfolio.
- Cost efficiencies from consolidating back-office operations and costs of research.

These benefits can translate to higher and more stable margins.

3.2.3 Asset allocation of fund managers

The figure below provides an overview of the asset allocation of fund managers in Australia.

Figure 2: Consolidated assets of Australia's managed funds



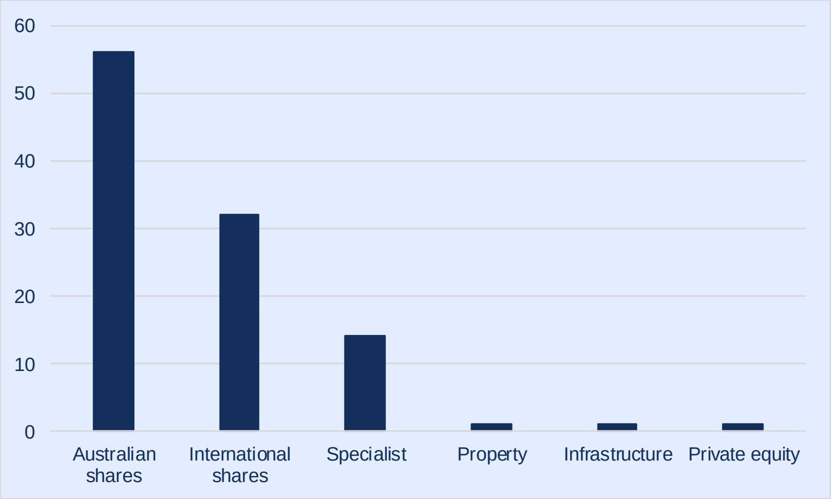
Source: ABS, category no. 5655.0 Managed Funds, Australia, Table 2
Note: Excludes crossed investment assets by Australia's managed funds by institutions and investments in unit trusts.

As shown in the figure above, Australian equities are consistently the largest asset class held by Australia's fund managers while investments in overseas assets have risen significantly over the past ten years. As a result of the global financial crisis in 2008, there was a dip in the proportion of investments in equities which increased sharply the following year, in line with the recovery of the Australian share market and investors' confidence in the market. JBL primarily invests in derivative instruments which comprise a very small portion of total asset allocation in the Australian funds management industry.

3.2.4 Listed investment companies

As at 31 July 2018, there were 105 LICs on the ASX. A breakdown by investment focus is shown in the figure below.

Figure 3: Number of LIC's on the ASX at 31 July 2018



Source: Morningstar

The number of LIC's on the ASX has grown substantially in recent times from 56 in June 2012 to 105 in 2018. There are a number of factors which have driven this growth which are summarised below:

- The Future of Financial Advice legislation which was introduced in 2014 has driven increasing interest in LICs from financial advisors that are looking for alternative methods of accessing professional managed portfolios.
- Investor focus on yields has increased the popularity of LIC's. Because a LIC is structured as a company, the directors can determine the dividend policy. This structural advantage over unit trusts has allowed LICs to position themselves as an attractive value proposition to investors chasing yield.
- Increased depth and breadth of products.
- Increased quality of managers.
- Improved adviser and investor engagement.

As shown in the figure above, the LIC market is currently dominated by a domestic equity focus. Industry participants expect that future growth will occur away from large capitalisation domestic equity products and into those areas that are currently under-represented. Global equity focused products in particular are expected to benefit from this diversification and an increase in both size and style of offering is likely. Growth is also expected in index unaware (no particular index focus) products and those that offer high and sustainable income.

3.2.5 Key drivers

The key performance factors for operators in the funds management industry are summarised below:

- **Historical returns:** fund managers with strong historical returns are more likely to attract investors.
- **Investment team:** a highly experienced and qualified investment team with a good investment track record and suitable retention incentives are critical for successful fund managers.
- **Ratings:** when choosing a fund manager, investors often consider ratings given to funds and fund managers. Therefore, good relationships with ratings providers, coupled with the above factors can ensure that ratings agencies have sufficient information available to make their assessments.
- **Distribution network:** fund managers with extensive distribution networks, generally through relationships with financial advisers, have the ability to grow FUM (particularly retail) more quickly and spend less time and money on marketing than those with less extensive networks.
- **Size:** the amount of FUM may impact the investment decisions of some larger institutional investors which are restricted from investing with smaller fund managers.
- **Access to technology:** industry operators need access to modern communications and analytical solutions to reduce the cost of building/maintaining portfolios and delivering services to clients.

3.2.6 Industry outlook and trends

According to IBISWorld, the Australian funds management industry has performed soundly over the past five years to FY18 with strong growth in funds sourced from overseas markets. Industry revenue is expected to grow at an annualised 3.8% to $8.0 billion in FY18, heavily influenced by the equities market which performed strongly, hence lifting fees.

Nonetheless, fund managers are operating in a difficult environment as passive funds (which operate with limited or no investment direction and therefore lower costs than traditional fund managers) are gaining popularity at the expense of active funds. As many managed funds struggle to significantly outperform their benchmarks, passive funds have become an attractive option for investors looking to reduce fees without significantly decreasing returns. In addition, as the Australian population ages, more emphasis will likely be placed on portfolios that provide stable income streams (dividends) rather than capital growth. Therefore, an ageing investor population group would more likely be opting for passive investment strategies instead of seeking abnormal capital gains through active funds management and to reduce the costs of their investments. As a result, industry revenue growth is expected to dampen over the next five-year period to $8.3 billion in FY23.

Industry consolidation is expected to continue, with the growing size of superannuation funds likely to lead to fund management capabilities being brought in-house, reducing the availability of funds in the industry. Economies of scale from industry consolidation and an increased focus on cost savings are hence expected to allow investment managers to continue lowering fees as competition for funds intensifies, without significantly affecting their profit margins.

3.3 FX retailing and wholesaling

3.3.1 Overview and trends

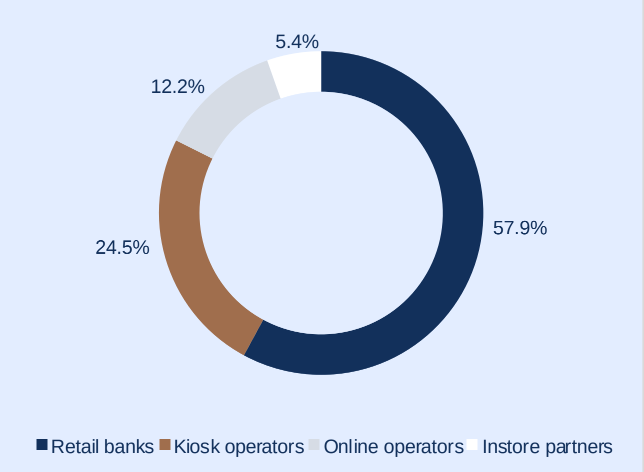
Foreign exchange retailers assist customers through providing currency exchange services. FX retailers derive profit from the margin between the price they buy and sell each currency. Some retailers also charge transactions fees and provide other services such as international money transfers, etc. Demand for foreign currency exchange services in Australia has experienced strong growth over the past five years. This growth has been largely underpinned by rising volumes of inbound and outbound travel as this drives demand for foreign currency. Significant depreciation of the Australian dollar over the same period has also contributed to this growth by making Australia a more affordable destination for inbound passengers and students undertaking tertiary study.

Industry profitability has declined over the past five years, despite an increase in total volumes. This decline in profitability is largely attributed to competition from online platforms which has forced industry participants to decrease fees/spreads to stay competitive. The level of participation in the industry has increased over the past five years, largely due to the number of post offices offering foreign exchange services.

3.3.2 Level of competition

There is a high level of competition within the industry, which is largely based on the quoted rates of exchange and the spread offered by industry participants. The key market participants and their projected share of FY18 industry revenue is set out in the graph below:

Figure 4: Industry participants and FY18 revenue



Source: IBISWorld

Retail Banks: command a little over half the market largely due to their vast branch network and established relationships with customers. Despite this, their percentage of industry revenue has declined over the past five years due to a lack of innovation and increasing competition. This segment is expected to continue to fall as a share of industry revenue as this is a non-core segment for banks.

Kiosk operations: kiosks located at airports and inner-city locations have benefited from consumers' preference for convenience. Due to increased tourism levels over the past five years, this segment has grown as a share of industry revenue.

Online operators: represent the fastest growing industry segment. Growth has been driven by the convenience of online currency orders. This segment is expected to continue to grow as technological advances offer consumers more secure and efficient online transactions.

In-store partners: these operators include kiosks and other service providers located at associated partner organisations e.g. Travelex kiosks located at Australia Post branches. This segment is relatively small and its share of industry revenue has remained relatively stable over the past five years.

Independent kiosks tend to have slightly more volatile spreads than banks and other financial institutions. This is due to the need to offset dedicated labour costs and the substantial cost of rent in high traffic locations. The major commercial banks are also better positioned to attract the business of their existing customers due to their substantial brand recognition and preference of some customers to conduct all of their financial activities with the one financial institution. However, due to the relatively low turnover and holding costs with some currencies, coupled with the non-core nature and perceived operational risks associated with this activity for banks, we understand that many branches refer substantial currency conversion volumes to third parties.

Other than the major banks, the key players in the Australian market are:

Table 5: Key players in Australian retail foreign exchange industry

Name	Brief description
Travelex Limited	Travelex's ultimate parent is the British Virgin Islands based BRS Venture Group. In Australia, Travelex operates over 110 foreign exchange kiosks, with locations in each state and territory, as well as offering online foreign exchange services. Kiosks are predominantly located in high foot traffic locations in major shopping centres as well as eight airport locations.
Travel Money Oz	Travel Money Oz is a wholly owned subsidiary of listed travel services company Flight Centre. Travel Money Oz has over 130 locations in Australia, covering each state and territory, and has recently expanded into New Zealand. Travel Money Oz kiosks are predominantly situated in shopping centre locations within major metropolitan and regional centres across Australia.
Crown Currency	Crown Currency is the third largest specialist foreign exchange dealer with 28 stores across the east coast of Australia. Crown Currency kiosks are predominantly situated in suburban shopping centre locations within major capital cities.

Source: IBISWorld and Leadenhall analysis

There are also a number of online foreign exchange providers. These businesses usually require minimum exchange amounts and generally target foreign currency transfers rather than cash exchange, although some do have a small number of physical locations where currency ordered online can be collected. Most physical exchanges also provide services where foreign currency can be pre-ordered and collected in store.

Prior to June 2017, American Express operated 64 foreign exchange kiosks throughout NSW, QLD, Victoria, WA, ACT and NT. American Express has now exited the foreign exchange market in Australia to focus on their core credit card business.

3.3.3 Key drivers

The key external factors driving industry participant performance are summarised below:

- **International travel to Australia:** people travelling to Australia for holidays or business require services to exchange currency during their stay. This is generally influenced by economic conditions in the traveller's home country and the relative exchange rates. The number of people travelling to Australia is expected to increase in by 5.8% per annum over the period FY17 to FY27 according to Austrade[2].
- **International travel by Australians:** overseas travel by Australians creates demand for industry services. The number of Australians travelling overseas is expected to increase by 3.9% per annum over the period FY17 to FY27 according to Austrade[3].
- **Number of foreign students:** international students need to exchange foreign currency into Australian dollars. Their sources of income are usually from overseas and they need domestic currency to support themselves while studying. The number of foreign students is expected to increase in FY18 according to IBISWorld.
- **Net migration:** a higher number of immigrants leads to a higher volume of currency exchange as money is sent between Australia and the migrants' country of origin. Net migration is expected to increase in FY18 according to IBISWorld.
- **Trade weighted index:** the trade-weighted index measures the strength of the Australian dollar relative to a group of currencies Australia most commonly trades with. A stronger index indicates a higher Australian dollar. An unusually strong Australian dollar generally deters tourists and international students but makes overseas travel for Australians more attractive. The trade-weighted index is expected to decrease in FY18 according to IBISWorld.

Successful operators in the industry focus on the following internal factors to drive performance:

- **Stock control:** participants that deal with physical exchange of currencies need to ensure they have sufficient supply of currencies to meet demand from consumers. These are often sourced from wholesalers which include Travelex and American Express Wholesale (now part of JBFG).
- **Market reputation:** operators that have a good reputation for timely quotes and competitive spreads, are more likely to attract new and return customers.
- **Proximity to key markets:** proximity to key market participants, inbound and outbound passengers, will boost turnover.
- **Management of exchange rate risk:** most industry participants are unable to be self-sufficient (i.e. buy as much currency as they sell or vice versa) and as such must ensure they adequately manage the purchase expenses, usually via foreign exchange hedging. For example, post the announcement of Brexit, a number of retailers absorbed significant losses on GBP due to the rapid devaluation at the time. Ensuring high stock turnover assists in insulating against large exposures to individual currencies for a period of time.

[2] *Tourism Research Australia, Tourism Forecasts 2017*
[3] *Ibid*

3.3.4 Outlook

Over the five years to FY18, industry revenue is expected to grow at an annualised 4.5% to reach $1.7 billion. IBISWorld forecasts current year revenue growth to be 3.1%, with medium term growth of 2.7% per annum over the next five years as set out below.

Figure 5: Forecast growth of Australian retail foreign exchange industry

Source: IBISWorld

Medium term growth is expected to be supported by growth in inbound and outbound tourism and an increase in net migration largely from skilled foreign workers. However, the forecast slowdown in growth compared to the previous five years can be attributed to an anticipated slower rise in the forecast number of foreign students entering Australia. Whilst revenue is expected to rise over the next five years due to transaction volume growth, increasing competition, rising capital intensity due to increased investment in technology platforms and rising wages are expected to dampen profit growth over the longer-term.

3.4 Broking / trading

3.4.1 Overview and trends

JBFG primarily operates in specialist derivatives broking and trading with limited exposure to traditional equities. We have therefore presented a brief overview of the broad broking and trading sectors in Australia with specific comments on JBFG's segments where available.

Participants in the securities brokerage industry buy and sell stocks or other securities on behalf of clients through a stock exchange or over the counter. The securities brokerage industry in Australia has faced a number of challenges over the past five years which have hampered growth. Compliance costs and increasing competition from online trading platforms have weighed on the performance of traditional stockbrokers, despite higher overall trading volumes. Total industry revenue, including investment banking revenue, is expected to increase at an annualised 8.9% per annum over the five years to FY18. However, most of this growth is attributable to investment banking due to several large IPO's during the period.

3.4.2 Level of competition

Competition in the industry as a whole is increasing particularly through the addition of online securities brokers. These providers are targeting traders with low account balances who do not require full service offerings and are capitalising on the rising trend to invest in index products as active investment managers are increasingly struggling to outperform indices sufficiently to justify their management fees.

The industry is characterised by high barriers to entry which include licensing and capital requirements. Institutional broking is dominated by large investment banks that offer a range of additional services such as corporate advisory and wealth management to complement trading services as well as the capacity to handle a large volume of trades. Retail customers often use online platforms linked to financial institutions due to a desire to aggregate their finances with one provider.

Investment banking and broking are global industries. Many investment banks and brokerage companies have a global network to facilitate greater coverage of global markets. The Australian operations of foreign-owned investment banks and stockbroking firms account for a large share of industry revenue. A growing interest from Asian investors is likely to drive industry globalisation over the next ten years.

As a boutique provider of relatively specialised services, JBFG's broking division does not compete with traditional broking businesses that predominantly trade in equities. Since the collapse of MF Global in 2011 the only other firms that have similar offerings to the JBFG broking division are Bell Potter and Macquarie Bank.

3.4.3 Key drivers

The key external factors driving industry participant performance are summarised below:

- **Trading volumes:** higher absolute commissions from growth in trading volumes boost broker revenue. Higher stock market trading volumes are often accompanied by higher trading volumes in a range of other financial instruments, including over the counter trading.
- **Client relationships**: for boutique brokers such as JBFG, securing clients that trade large volumes of derivatives (such as hedge funds and quant-focused investors) is critical. Securing these clients can be a result of a number of factors including personal relationships, overall service offering and access to systems.
- **Market indexes and volatility:** rising markets and/or rising levels of volatility typically increase trading volumes as investors look to either capitalise on positive returns, cover positions or reallocate amongst asset classes. Variability in global macro factors (such as interest rates and currencies) generally results in increased volumes for JBFG.
- **Cash rate:** as interest rates decline, financial market activity generally picks up as businesses seek out higher returns and market participants capitalise on the lower cost of borrowing.
- **Level of international trade:** companies that generate revenue or liabilities in multiple currencies are often exposed to exchange rate risks and use derivatives instruments to hedge against movements. Increased international trade results in higher volumes of hedging transactions.

Successful operators in the industry focus on the following internal factors to drive performance:

- **Market research and understanding:** brokers that publish quality securities research or other information for their clients will encourage more investors to choose them as their primary trading brokers.
- **High market profile:** having a targeted marketing strategy and good relationships with industry experts and large clients is important when seeking to attract new business.
- **Reputation:** firms that have a sound reputation for company research and customer service, as well as a strong brand name, are better placed to generate new business than those who focus less on these areas.
- **24 hour availability and skilled execution:** sophisticated clients require firms that have highly skilled execution teams, operating on a 24 hour basis, focussed on reducing slippage and maximising performance for clients.

3.4.4 Outlook

A forecast increase in business confidence will likely assist industry operators over the next five years, with share market trade volumes forecast to almost double over the period. However, increasing competition, particularly from online securities brokers, is likely to offset growth from higher volumes to a large degree. New technologies are expected to continue altering brokerage firm operations, with more retail clients placing trades through online channels. Significant consolidation among brokerage firms is expected over the next five years as industry participants focus on the benefits of scale provided by technological advancements. This is anticipated to cause a decline in industry employment.

Overall, industry revenue (including investment banking) is forecast to grow at an annualised 2.9% per annum over the five years to FY23.

The general trend to more passive investing through exchange traded funds (which often use derivatives to simulate the returns of a particular index or asset class) and increased investor access to a broad range of asset classes in addition to equities should positively impact volumes for derivatives broking and trading.

3.5 Mercantile Agency

3.5.1 Overview and trends

The mercantile agency industry covers a number of inter-related fields including:

- **Debt collection:** collection of debts on behalf of clients in return for a fee. Some debt collection agencies also purchase debt 'books' where they become the legal owner of the debt.
- **Investigations:** private investigation services generally in relation to background checks, investigative due diligence, surveillance, general investigations and locating persons of interest.
- **Process serving:** some legal documents are required to be served on the recipient in person. A process server is responsible for this process and ensuring documents are served in the required manner.
- **Repossession:** repossession of goods on behalf of a financier where the borrower has defaulted on their debt.

The key drivers of each of these industry activities are similar and industry participants often provide a number of different services. While our industry analysis focuses on the debt collection and investigations fields, there are many similarities across the entire mercantile agency industry.

The debt collection industry typically thrives when the economy is weak as this can lead to households defaulting on loans and a rise in business bankruptcies. The industry has displayed solid growth over the past five years primarily due to a rise in unemployment along with an increase in household debt to assets ratio. In addition, an increasing number of government agencies have outsourced their debt collection activities over the past five years. These factors have contributed to expected revenue growth of 4.6% per annum over the five years to FY18. Solid performance is expected to continue over the next five years as households continue to accumulate debt and innovation leads to new service offerings. As a result, revenue is expected to increase at 2.9% per annum over the five years to FY23.

The investigation and private security services industry is expected to grow moderately, at 1.6% per annum, over the five years to FY18. Despite lower crime rates, demand for industry services has increased due to heightened fear of terrorism and increasing instances of cybercrime. Increasing concerns around privacy breaches is a key issue for the investigations field which requires increased vigilance to ensure industry guidelines are followed when conducting investigations. In addition, there is a trend towards outsourcing of investigative work which is expected to continue and contribute to a forecast increase in industry revenue of 1.5% per annum over the five years to FY23.

3.5.2 Level of competition

The mercantile agency industry, including debt collection and investigation, is largely comprised of many small and medium sized enterprises that often subcontract to larger more diversified companies. Competition within the industry is intense and is focused on price and service. Whilst price is a strong driver for customers, given the nature of the industry and the reputation risk to industry customers, the level of service is extremely important. Historically some industry participants have been accused of using unethical practices and as such customers value the use of ethical methods as well as high success rates.

There are limited barriers to entry for the mercantile agency business. However, relationships with referrers are critical to the success of any business in the industry and it can be difficult to attract customers away from existing providers whilst maintaining profit margins. In addition, the provision of high quality mercantile agency services is dependent upon developing an adequately skilled workforce as many aspects of the services cannot be automated.

The mercantile agency industry is characterised by a large number of small to medium businesses that specialise in one or two services. A summary of some of the larger more diversified industry players in addition to Risk and Security Management Pty Ltd ("**R&S**") is set out below:

Table 6: Other key players in the Australian mercantile agency industry

Name	Brief description
Wise McGrath	Wise McGrath is a subsidiary of Wise Group Solutions that provides customers with process serving, repossession, field call, skip tracing, legal support and investigation services. Wise McGrath has a national support network that provides services across Australia.
Access Mercantile	Access Mercantile is a national agency that was established in 1990. Access Mercantile provides collection/repossession, skip/location and processing services.
Brookmost Process and Recoveries	Brookmost is a national commercial mercantile agency that is particularly prominent in in the Melbourne market. Brookmost provides field call, process serving and repossession services.

Source: company websites

In addition to the above there are a number of large companies such as Dun & Bradstreet and Collection House that provide debt recovery services. However, the rest of their service offerings are outside the scope of the mercantile agency industry.

3.5.3 Key drivers

Some of the key external factors that influence industry performance are:

- **Unemployment rate:** higher unemployment generally signals weaker economic conditions which can increase the levels of debt and defaults.
- **Household debt to asset ratio:** high household debt, particularly for smaller personal loans, increases the scope for industry services.
- **Business bankruptcies:** the number of business bankruptcies gives an indication of the number of businesses under financial distress. A higher number of businesses in distress will benefit the industry.

Successful operators in the industry focus on the following internal factors to drive performance:

- **Relationship development and management:** developing and maintaining relationships with large referrers is critical to the success of businesses in the industry to ensure employees are fully utilised.
- **Access to a skilled workforce:** most aspects of mercantile agency services require training and licensing. Delivering high quality service is crucial to customers and there is a heavy focus on regulatory compliance.
- **Reputation:** due to the nature of the information handled, the high profile of large clients and the regulations surrounding industry activities, it is important to maintain a good reputation for delivering quality customer service whilst operating within industry guidelines.

3.5.4 Outlook

There is positive growth potential for the medium term, particularly as interest rates begin to rise again as is expected. Australia has high debt to asset ratios and as interest rates rise the number of people unable to meet their debt obligations is also likely to rise. Some aspects of the industry, such as investigations, are affected by these factors to a lesser extent and as such growth is expected to be lower for these sectors.

4 PROFILE OF HML

4.1 Background and history

HML is an investment company that was listed on the ASX in February 2016. HML's investment portfolio is managed by JBL and its stated strategy is investing in global markets including through exchange traded futures contracts, equity market indices, fixed income, currencies, commodities and unlisted securities. However, HML's primary investments currently comprise unlisted investments in JBFG and BRL. BRL also owns a significant stake in JBFG. HML also has a 0.22% interest in JBL (which has a 7.4% interest in JBFG). Since HML made its investment in JBFG, JBFG has acquired a variety of financial services businesses as detailed in Section 6.

4.2 Overview of operations

As a LIC, HML's primary operations relate to investment of funds raised from equity investors with the intention of generating positive absolute returns with low correlation to market returns, over the medium to long term. HML has engaged JBL to manage its investments.

The key terms of the investment management agreement ("**IMA**") between HML and JBL are summarised in Section 8.2. In summary, the management agreement:

- Has an initial term of five years (to 15 March 2020) but can be terminated in certain events, predominantly relating to the insolvency of, or breach of the agreement by, either party. After the initial term, the agreement may be terminated by HML shareholders as resolved by an ordinary resolution at a general meeting. If the agreement is terminated by HML prior to the expiry of the initial term, JBL is entitled to a termination payment of 5% of NTA reduced by the percentage of the five year term that has elapsed since the agreement date.
- Includes a management fee of 2% and a performance fee of 23% of the total investment return (based on NTA). A high water mark provision is included in the calculation of performance fees.

JBL has three directors in common with HML and also acts as investment manager to BRL and BHD. The managing director of JBL is Stuart McAuliffe who is also the managing director of HML.

4.3 Key personnel

The current directors and senior management team of HML comprise:

Table 7: HML key personnel

Name	Background
John McAuliffe **(Chairman)**	John was appointed Chairman in March 2015. John was a senior public servant in the federal government until 2000 and was previously the Chairman of the Holy Spirit Hospital and Mater Health Services in Brisbane. He currently serves as Chairman of Brisbane Housing Company, Multicap, Catholic Property and Freedom Aged Care and is a director of Holy Cross Laundry and Lady Bowen Trust. John is a part-time senior lecturer at the Queensland University of Technology for Land Valuation, Investment Theory and Land Studies in the Built Environment and the Surveying School.
Stuart McAuliffe **(Managing Director)**	Stuart was appointed Managing Director in January 2015. He has over 25 years' experience investing in global equity, bond, currency and commodity markets. Stuart was formerly an Associate Professor at Bond University and has lectured nationally and internationally in the fields of economic forecasting, valuation modelling, financial structures and risk management.
Ross Patane **(Non-executive director)**	Ross Patane was appointed as a director in March 2015. He is a chartered accountant with more than 25 years' experience in providing business reconstruction, asset securitisation, corporate advisory, property advisory and wealth management service. Ross is currently Senior Partner of the Queensland Crowe Horwath team.
Peter Ziegler **(Non-executive director)**	Peter holds honours degrees in commerce and law and a Master's degree in financial management. He is a chartered accountant, chartered tax advisor and solicitor. Peter is an experienced company director and has previously been a partner at Ernst & Young. Peter was formerly the Chairman of Australian Pacific Coal Limited.
Vanessa Gunner **(Non-executive director)**	Vanessa was appointed as a director in May 2017. Vanessa was formerly Interim Chief Operating Officer at Barclays Capital and Barclays Wealth for Corporate Real Estate Services and has over 22 years of corporate experience working with over 20 blue chip companies in Europe, the Middle East, Africa and Asia Pacific.

Source: HML

4.4 Financial performance

The audited consolidated statements of financial performance for FY16, FY17 and FY18 are set out below.

Table 8: Statements of financial performance of HML

$'000	FY16	FY17	FY18
Investment income			
Realised gain/(loss) on financial instruments at fair value	3,365	8,192	(1,606)
Unrealised gain/(loss) on financial instruments at fair value	(834)	32,796	(11,083)
Other income	-	111	229
Total income	**2,531**	**41,100**	**(12,459)**
Expenses			
Management fees	-	(796)	(1,195)
Performance fees	-	(7,800)	(520)
Commissions paid to investment brokers	(347)	(1,402)	(1,921)
Accounting and audit	(79)	(166)	(1,465)
Consultancy fees	(84)	(124)	-
Legal fees	-	-	(379)
Directors' fees	(89)	(182)	(333)
Stock exchange listing and share registry costs	(139)	(29)	-
Impairment expense	-	-	(250)
Other expenses	(71)	(473)	(370)
Total expenses	**(809)**	**(10,973)**	**(6,433)**
EBITDA	**1,723**	**30,127**	**(18,892)**
Depreciation & amortisation	-	-	-
EBIT	**1,723**	**30,127**	**(18,892)**
Interest income	50	35	30
Interest expense	-	-	(42)
Net profit/(loss) before tax	**1,773**	**30,162**	**(18,905)**
Income tax	(532)	(9,015)	5,651
Net profit/(loss) after tax	**1,241**	**21,147**	**(13,254)**

Source: HML

In relation to the statements of financial performance shown above we note the following:

- Realised and unrealised gains on investments are the primary drivers of profitability as the main costs (other than performance fees) are largely fixed.
- The unrealised gains and losses in FY17 and FY18 are primarily due to revaluation of HML's interests in JBFG (revised upward by $23.2 million in FY17 and down by $4.6 million in FY18) and BRL (revised upward by $10.0 million in FY17 and down by $5.3 million in FY18). The downward revisions in FY18 were primarily driven by the lower than expected financial performance by JBFG, particularly when considered against approved budgets which were considerably more optimistic.
- In FY17 and FY18 a net loss (after fees and commissions) was made from derivatives trading with the majority of realised/unrealised gains and losses attributable to investments in unlisted securities, namely JBFG and BRL.
- JBL agreed to waive its entitlement to performance fees in FY16. As there have been limited changes in the assessed value of the underlying investments of HML, there has been a decline in performance fees paid by HML over FY18.
- Stock exchange listing and share registry costs decreased between FY16 and FY17 due to one off costs incurred with the initial listing of HML in FY16. Due to the extended trading suspension, listing and exchange fees decreased on FY18.
- Accounting and legal fees have increased over the past 12 months largely as a result of fees associated with the various transactions being contemplated by HML.

- Directors' fees have increased due to the appointment of three additional independent board members over the last 12 months.
- The impairment expense in FY18 relates to a loan advanced to Growth Point Capital (a subsidiary of JBFG) which may not be fully recoverable.

4.5 Financial position

The audited consolidated statements of financial position as at 30 June 2017 and 30 June 2018 as well as the unaudited position as at 31 October 2018 are set out below.

Table 9: Statements of financial position of HML

$'000	Jun-17	Jun-18	Oct-18
Assets			
Cash & cash equivalents	9,117	315	54
Balances held with investment brokers	3,477	122	518
Receivables and prepayments	1,020	391	2,856
Term deposits	189	52	(0)
Derivative assets	8	60	-
Investments held at fair value	47,165	36,492	34,487
Current tax receivable	1,005	188	-
Deferred tax assets	-	-	3,684
Total assets	**61,981**	**37,619**	**41,598**
Liabilities			
Derivative liabilities	(429)	(71)	22
Payables	(5,222)	(167)	(341)
Current tax payable	-	-	1,037
Deferred tax liabilities	(8,710)	(3,011)	(6,695)
Total liabilities	**(14,361)**	**(3,249)**	**(5,976)**
Net assets	**47,619**	**34,370**	**35,622**

Source: HML

In relation to the statements of financial performance shown above we note the following:

- The principal assets of HML relate to HML's interest in JBFG and BRL. The revaluation of investments as at 30 June 2018 resulted in downward revisions to the value of HML's interest in JBFG and BRL discussed above. The further reduction as at 31 October 2018 is primarily attributable to the buyback of JBL shares by JBL.
- As discussed in Section 6.8, while the FY18 financial statements for JBFG were prepared on a going concern basis, material uncertainty existed regarding JBFG's ability to continue as a going concern.
- The decrease in cash and balances held with brokers at 30 June 2018 is primarily the result of recent losses and reduced payables.
- The increase in receivables and prepayments at October 2018 relates to a loan of $2.4 million extended to JBL in August 2018.
- On 15 September 2017, HML acquired foreign currency banknotes to the value of $3.4 million. The banknotes are used by Crown Currency in their retail foreign exchange business. On 21 November 2017, $2.9 million was converted to AUD and returned to HML with the balance of the foreign currency investment valued at $655,514 as 31 October 2018 which is classified as investments held at fair value.
- Deferred tax assets predominantly relate to historical tax losses, whilst deferred tax liabilities relate primarily to unrealised gains on investments in JBFG and BRL.

4.6 Statement of cash flows

The audited consolidated statements of cash flows for FY16, FY17 and FY18 are set out below.

Table 10: Statement of cash flows HML

$'000	FY16	FY17	FY18
Cash flow from operating activities			
Net proceeds on sale of investments	3,365	7,316	(1,775)
Dividends received	-	111	-
Interest received	-	34	8
Interest and other finance costs paid	-	-	(43)
Net payments from/(to) investment brokers for initial trading margin	(3,482)	6	3,355
Commissions paid to investment brokers	(347)	(765)	(2,728)
Management and performance fees paid	-	(3,539)	(5,222)
Proceeds from sale of shares	-	3,988	3,850
Payments for purchase of investments	-	(18,594)	(3,073)
Proceeds from payment of foreign currency notes	-	-	2,900
Payments for foreign currency notes	-	-	(3,415)
Proceeds from foreign currency notes revenue	-	-	87
Payments from related party loans	-	(1,461)	(450)
Monies received/ (paid) in error, reimbursable	-	495	(496)
Income tax received / (paid)	-	(1,745)	714
Payment for operating and administrative expenses	(498)	(766)	(2,657)
Net cash used in operating activities	**(962)**	**(14,922)**	**(8,945)**
Cash flow from investing activities			
Payment for placement of term deposit	(5,000)	(1)	-
Proceeds from maturity of term deposit	-	4,862	138
Payments for purchase of financial assets held as security	(50)	-	-
Net cash used in investing activities	**(5,050)**	**4,861**	**138**
Cash flow from financing activities			
Proceeds from issue of shares / exercise of options	15,601	13,740	5
Payments for listing costs on issue of shares	(282)	(42)	-
Dividends paid	-	(3,827)	-
Net cash provided by financing activities	**15,319**	**9,871**	**5**
Net increase in cash held	9,307	(190)	(8,802)
Cash and cash equivalents at beginning of year	-	9,307	9,117
Cash and cash equivalents at end of year	**9,307**	**9,117**	**315**

Source: HML

In relation to the statements of cash flows shown above we note the following:

- HML recorded a significant net cash outflow in FY18 primarily due to poor investment trading results and significant increases in management fees and broker commissions during the year.
- In FY16 and FY17 capital raising activity resulted in significant cash injected into the business and deployed into investments. Over this period approximately $10.7 million in proceeds was received from the sale of investments which was predominantly related to derivatives trading. Conversely, in FY18 a cash loss of $1.8 million was recorded on the sale of investments. This primarily related to derivatives trading.
- Commissions paid to investment brokers rose significantly, however approximately $0.8 million were related to prior periods.

4.7 Recent events

Subsequent to the end of FY18, HML entered into the following material transactions:

- On 3 August 2018, 1,398,573 shares held by HML in JBL were sold back to JBL for total proceeds of $2.8 million ($2.05 per share) along with the corresponding options issued with the shares. This transaction had the effect of reversing the original sale, for the same price, that occurred on 17 November 2017.
- Subsequently, on 8 August 2018, $2,411,000 of the funds received from the sale of the JBL shares was loaned to JBL for a term of one year at 11.5% p.a. interest.
- Between 16 and 31 August, HML raised $1,731,782 from the issue of ordinary shares pursuant to the exercise of listed options by option holders at a price of $1.00 per share. All unexercised options expired on 31 August 2018.

4.8 Capital structure and shareholders

As at 29 October 2018, HML had 32,346,922 ordinary shares on issue. The significant and other notable shareholders in HML as at that date are set out in the table below:

Table 11: HML's significant shareholders

Shareholder name	Number of shares	% of total shares
Stuart Capital Pty Ltd	4,022,293	12.4%
John Bridgeman Limited	3,165,083	9.8%
HSBC Custody Nominees (Australia) Limited	2,871,568	8.9%
Nilcoy Pty Ltd	2,237,432	6.9%
John McAuliffe (indirect)	1,800,000	5.6%
Victor John Plummer	1,000,001	3.1%
Stuart McAuliffe (direct & indirect)	414,728	1.3%
Ross Patane (indirect)	15,968	0.0%
Other shareholders	16,835,817	52.0%
Total ordinary shares	**32,346,922**	**100%**

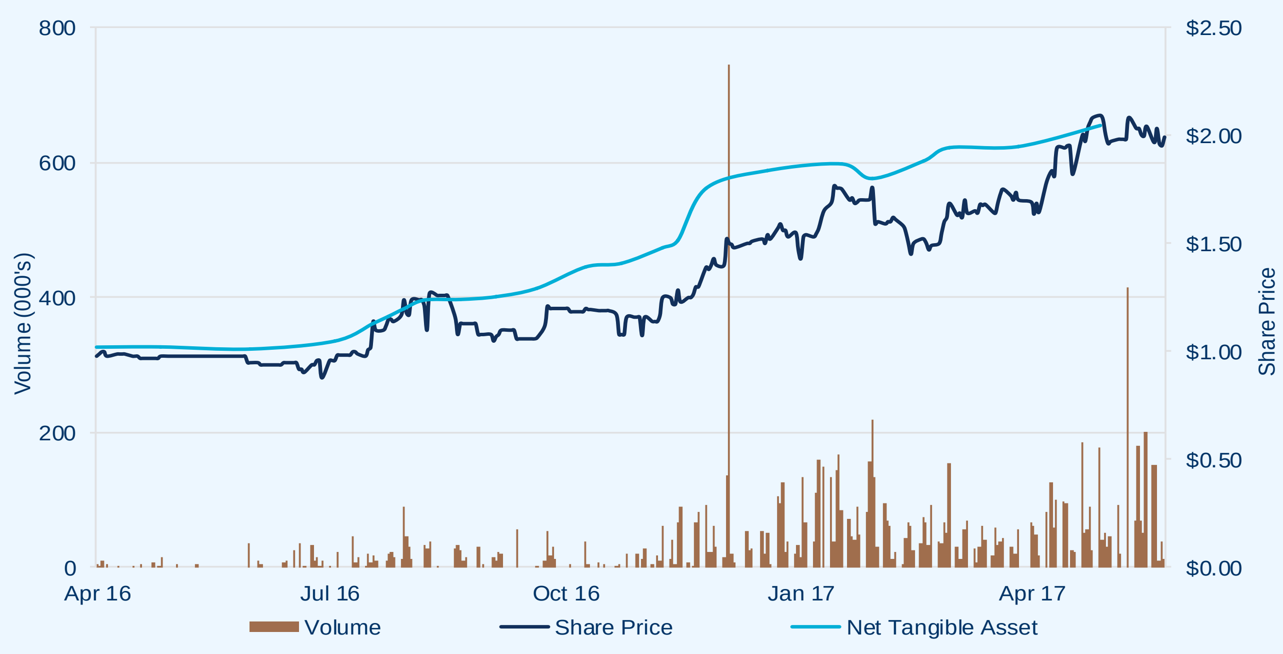
Source: HML

HML does not currently have any options on issue.

4.9 Share price performance

The following chart shows the share market trading of HML shares for the past two years:

Figure 6: Share price performance of HML shares until June 2017



Source: S&P Capital IQ

Shares in HML have not traded since 2 June 2017 as discussed above. We have been advised that HML is taking every reasonable step to have the suspension lifted and is ensuring that it is doing all things lawfully required to enable this to happen. However, there is no certainty as to when, or if, the suspension will be lifted or if HML may be subject to further suspensions in the future. As a result any analysis of share trading does not provide any meaningful insight into the current value of HML's net assets.

However, we do note the following in respect of share trading in HML prior to June 2017:

- Since trading was suspended, post-tax NTA per share has declined from $1.9658 on 31 May 2017 to $1.10 as at 31 October 2018. This decrease is primarily due to a decrease in the value of HML's interests in JBFG and BRL.
- Prior to requesting a voluntary suspension from trading, HML shares generally traded between $1.00 and $1.25 over the period from April 2016 to November 2016 on relatively small volumes.
- A spike in volume occurred on 21 December 2016 with 744,527 shares traded. The majority of these shares were sold by one shareholder.
- Shares generally traded between $1.50 and $1.60 between mid-December 2016 and January 2017 reaching a high of $1.77 on 31 January 2017.
- The share price reached $2.00 on 8 May 2017 and traded around this mark until trading was suspended on 9 June 2017.

5 PROFILE OF BRL

5.1 Background and history

BRL is a proprietary company which was established in April 2016 to provide investors with the opportunity to invest in an unlisted vehicle seeking above market portfolio returns over the medium to long term. BRL holds a portfolio of investments in unlisted securities.

5.2 Overview of operations

Currently BRL operates as an unlisted investment company. BRL has engaged JBL to manage its investments. Target asset classes include unlisted equities (long and short term), private equity and venture capital investments. The key terms of the IMA between BRL and JBL are summarised in Section 8.2. In summary, the management agreement:

- Has an initial term of 5 years (to June 2021) but can be terminated in certain events, predominantly relating to the insolvency of, or breach of the agreement by, either party. After the initial term, the agreement may be terminated by BRL shareholders as resolved by an ordinary resolution at a general meeting. If the agreement is terminated by BRL prior to the expiry of the initial term, JBL is entitled to a termination payment of 5% of NTA reduced by the percentage of the five year term that has elapsed since the agreement date.
- Includes a management fee of 2% and a performance fee of 23% of the total investment return (based on NTA) with no claw-back or high-watermark.

Currently the key investments of BRL are:

- 32.9% interest in JBFG.
- 100% of Birdzz Pty Ltd which is the master franchisee in Australia and New Zealand for Wingstop Restaurants, an American restaurant chain that operates more than 1,000 restaurants across ten countries. Birdzz paid a territory fee of US$1.1 million to acquire the franchise agreement and pursuant to this agreement will have exclusive rights to open 110 Wingstop restaurants across Australia and New Zealand over the next ten years. Due to difficult trading conditions in the food and beverage sector, Birdzz is yet to open any stores. We understand that a deferred rollout plan has been agreed with the franchisor.
- 100% ownership of JR Restaurants Australia Pty Ltd which is the master Franchisee in Australia and New Zealand for Johnny Rockets Restaurants. The first store under that agreement was opened in Brisbane in July 2017. No further restaurants are expected to be opened in FY19 which has been agreed with the franchisor.

5.3 Key personnel

The current directors and senior management team of BRL comprise:

- John McAuliffe as chairman and non-executive director
- Stuart McAuliffe as managing director
- Ross Patane as a non-executive director

A brief biography for each of the directors and senior management personnel is included in Table 7.

5.4 Financial performance

The audited consolidated statement of financial performance for FY17 and unaudited consolidated statement of financial performance for FY18 are set out below.

Table 12: Statement of financial performance of BRL

$'000	FY17	FY18 Unaudited
Investment income		
Realised gain on financial instruments at fair value	15,211	-
Unrealised gain / (loss) on financial instruments at fair value	16,080	(9,256)
Consulting income	2,127	-
Dividend income	53	-
Total income	**33,472**	**(9,256)**
Expenses		
Management fees	(161)	(801)
Performance fees	(6,558)	-
Professional service fees	(65)	(130)
Options issued to Director	(125)	-
Other expenses	(285)	(80)
Total expenses	**(7,194)**	**(1,010)**
EBITDA	**26,278**	**(10,266)**
Depreciation & amortisation	-	-
Impairment expense	(334)	(2,924)
EBIT	**25,943**	**(13,190)**
Interest income	103	96
Interest expense	-	(200)
Net profit before tax	**26,046**	**(13,295)**
Income tax (expense) / benefit	(7,937)	552
Deferred tax (expense) / benefit	-	2,937
Net profit after tax	**18,109**	**(9,806)**

Note: the FY17 statement of financial performance is for the period 22 April 2016 to 30 June 2017
Source: JBL (as investment manager)

In respect of the statements of financial performance shown above, we note the following:

- In FY17, the realised gain predominantly relates to a gain on the sale of BRL's interest in R&S to JBFG. On 21 June 2016, BRL purchased 1.8 million R&S shares (60%) for consideration of $1.8 million. Over the next year, BRL increased its holding to 10.5 million shares increasing the total cost to $12.5 million. On 5 June 2017, BRL sold all of its shares in R&S to JBFG for consideration of 4,027,844 JBFG shares valued at $24.7 million (or $6.14 per share), recording a gain on disposal of $12.2 million.
- The unrealised gain in FY17 relates to a revaluation of BRL's interest in JBFG from $32.7 million to $48.8 million. The unrealised loss in FY18 relates to subsequent downward revaluation of the investment in JBFG.
- The impairment expense in FY17 and FY18 relates to intercompany receivables.
- The deferred tax benefit for FY18 relates to a deferred tax asset which arose in relation to the net unrealised loss on investments during the period.

5.5 Financial position

The audited consolidated statement of financial position as at 30 June 2017 and unaudited consolidated statement of financial position as at 30 June and 30 September 2018 are set out below.

Table 13: Statement of Financial Position of BRL

$'000	FY17	FY18 (unaudited)	Sept-18 (unaudited)
Assets			
Cash & cash equivalents	54	31	(15)
Receivables	2,755	44	106
Term deposits	20	20	(0)
Property plant & equipment	2	2	2
Investments held at fair value	48,789	41,131	41,131
Deferred tax assets	-	2,223	2,223
Total assets	**51,620**	**43,452**	**43,446**
Liabilities			
Payables	(12,945)	(7,649)	(7,791)
Borrowings	(966)	(101)	(0)
Provision for income tax	-	(482)	(482)
Deferred tax liabilities	(7,937)	(6,943)	(6,455)
Total liabilities	**(21,847)**	**(15,175)**	**(14,728)**
Net assets	**29,773**	**28,277**	**28,717**

Source: JBL (as investment manager)

In relation to the statements of financial position shown above, we note the following:

- The main investment of BRL is a 32.86% interest in JBFG. The decrease in investments held at fair value is predominantly related to the revaluation of BRL's interest in JBFG during FY18.
- In FY17 BRL's investments in the Wingstop and Johnny Rockets franchise networks were valued at $1.4 million, being the cost of acquiring the franchise rights. In FY18 the book value of these investments was fully impaired due to poor operating conditions that resulted in BRL failing to meet the store roll-out requirements of the franchise agreements. The franchisor has agreed to a revised roll-out plan. Whilst the agreements have not been terminated, continued failure to meet investment requirements could result in termination in the future.
- Receivables predominantly relate to loans and advances to related parties. As at 30 June 2018, $1.5 million in receivables from Johnny Rockets and Wingstop were written down to nil as these were no longer deemed to be recoverable.
- Deferred tax assets primarily relate to historical tax losses, whilst deferred tax liabilities predominantly relate to unrealised gain on revaluations of the value of BRL's interest in JBFG.
- Payables of $7.6 million predominantly relate to management and performance fees owed to the investment manager, as JBL has agreed to defer these fees.

5.6 Statement of cash flows

The audited consolidated statement of cash flows for FY17 and unaudited consolidated statement of cash flows for FY18 are set out below.

Table 14: Statement of cash flows of BRL

$'000	FY17	FY18
Cash flow from operating activities		
Receipts from customers	-	1
Dividends received	49	-
Interest received	0	-
Payments for investments	(3,000)	-
Proceeds from sale of investments	180	-
Income taxes paid	-	(223)
Payment of operating and administrative expenses	(308)	(170)
Net cash used in operating activities	**(3,078)**	**(392)**
Cash flow from investing activities		
Payments for loan advances to related parties	(3,495)	(427)
Repayments received for loans and advances to related parties	200	-
Payment for purchase of financial asset (term deposit)	(20)	-
Payments for property, plant & equipment	(2)	-
Net cash used in investing activities	**(3,318)**	**(427)**
Cash flow from financing activities		
Proceeds from issue of shares	3,200	200
Proceeds from borrowings	3,250	5,800
Repayment of borrowings	-	(5,200)
Net cash provided by financing activities	**6,450**	**800**
Net increase in cash held	54	(19)
Cash and cash equivalents at beginning of year	-	54
Cash and cash equivalents at end of year	**54**	**35**

Source: JBL (as investment manager)

In relation to the statements of cash flows shown above, we note the following:

- Payment for investments in FY17 relates to payments made to obtain the master franchise agreement for Johnny Rockets and Wingstop.
- Payments for loans advanced to related parties primarily relates to loans extended to BRL's subsidiaries, Birdzz and JR Restaurants Australia.
- Proceeds from borrowings relate to amounts received from JBL during the period.

5.7 Recent events

We have been advised that there have been no material events for BRL subsequent to 30 June 2018.

5.8 Capital structure and shareholders

The significant and other notable shareholders in BRL, as at the date of this report are set out in the table below:

Table 15: BRL's shareholders

Shareholder name	Number of shares	% of total shares
John Bridgeman Limited	2,570,827	51.7%
Henry Morgan Limited	1,497,616	30.1%
Stuart Capital Pty Ltd	500,000	10.1%
Stuart McAuliffe	173,610	3.5%
Other shareholders	230,000	4.6%
Total ordinary shares	**4,972,053**	**100.0%**

Source: JBL (as investment manager)

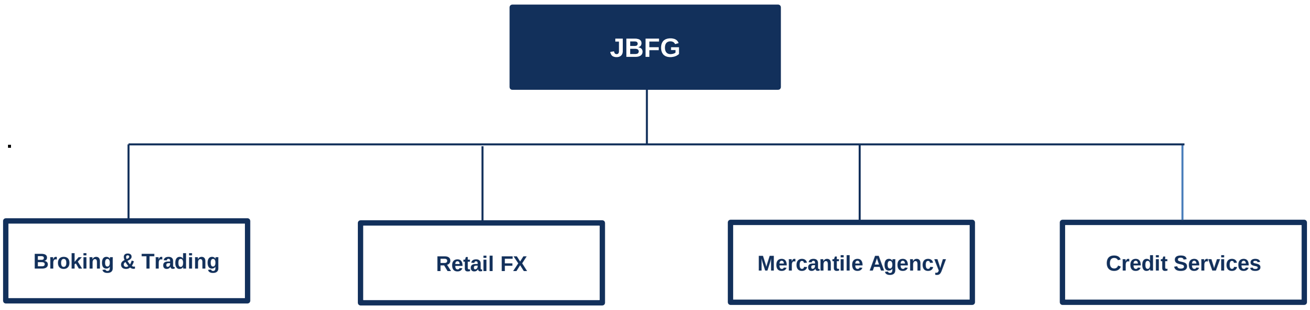
BRL also has 826,390 call options on issue, held by Stuart McAuliffe. The options expire on 22 April 2021 and have an exercise price of $1.00.

6 PROFILE OF JBFG

6.1 Background and history

JBFG is a holding company that has acquired/established a number of operating businesses since its inception in 2016. The operating businesses all provide some type of financial services and are a mix of mature and growth businesses.

JBFG's businesses currently trade under four operating divisions, as set out in the figure below:



A brief overview of each of the JBFG businesses is provided in the following sections of this report.

6.2 Broking and Trading

The broking and trading division of JBFG was established in 2016 when work commenced to develop a broking business from the ground up under the trading name of JB Markets. In January 2017, under the direction of four employees, JB Markets began the task of building front, middle and back office infrastructure to support a scalable broking business. A key determinant in deciding to build new infrastructure from the ground up was to leverage the significant scale provided by the trading activity of JBL's clients (in particular HML) and to utilise technological innovations to reduce staffing requirements in the middle and back offices.

In mid-2017 JBFG acquired a competing broker, Alpha Futures & Equities (now JB Alpha) to increase the scale and capabilities of the JB Markets business. JB Alpha Pty Ltd is a fully owned subsidiary of HPH Holding Pty Ltd which is 100% owned by JBTH. JB Alpha is located in Melbourne and offers a full suite of products, including equities, options, futures, contracts for difference, margin foreign exchange, exchange traded funds and physical bullion, to retail and institutional clients. JB Alpha's clients can choose from full service broking, trade for yourself or managed discretionary services.

In September 2017 the broking and trading division made a second acquisition, Genesis Proprietary Trading ("**Genesis**"). As a proprietary trading company, Genesis provides capital to futures market professionals and takes a profit share on the result of their trades. Genesis employs a relative value trading philosophy and 98% of its trades are in the fixed interest market. Genesis has a comprehensive risk management policy in place which sets limits on positions, cash flows and daily losses. There is a 24 hour risk management desk which monitors the positions of traders.

Each of the three broking and trading businesses (JB Markets, JB Alpha and Genesis) are owned by JBTH, a subsidiary of JBFG.

6.3 Retail foreign exchange (Crown Currency)

The Crown Currency business was established in 2004 when founder, Henry Koster, purchased Kings Currency Exchange in Surfers Paradise. This original store predominantly catered for the inbound Japanese tourist market. As Japanese tourist numbers began to decline, the founder set about establishing a network of foreign exchange shops in Queensland, under the Crown Currency brand, with a greater focus on the outbound tourist market.

In December 2016 the Crown Currency business was acquired by JBFG for $14.9 million. At the time of the acquisition there were 11 Crown Currency stores in operation as well as the original store still trading under the Kings Currency brand. Since the acquisition there has been a significant new store roll-out, with 16 new stores opened between January 2017 and March 2018, giving a total of 28 stores. The new store roll-out has focused on expanding the geographical reach of Crown Currency into NSW and Victoria.

Crown Currency operates a low cost, high volume business model that seeks to offer the most competitive exchange rates in the market in order to generate higher volumes and absolute profit than its competitors. This approach also reduces risk from foreign currency movement as stock is turned over quickly, particularly for in demand currencies. Other than the cost of acquiring foreign currency from wholesales, the key costs incurred in operating the Crown Currency business are rental and associated costs for the store sites and employee costs.

Currently the core customer base for the Crown Currency business is the grey nomad/baby boomer demographic. A significant portion of this demographic is cash/asset rich, has retired/semi-retired and has a desire to experience international travel. This demographic is targeted through new store locations and advertising and promotion targeted at travel agents and travel expos catering to this demographic. Going forward, Crown Currency is looking to target a larger share of the youth market via radio advertising and attendance at university O-week activities in order to increase brand awareness in this demographic.

6.4 Mercantile Agency

In June 2017, JBFG completed the acquisition of R&S, one of Australia's largest providers of mercantile agency services. R&S was formed by the merger of the following businesses operating in the mercantile agency industry:

- **IDS Group:** provides specialist investigative due diligence/ background screening as well as other intelligence gathering services.
- **Advance Holdings Group:** provides repossession, process serving, auditing, field call, skip location enquiries and a variety of legal support services to corporate clients, including financial institutions, insurance companies, law firms, debt collection companies as well as federal, state and local governments.
- **Yates Professional Investigations:** offers asset location, debtor location, field calls, process serving, repossession and property securing services to major finance, banking and insurance clients.
- **Trademark Investigation Services:** provides specialist investigative services for trademark professionals and protection for luxury brand owners in respect of counterfeiting and intellectual property infringement.

Since the acquisition, a significant rebranding exercise has been undertaken and each of the merged businesses now operate under the R&S brand.

As an integrated business, R&S now provides the following services to clients:

- **Repossession services:** taking into custody items purchased on credit where the borrower has defaulted on their loan on behalf of the lender.
- **Audit & asset inspection services:** typically undertaken on behalf of finance companies to inspect inventory where floorplan finance has been provided to retailers (i.e. finance has been provided to motor vehicle dealers for their showroom stock).
- **Process serving services:** use of field agents to serve notice of legal proceedings on a party to a legal action.
- **Field call service:** physical attendance at a property to determine whether an individual is residing at the premises.
- **Skip location services:** advice on the most effective approach to locate a person of interest. Actual investigation and location services can also be provided.
- **Legal support services:** includes field agent attendance at enforcement hearings, filing of court documents, licensed security providers of lockout services, attendance at property settlement and exchange as well as cheque delivery and deposit services.

- **Trademark investigation services:** provide specialist trademark professionals and protection for brand owners in respect of counterfeiting and intellectual property infringement.
- **Investigations:** investigation services to provide accurate evidence through strategic investigation plans and data analysis. Services include background screening, surveillance and other general investigations.

6.5 Credit Services

The credit services division was established through the acquisition of Growth Point Capital in November 2017. Growth Point Capital is a finance broking business that was established by David Schuh, initially to service the clients of his family's accounting business. The business offers finance broking services across three areas:

- **Commercial:** including commercial property and business finance
- **Residential:** residential property mortgages
- **Vehicle and equipment:** personal and business loans for vehicles and commercial equipment

Growth Point Capital has recently invested in a four person back office team located in Manilla. This has been a considerable investment in the future growth of the business and along with the addition of more sales staff in Australia is expected to drive significant growth in the short to medium term.

Capital Credit Pty Ltd ("**Capital Credit**"), a subsidiary of JBFG, also operates in the credit services division. Capital Credit holds an Australian Credit Licence and debt ledger assets which complement the mercantile agency operations. Capital Credit was acquired in November 2017 for consideration of $158 settled by way of the issue of 20 JBFG shares valued at $7.90 per share. The two tranches of debt ledger assets were acquired for a total of $2.8 million.

6.6 Recent disposals

Until recently JBFG also operated early stage fintech and foreign currency wholesale divisions. Given the early stage nature of these operations and a lack of capital required to fund continued operating losses, JBFG disposed of these in the early part of FY19.

The intellectual property associated with the software and technology developed by the Fintech division was transferred to an external entity in consideration for a 10% minority interest. The primary asset of the wholesale foreign currency division, a secured vault facility in Sydney, was sold to Travelex for $850,000 plus GST. A gain of $695,929 was realised on the sale of the assets.

6.7 Key personnel

Each of the JBFG businesses has their own management team. A brief description of the key personnel for each of the businesses as well as the JBFG directors is provided in the table below:

Table 16: JBFG Key Personnel

Daren Markisic **CEO JB Markets and JB Alpha**	Daren has over 17 years' experience in the futures, options and FX markets and previously covered the European and US market hours over a five year period at Mann Financial / MFG. Prior to joining JB Markets, Daren managed the private client and professional services business at Bell Potter.
Nicholas Scarf **CEO Genesis**	Nicholas joined Genesis as CEO in September 2015 after 7 years as Managing Director and Country Head of Newedge Australia and Singapore. Prior to Newedge, Nick was the Managing Director and Chief Executive of BrokerOne for 9 years, where he took BrokerOne from a ranking outside the top 20 futures brokers to become Australia's largest futures broker before its sale to MF Global in 2007. He has over 26 years of Broking and Trading experience in Asia.
Nick Wright	Nick has over 25 years' experience in all facets of investigation and mercantile services. Nick is a Director and the General Manager of

General Manager Investigations R&S	Investigations. Nick has held numerous executive position in industry associations.
Stuart McAuliffe **Group CEO of JBFG**	Refer to table 7.
Peter Aardoom **Non-executive director JBFG**	Peter has over 30 years' experience in Australian and international equity and derivatives broking and trading, portfolio management, general corporate and financial advisory services and company promotion. Peter has held multiple senior positions with large international and Australian financial services companies including Lehman Brothers, Bell Commodities, Ord Minnett, Jardine Fleming, JP Morgan and MF Global. Peter is also a director and responsible manager of JB Markets.
Michael Martin **Non-executive director JBFG**	Michael is one of the leading traders within the JBFG Group, with over 23 years' experience working in financial markets. Michael previously worked in the money markets operations team, trading foreign exchange, futures and interest rates at Colonial State Bank. Prior to joining the John Bridgeman team, Michael was a broker at Bell Potter's European shift.
Samuel Elderfield **Non-executive director JBFG**	Samuel has significant experience in the funds management industry and manages the Group's interest in international franchises. He has served in a broad range of commercial and financial roles gaining experience in the major European and Asian markets while delivering operational management across all facets of the company.

Source: JBFG

6.8 Going concern

JBFG's FY18 financial statements (refer to Sections 6.9 to 6.11 below) were prepared on a going concern basis. However, the auditor's report brings attention to disclosures within the financial report that indicate a material uncertainty regarding JBFG's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Despite this uncertainty, the directors believe there is a reasonable expectation that JBFG has adequate financial resources to continue as a going concern. However, the directors note that the ability of JBFG to continue as a going concern is dependent upon achieving the following objectives:

- Forecast positive cash flows from operations
- Proposed capital expenditure management
- Capital raisings by way of debt or equity
- Realisation of surplus assets and sale of existing assets or companies either by a float or trade sale

Since 30 June 2018, the current asset deficiency has decreased from $2.3 million to $0.7 million as at 30 September 2018. On 30 November 2018, JBFG finalised the terms of a $7 million external debt financing facility with a third party US-based speciality lender focused on providing growth capital for late-stage companies. The facility is for four years, amortising monthly over the period and has a fixed coupon of 10.5%.

Having regard to the above factors, the directors of JBFG consider that the changes to the cost structure and available funding for JBFG since 30 June 2018 have significantly improved the financial position of JBFG and have mitigated the going concern risk at current.

6.9 Financial performance

The audited consolidated statements of financial performance for FY17 and FY18 are set out below.

Table 17: Statement of financial performance of JBFG

$'000	FY17	FY18
Revenue		
Foreign currency exchange revenue	4,329	11,368
Professional services	1,063	17,892
Proprietary trading revenue	-	14,778
Brokerage & commission	1,031	5,039
Other income	14	(47)
Total income	**6,437**	**49,030**
Expenses		
Commissions paid to investment brokers	(248)	(2,200)
Foreign banknote usage fee	-	(619)
Dealing expenses	(3)	(40)
Rental expenses	(717)	(3,360)
Exchange fees	-	(4,560)
Traders fees	-	(5,617)
Employee benefits and fees	(3,537)	(20,558)
Insurance	(57)	(227)
Legal & consulting services	(744)	(8,749)
Audit and accounting	(303)	(923)
Travel expenses	(222)	(552)
Professional subscriptions	(138)	(644)
Marketing & advertising	(133)	(486)
Administration expesnes	-	(259)
Printing and stationery	(104)	(239)
IT & communications	-	(1,128)
Transport	-	(223)
Utilities	-	(194)
Staff related expenses	-	(129)
Security expenses	-	(526)
Bank charges	(41)	(145)
Loss on disposal of PP&E	-	(11)
Other expenses	(374)	(945)
Total expenses	**(6,620)**	**(52,333)**
EBITDA	**(183)**	**(3,303)**
Depreciation & amortisation	(70)	(991)
Impairment expense	-	(16,768)
EBIT	**(254)**	**(21,062)**
Interest income	8	269
Interest expense	(55)	(456)
Net loss before tax	**(301)**	**(21,250)**
Income tax benefit	94	1,999
Net loss after tax	**(207)**	**(19,251)**
Foreign currency translation differences	(1)	-
Total comprehensive loss	**(208)**	**(19,251)**

Source: JBFG

Due to the early-stage nature of a number of the businesses and the investments that have been made to either consolidate or grow the acquired businesses we consider that limited conclusions can be drawn in relation to the financial performance of JBFG set out above. We discuss specific observations on the historical trading and near-term outlook for each of the businesses in our valuation analysis for JBFG in Appendix 3.

However, we note the following in respect of the historical financial performance of JBFG set out above:

- Foreign currency exchange revenue is derived from the retail and wholesale foreign currency businesses (Crown Currency and JBFX Wholesale). The increase in foreign currency exchange revenue in FY18 is due to the increase in the number of Crown Currency stores over the period.
- Professional services revenue relates to income generated by the mercantile agency and credit services businesses. The increase in revenue is largely attributable to the full year impact of the mercantile services acquisitions.
- There was no proprietary trading revenue in FY17 as Genesis was not acquired until September 2017.
- The increase in most line items above is due to the full year impact of acquisitions made (such as R&S which was acquired 5 June 2017) as well as the ramp-up of organically grown businesses such as JBTH (including JB Markets and Genesis).
- The trading fee on foreign bank notes relates to the fee paid by JBFX Wholesale to HML for use of physical banknotes from currency trading on consignment.
- Exchange fees and traders fees relate to the Genesis business.
- Legal and consulting expenses increased significantly in FY18 due to the number of acquisitions and potential transactions JBFG was involved in throughout the year.
- The impairment expense in FY18 is comprised of a $2.1 million write down of the value of purchased debt ledgers, $0.6 million impairment to the value of software, $1.3 million impairment to a related party loan and $12.7 million impairment to the goodwill recognised in the mercantile services cash generating unit as a result of poorer than expected trading in FY18 and downward revision of the FY19 budget.

6.10 Financial position

The audited consolidated statement of financial position as at 30 June 2017 and 30 June 2018 and the unaudited position at 30 September 2018 are set out in the table below.

Table 18: Statement of financial position of JBFG

$'000	FY17	FY18	Sep-18
Current assets			
Available cash & cash equivalents	1,747	5,255	9,368
Currency held as stock	2,763	9,141	6,194
Client segregated funds	23	4,228	4,473
Derivative financial instruments	21	16	-
Trade receivables	3,217	4,743	4,209
Other receivables	14,349	984	560
Balances held with brokers	-	3,414	-
Term deposits	409	704	489
Purchased debt ledgers	-	157	157
Other current assets	220	1,179	1,268
Total current assets	**22,749**	**29,820**	**26,718**
Non-current assets			
Property, plant & equipment	1,362	3,131	2,650
Intangibles	46,095	46,713	46,762
Deferred tax assets	1,560	4,663	5,232
Purchased debt ledgers	-	435	428
Security deposits	81	615	605
Other financial assets	-	-	1
Total non-current assets	**49,098**	**55,556**	**55,678**
Total assets	**71,847**	**85,376**	**82,395**
Current liabilities			
Trade & other payables	(2,628)	(25,922)	(22,071)
Borrowings	(5,651)	(4,757)	(3,598)
Provisions	(764)	(1,161)	(877)
Provision for income tax	(628)	(236)	(911)
Total current liabilities	**(9,671)**	**(32,076)**	**(27,458)**
Non-current liabilities			
Borrowings	(244)	(314)	(203)
Trade & other payables	(126)	(177)	(1,056)
Deferred tax liabilities	-	-	(569)
Provisions	(404)	(562)	(737)
Total non-current liabilities	**(774)**	**(1,054)**	**(2,564)**
Total liabilities	**(10,445)**	**(33,130)**	**(30,022)**
Net assets	**61,402**	**52,246**	**52,374**

Source: JBFG

In relation to the historical financial position of JBFG set out above, we note the following:

- Other receivables consists of short term loans and advances to other group companies and funds receivable for shares issued, the majority of which were repaid in FY18.
- Balances held with brokers represents security against initial margins on open derivative positions.
- Other current assets is primarily comprised of accrued revenue and prepayments.

- As set out above, JBFG's current liabilities exceeded current assets by approximately $2.25 million as at 30 June 2018. Whilst there was still a deficiency as at 30 September 2018, it had reduced to $0.7 million.
- Intangible assets predominantly relate to goodwill acquired upon the purchase of a number of businesses.
- The increase in current trade and other payables in FY18 predominantly relates to increased foreign currency banknotes traded on behalf of BHD ($8.2 million), commission payable to Genesis traders ($7.6 million) and funds held on behalf of clients ($4.2 million).
- Current borrowings are predominantly loans extended by other related parties and includes a $2.2 million convertible loan agreement with BHD. In the event of default, the loan is secured over 100% of the shares in Genesis. The outstanding amount may be settled in cash or shares in JBFG at a rate of $6.14 per share, shares in Genesis at a rate of $9.98 per share or shares in JBTH at the fair value at the time of conversion.

6.11 Statement of cash flows

The audited consolidated statement of cash flows for FY17 and FY18 are set out in the table below.

Table 19: Statement of cash flows of JBFG

$'000	FY17	FY18
Cash flow from operating activities		
Receipts from customers	5,376	58,519
Payments to suppliers and employees	(5,947)	(53,384)
Collection on purchased debt ledgers	-	84
Payments to broker for initial trading margin		(3,414)
Interest received	2	203
Interest paid	(21)	(351)
Tax paid	(836)	(1,497)
Net cash used in operating activities	**(1,426)**	**160**
Cash flow from investing activities		
Payments for purchase of property, plant & equipment	(318)	(2,142)
Proceeds from disposal of property, palnt and equipment	-	76
Payments for purchase of financial assets for trading	-	(16)
Payments for investments	-	(1,200)
Payments for purchase of intangible assets	(26)	(888)
Payments for advance to related party	(1,950)	-
Payments for investment (term deposit)	(342)	(295)
Payments for purchase of subsidiaries (net of cash acquired)	(6,355)	3,558
Net cash used in financing activities	**(8,991)**	**(906)**
Cash flow from financing activities		
Proceeds from issue of shares in current year	11,795	7,169
Proceeds from issue of shares in prior year	-	5,869
Proceeds from borrowings	5,156	2,200
Repayment of borrowings	-	(402)
Payment of pre-acquisition dividends	(2,001)	-
Net cash provided by financing activities	**14,950**	**14,837**
Net increase in cash held	4,533	14,090
Cash and cash equivalents at beginning of year	-	4,533
Cash and cash equivalents at end of year	**4,533**	**18,623**

Source: JBFG

In relation to the historical statements of cash flows of JBFG set out above, we note the following:

- Operating cash flows were approximately break-even in FY18.
- Receipts from customers and payments to suppliers and employees increased significantly in 2018 due to the acquisition/full year impact of a number of businesses and growth in existing businesses.

6.12 Recent events

Subsequent to 30 June 2018, JBFG also entered into the following material transactions:

- On 10 July 2018, the loan agreement with Capital Credit (owner of the purchased debt ledgers) for an amount of $0.4 million (including capitalised interest at 30 September 2018), was extended until 7 January 2020. Subsequently, all of the accrued interest and 5% of the loan capital has been repaid.
- On August 22 2018, JBFG agreed to transfer all intellectual property associated with software and technology developed by the Fintech division to an external entity in consideration for a 10% minority interest. JBFG recognised an impairment expense of $642,186 at 30 June 2018 for the total amount of the software development asset.
- On 31 August 2018, the JBFX Wholesale vault storage facility and associated physical assets were sold for $850,000 plus GST. A gain of $695,929 was realised on the sale of the assets. Since the sale of the vault, the JBFX Wholesale business has ceased operations, with BHD now dealing directly with Crown Currency in relation to the funding arrangement for foreign currency bank notes.
- On 11 September 2018 the convertible loan facility issued to JBFG by BHD, which had a maturity date of 11 September 2018, was extended by 18 months and was altered to include an option to convert to JBTH shares at their fair value at the time of conversion.
- On 25 September 2018, JBFG extended a $4.5 million debt facility to JBL for a term of two years at a 5% per annum interest rate.

6.13 Outlook

JBFG operates a diverse portfolio of financial services businesses each with significant near-term growth ambitions which are also subject to a number of risks/challenges in respect of taking market share and/or delivering on aggressive growth strategies. A summary of the outlook for each of the operating divisions is provided below:

- **Broking division:** JBTH (JBMarkets, JB Alpha and Genesis) recorded a small profit in FY18 which is significantly behind recent budgets and forecasts for the business. This has been driven by a number of factors including:
  - Limited take-up by third party clients as currently, JBTH is heavily reliant on JBL to provide trading volumes.
  - Capital constraints in the JBL/JBFG business which has required funding from HML and BHD limited capital pools for trading.
  - Delays in anticipated capital raisings by JBL and other strategic initiatives.

  JBFG management anticipate significant growth in the JBTH business in the near-term through positive changes in the above factors which would, if successful reduce JBTH's reliance on JBL. In particular, JBTH has three relatively new projects which may result in significant revenue growth:

  - **Saxo joint venture:** in April 2018, JBFG commenced a joint venture with Saxo Capital Markets (Australia) Pty Ltd ("**Saxo**") a subsidiary of Saxo Bank, the terms of which are confidential. However, JBFG anticipates positive financial returns from this venture.
  - **CQG partnership:** JBTH are in the final stages of developing an integrated trading platform with international financial trading industry data supplier, CQG Inc ("**CQG**"). This platform directly links CQG's real time financial data with JBTH's trading platform. This product will be marketed to all of CQG's current data base as well as two purchased databases of potential clients.
  - **JB High Alpha Fund:** the JB High Alpha Fund is a wholesale open-ended investment unit trust managed by JBL that was established in February 2017 with minimal FUM currently managed. Recently the fund has had some increase in FUM through a referral source. However, limited revenue is currently being generated. A similar retail fund is expected to be launched in the near future to meet the needs of the referrers retail clients.

Despite the above factors there is material uncertainty as to whether JBTH will be able achieve some or all of its strategic goals due to the significant reliance on internal funds and uncertainty over whether incremental trading volumes will be able to be generated through new client acquisitions or new funds raised by JBL.

- **Proprietary trading:** The proprietary trading aspect of the business is heavily levered to a fixed income yield curve duration strategy that should benefit from an expected increasing interest rate environment. Further growth is also expected from the addition of a small number of new traders each year as the platform is highly scalable.
- **Crown Currency:** Crown Currency is targeting strong growth in revenue for existing stores in line with recent historical growth of approximately 10% per annum. New stores added over the past three years are expected to continue their growth trajectory in line with historical trends for new stores to reach mature operations in approximately three years of opening. The roll-out of the new store program has recently been constrained due to lack of capital available which results in some uncertainty in respect of the new store growth profile. The business will also be impacted by the relative strength of the Australian dollar. The USD is one of the most common currencies for inbound and outbound travellers. As Crown Currency is more concentrated on outbound travellers, the business may be adversely impacted by a sustained appreciation of the USD, leading to a decrease in outbound travellers.
- **Mercantile agency:** this division is a more mature operating business. However, the recent rebranding strategy and integration of the merged business provides an opportunity for growth through greater economies of scale and the opportunity to provide a broader range of services to existing clients. Over time there is the potential to expand to acquiring debt ledgers.

6.14 Capital structure and shareholders

As at 21 September 2018 JBFG had 26,920,863 ordinary shares on issue. The significant and other notable shareholders in JBFG, as at this date are set out in the table below:

Table 20: JBFG's shareholders

Shareholder name	Number of shares	% of total shares
Bartholomew Roberts Pty Ltd	8,845,081	32.9%
Henry Morgan Limited	5,350,000	19.9%
Stuart Investment Trust	2,366,606	8.8%
Stuart McAuliffe (indirect)	2,400,000	8.9%
John Bridgeman Limited	2,001,432	7.4%
Other shareholders	5,957,744	22.1%
Total ordinary shares	**26,920,863**	**100.0%**

Source: JBFG

In early 2018, JBL made an offer to acquire all the shares in JBFG that it did not own for scrip consideration. Regardless of whether the BHD Offer or the HML Offer proceeds, JBL intends to proceed with the scrip offer to acquire all of the shares in JBFG that it does not already own.

There have been a number of recent transactions in the shares of JBFG which we have considered in Section 11.3.

7 PROFILE OF BHD

7.1 Background and history

BHD is a LIC that began operations in May 2017. BHD's investment portfolio is managed by JBL and is focused on investing in global markets primarily through listed and unlisted equities, fixed income, currencies, derivatives and commodities. BHD is intended to hold a relatively concentrated portfolio maintaining between 5 and 10 investment ideas. Currently BHD's two primary investments are a convertible loan of $2.2 million advanced to JBFG on 11 September 2017 and investment in physical foreign currencies which are traded by JBFX Wholesale. BHD also holds a 0.18% interest in JBL.

7.2 Overview of operations

As a LIC, BHD's primary operations relate to investment of funds raised from equity investors seeking to generate positive absolute returns with low correlation to market returns, over the medium to long term. BHD has engaged JBL to manage its investments. The key terms of the IMA between BHD and JBL are summarised in Section 8.2. In summary, the management agreement:

- Has an initial term of five years (to March 2022) but can be terminated in certain events, predominantly relating to the insolvency of, or breach of the agreement by, either party. After the initial term, the agreement may be terminated by BHD shareholders as resolved by an ordinary resolution at a general meeting. If the agreement is terminated by BHD prior to the expiry of the initial term, JBL is entitled to a termination payment of 5% of NTA reduced by the percentage of the five year term that has elapsed since the agreement date.
- Includes a management fee of 3% and a performance fee of 27% of the total investment return (based on NTA). A high water mark provision is included in the calculation of performance fees.

Currently the key investments of BHD are:

- $2.2 million convertible loan advanced to JBFG to assist with the funding of the Genesis acquisition. The key terms of this loan are as follows:
  - Applicable interest rate of 9% p.a. payable in quarterly instalments in arrears.
  - An initial loan term of 12 months which was subsequently extended for a further 18 months. The current due date for repayment is 11 March 2020.
  - JBFG may pay some or all of the loan at any time prior to the due date.
  - BHD may elect at any time to convert the loan to JBFG shares at a price of $6.14 per share, Genesis shares at a price of $9.98 per share or JBTH shares at the fair value of JBTH share at the time of issue.
  - The loan is secured by 100% of the shares in Genesis. BHD may at any time require JBFG to provide additional or different security for the outstanding amount of the loan.
- Investment in physical foreign currency banknotes which are traded by JBFX Wholesale. The key terms of the trading agreement between BHD and JBFX Wholesale are set out below:
  - The agreement commenced on 1 September 2017 and had an initial term of 12 months, which was later changed to 36 months, from the commencement date. At the end of the agreed term the agreement terminates.
  - BHD supplies foreign currency banknotes to JBFX Wholesale who manages and on-trades these banknotes to various clients. Initially BHD received a return of 9% on the Australian dollar value of the banknotes, the return was reduced to 5% on 1 September 2018. JBFX Wholesale will retain any return in excess of 5% p.a.
  - BHD must provide 30 days notice, unless otherwise agreed, to request the return of all or part of their foreign currency bank note investment.
  - The agreement terminates upon any party entering into an insolvency arrangement and either party may terminate the agreement by giving a minimum of one month's written notice.

- As at 30 September the top five currencies held were:

Table 21: Top five foreign currencies held by BHD as at 30 September 2018

Currency	AUD equivalent
US dollar	1,391,077
Euro	653,585
New Zealand Dollar	399,560
Japanese Yen	363,748
Great British Pound	339,775
Other	1,757,447
Total	**4,905,192**

Source: BHD

In addition to the above, BHD has a 0.18% interest in JBL.

As of 2 August 2018, BHD was granted broker facilities with Saxo consisting of a $1 million credit line and a $5 million trading line to provide additional capacity for trading derivative future contracts. Negative balances in BHD's account will attract interest at the market ask rate plus 5% p.a. These facilities can be utilised to fund BHD's overnight trading positions. However, generally BHD closes out their positions prior to the end of trading each day and as such the facilities are rarely called upon.

7.3 Key personnel

The current directors and senior management team of BHD comprise:

Table 22: BHD key personnel

Name	Background
Stuart McAuliffe **(Executive Chairman)**	Refer to table 7.
Peter Aardoom **(Non-executive director)**	Peter has over 30 years' experience in Australian and international equity and derivatives broking and trading, portfolio management, general corporate and financial advisory services, and company promotion. Peter is RG146 qualified to deal in and give advice on securities, derivatives, managed funds and foreign exchange and holds various UK industry qualifications. Peter is currently a director of JB Markets.
Bryan Raymond Cook **(Director)**	Bryan has extensive operational, leadership and strategic experience built over 24 years in private and public companies. He has a track record in implementing tailored and robust compliance cultures across a range of different environments. Bryan holds qualifications in investigations, human resources and training and is a member of, amongst others, the Australasian Association of Workplace Investigators and the Corruption Prevention Network Queensland.

Source: BHD

7.4 Financial performance

The audited statements of financial performance for FY17 (28 September 2016 to 30 June 2017) and FY18 are set out below.

Table 23: Statement of financial performance of BHD

$'000	FY17	FY18
Investment income		
Net gain on financial instruments at fair value	679	429
Total income	**679**	**429**
Expenses		
Broker commission costs	(309)	(3,064)
Directors' fees	(30)	(203)
Management fees	(88)	(694)
Performance fees	-	(475)
Other expenses	(66)	(461)
Total expenses	**(493)**	**(4,898)**
EBITDA	**186**	**(4,468)**
Depreciation & amortisation	-	-
EBIT	**186**	**(4,468)**
Interest income	-	209
Interest expense	-	(18)
Net profit/(loss) before tax	**186**	**(4,277)**
Income tax	(56)	1,283
Net profit/(loss) after tax	**131**	**(2,994)**

Source: BHD

We note the following in respect of the historical financial performance of BHD set out above:

- BHD commenced trading on 12 May 2017 therefore the FY17 results reflect less than two months of actual operations.
- Net gains on financial instruments predominantly related realised gains on trading derivatives in FY17 and the trading fee received from JBFX Wholesale on the foreign currency banknotes owned by BHD in FY18. FY18 income was significantly below the FY17 run rate. This was due to poor trading conditions which resulted in minimum income from BHD's derivatives trading strategy. As set out above, limited income has been generated to date from derivatives trading, particularly in FY18.
- The increase in broker commission cost is primarily due to FY18 reflected a full year of expenses.
- JBL waived all performance fees in FY17.

7.5 Financial position

The audited consolidated statements of financial position as at 30 June 2017 and 2018 and the unaudited position at 31 October 2018 are set out below.

Table 24: Statement of financial position of BHD

$'000	Jun-17	Jun-18	Oct-18
Assets			
Cash & cash equivalents	16,182	1,121	97
Balances held with brokers	3,507	87	215
Derivative financial assets	8	23	-
Investments at fair value through profit or loss	-	10,668	7,379
Other receivables	550	4,735	5,559
Prepayments	-	9	40
Deferred tax assets	341	1,624	1,707
Total assets	**20,589**	**18,269**	**14,996**
Liabilities			
Derivative financial liabilities	484	50	4
Trade and other payables	348	190	(840)
Current tax payable	166	163	73
Total liabilities	**998**	**403**	**(764)**
Net assets	**19,591**	**17,866**	**15,760**

Source: BHD

We note the following in respect of the historical financial position of BHD set out above:

- In FY17 cash and cash equivalents was comprised of $6.6 million of cash at bank and $9.6 million of cash held with investment brokers.
- Balances held with brokers represents security against initial margins on open derivative positions.
- The primary investments of BHD as at 31 October 2018 were $4.9 million invested in foreign currency banknotes and a $2.2 million convertible loan advanced to JBFG (carried at a fair value of $2.3 million at 30 September 2018). After year end the maturity date of the convertible loan was extended by 18 months from 31 October 2018 to 11 March 2020.
- Other receivables relate to management and performance fees refundable to BHD by JBL in relation to a convertible note transaction with JBFG that was cancelled. After year-end BHD entered into a repayment arrangement with JBL for the $4.5 million to be repaid over a term of 18 months with interest of 11.5% per annum.

7.6 Cash flow

The audited statements of cash flows for FY17 and FY18 are set out in the table below.

Table 25: Statement of cash flows of BHD

$'000	FY17	FY18
Cash flow from operating activities		
Net proceeds from sale of investments	1,155	(457)
Management and performance fees paid	(33)	(5,778)
Receipts from / (payments to) brokers for initial trading margin	(3,507)	3,420
Commissions and brokerage fees paid	(91)	(3,309)
Payments for operating and administrative expenses	(85)	(512)
Interest received	-	209
Interest and other finance costs paid	-	(18)
Proceeds from sale of listed shares	-	281
Payments for investment in listed shares	-	(1,489)
Payments for foreign currency bank notes	-	(7,399)
Payment for convertible note	-	(2,305)
Net cash used in operating activities	**(2,561)**	**(17,357)**
Cash flow from financing activities		
Proceeds/ (payment) from short term advance	(485)	1,027
Proceeds from issue of shares	20,001	3,307
Payments for cost of issuance and listing of new shares	(772)	-
Dividends paid	-	(2,038)
Net cash provided by financing activities	**18,744**	**2,296**
Net increase (decrease) in cash held	16,182	(15,061)
Cash and cash equivalents at beginning of year	-	16,182
Cash and cash equivalents at end of year	**16,182**	**1,121**

Source: BHD

We note the following in respect of the historical cash flows of BHD set out above:

- $4.6 million of the $5.8 million paid in management and performance fees is repayable to BHD as the transaction which it related to was cancelled.
- In FY18 BHD wound down their outstanding trading position resulting in an inflow of cash from brokers that had been used to fund initial margins on trades.
- In FY18, BHD made a significant investment in foreign currency banknotes that are traded by JBFX wholesale.

7.7 Recent events

Subsequent to 30 June 2018, the following material events occurred:

- Directors Vince Gordon and Simon Richard resigned on 27 July and 31 July 2018 respectively.
- On 2 August 2018, the Company was granted broker facilities by Saxo consisting of a $1 million credit line and a $5 million trading line to provide additional capacity for trading of derivative futures contracts.
- On 3 August 2018, 536,585 shares held by BHD in JBL were bought back by JBL at $2.05 per share, effectively cancelling the placement of those shares at the same price on 17 November 2017.
- On 8 August 2018, BHD made a loan of $1,134,000 to JBL for a term of one year at 11.5% interest.
- On 11 September 2018, the expiry date on the $2.3 million convertible loan granted to JBFG was extended by 18 months to 11 March 2020 and the terms were altered to include a conversion option on JBTH shares in addition to genesis and JBFG.
- BHD entered into a repayment agreement for the $4.5 million refundable performance fee to be repaid over a term of 18 months with interest of 11.5% p.a.

7.8 Capital structure and shareholders

As at 8 November 2018, BHD had 24,155,241 ordinary shares on issue. The significant and other notable shareholders in BHD, as at this date are set out in the table below:

Table 26: BHD's shareholders

Shareholder name	Number of shares	% of total shares
BNP Paribas Nominees Pty Ltd	1,776,553	7.4%
Victor Plummer	1,239,807	5.1%
HSBC Custody Nominees	1,169,012	4.8%
Nilcoy Pty Ltd (The Stuart Family S/F)	1,156,674	4.8%
Henry Morgan Limited	68,039	0.3%
John Bridgeman Limited	45,359	0.2%
Bryan Cook	7,000	0.0%
Peter Ardoom	4,535	0.0%
Stuart McAuliffe	1,000	0.0%
Other shareholders	18,687,262	77.4%
Total ordinary shares	**24,155,241**	**100.0%**

Source: BHD

BHD also has 16,674,856 options listed on the ASX. The options have an exercise price of $1.00 and an expiry date of 28 April 2020. On exercise, each option entitles the holder to one BHD share. JBL owns 924,338 (5.5%) of the BHD options on issue and Bryan Cook, a director of BHD, has an indirect interest in 7,000 BHD options.

7.9 Share price performance

The following chart shows the share market trading of BHD shares since IPO in May 2017:

Figure 7: Share price performance of BHD shares

Source: S&P Capital IQ

In relation to the trading of BHD shares since listing we note the following:

- IPO shares were offered at $1.00. BHD shares have generally traded below $1.00 except for small periods between May and July 2017 and January 2018.
- The BHD share price has dropped significantly since January 2018, trading at a low of $0.68 on three separate days in June.
- BHD shares have generally traded at a discount to NTA (pre-tax).
- As discussed above, BHD has been in a trading halt since July 2018 and has no specific guidance from the ASX as to the reason for the suspension. We have been advised that BHD is taking every reasonable step to have the suspension lifted and is ensuring that it is doing all things lawfully required to enable this to happen. However, there is no certainty as to when, or if, the suspension will be lifted.

8 PROFILE OF JBL

8.1 Background and history

JBL was established in January 2015 and operates an investment management business. JBL has been listed on the NSX since August 2015. JBL is currently the investment manager for four related parties, HML, BRL, BHD and the JB Hi Alpha Fund.

8.2 Overview of operations

As an investment manager JBL aims to generate long-term total returns from a specialised managed futures strategy. JBL's has a global investment philosophy which focuses on three key areas:

- Trends
- Events
- Prevailing conditions

JBL believes that identifying the interdependency of trends and changes across equity, bond, currency and commodity markets is a superior way to capture upside gains and manage downside risk. JBL's strategy is to utilise tools to provide high returns while limiting volatility and drawdowns where possible. The goal is to both identify market direction and to capture the volatility around the trend to enhance the returns. To achieve this JBL uses a staged investment process:

- Identification of value based on fundamental analysis.
- Identification of existing trends.
- Identification of prevailing conditions.
- Analysis of international money flow.
- Analysis of the actions of policy makers.
- Portfolio allocation.

JBL's investment strategy primarily involves trading in exchange traded futures and forward contracts in global markets across categories such as share indices, bonds, interest rates, currencies and commodities. JBL generally utilises the stock broking services of JBTH (a subsidiary of JBFG) when executing trades on behalf of their clients, however there are no formal exclusive trading agreements in place.

Currently JBL acts as investment manager for HML, BRL, BHD and the JB Hi Alpha Fund.

A summary of the IMAs with each of these parties is set out in the table below:

Table 27: Key terms of JBL's IMAs

Terms	HML	BRL	BHD	JB Hi-Alpha
Start date	12 March 2015	21 June 2016	29 March 2017	21 November 2016
Term	Five year initial term (subject to further five year period at investors discretion)			Five years
Termination	Can be terminated by either party if: ♦ Either party ceases to carry on a business or enters any form of insolvency. ♦ In the event of a material and substantial breach that is not remedied If the agreement is terminated for any other reason (such as majority shareholder approval), JBL is entitled to a termination payment of 5% of the NTA at the time of termination pro-rated down for the period of time elapsed since the commencement of the agreement.			♦ Termination by JB Hi-Alpha with five business days notice. ♦ Termination by investment with 20 business days notice. ♦ Termination in the event of insolvency
Authorised investments	♦ Trading in global markets including options, discount or purchase of bills of exchange, deposits in the short term money market and debt instruments ♦ Unlisted securities (originally not to exceed 10% but restriction removed in October 2016 through shareholder approval)	Opportunities considered by JBL to provide a return on investment acceptable to BRL, in accordance with guidance provided by BRL from time to time.	Opportunities considered by JBL to provide a return on investment acceptable to BHD, in accordance with guidance provided by BHD from time to time.	Predominantly invest and trade in global futures markets across, across categories such as share indices, interest rates, currencies and commodities. Investments will be in exchange trade futures contracts, listed equities and cash.
Other services	JBL also provides office services, corporate support and information technology services. JBL may also elect to provide financial accounting and company secretarial services. The cost of these services is recharged by JBL to the respective client.			JBL does not provide any additional services to JB Hi-Alpha.
Variation	Material variations require the written consent of JBL and approval of shareholders.			By written agreement between the parties.
Fees	♦ Management fee: 2% of NTA per annum (paid monthly in arrears) ♦ Performance fee: 23% of the quarterly investment return		♦ Management fee: 3% of NTA per annum (paid monthly in arrears) ♦ Performance fee: 27% of the quarterly investment return	
High water mark	Yes	No	Yes	Yes
Investment Returns since inception:	9.65%	Not calculated	-33.2%	24.8%

Source: JBL

In addition to providing investment management services to other parties, JBL manages internal investments. Prior to the announcement of the Proposed Transactions, the key investments of JBL were:

- 51.7% interest in BRL
- 9.8% interest in HML
- 7.4% interest in JBFG
- 0.2% interest in BHD

8.3 Key personnel

The current directors and senior management team of JBL comprise:

Table 28: JBL key personnel

John McAuliffe **Chairman & Non-executive Director**	Refer to Table 7.
Stuart McAuliffe **Managing Director**	Refer to Table 7.
Ross Patane **Non-executive Director**	Refer to Table 7.
Jody Wright **Co-Company Secretary**	Jody was appointed company Secretary on 14 July 2016. She was admitted to practice as a Solicitor of the Supreme Court of Queensland in January 2001. Jody has an extensive background in corporate governance, compliance, risk management, board advisory and commercial litigation. She also has significant experience as in-house counsel and compliance manager across the financial services, insurance and investigative services industries.
Kevin Mischewski **Co-Company Secretary**	Kevin is a Chartered Accountant and a member of the Governance Institute of Australia. He has held Company Secretary and Chief Financial Officer roles for ASX listed and unlisted public companies and previously held these roles for ASX listed Pacific Coal Limited.

Source: JBL

8.4 Going concern

JBL's FY18 financial statements (refer to Sections 8.5 to 8.7 below) were prepared on a going concern basis. However, the auditor's report brings attention to disclosures within the JBL financial report that indicate a material uncertainty exists that may cast significant doubt on the Group's (referring to the consolidated JBL, JBFG and BRL) ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Despite this uncertainty, the directors believe there is a reasonable expectation that JBL, the consolidated Group, has adequate financial resources to continue as a going concern. However, the directors note that the ability of JBL to continue as a going concern is dependent upon achieving the following objectives:

- Forecast positive cash flows from operations
- Proposed capital expenditure management
- Capital raisings by way of debt or equity
- Realisation of surplus assets and sale of existing assets or companies whether by a float or trade sale

Since 30 June 2018, the current asset deficiency has decreased from $2.3 million to $0.7 million as at 30 September 2018. On 30 November 2018, JBFG finalised the terms of a $7 million external debt financing facility with a third party US-based speciality lender focused on providing growth capital for late-stage companies. The facility is for four years, amortising monthly over the period and has a fixed coupon of 10.5%.

Having regard to the above factors, the directors of JBL consider that the changes to the cost structure and available funding for JBL since 30 June 2018 have significantly improved the financial position of JBL and have mitigated the going concern risk at current.

8.5 Financial performance

The audited financial results of JBL include the consolidated results of JBFG and BRL. As a result, it is difficult to draw any meaningful observations about the operations of JBL itself (as opposed to that of its investments in JBFG, etc).

Table 29: Statement of financial performance of JBL

$'000	FY16	FY17	FY18
Revenue			
Management fees	-	786	1,712
Performance fees	-	7,109	904
Net gain / (loss) on financial instruments	(194)	3,208	(2,916)
Foreign currency exchange revenue	-	4,329	11,368
Proprietary trading revenue	-	-	14,778
Professional services revenue	-	3,789	17,751
Brokerage and commission	-	1,031	5,039
Consultancy fee income	-	-	893
Restaurant sales	-	-	1,558
Other income	6	852	(26)
Total revenue	**(188)**	**21,103**	**51,061**
Expenses			
Commissions paid to investment brokers	(42)	(280)	(3,003)
Dealing expenses	-	(3)	(40)
Occupancy expenses	-	(1,031)	(4,161)
Employee benefits expenses	(283)	(6,953)	(25,858)
Foreign banknote usage fee	-	-	(619)
Restaurant cost of sales	-	-	(693)
Exchange fees	-	-	(4,560)
Traders fees	-	-	(5,617)
Professional services expenses	(420)	(3,047)	(11,123)
Insurance expense	(19)	(157)	(237)
Travel expenses	(28)	(886)	(1,219)
Management fees	-	(504)	(140)
Advertising	-	(378)	(702)
Printing and stationery	-	(104)	(248)
IT & communications	-	(260)	(1,333)
Professional subscriptions	-	(30)	(725)
Security expenses	-	(5)	(526)
Administration costs	-	(150)	(412)
Merchant fees	-	(58)	(157)
Other expenses	(299)	(449)	(1,241)
Total expenses	**(1,090)**	**(14,294)**	**(62,615)**
EBITDA	**(1,278)**	**6,809**	**(11,555)**
Depreciation & amortisation	-	(379)	(1,925)
Impairment expense	-	-	(7,679)
EBIT	**(1,278)**	**6,430**	**(21,158)**
Interest income	2	17	205
Interest expense	-	(91)	(735)
Net profit before tax	**(1,276)**	**6,355**	**(21,688)**
Income tax (expense) / benefit	345	(1,931)	5,016
Net profit after tax	**(931)**	**4,424**	**(16,673)**
Foreign currency translation	-	(1)	0
Total comprehensive income	**(931)**	**4,423**	**(16,672)**
Profit / (loss) attributable to non-controlling interests	**1**	**401**	**(5,547)**

Source: JBL

We note the following in respect of the historical financial performance of JBL set out above:

- For financial reporting purposes, JBL consolidates JBFG and BRL. Therefore, the financial statements are reflective of the performance of JBL's funds management business, the numerous businesses operated by JBFG and the restaurant and other investment of BRL. Since JBL does not report stand-alone results excluding its consolidated investments, it is difficult to draw any meaningful conclusions for JBL on a stand-alone basis.
- Of the $3.2 million gain on financial instruments recorded in FY17, $3.0 million relates to an increase in JBL's investment in HML in FY17. The $2.9 million loss on financial instruments in FY18 primarily relates to a decrease in the value of JBL's investments in HML, BRL and JBFG.
- Non-investment related income is primarily generated from the operating businesses owned by JBFG.
- Other income primarily relates to dividend income and gains on foreign exchange.
- The significant increase in expenses between FY16 and FY17 primarily relates to the consolidation of the JBFG subsidiaries that were acquired during FY17.
- The increase in professional services expenses primarily relates to consulting services required for the numerous transactions undertaken and considered by HML and JBFG during FY18.
- The impairment expense primarily relates to the $2.1 million impairment of purchased debt ledgers owned by Capital Credit Pty Ltd, a subsidiary of JBFG and the $4.2 million impairment of restaurant franchise licenses owned by BRL.

We have also analysed unaudited stand-alone results for JBL for FY17 and FY18 and note the following:

- Based on the current scale of the underlying funds managed by JBL, JBL is loss-making unless substantial performance fees are generated.
- The cost base for JBL has been decreasing as JBL management continue to further streamline the back-office and other support functions.

8.6 Financial position

The audited statements of financial position as at 30 June 2017 and 2018 are set out below.

Table 30: Statement of financial position of JBL

$'000	FY17	FY18
Current assets		
Cash & cash equivalents	11,643	18,919
Inventory	48	46
Trade & other receivables	17,064	9,088
Balances held with brokers	-	3,414
Financial instruments	-	58
Term deposits	594	908
Purchased debt ledgers	700	157
Other current assets	396	1,322
Total current assets	**30,445**	**33,912**
Non-current assets		
Financial assets held at fair value	6,671	3,582
Property, plant & equipment	4,302	5,659
Intangibles	32,986	42,881
Deferred tax assets	3,115	7,857
Purchased debt ledgers	2,100	435
Other non-current assets	91	764
Total non-current assets	**49,264**	**61,177**
Total Assets	**79,709**	**95,089**
Current liabilities		
Trade & other payables	(8,378)	(31,944)
Borrowings	(2,229)	(3,030)
Bank overdraft	-	
Income tax	(3,199)	(81)
Provisions	(792)	(1,459)
Total current liabilities	**(14,599)**	**(36,514)**
Non-current liabilities		
Trade & other payables	(1,212)	(304)
Borrowings	(5,813)	(5,286)
Deferred tax liabilities	(1,069)	(2,630)
Provisions	(542)	(683)
Total non-current liabilities	**(8,637)**	**(8,903)**
Total liabilities	**(23,236)**	**(45,417)**
Net assets	**56,473**	**49,672**

Source: JBL

In relation to the historical financial position of JBL set out above, we note the following:

- A proportion of the cash balance relates to foreign currency held as stock ($2.8 million in FY17 and $9.14 million in FY18) and segregated funds held on behalf of clients ($22,881 in FY17 and $4.2 million in FY18).
- Inventory relates to the single Johnny Rockets restaurant owned and operated by BRL.

- In FY18 trade and other receivable comprised $4.8 million ($7.7 million FY17) of trade receivables with the remainder allocated to other receivables which predominantly related to intercompany transactions.
- Intangibles primarily relates to goodwill recognised upon the acquisition of a number of businesses currently owned by JBFG that are consolidated by JBL for accounting purposes.
- The trade and other payables have increased substantially between FY17 and FY18. This increase is primarily related to:
  - An increase in trade payables of $7.2 million, this is expected given the increase in the size and scale of the JBFG businesses over the period.
  - $8 million payable on foreign currency banknotes owned by BHD and traded by JBFX Wholesale.
  - $7.6 million in commission payable to traders who use Genesis's proprietary trading platform. Traders may request a draw-down of commission on a monthly basis, but regularly allow the commission to accumulate. This balance was nil in FY17 as Genesis was acquired during FY18.
- The increase in current borrowings was primarily due to a $2.2 million convertible loan advanced by BHD to JBFG.
- Non-current borrowings in FY18 are comprised of $3.3 million related to 2.6 million convertible notes issued on 6 April 2017 with a face value of $1.58, $0.9 million related to finance leases and $1.2 million related to lease incentive liabilities.
- Both current and non-current provisions primarily relate to employee benefits.

We have also analysed unaudited stand-alone balances for JBL for FY 17 and FY18 and note the majority of the assets and liabilities pertain to investments in JBFG and BRL as well as loans to and from these entities as well as managed vehicles, particularly HML and BHD as discussed above.

8.7 Statement of cash flows

The audited consolidated statements of cash flows for FY17 and FY18 are set out below.

Table 31: Statement of cash flows of JBL

$'000	FY17	FY18
Cash flow from operating activities		
Receipts from customers	11,599	71,076
Payments to suppliers and employees	(8,222)	(63,195)
Proceeds from sale of investments	2,694	259
Payments for purchase of investments	(4,371)	(224)
Payments for purchased debt ledgers	(2,800)	-
Collection on purchased debt ledgers	-	84
Payment to broker on initial margins	-	(3,414)
Dividends received	593	5
Interest received	13	205
Interest and other finance costs paid	(78)	(555)
Tax paid	(919)	(1,284)
Net cash used in operating activities	**(1,493)**	**2,956**
Cash flow from investing activities		
Payments for purchase of subsidiaries, net of cash acquired	(8,273)	3,559
Payments for purchase of property, plant & equipment	(1,496)	(2,197)
Payments for purchase of intangible assets	(1,169)	(2,369)
Payments for purchase of equity investments	-	-
Payments for purchase of financial assets held as security	-	-
Placement of term deposits	-	(314)
Proceeds from disposal of property, plant & equipment	-	115
Net cash used in investing activities	**(10,939)**	**(1,206)**
Cash flow from financing activities		
Proceeds from issue of shares	7,358	5,075
Proceeds from issue of convertible notes	3,849	2,200
Borrowings	3,201	-
Issue of shares to non-controlling interest, net of returns of capital	9,871	-
Share issue transaction costs	(72)	(52)
Repayment of borrowings	-	(1,697)
Payment of pre-acquisition dividends	(2,001)	-
Net cash provided by financing activities	**22,207**	**5,526**
Net increase in cash held	9,775	7,276
Cash and cash equivalents at beginning of year	1,869	11,643
Foreign exchange impact	(0)	-
Cash and cash equivalents at end of year	**11,643**	**18,919**

Source: JBL

We note the following in respect of the cash flows of JBL set out above:

- Receipts from customers and payments to suppliers and employees increased significantly in FY18 due to the acquisition/full year impact of a number of JBFG businesses and growth in existing businesses owned by JBFG.
- In FY18 there was a positive cash flow from the purchase of subsidiaries. This is because the majority of acquisitions in FY18 were acquired for scrip consideration resulting in a net cash inflow from the cash on hand of the acquired entities at the acquisition dates.

8.8 Recent events

The following material events and transactions occurred after 30 June 2018:

- On 30 July 2018, JBL received a loan facility of $2.5 million from Stuart McAuliffe, the Managing Director of JBL, for a term of two months at 7.25% p.a. interest. On 6 September, the interest rate was reduced to 5.5% p.a. and the term of the loan facility was extended by 18 months. As at 30 September 2018, $1 million had been drawn down on this facility.
- On 3 August, JBL bought back 1,935,158 shares from HML and BHD for $2.05 per share which had the effect of cancelling the issue of these shares for the same price on 23 November 2017. 464,803 additional shares were bought back on market at various price on 20 September 2018. All of the shares that were bought back have been cancelled.
- On 8 August 2018, JBL received a loan of $2.4 million from HML for a term of one year at 11.5% p.a. interest. On 16 October 2018, the term of this facility was extended by six months.
- On 8 August 2018, JBL received a loan of $1.1 million from BHD for a term of one year at 11.5% p.a. interest. On 16 October 2018 the term of the loan facility was extended by six months.
- Subsequent to the financial year end, receivables totalling $4.5 million were settled via the transfer of 814,882 JBFG shares to the JBL at an agreed value of $5.51 per share. The reported value of JBFG shares at 30 June 2018 was $4.65 per share and as such a provision for impairment was recognised to reflect the adjustment in fair value.

8.9 Capital structure

As at 29 October 2018, JBL had 24,367,704 shares on issue. The significant and other notable shareholders in JBL, as at this date are set out in the table below:

Table 32: JBL shareholders

Shareholder name	Number of shares	% of total shares
Stuart McAuliffe (direct & indirect)	5,550,000	22.8%
John McAuliffe (direct & indirect)	896,000	3.7%
Ross Patane	87,500	0.4%
Henry Morgan Limited	55,000	0.2%
Benjamin Hornigold Limited	43,000	0.2%
Total ordinary shares	**24,367,704**	**27.2%**

Source: JBL

In addition to ordinary shares JBL also has a number of classes of listed options and unlisted convertible notes on issue, as summarised in the table below.

Table 33: Summary of JBL listed options

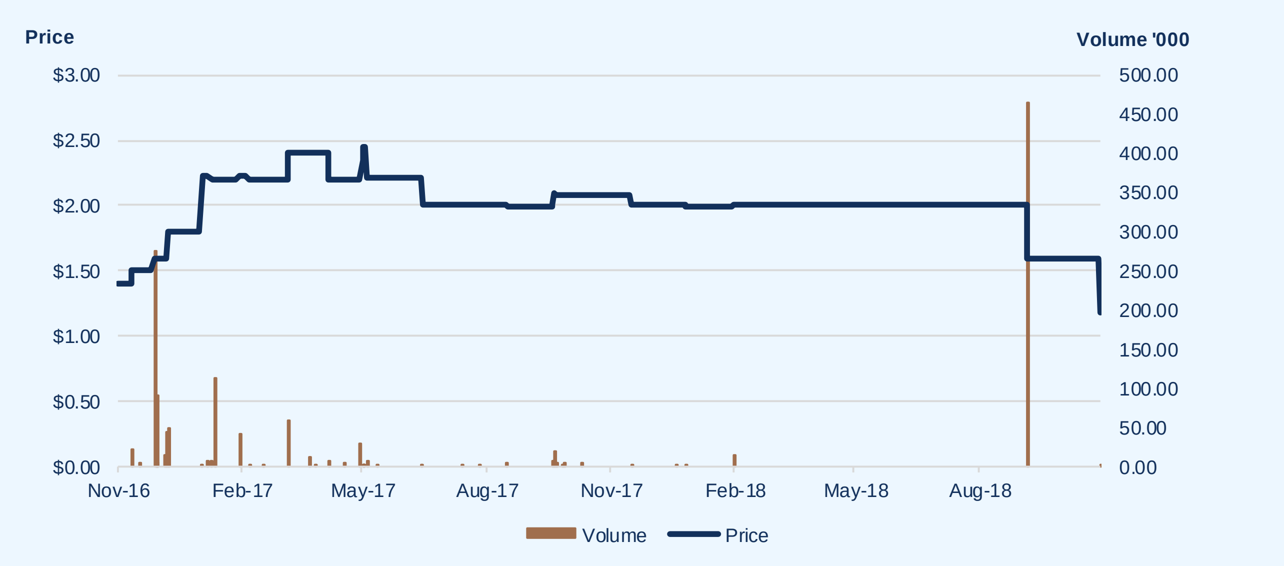
Option class	Grant date	Expiry date	Exercise price	Number on issue
JBLOA listed options	Various	31 March 2020	$1.10	16,376,300
JBLOB listed options	10 March 2018	31 March 2020	$1.20	1,452,500
JBLOC listed options	10 March 2018	31 March 2020	$1.50	1,540,000
JBLOD listed options	10 March 2018	31 March 2020	$2.20	2,240,000
JBLOE listed options	10 March 2018	31 March 2020	$3.50	2,240,000
JBLOF listed options	23 November 2017	23 November 2019	$2.05	337,720

Source: JBL

8.10 Share price performance

The following chart shows the share market trading of JBL shares for the past two years:

Figure 8: Share price performance of JBL shares



Source: S&P CapIQ

In relation to the trading of JBL shares over the last two years we note the following:

- JBL shares are very thinly traded with trades occurring on only 41 days over the last two years and only 5 times in the last 12 months. For the 12 months to 30 November 2018, 480,598 JBL shares have traded. However, the vast majority of these were in respect of a mandatory on-market share buyback by JBL in September 2018. Excluding this transaction, only 16,515 shares have traded over this period, which represents less than 0.1% of the total JBL shares on issue which indicates JBL has been virtually illiquid.
- Trading volumes spiked on 12 December 2016 with 276,000 shares traded on this date. This coincided with a JBL announcement advising of the commencement of an investment management agreement with JB Markets and the decision of the JB Broking board to explore various liquidity options for the JBFG broking business. There was relatively little volume traded from this point until 20 September 2016 when 464,083 shares were bought back by JBL at an average price of $1.56 per share.
- Since the announcement of the Proposed Transactions only 515 shares have been traded.

In light of the very limited liquidity of JBL we do not consider that any meaningful conclusions can be drawn from any analysis of the JBL share price.

9 VALUATION METHODOLOGIES

In our analysis we have considered common market practice and the valuation methodologies recommended in RG 111. There are a number of methods that can be used to value a business including:

- The discounted cash flow method ("**DCF**")
- The CFME method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

Each of these methods is appropriate in certain circumstances and often more than one approach is applied. The choice of methods depends on several factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and the availability of the required information. A detailed description of these methods and when they are appropriate is provided in Appendix 2.

9.1 HML

In selecting an appropriate valuation methodology to value HML, we have considered the following factors:

- HML is a LIC and therefore its profitability is driven by movements in the value of its underlying investments, thus the capitalisation of earnings approach and discounted cash flow approach are not relevant.
- Share market trading in HML shares has been suspended since June 2017. This means that an analysis of share market trading is not a reliable measure of the value of a HML share.
- HML's main assets are its investments in JBFG and BRL. We consider that these assets can each be valued reliably.

Accordingly, we are of the opinion that the most appropriate methodology to value HML is a net asset approach aggregating the value of individual investments and considering any other net assets of HML.

In valuing HML's interest in JBFG we have utilised a SOTP approach which combines the individual value of each business to reach a valuation for JBFG as a whole.

In preparing the SOTP analysis for JBFG we primarily utilised the CFME method as the businesses are largely expected to be profitable and there are listed companies and comparable transactions with sufficiently similar business exposure and near-term growth prospects to provide a reasonable basis for adopting this approach. Our approach to valuing JBFG is described further in Appendix 2.

9.2 Enlarged JBL

Enlarged JBL would largely comprise investments in HML, BHD, JBFG and BRL which have been valued as part of our consideration of the value of HML and BHD set out above. In estimating the value of a share in Enlarged JBL we have therefore utilised a sum of the parts approach which combines the individual value of each of Enlarged JBL's investments and considers any additional value attributable to:

- JBL's external funds management business which currently manages a small amount of external FUM.
- Any cost savings, synergies or dis-synergies that may be realised as a consequence of the Proposed Transactions.

10 HML VALUATION

10.1 Summary

We have assessed the fair market value of HML (on a control basis) using the net assets on an orderly realisation basis.

In determining the fair market value of a HML share (on a control basis) we have estimated the fair market value of the net assets of HML by aggregating the value of individual investments and considering any other assets and liabilities of HML. We highlight that JBFG had a current asset deficiency of $2.3 million at 30 June 2018 and the ability to operate as a going concern was a significant risk highlighted by the auditors of JBFG as at 30 June 2018. Whilst this risk remains, the current account deficiency has declined to $0.7 million at 30 September 2018 and JBFG has secured $7 million in additional funding in November 2018.

We set out below our assessment of the fair market value of HML, based on the net asset approach.

Table 34: Net asset based valuation of HML

$'000	Low	High
Investments		
Interest in JBFG	18,725	21,400
Interest in BRL	5,404	6,348
Interest in JBL	55	55
Interest in BHD	35	37
Foreign currency notes	661	661
Related party loans	2,660	2,660
Total investments	**27,541**	**31,162**
Other net liabilities		
Net cash	572	572
Other net assets	913	913
Deferred taxes (net)	(207)	(1,409)
Management agreement termination	(370)	(401)
Other realisation costs	(1,065)	(825)
Total other net liabilities	**(156)**	**(1,150)**
Assessed net asset value	**27,384**	**30,012**
Number of shares ('000)	32,347	32,347
Value per share ($)	**0.85**	**0.93**

Source: Leadenhall analysis

10.2 Analysis

Key assumptions included in our assessed valuation of HML:

Investment in JBFG

We have estimated the value of JBFG using a SOTP analysis of each of the underlying businesses as set out in Section 11. In undertaking this analysis, we have also considered recent transactions in the shares of JBFG as well as HML's most recently audited carrying value of its investments in JBFG. As HML owns a minority stake in JBFG we have conducted this analysis on a minority basis.

Whilst JBL, on behalf of HML, trades derivatives as part of the global macro strategy of HML, there are no related investments held by HML at the balance sheet date as these positions are closed out daily. We do not consider that a potential acquirer would attribute any value to the investment process or future derivatives trading expectations of HML as this strategy has generally been loss-making in recent periods.

Our assessed value of HML's interest in JBFG is summarised below:

Table 35: Assessed value of HML's interest in JBFG

$'000	Low	High
Assessed value of a JBFG share ($)	3.50	4.00
Number of JBFG shares held ('000)	5,350	5,350
Assessed value of HML's investment in JBFG	**18,725**	**21,400**

Source: Leadenhall analysis

Investment in BRL

Similarly for BRL, we have estimated the value of BRL using a sum of the parts analysis for each of BRL's investments, primarily comprised of an investment in JBFG, as set out in Section 12. As HML owns a minority stake in BRL we have conducted this analysis on a minority basis.

JBL has received indicative acceptances from the vast majority of JBFG shareholders (except HML) to acquire all of the shares in JBFG that JBL does not already own for consideration comprising 3 JBL Shares and 1 JBL Option per JBFG share. Due to the extended time period that this transaction has been contemplated and that additional approvals are required in order to complete the JBFG Transaction, there is a risk that this transaction does not proceed. Based on our assessed values of JBFG and JBL this transaction is dilutive to existing JBFG shareholders (including HML). For the purpose of our analysis we have assumed that the JBFG Transaction does not proceed as that is the most conservative basis for evaluating the offer for HML shareholders.

Our assessed value of HML's interest in BRL is summarised below:

Table 36: Assessed value of HML's interest in BRL

$'000	Low	High
Assessed value of a BRL share ($)	3.61	4.24
Number of BRL shares held ('000)	1,498	1,498
Assessed value of HML's investment in	**5,404**	**6,348**

Source: Leadenhall analysis

Interest in JBL

HML has a small interest in JBL (0.23%). We have estimated the value of HML's interest in JBL based on our assessed value of Enlarged JBL as set out in Section 14. Any reasonable difference in value between JBL and Enlarged JBL would not impact our conclusion.

Interest in BHD

HML owns 68,039 shares in BHD. The value of this interest has been determined based on the assessed value of a BHD share as set out in Section 13.

Foreign currency notes

As at 31 October 2018 HML held $0.7 million in foreign currency banknotes which are traded and managed by JBFX pursuant to a services agreement between the entities. These notes provide for a minimum return of 5% per annum and are repayable to HML on demand. As these notes earn a market rate and are repayable to HML on demand, we have assessed the book value to be reflective of the fair market value of these notes.

Related party loans

Related party loans comprise the following:

Table 37: HML loans

$'000	
Loan to JBL	2,475
Other	185
Total	**2,660**

In respect of the above we note:

- **JBL Loan:** on 8 August 2018, HML made a loan of $2.5 million (subsequently interest on the loan has been capitalised) to JBL to assist with working capital requirements. This loan has a term of one year and a coupon of 11.5%. In assessing the value of the loan, we have considered an appropriate market interest rate for the loan. In doing this we have had regard to the security of this loan, the level of gearing of JBL and an analysis of the yield to maturity for other comparable instruments. Based on this analysis, we consider that any reasonable change in the market interest rates does not result in a value significantly different to the book value. As such we have adopted the book value of the loan for the purposes of our analysis.

Other net assets (liabilities) of HML

In addition to the valuation of the above investments of HML, we have made the following adjustments to estimate the fair market value of HML on an orderly realisation basis:

- **Net cash:** as at 31 October 2018, the most recently available balance date, HML had net cash of $0.6 million which is largely held in trading accounts.
- **Other net assets:** Other net assets of HML include working capital for which we have assessed that the book value is an appropriate approximation of the fair market value of these assets.
- **Deferred taxes**: In respect of deferred tax liabilities, we understand that the majority of the deferred tax liability balance as at 31 October 2018 refers to the unrealised gains on investments in JBFG and BRL. We have adjusted the deferred tax liability to reflect our assessed value of JBFG and BRL. HML also has tax losses available which we have assumed would reduce the potential tax payable on realisation of the investments.
- **Management fees:** In undertaking our analysis we have assumed that the underlying investments of HML are realised on an orderly basis. The current management agreement between JBL and HML has an initial term of five years to March 2020. If the agreement is terminated early JBL is entitled to a termination payment of 5% of NTA (pro-rated over the initial term of the agreement). In our assessed value of HML we have therefore allowed for additional management fees of approximately $0.4 million.
- **Transaction costs**: Under a realisation scenario of HML's assets, selling costs would be incurred in respect of the sale of the underlying investments of HML. For the purpose of our analysis we have assumed that these costs would be between 2% to 3% of the asset value of HML. We understand that HML will incur unavoidable costs of approximately $0.2 million in relation to the HML Offer which relate to legal and other advisory fees and regulatory and listing fees.

10.3 Shares and options outstanding

HML currently has 32.35 million ordinary shares outstanding and no options outstanding.

10.4 Premium for control

A premium for control can be defined as an amount or a percentage by which the pro-rata value of a controlling interest exceeds the pro-rata value of a non-controlling interest in a business enterprise, to reflect the power of control. The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted. Our valuation of HML is based on the net assets approach, which is premised on the ability to control the assets of an entity and therefore incorporates any relevant premium for control. Thus, no further adjustment is required.

10.5 Cross-check

As at 31 October 2018 the before tax NTA was $1.19 and after tax NTA was $1.10. The NTA as at 31 October 2018 is higher than our assessed value of HML since:

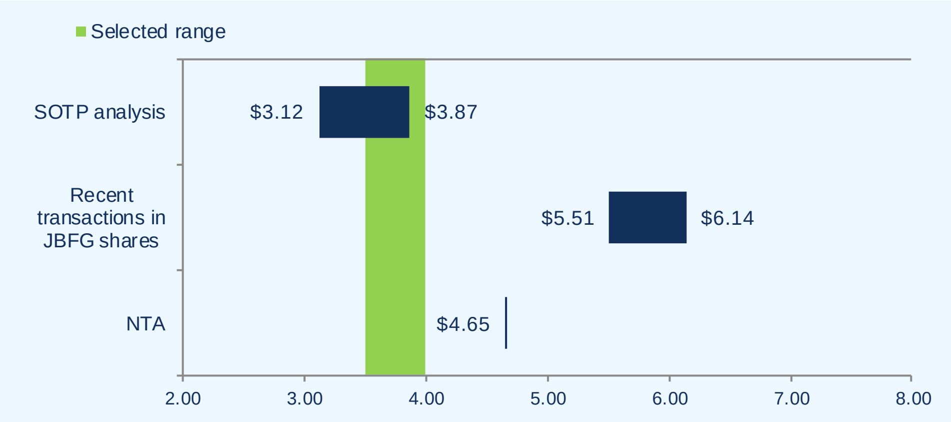
- Our assessed value of HML's interest in JBFG and BRL is lower than the valuation prepared by JBL included in HML's NTA.
- We have included realisation costs which are not reflected in the NTA.

11 JBFG VALUATION

11.1 Summary

We have assessed the fair market value of a JBFG share as follows:

Table 38: Assessed value of a JBFG share



Source: Leadenhall analysis

Based on our analysis, we have selected a valuation range of $3.50 to $4.00 for a JBFG share.

11.2 SOTP Analysis

In assessing the value of each business of JBFG using the SOTP we have primarily considered the CFME method as discussed in Section 9 above.

JBFG's ability to operate as a going concern was a significant risk highlighted by its auditors at 30 June 2018. Whilst this risk remains, the JBFG directors consider that this risk has significantly reduced since 30 June 2018 due to a significant reduction in the current asset deficiency and the recent completion of $7 million in third party funding received by JBFG on 30 November 2018. We have therefore prepared our analysis of JBFG on a going concern basis.

As HML and BRL own minority interests in JBFG, we have conducted our valuation analysis for each business on a minority basis. Detailed valuation analysis for each JBFG business is set out in Appendix 4 to Appendix 6.

SOTP valuation summary

A summary of our SOTP analysis for JBFG is set out in the table below:

Table 39: SOTP value of JBFG

Assessed value of JBFG (minority value)								
$'m	Reference	Earnings basis	Selected earnings		Selected multiple		Value	
Business unit			Low	High	Low	High	Low	High
Crown Currency	Appendix 4	EBIT	5.6	6.0	8.5x	9.0x	47.6	54.0
JB Trading House	Appendix 5	NPAT	1.5	2.0	11.0x	12.0x	16.5	24.0
R&S	Appendix 6	EBIT	2.0	2.5	6.5x	7.5x	13.0	18.8
Total							**77.1**	**96.8**
Related party loans	Appendix 7						(1.4)	(1.4)
Surplus assets	Appendix 7						1.7	2.3
Net cash	Appendix 7						6.6	6.6
Total equity value (minority basis)							**83.9**	**104.2**
Number of shares (million)							26.9	26.9
Value per JBFG share (minority value)							**$ 3.12**	**$ 3.87**
Selected value							**$ 3.50**	**$ 4.00**

Source: Leadenhall analysis

In estimating the value of JBFG we have considered the following factors:

- **Crown Currency:** We have applied the CFME approach using maintainable EBIT as the earnings basis. In applying the CFME approach, we have selected a maintainable EBIT of $5.6 million to $6.0 million and an EBIT multiple of 8.5x to 9.0x. In selecting maintainable earnings, we have allowed for the earnings uplift from the expected ramp-up of recently opened stores to a mature store level. We have cross-checked our assessed CFME value using a DCF approach which provided broad support for our assessed value.
- **JBTH:** We have applied the CFME approach using maintainable NPAT as the earnings basis. In applying the CFME approach, we have selected a maintainable NPAT of $1.5 million to $2.0 million and an PE multiple of 11.0x to 12.0x. Whilst the business has historically been loss making and has performed poorly against budget, in selecting maintainable earnings we have considered the near-term earnings potential from trading volumes expected from HML and BHD as well as the potential and risks associated with a number of new growth initiatives. We have further allowed for future growth in the selected earnings multiple which is relatively high given the current size and profitability of JBTH in comparison to comparable companies.
- **R&S:** We have applied the CFME approach using maintainable EBIT as the earnings basis. In applying the CFME approach, we have selected a maintainable EBIT of $2.0 million to $2.5 million and an EBIT multiple of 6.5x to 7.5x. R&S have made considerable cost savings in the first quarter of FY19 which is reflective of the successful integration plan implemented in FY18. However, revenue growth has been significantly under budget in FY19 with minimal growth over the same period in FY18. R&S is a relatively mature business and as such growth is expected to be more modest now that the integration program has largely been finalised.
- **Related party loans:** JBH has received loans from a number of related parties. Given the quantum of the loans, any difference between the actual and market interest rates would not have a material impact on the fair market value of the loans. Therefore, we have adopted the book value of the loans for the purposes of our analysis.
- **Surplus assets**: We identified three surplus assets of JBFG:
  - A purchased debt ledger, which has a current carrying value of $0.6 million.
  - The wholly owned subsidiary Growth Point Capital, which is a loss making mortgage broking business. As there is little likelihood that the business will become profitable in the short to medium term, we have had regard to the potential value of the loan book as well as the acquisition price in valuing this asset in the range of $0.5 million to $1.0 million.

- A minority interest in a Fintech start-up, the intellectual property of which was previously owned by JBFG. The current book value of the interest is nominal.

- **Net cash**: As at 30 September 2018 JBFG had a net cash position of $6.6 million which includes net cash of $9.0 million less the convertible loan extended by BHD to JBFG of $2.4 million.
- **Other NTA**: primarily relates to term deposits.

We highlight that JBFG had a current asset deficiency of $2.3 million at 30 June 2018 and the ability to operate as a going concern was a significant risk highlighted by the auditors of JBFG and JBL as at 30 June 2018. Whilst this risk remains, the current account deficiency has declined to $0.7 million at 30 September 2018 and JBFG has secured $7 million in additional funding in November 2018. We note that as part of this funding, warrants providing the financier up to 1.5% of the issued shares of JBFG were provided. We have not included the impact of the warrants on the above analysis as they do not have any impact on our assessed value of JBFG or conclusions on the HML Offer.

11.3 Recent transactions in JBFG shares

During 2017 and 2018, JBFG conducted a number of transactions in its shares which has included the following:

- A capital raising in 2018 under which 563,063 new shares were issued at a price of $5.94 per share. This price was determined with reference to the last audit reviewed valuation of JBFG as at 31 December 2017. The shares were issued to JBL with the proceeds being applied to the expansion of the retail and wholesale foreign exchange divisions of JBFG.
- Since 2017, JBFG has made a number of acquisitions where some or all of the purchase price has been paid via JBFG scrip. A summary of these transactions, and the implied price of the JBFG shares issued, is set out in the table below:

Table 40: Summary of JBFG Acquisitions

Target	Date	Purchase price ($'m)	%scrip	No. share issued (m)	Implied share price
Crown Currency	Apr-17	14.9	48%	1.30	$5.51
JB Alpha Ltd	Apr-17	3.0	50%	0.26	$5.85
Risk & Security Management Pty Ltd	Jun-17	39.9	100%	6.50	$6.14
Genesis Proprietary Trading Pty Ltd	Sep-17	11.2	49%	0.90	$6.14

Source: HML

We note that the above transactions in JBFG shares:

- Are not recent and therefore do not reflect the changes in the JBFG businesses since these dates including the ongoing delay in achieving budgeted/projected financial results, going concern issues raised as at 30 June 2018 and the reduced scale of the business, for example through the closing/divestment of the wholesale FX and FinTech businesses
- These transactions are generally either related party transactions or issued to vendors as scrip consideration which may include some element of synergies in respect of the businesses being acquired.

In addition, subsequent to 30 June 2018, a $4.5 million receivable owing to JBL from an investor was settled via the transfer of 814,882 JBFG shares held by this investor to JBL at an agreed value of $5.51 per share. We do not consider the implied value of a JBFG share in this transaction to be representative of fair market value since:

- JBL was the acquirer of the JBFG shares (by forgoing the receivable in exchange for JBFG shares in lieu of cash settlement).
- The investor has other interests within the group so may have other considerations in the settlement of this transaction.

We therefore do not consider that these transactions are representative of the current fair market value of JBFG.

11.4 Other cross-checks

Any meaningful cross-checks to the above analysis are limited since:

- The net assets of JBL include consolidation adjustments and intangibles in respect of its interest in JBFG and JBL which does not allow for any meaningful comparison.
- Any earnings multiple or similar analysis at a group level is not meaningful due to the historical losses achieved and the likely timeline for earnings to achieve a more stabilised level.

We note that the 30 June 2018 audited accounts of HML included a fair value estimate for HML's interest in JBFG of $4.65 per share. Our assessed value is lower than JBL's assessed value primarily due to:

- Our assessed value of JBFG's interest in JBTH, the broking business of JBFG, is significantly lower than JBL's assessed value. JBTH is currently reliant on internal trading volumes from HML and BHD with future growth expected to be generated from third party clients. We consider that a potential buyer would be less likely to attribute full value to internal trading volumes due to the uncertainty over the duration of these volumes in the absence of any contractual requirement. Furthermore, we consider JBL's limited track record of generating positive trading performance for HML and BHD in excess of brokerage costs would constrain the fair market value of trading volumes from HML and BHD.
- JBL conducted their analysis on a control basis whereas our analysis has been undertaken on a minority basis.

11.5 Conclusion on value of a JBFG share

Having regard to the above analysis we have assessed the fair market value of a share in JBFG (on a minority basis) to be between $3.50 to $4.00 per share.

12 BRL VALUATION

12.1 Summary

We have assessed the fair market value of BRL before the Proposed Transactions using the net assets on an orderly realisation basis.

We set out below our assessment of the fair market value of BRL, based on the net asset approach.

Table 41: Net asset based valuation of BRL

$'000	Low	High
Investments		
Interest in JBFG	30,958	35,380
Franchises	-	500
Total investments	**30,958**	**35,880**
Other net liabilities		
Net debt	(15)	(15)
Related party loans	(110)	(110)
Other net liabilities	(7,809)	(7,809)
Deferred taxes (net)	(1,669)	(2,995)
Management agreement termination	(546)	(638)
Other realisation costs	(641)	(499)
Total other net liabilities	**(10,790)**	**(12,067)**
Assessed net asset value	**20,168**	**23,813**
Dilutionary impact of options	(2,225)	(2,736)
Net asset value after options	**17,943**	**21,077**
Number of shares ('000)	4,972	4,972
Value per share ($)	**3.61**	**4.24**

Source: Leadenhall analysis

12.2 Analysis

Key assumptions included in our assessed valuation of BRL:

Investment in JBFG

We have estimated the value of JBFG using a sum of the parts analysis of each of the underlying businesses as set out in Section 11. In undertaking this analysis, we have also considered recent transactions in the shares of JBFG as well as BRL's most recent carrying value of its investments in JBFG. As BRL owns a minority stake in JBFG we have conducted this analysis on a minority basis.

Our assessed value of BRL's interest in JBFG is summarised below:

Table 42: Assessed value of BRL's interest in JBFG

$'000	Low	High
Assessed value of a JBFG share ($)	3.50	4.00
Number of JBFG shares held ('000)	8,845	8,845
Assessed value of HML's investment in JBFG	**30,958**	**35,380**

Source: Leadenhall analysis

Franchise assets

BRL is the master franchisee for Australia and New Zealand for two fast food franchises, Johnny Rockets and Wingstop. To date only one Johnny Rockets store has been opened. Due to poor industry trading conditions and a lack of capital, BRL has failed to meet the store roll-out requirements of the two master franchise agreements. We understand a deferred roll-out plan has been agreed with the franchisor. Given the significant uncertainty regarding the ability for BRL to meet the requirements of the franchise agreements, the book value of the franchise agreements (carried at cost price) were fully impaired by BRL as at 30 June 2018. As such we have assessed the value of the franchise assets to be nil at the low and end and $0.5 million at the high end to allow for some prospect that stores will be opened in the future or that the master franchise agreements could be sold/assigned to a third party. We note that our conclusion on the offer is not at all sensitive to changes in the value of the franchise assets.

Other net liabilities of BRL

In addition to the valuation of the above investments of BRL, we have made the following adjustments to estimate the fair market value of BRL on an orderly realisation basis:

- **Net DEBT:** as at 30 September 2018, the most recently available balance date, BRL had a small net debt position, primarily related to overdraft facilities.
- **Related party loans:** BRL's loans are summarised in the table below:

  Table 43: BRL loans

$'000	
Net loan to JBFG	40
Loan from JBL	(150)
Total	**(110)**

  Given the quantum of the loans, any difference between the actual and market interest rates would not have a material impact on the fair market value of the loans. Therefore, we have adopted the book value of the loans for the purposes of our analysis.

- **Other net liabilities:** Other net assets of BRL primarily relate to working capital and management and performance fees payable to JBL for which we have assessed that the book value is an appropriate approximation of the fair market value of these assets.
- **Deferred taxes**: In respect of deferred tax liabilities, we understand that the majority of the deferred tax liability balance as at 31 October 2018 refers to the unrealised gains on investments in JBFG. We have adjusted the deferred tax liability to reflect our assessed value of JBFG. BRL also has tax losses available which we have assumed would reduce the potential tax payable on realisation of the investments.
- **Management fees:** In undertaking our analysis we have assumed that the underlying investments of BRL are realised on an orderly basis. The current management agreement between JBL and BRL has an initial term of five years to June 2021. If the agreement is terminated early JBL is entitled to a termination payment of 5% of NTA (pro-rated over the initial term of the agreement). In our assessed value of BRL we have therefore allowed for additional management fees of $0.5 million to $0.6 million.
- **Transaction costs**: Under a realisation scenario of BRL's assets, selling costs would be incurred in respect of the sale of the underlying investments of BRL. For the purpose of our analysis we have assumed that these costs would be between 2% to 3% of the asset value of BRL.

12.3 Shares and options outstanding

BRL currently has 4.97 million ordinary shares outstanding and 826,390 share options outstanding.

In estimating the fair market value of the options on issue of BRL we have utilised the Black-Scholes option pricing model ("**BOPM**") based on the following inputs into the model:

- **Spot Price**: $3.61 to $4.24 based on our assessed value above
- **Risk free rate**: of approximately 2% based on the yield on Australian treasury bonds.
- **Exercise Price**: $1.00 per share as per terms of the options
- **Dividend yield**: nil as the payment of any dividends is uncertain over the term of the options.
- **Life**: of 2.39 years based on an expiry date of 22 April 2021 and a valuation date of 30 November 2018.
- **Volatility:** of 55% based on analysis of the implied volatilities observed by the share trading of broadly comparable companies as set out in Appendix 11.

12.4 Premium for control

A premium for control can be defined as an amount or a percentage by which the pro-rata value of a controlling interest exceeds the pro-rata value of a non-controlling interest in a business enterprise, to reflect the power of control. The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted. Our valuation of BRL is based on the net assets approach, which is premised on the ability to control the assets of an entity and therefore incorporates any relevant premium for control. Thus, no further adjustment is required.

13 BHD VALUATION

13.1 Summary

We have assessed the fair market value of BHD before the Proposed Transactions using the net assets on an orderly realisation basis.

We set out below our assessment of the fair market value of BHD, based on the net asset approach.

Table 44: Net asset based valuation of BHD

$'000	Low	High
Investments		
Foreign currency notes	4,943	4,943
Related party loans and convertible notes	4,365	4,365
Interest in JBL	43	43
Total investments	**9,351**	**9,351**
Other net assets		
Net cash	262	262
Performance fee refund	4,554	4,554
Other net liabilities	(42)	(42)
Deferred taxes (net)	-	854
Management agreement termination	(470)	(499)
Other realisation costs	(483)	(425)
Total other net assets	**3,821**	**4,704**
Assessed net asset value	**13,172**	**14,055**
Dilutionary impact of options	(665)	(807)
Net asset value after options	**12,507**	**13,248**
Number of shares ('000)	24,155	24,155
Value per share ($)	**0.52**	**0.55**

Source: Leadenhall analysis

13.2 Analysis

Key assumptions included in our assessed valuation of BHD:

Foreign currency notes

As at 31 October 2018 BHD held $4.9 million in foreign currency banknotes which are traded and managed by JBFX pursuant to a services agreement between the entities. These notes provide for a minimum return of 5% per annum and are repayable to BHD on demand. As these notes earn a market rate and are repayable to BHD on demand, we have assessed the book value to be reflective of the fair market value of these notes.

Loans

Loans comprise the following:

Table 45: BHD loans

$'000	
JBL Loan	1,166
JBFG convertible note	2,377
Other	822
Total	**4,365**

Source: Leadenhall analysis

In respect of the above we note:

- **JBL Loan:** on 8 August 2018, BHD made a loan of $1.2 million (subsequently interest on the loan has been capitalised) to JBL to assist with working capital requirements. This loan has a term of one year and a coupon of 11.5%. In assessing the value of the loan, we have considered an appropriate market interest rate for the loan. In doing this we have had regard to the security of this loan, the level of gearing of JBL and an analysis of the yield to maturity for other comparable instruments, as well as the recent third party financing arrangement agreed between JBFG and a third party financier. Based on this analysis, we consider that any reasonable change in the market interest rates does not result in a value significantly different to the book value. As such we have adopted the book value of the loan for the purposes of our analysis.
- **JBFG Convertible Note:** on 11 September 2017, BHD entered into a convertible loan agreement with JBFG with a face value of $2.2 million (subsequently interest has been capitalised) and a 12 month maturity. On 11 September 2018 the term of this note was extended by 18 months to mature in March 2020. The convertible note bears interest at 9.65% per annum and can be settled, at BHD's option, in either cash, JBTH shares, JBFG shares or shares in Genesis. As the conversion ratio in respect of JBFG and Genesis are significantly out of the money, and the conversion to JBTH is at the determined fair value at the time of conversion, we have not attributed any value to the optionality. We have assessed the book value to be representative of fair market value for similar reasons to the JBL Loan set out above. This results in a fair market value of this instrument of $2.4 million.

Interest in JBL

BHD has a small interest in JBL (0.18%). We have estimated the value of BHD's interest in JBL based on our assessed value of Enlarged JBL as a proxy for the fair market value of this interest. Any reasonable difference in value between JBL and Enlarged JBL would not impact our conclusion.

Other net assets of BHD

In addition to the valuation of the above investments of BHD, we have made the following adjustments to estimate the fair market value of BHD on an orderly realisation basis:

- **Net cash:** as at 31 October 2018, the most recently available balance date, BHD had net cash of $0.3 million which is largely held in trading accounts.
- **Performance fee refund:** BHD has a receivable due from JBL of $4.6 million in respect of refunded performance fees. In September 2018 JBL and BHD entered into a repayment arrangement for this receivable to be repaid over a term of 18 months with interest charged at 11.5% per annum. We have assessed the book value to be representative of fair market value consistent with the other debt instruments of JBL discussed above.
- **Other net assets:** Other net assets of BHD include working capital for which we have assessed that the book value is an appropriate approximation of the fair market value of these assets.
- **Deferred taxes**: BHD had a deferred tax asset of $1.7 million as at 31 October 2018 in respect of tax losses from operations. For the purpose of our valuation of BHD on an orderly realisation basis, we have included 50% of the deferred tax assets at the high end of our valuation range.

- **Management fees:** In undertaking our analysis we have assumed that the underlying investments of BHD are realised on an orderly basis. The current management agreement between JBL and BHD has an initial term of five years to March 2022. If the agreement is terminated early JBL is entitled to a termination payment of 5% of NTA (pro-rated over the initial term of the agreement). In our assessed value of BHD we have therefore allowed for additional management fees of approximately $0.5 million to represent the cost of terminating the management agreement.
- **Other realisation costs**: Under a realisation scenario of BHD's assets, selling costs would be incurred in respect of the sale of the underlying investments of BHD. For the purpose of our analysis we have assumed that these costs would be between 1.5% to 2.0% of the asset value of BHD. We understand that BHD will incur unavoidable costs of approximately $0.2 million in relation to the BHD Offer which relate to legal and other advisory fees and regulatory and listing fees.

Whilst JBL, on behalf of BHD, trades derivatives as part of the global macro strategy of BHD, there are no related investments held by BHD at the balance sheet date as these positions are closed out daily. We do not consider that a potential acquirer would attribute any value to the investment process or future derivatives trading expectations of BHD as this strategy has generally been loss-making to date.

13.3 Shares and options outstanding

BHD currently has 24.16 million ordinary shares and 16.67 million share options outstanding.

In estimating the fair market value of the options on issue of BHD we have utilised the BOPM based on the following inputs:

- **Spot Price**: $0.52 to $0.55 based on our assessed value of a BHD share above
- **Risk free rate**: of 2% based on the average of the yield on one and two year Australian treasury bonds.
- **Exercise Price**: $1.00 and expiry term based on the terms of the options.
- **Life**: of 1.41 years based on an expiry date of 28 April 2020 and a valuation date of 30 November 2018.
- **Dividend yield**: nil as the payment of any dividends is uncertain over the term of the options.
- **Volatility:** of 55% based on analysis of the implied volatilities observed by the share trading of broadly comparable companies as set out in Appendix 11. Whilst BHD currently has a significant proportion of its investments in short-term foreign currency notes (the returns which are not significantly volatile) it is likely that these investments would be reinvested to more volatile trading assets over time.

13.4 Cross-check

As at 31 October 2018 the before tax NTA was $0.5852 and after tax NTA was $0.6524. The NTA as at 31 October 2018 is slightly higher than our assessed value as we have included realisation costs which are not reflected in the NTA and we have also discounted the deferred tax asset as discussed above. After considering these adjustments we consider this provides broad support for our assessed value.

14 ENLARGED JBL VALUATION

14.1 Approach and summary

In determining the fair market value of a share in Enlarged JBL (on a minority basis) we have undertaken a SOTP analysis for each of JBL's underlying investments and businesses (as well as other net assets/liabilities as summarised below).

The value of a share in Enlarged JBL will vary depending on the number of HML and BHD shareholders that accept the respective offers. For the purpose of our analysis above we have assumed 100% acceptance of the HML Offer. We note that varying the level of acceptances does not impact our conclusion on the HML Offer.

Enlarged JBL will comprise investments in JBFG, BRL, HML and BHD as well as its funds management business as summarised below:

Table 46: Assessed value of Enlarged JBL

$'000	Low	High
Investments		
100% interest in HML	28,783	31,200
100% interest in BHD	14,125	14,979
Interest in JBFG	7,005	8,006
Interest in BRL	9,277	10,898
Total investments	**59,191**	**65,082**
Other net liabilities		
External funds management business	-	100
Corporate costs	(5,600)	(5,600)
Net debt	(4,103)	(4,103)
Related party loans	(3,122)	(3,122)
Other net assets	2,415	2,415
Deferred taxes	-	-
Total net liabilities	**(10,410)**	**(10,310)**
Assessed value of Enlarged JBL	**48,781**	**54,772**
Dilutive impact of options	(1,281)	(1,844)
Assessed valued of Enlarged JBL after options	**47,500**	**52,929**
Discount for lack of control	5%	5%
Assessed value of Enlarged JBL (marketable minority basis)	**45,125**	**50,282**
Discount for lack of marketability	10%	10%
Assessed value of Enlarged JBL (illiquid minority basis)	**40,612**	**45,254**
Number of JBL shares on issue ('000)	67,762	67,762
Value per share ($)	**0.60**	**0.67**

Source: Leadenhall analysis

14.2 Valuation of Investments

The approach and key assumptions we have adopted in estimating the fair market value of JBL's investments include:

Investment in HML

In order to estimate the fair market value of Enlarged JBL's interest in HML, we have utilised our assessed value of HML as set out in Section 10, excluding realisation costs.

Our assessed value of Enlarged JBL's interest in HML is summarised below:

Table 47: Assessed value of Enlarged JBL's interest in HML

$'000	Low	High
Assessed value of HML	27,384	30,012
Add: realisation costs	1,434	1,226
Less: Interest in BHD	(35)	(37)
Value of Enlarged JBL's investment in HML	**28,783**	**31,200**

Source: Leadenhall analysis

Investment in BHD

In order to estimate the fair market value of Enlarged JBL's interest in BHD, we have utilised our assessed value of BHD as set out in Section 13 excluding realisation costs.

Our assessed value of Enlarged JBL's interest in BHD is summarised below:

Table 48: Assessed value of Enlarged JBL's interest in BHD

$'000	Low	High
Assessed value of BHD	12,507	13,248
Add: realisation costs	953	924
Add back dilutionary impact of BHD options	665	807
Value of Enlarged JBL's investment in BHD (100%)	**14,125**	**14,979**

Source: Leadenhall analysis

Investment in JBFG

We have estimated the value of JBFG using a SOTP analysis of each of the underlying businesses as set out in Section 11. In undertaking this analysis, we have also considered recent transactions in the shares of JBFG. We have conducted our analysis of JBFG on a minority basis as HML shareholders will hold a minority stake in Enlarged JBL.

JBL has received indicative acceptances from the vast majority of JBFG shareholders (except HML) to acquire all of the shares in JBFG that if JBL does not already own for consideration comprising 3 JBL Shares and 1 JBL Option per JBFG share. Due to the extended time period that this transaction has been contemplated and that additional approvals are required in order to complete the JBFG Transaction, there is a risk that this transaction does not proceed. Based on our assessed values of JBFG and JBL this transaction is significantly dilutive to existing JBFG shareholders (including HML). For the purpose of our analysis we have assumed that the JBFG Transaction does not proceeds as that is the most conservative approach to assess the offer for HML shareholders. Assuming the JBFG Transaction proceeds would not change our conclusion on the HML Offer.

Our assessed value of Enlarged JBL's interest in JBFG is summarised below:

Table 49: Assessed value of Enlarged JBL's interest in JBFG

$'000	Low	High
Assessed value of a JBFG share ($)	3.50	4.00
Number of JBFG shares held ('000)	2,001	2,001
Assessed value of JBL's investment in JBFG	**7,005**	**8,006**

Source: Leadenhall analysis

Investment in BRL

Similarly, for BRL, we have estimated the value of BRL using a sum of the parts analysis for each of BRL's investments which primarily comprise an investment in JBFG. We have conducted our analysis of BRL on a minority basis as HML shareholders will hold a minority stake in Enlarged JBL. Our assessed value of Enlarged JBL's interest in BRL is summarised below:

Table 50: Assessed value of Enlarged JBL's interest in BRL

$'000	Low	High
Assessed value of a BRL share ($)	3.61	4.24
Number of BRL shares held ('000)	2,571	2,571
Assessed value of JBL's investment in BRL	**9,277**	**10,898**

Source: Leadenhall analysis

14.3 Funds management business

Currently JBL acts as investment manager for HML, BRL, BHD and the JB Hi Alpha Fund pursuant to IMAs which generally have a five year term. The JB High-Alpha fund currently has FUM of $0.8 million although management is anticipating some growth but no additional FUM has been secured as at the date of our report.

In FY18, JBL generated management fees of $1.7 million from these mandates which was largely from HML and BHD. In addition, JBL generated performance fees of $0.9 million in the same period. However, JBL generated a net loss on its investment management activities over this period.

Whilst JBL aims to generate long-term total returns from a specialised managed futures strategy, JBL has not generated any sustained positive returns on any of these mandates to date from futures trading with most gains being driven by the revaluation of unlisted investments.

Furthermore, for the purpose of our evaluation we have assumed a 100% acceptance rate for the HML Offer and BHD Offer as set out above. In this scenario, HML and BHD would essentially become internally managed and not contribute management fees from these investments.

In considering the value attributable to the funds management business of JBL we have considered the following factors:

- JBL does not have a favourable investment track record.
- JBL has a small investment team with key person risks.
- Any profit generated from the existing mandates is dependent on generating performance fees and/or securing external additional FUM. Performance fees have historically been generated by unrealised gains on unlisted assets and/or one-off transactions. We do not consider that a third party would attribute any significant likelihood to generating performance fees on an ongoing basis in the future.
- JBL only has limited FUM excluding BHD and HML.

Having considered the above factors we have not attributed any net value to the internal or external management rights at the low-end. At the high-end we have attributed a nominal value of $0.1 million assuming that the external FUM could be sold to a third party at prevailing market rates (as a % of FUM) for small/sub-scale businesses.

14.4 Synergies and corporate costs

Whilst Enlarged JBL may benefit from costs savings and other synergies of the combined group, our assessed value of HML and BHD does not include the ongoing costs associated with these businesses as we have assumed an orderly realisation. It would therefore be inconsistent to include any synergies benefits in Enlarged JBL in respect of these costs.

Whilst Enlarged JBL may also benefit from other costs savings as well as potential scale benefits of the combined group, the extent of shareholders realising these benefits is uncertain and we consider there to be significant risks to shareholders receiving any benefit from any such synergies from distributions or share price appreciation.

We have therefore not attributed any value associated with synergies from the Proposed Transactions in our assessed value of Enlarged JBL.

However there will be on-going costs incurred by Enlarged JBL, in particular ongoing investment management costs, back-office support costs as well as listing costs and governance/director costs. In estimating the level of ongoing costs for Enlarged JBL:

- We have assumed that investment management costs would be recovered through investment activities (or would cease if sufficient returns are not generated).
- We consider that the current levels of back-office support costs as well as listing costs and governance/director costs would be required on an ongoing basis. For FY19 these are estimated to be approximately $1.4 million. We have assumed ongoing corporate costs for Enlarged JBL of $1.4 million per year and have deducted $5.6 million to allow for these costs on an ongoing basis.

Based on the above, we have assumed capitalised costs for Enlarged JBL to be $5.6 million.

14.5 Other net assets (liabilities) of Enlarged JBL

In addition to the valuation of the above investments and businesses of Enlarged JBL, in determining the fair market value of the shares of Enlarged JBL we have considered the other net assets and liabilities of Enlarged JBL as follows:

- **Net debt:** as at 30 September 2018, the most recently available balance date, JBL had net debt of $4.1 million**.** This was comprised of:
  - JBL convertible notes of which there were $2.2 million outstanding as at 30 September 2018 with a face value of $1.58 per note, a coupon rate of 8% and total accrued interest of $0.1 million. We consider that the book value plus accrued interest, totalling $3.7 million, is indicative of fair market value as our calculations indicate that the below market coupon rate is largely offset by the optionality.
  - A loan of $1,000,000 extended by Stuart McAuliffe on 30 July 2018 at an interest rate of 5.5% and a term of 20 months. We consider that the applicable interest rate is likely to be below market rates for similar loans, however, given the relatively short term of the loan this will not have a material impact on the fair value of the loan. As such we have applied the book value of the loan in our valuation assessment.
  - Cash on hand of $0.6 million as at 30 September 2018.
- **Loans:** loans are primarily comprised of:
  - A $2.5 million loan extended by HML, a summary of which is set out in Section 10 above.
  - A $1.2 million loan extended by BHD, a summary of which is set out in Section 13 above.
  - $0.6 million in loans extended by JBL to JBFG and BRL.
- **Other net assets:** Other net assets of JBL include working capital for which we have assessed that the book value is an appropriate approximation of the fair market value of these assets. This includes fees receivable from BRL as discussed in Section 12 and the performance fee refundable to BHD as discussed in Section 13.
- **Deferred taxes**: Our assessed values for JBL's investments above included expected deferred taxes on unrealised gains.

14.6 Discounts

14.6.1 Introduction

The value of a controlling interest is not the same as the value of a minority stake, on a per share basis. Controlling interests offer the holder the ability to do many things that the holder of a minority interest cannot. For this reason the value of a controlling interest is usually higher than the pro-rata value of a non-controlling minority interest. This difference is known as a DLOC and is the inverse of a control premium.

Furthermore, businesses that are relatively liquid, or marketable would attract a premium compared to an interest in a private or illiquid company that is less marketable than a similar liquid interest in a listed company. This difference is known as a DLOM.

14.6.2 DLOC

In considering an appropriate DLOC we have considered:

- The generally observed range of 20% to 40% for control premiums equates to a DLOC range of 17% to 29% as set out in Appendix 9.
- JBL will control the investment strategy of the group.
- Our valuation for the underlying components of JBL (in particular JBFG) have been prepared on a minority basis.

Based on the above considerations we have applied a DLOC of 5% in our assessed value of Enlarged JBL.

14.6.3 DLOM

Whilst Enlarged JBL will be listed, due to the lack of any meaningful recent external trading volumes in JBL shares, we consider it appropriate to apply a DLOM in assessing the fair market value of Enlarged JBL.

In considering an appropriate DLOM we have considered:

- DLOMs for private companies generally range from 10% to 40% as set out in Appendix 9.
- Enlarged JBL will be listed on the NSX which is likely to limit liquidity and access to some investors (which may not have a mandate to invest on NSX) relative to an ASX listing. Any near-term prospects for Enlarged JBL to seek an ASX listing seem limited due to the concerns raised by ASX over JBL's existing managed vehicles.
- Trading in JBL shares has historically been extremely illiquid and has not seen any significant improvement since announcement of the Proposed Transactions. In particular in the 12 months to 30 November 2018, excluding a mandatory on-market share buyback by JBL in September 2018, only 16,515 shares have traded which represents less than 0.1% of the total JBL shares on issue which indicates JBL has been virtually illiquid.
- Enlarged JBL would be an investment holding company with a wide range of investments. In general, investment holding companies trade at a discount to their underlying net asset values to reflect the lack of liquidity of the underlying investments and that the underlying net asset value may not be realised until the investments are sold and the company's assets are distributed to shareholders. Furthermore, the absence of a track record of generating operating cash flow and the complexity of the underlying businesses which may limit investors ability to fully understand the underlying strategy and operations of these businesses are also likely to result in investors further discounting the intrinsic value of the underlying businesses.

Based on the above considerations, we have applied a DLOM of 10% in our assessed value of Enlarged JBL.

14.7 Shares and options outstanding

Assuming 100% of HML and BHD are acquired, JBL will have 67.8 million shares and 32.1 million options outstanding.

In estimating the fair market value of the options on issue of Enlarged JBL we have utilised the BOPM based on the following inputs into the model:

- **Spot Price**: $0.60 to $0.67 based on our assessed value above
- **Exercise Price**: between $1.10 and $3.50 per share as per terms of the options summarised in Section 8.9.
- **Dividend yield**: nil as the payment of any dividends is uncertain over the term of the options.
- **Volatility:** of 55% based on analysis of the implied volatilities observed by the share trading of broadly comparable companies as set out in Appendix 11.

14.8 Cross-check

Any meaningful cross-checks to the above analysis are limited since:

- The net assets of JBL include consolidation adjustments and intangibles in respect of its interest in JBFG and JBL which doesn't allow any meaningful comparison.
- Any earnings multiple or similar analysis at a group level is not meaningful due to the historical losses achieved and the likely timeline for earnings to achieve a more stabilised level.

Furthermore, whilst JBL shares are traded on the NSX they have been virtually illiquid. For example, in the 12 months to 30 November 2018, only 16,515 JBL shares have traded (excluding a mandatory buyback by JBL). Given the absence of any meaningful volume and the small parcels being trading, we do not consider the trading in JBL shares to provide any meaningful support for our assessed value of a JBL share.

APPENDIX 1: GLOSSARY

Term	Meaning
ABS	Australian Bureau of Statistics
APES	Accounting Professional & Ethical Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
Austrade	Australian Trade and Investment Commission
BHD	Benjamin Hornigold Limited
BHD Non-Associated Shareholders	BHD shareholders not associated with JBL
BHD Offer	An off-market takeover bid for BHD for 0.65 JBL shares for each BHD share and 0.5 JBL options for each BHD option
BOPM	Black-Scholes option pricing model
BRL	Bartholomew Roberts Pty Limited
Capital Credit	Capital Credit Pty Ltd
CFME	Capitalisation of future maintainable earnings method
Corporations Act	The Corporations Act 2001
CQG	CQG Inc
Crown Currency	The business operated by King's Currency Exchange Pty Ltd and Harnwei Pty Ltd
DCF	Discounted cash flow method
DLOC	Discount for lack of control
DLOM	Discount for lack of marketability
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Enlarged JBL	JBL after the Proposed Transactions
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FUM	Funds under management
FY	Financial year
Genesis	Genesis Proprietary Trading Pty Ltd
HML	Henry Morgan Limited
HML Non-Associated Shareholders	HML shareholders not associated with JBL
HML Offer	An off-market takeover bid for 100% of the shares in HML not already owned by JBL for 0.95 JBL shares for each HML share
IER	Independent Expert's Report
IMA	Investment management agreement
IPO	Initial public offering
JBFG	JB Financial Group Pty Ltd
JBL	John Bridgeman Limited
JBTH	JB Trading House Pty Ltd
Leadenhall	Leadenhall Corporate Advisory Pty Ltd
LIC	Listed investment company
Listing Rule 10	ASX Listing Rule 10
NPAT	Net profit after tax
NSX	National Stock Exchange of Australia
NTA	Net tangible assets
PBT	Profit before tax
PE	Price to earnings
Related Party	Unless otherwise noted, interpreted as it pertains to the definition of 'Closely Related Parties' in the Accounting Standards which is different than the definition prescribed by the Corporations Act.
R&S	Risk and Security Management Pty Ltd
RG111	Regulatory Guide 111: Content of Expert Reports
Saxo	Saxo Capital Markets (Australia) Pty Ltd
SEC	Securities and Exchange Commission
Section 640	Section 640 of the Corporations Act 2001
SOTP	Sum of the parts

APPENDIX 2: VALUATION METHODOLOGIES

In preparing this report we have considered valuation methods commonly used in practice and those recommended by RG 111. These methods include:

- The discounted cash flow method
- The capitalisation of earnings method
- Asset based methods
- Analysis of share market trading
- Industry specific rules of thumb

The selection of an appropriate valuation method to estimate fair market value should be guided by the actual practices adopted by potential acquirers of the company involved.

Discounted Cash Flow Method

Description

Of the various methods noted above, the discounted cash flow method has the strongest theoretical standing. It is also widely used in practice by corporate acquirers and company analysts. The discounted cash flow method estimates the value of a business by discounting expected future cash flows to a present value using an appropriate discount rate. A discounted cash flow valuation requires:

- A forecast of expected future cash flows
- An appropriate discount rate

It is necessary to project cash flows over a suitable period of time (generally regarded as being at least five years) to arrive at the net cash flow in each period. For a finite life project or asset this would need to be done for the life of the project. This can be a difficult exercise requiring a significant number of assumptions such as revenue growth, future margins, capital expenditure requirements, working capital movements and taxation.

The discount rate used represents the risk of achieving the projected future cash flows and the time value of money. The projected future cash flows are then valued in current day terms using the discount rate selected.

The discounted cash flow method is often sensitive to a number of key assumptions such as revenue growth, future margins, capital investment, terminal growth and the discount rate. All of these assumptions can be highly subjective sometimes leading to a valuation conclusion presented as a range that is too wide to be useful.

Use of the Discounted Cash Flow Method

A discounted cash flow approach is usually preferred when valuing:

- Early stage companies or projects
- Limited life assets such as a mine or toll concession
- Companies where significant growth is expected in future cash flows
- Projects with volatile earnings

It may also be preferred if other methods are not suitable, for example if there is a lack of reliable evidence to support a capitalisation of earnings approach. However, it may not be appropriate if:

- Reliable forecasts of cash flow are not available and cannot be determined
- There is an inadequate return on investment, in which case a higher value may be realised by liquidating the assets than through continuing the business

Capitalisation of Earnings Method

Description

The capitalisation of earnings method is a commonly used valuation methodology that involves determining a future maintainable earnings figure for a business and multiplying that figure by an appropriate capitalisation multiple. This methodology is generally considered a short form of a discounted cash flow, where a single representative earnings figure is capitalised, rather than a stream of individual cash flows being discounted. The capitalisation of earnings methodology involves the determination of:

- A level of future maintainable earnings
- An appropriate capitalisation rate or multiple

A multiple can be applied to any of the following measures of earnings:

Revenue – most commonly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.

EBITDA - most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.

EBITA - in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.

EBIT - whilst commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).

NPAT - relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value whole businesses for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing minority interests in a company.

The multiple selected to apply to maintainable earnings reflects expectations about future growth, risk and the time value of money all wrapped up in a single number. Multiples can be derived from three main sources. Using the guideline public company method, market multiples are derived from the trading prices of stocks of companies that are engaged in the same or similar lines of business and that are actively traded on a free and open market, such as the ASX. The merger and acquisition method is a method whereby multiples are derived from transactions of significant interests in companies engaged in the same or similar lines of business. It is also possible to build a multiple from first principles.

Use of the Capitalisation of Earnings Method

The capitalisation of earnings method is widely used in practice. It is particularly appropriate for valuing companies with a relatively stable historical earnings pattern which is expected to continue. This method is less appropriate for valuing companies or assets if:

- There are no suitable listed company or transaction benchmarks for comparison
- The asset has a limited life
- Future earnings or cash flows are expected to be volatile
- There are negative earnings or the earnings of a business are insufficient to justify a value exceeding the value of the underlying net assets

Asset Based Methods

Description

Asset based valuation methods estimate the value of a company based on the realisable value of its net assets, less its liabilities. There are a number of asset based methods including:

- Orderly realisation
- Liquidation value
- Net assets on a going concern basis
- Replacement cost
- Reproduction cost

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

The asset / cost approach is generally used when the value of the business' assets exceeds the present value of the cash flows expected to be derived from the ongoing business operations, or the nature of the business is to hold or invest in assets. It is important to note that the asset approach may still be the relevant approach even if an asset is making a profit. If an asset is making less than an economic rate of return and there is no realistic prospect of it making an economic return in the foreseeable future, an asset approach would be the most appropriate method.

Use of Asset Based Methods

An asset-based approach is a suitable valuation method when:

- An enterprise is loss making and is not expected to become profitable in the foreseeable future
- Assets are employed profitably but earn less than the cost of capital
- A significant portion of the company's assets are composed of liquid assets or other investments (such as marketable securities and real estate investments)
- It is relatively easy to enter the industry (for example, small machine shops and retail establishments)

Asset based methods are not appropriate if:

- The ownership interest being valued is not a controlling interest, has no ability to cause the sale of the company's assets and the major holders are not planning to sell the company's assets
- A business has (or is expected to have) an adequate return on capital, such that the value of its future income stream exceeds the value of its assets

Analysis of Share Trading

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market. There should also be some similarity between the size of the parcel of shares being valued and those being traded. Where a company's shares are publicly traded then an analysis of recent trading prices should be considered, at least as a cross-check to other valuation methods.

Industry Specific Rules of Thumb

Industry specific rules of thumb are used in certain industries. These methods typically involve a multiple of an operating figure such as eyeballs for internet businesses, numbers of beds for hotels etc. These methods are typically fairly crude and are therefore usually only appropriate as a cross-check to a valuation determined using an alternative method.

Black Scholes Option Pricing Model

The Black-Scholes Option Pricing Model is typically used to value "plain vanilla" European options. It is also used to value American options in the circumstances where the value of holding the call option at a given time is greater than the net present value of cash flows that would be generated by immediate exercise (for example, if there is no dividend).

APPENDIX 3: VALUATIN OF JBFG

A summary of our SOTP analysis for JBFG is set out in the table below:

Table 51: SOTP value of JBFG

Assessed value of JBFG (minority value)								
$'m	Reference	Earnings basis	Selected earnings		Selected multiple		Value	
Business unit			Low	High	Low	High	Low	High
Crown Currency	Appendix 4	EBIT	5.6	6.0	8.5x	9.0x	47.6	54.0
JB Trading House	Appendix 5	NPAT	1.5	2.0	11.0x	12.0x	16.5	24.0
R&S	Appendix 6	EBIT	2.0	2.5	6.5x	7.5x	13.0	18.8
Total							**77.1**	**96.8**
Related party loans	Appendix 7						(1.4)	(1.4)
Surplus assets	Appendix 7						1.7	2.3
Net cash	Appendix 7						6.6	6.6
Total equity value (minority basis)							**83.9**	**104.2**
Number of shares (million)							26.9	26.9
Value per JBFG share (minority value)							**$ 3.12**	**$ 3.87**
Selected value							**$ 3.50**	**$ 4.00**

Source: Leadenhall analysis

Each of the JBFG businesses have different risks and growth profiles. As such, we have utilised a sum of the parts approach to valuing JBFG which combines the individual value of each business to reach a valuation for JBFG as a whole. Our approach to valuing each of the businesses is set out below.

Methodology

Crown Currency

In selecting an appropriate valuation methodology to value Crown Currency, we have considered the following factors:

- Crown Currency is neither an asset based business nor an investment holding company. It is also considered to be a going concern, thus an asset based approach is not appropriate.
- There are some listed companies and comparable transactions with similar business exposure and near-term growth prospects to Crown Currency as well as companies operating in comparable industries with similar profit drivers. Thus, we consider the CFME approach to be appropriate.
- Crown Currency has experienced significant growth and is expecting strong growth to continue over the medium term. A DCF approach can capture this expected earnings growth and the associated costs. As the company has a robust roll-out plan with detailed store-by-store projections which have been corroborated by actual experience in recent store roll-outs, we consider that a DCF basis can be undertaken using the long-term financial projections developed by Crown Currency on a reasonable basis.
- Crown Currency is not listed, thus market trading cannot be directly observed.

Based on the above, we have selected a CFME approach as the primary valuation methodology with a DCF analysis as a cross-check.

JBTH

In selecting an appropriate valuation methodology to value JBTH, we have considered the following factors:

- JBTH is neither an asset based business nor an investment holding company. It is also considered to be a going concern, thus an asset based approach is not appropriate.
- There are some listed companies and comparable transactions with similar business exposure and near-term growth prospects to JBTH as well as companies operating in comparable industries with similar profit drivers. Thus, we consider the CFME approach to be appropriate.

- JBTH is expecting significant growth which may be better captured with a DCF analysis than a capitalisation of maintainable earnings approach. However, financial projections beyond FY19 are not available and as such we do not consider that a DCF approach would be any more reliable than the CFME approach.
- In respect of the Genesis business that forms part of JBTH we have considered the price paid by JBFG to acquire the business in September 2017 and any changes in the business since this date.

Based on the above, we have selected the CFME approach to value JBTH.

R&S

In selecting an appropriate valuation methodology to value R&S, we have considered the following factors:

- R&S is neither an asset based business nor an investment holding company. It is also considered to be a going concern, thus an asset based approach is not appropriate.
- R&S is a mature business, despite some recent trading issues relating to the rebranding program. There are some listed companies and comparable transactions with similar business exposure and near-term growth prospects to R&S as well as companies operating in comparable industries with similar profit drivers. Thus, we consider the CFME approach to be appropriate.
- R&S have not prepared forecasts beyond FY19 as such a DCF approach cannot be applied.

Based on the above we have selected the CFME approach to value R&S with a cross-check based on the recent transactions.

Maintainable earnings

In assessing the value of each business of JBFG we have primarily considered the CFME method as discussed above. Determining the fair market value using the CFME method requires consideration of the following factors:

- An appropriate level of maintainable earnings
- An appropriate earnings multiple
- The value of any non-operating assets and liabilities

The following measures of earnings are often used for business valuations:

- **Revenue**: mostly used for companies that do not make a positive EBITDA or as a cross-check of a valuation conclusion derived using another method.
- **EBITDA**: most appropriate where depreciation distorts earnings, for example in a company that has a significant level of depreciating assets but little ongoing capital expenditure requirement.
- **EBITA**: in most cases EBITA will be more reliable than EBITDA as it takes account of the capital intensity of the business.
- **EBIT**: while commonly used in practice, multiples of EBITA are usually more reliable as they remove the impact of amortisation which is a non-cash accounting entry that does not reflect a need for future capital investment (unlike depreciation).
- **NPAT**: relevant in valuing businesses where interest is a major part of the overall earnings of the group (e.g. financial services businesses such as banks).

Multiples of EBITDA, EBITA and EBIT are commonly used to value the whole business for acquisition purposes where gearing is in the control of the acquirer. In contrast, NPAT (or P/E) multiples are often used for valuing a minority interest in a company as the investor has no control over the level of debt.

We have selected EBIT to value Crown Currency and R&S:

- Earnings multiples based on EBITDA and EBIT are not affected by different financing structures which impact multiples of net profit after tax.
- The varying capital intensity of the comparable companies means that an analysis of EBIT is a more reliable measure than the multiples of EBITDA.

- Third party forecasts of EBITA for comparable companies are not readily available making EBITA multiples difficult to calculate without making assumptions about ongoing levels of depreciation and amortisation (i.e. most brokers do not separately forecast depreciation and amortisation).

We have selected NPAT (commonly referred to as price-earnings or "PE" multiples) to value JBTH because:

- A number of comparable companies utilise leverage as part of trading activities and/or include broader lending activities with their clients. Analysing multiples ignoring the capital structure of the comparable companies therefore may not be meaningful.
- Third party forecasts of EBITDA or EBIT for some comparable companies are not readily available making multiples other than PE difficult to calculate without making subjective assumptions.

Earnings multiples

The multiples selected to apply to maintainable earnings implicitly reflect expectations about future growth, risk and the time value of money. Multiples can be derived from three main sources:

- The trading prices of companies that are engaged in the same or similar lines of business and that are actively traded on a public stock market.
- From transactions of significant interests in companies engaged in the same or similar lines of business.
- It is also possible to build a multiple from first principles based on an appropriate discount rate and growth expectations.

We have conducted an analysis of both public company trading multiples and transaction multiples in order to determine appropriate earnings multiples to apply to the valuation of JBFG's businesses.

APPENDIX 4: VALUATION OF CROWN CURRENCY

Introduction

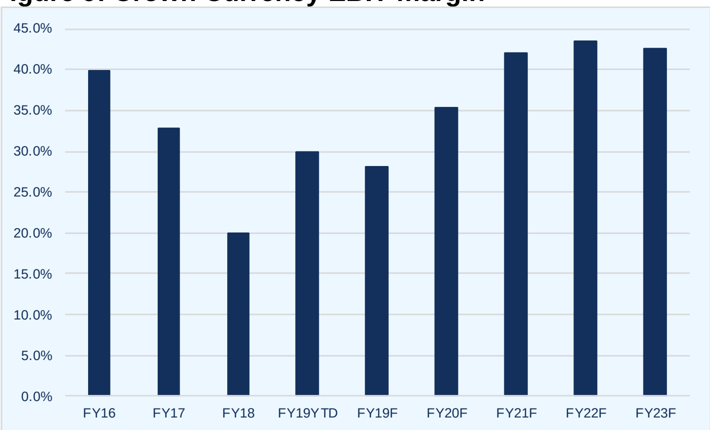
We have assessed the fair market value of Crown Currency using the CFME method, with a broad cross-check to a high level DCF analysis. This assessment has been made on a minority basis.

Level of maintainable earnings

In assessing an appropriate level of maintainable earnings for Crown Currency we have considered the following:

- Near-term projections for the business prepared by JBFG management which includes detailed assumptions about the number of new stores, ramp-up profile of existing stores as well as the expected cost structure for each store. These projections have been based on actual experience for existing stores adjusted for location and the expected scale of the portfolio.
- The number of stores open and the level of maturity of each of these stores. Crown Currency currently has 28 operating stores of which 15 were opened prior to 30 June 2017 (mature stores) and 13 were opened after 30 June 2017 (growth stores).
- Progress of the store roll-out plan. Originally management had forecast to open nine new stores in FY19, however, due to recent capital constraints within JBFG, this has now been reduced to zero. We note that JBFG has recently negotiated a $7 million term debt facility, some of which is likely to be utilised to fund further store roll-outs. Therefore, it is likely that the objective of 47 stores by 2020 and a total long-term portfolio of 60 stores may take longer to be achieved.
- The track record of Crown Currency opening new stores and their trajectory to mature profitability.
- Historical and forecast EBIT margin as set out in the table below:

Figure 9: Crown Currency EBIT margin



Source: HML

The decline in EBIT margin in FY18 is due to the large number of new stores opened during this period. As these stores mature their EBIT margin will increase, having a positive impact on the EBIT margin of the Crown Currency business as a whole.

- Historical forecast accuracy, particularly in FY18 when actual results were in line with the FY18 forecast.
- YTD performance through the first quarter of FY19 suggests Crown Currency is on target to meet the FY19 budget despite no new stores opening.

Based on the above we have separately estimated the maintainable EBIT for the existing 28 stores which consists of 15 mature stores (operating for more than two years) and 13 new stores that have been operating for less than one year as follows:

Table 52: Estimated maintainable earnings for a portfolio of 28 mature Crown Currency Stores

Earnings component	Low $'000	High $'000
Revenue		
- Existing 15 stores (mature)	9,486	9,486
- Existing 13 stores (growth) at mature run rate	7,410	7,670
Total revenue	**16,896**	**17,156**
EBIT margin	33%	35%
EBIT	**5,576**	**6,005**

Source: HML and Leadenhall Analysis

Notes:

1. The existing mature stores are the 15 stores operating as at 30 June 2017.

2. Existing store revenue based on FY18 actual revnue plus a growth rate of 3%.

3. Run rate for existing growth stores of $570,000 to $590,000 has been estimated with consideration given to historical growth profile of Crown Currency stores as well as the inherent uncertantiy of these stores being able to replicate historical growth rates.

4. EBIT margin based on FY18YTD performance with an allowance provided for margin uplift as growth stores mature

After considering the historical earnings, forecast earnings and margins of Crown Currency and comparable companies we have selected the following maintainable earnings:

Table 53: Selected maintainable earnings for Crown Currency

$m	EBIT Low	EBIT High
Selected maintainable earnings	5.6	6.0

Source: Leadenhall analysis

Earnings multiple

In respect of public company trading multiples, we note that there are limited companies which operate in the same segments as Crown Currency listed on the ASX. However, there are a number of listed Australian companies that are exposed to inbound/outbound travel as well as a number of international currency retailers.

The following table sets out the historical and forecast trading EBIT multiples for the selected comparable companies.

Table 54: Trading multiples of comparable companies

Name	Location	EV	EBIT Growth		EBIT Margin		EBIT Multiple	
		(AU$'m)	Current	Forecast	Current	Forecast	Current	Forecast
Foreign Exchange								
The Western Union	United States	14,403.7	9%	2%	20%	20%	9.4x	9.2x
OFX Group	Australia	374.8	-2%	18%	19%	21%	15.3x	13.0x
FairFX Group	United Kingdom	208.4	1462%	113%	27%	38%	15.2x	7.1x
Currency Exchange International	United States	157.4	50%	40%	25%	30%	9.2x	6.6x
High							**15.3x**	**13.0x**
Low							**9.2x**	**6.6x**
Average							**12.3x**	**9.0x**
Median							**12.3x**	**8.2x**
Australian Travel								
Flight Centre	Australia	3,287.7	12%	9%	13%	14%	8.1x	7.5x
Corporate Travel Management	Australia	2,344.7	26%	18%	30%	31%	*17.4x*	*14.8x*
Webjet	Australia	1,451.5	53%	52%	27%	31%	14.1x	9.3x
Helloworld Travel	Australia	536.7	31%	10%	16%	17%	12.4x	11.3x
SeaLink	Australia	547.8	30%	15%	17%	19%	8.9x	7.7x
High							**17.4x**	**14.8x**
Low							**8.1x**	**7.5x**
Average							**12.2x**	**10.1x**
Median							**12.4x**	**9.3x**
Average (excluding outliers)							**10.9x**	**8.9x**

Source: S&P Capital IQ and Leadenhall analysis as at 21 November 2018

Notes:
1. *In the table above, current refers to the current financial year for which actual results are not yet available (generally FY19) and forecast relates to the next financial year (generally FY20). The comparable companies have a mix of financial year end dates.*
2. *There is no consensus EBIT forecast for FairFX Group. As forecast EBITDA is available, we have applied actual FY17 (December year end) depreciation and amortisation to estimate forecast EBIT for the current and forecast years for the purpose of our analysis. We consider this to be reasonable given the relatively low capital intensity of the business and small differences in historical depreciation despite significant increases in revenue.*
3. *Outliers are denoted in italics*

We have considered the following factors in relation to the comparable company trading multiples in determining an appropriate earnings multiple to apply to the valuation of Crown Currency:

- Based on forecast revenue and margins, Crown Currency is most similar in size to the smaller comparable companies in terms of enterprise value. All other things being equal, smaller companies trade on lower multiples. The most comparable companies in terms of size are FairFX Group and Currency Exchange International which have forecast multiples of 6.6x and 7.1x.
- Whilst a reasonable amount of growth has been allowed for in the earnings, particularly in relation to the maturing of the current store portfolio, Crown Currency still expects relatively robust growth in the medium term as it continues to roll-out its store growth program to a targeted 60 stores in the medium to long term. We consider that if successfully implemented this would likely result growth in the mid range of the comparable companies. All other things being equal, companies with greater growth potential trade on higher multiples.
- Crown Currency has higher forecast margins than most of the comparable companies. All other things higher margin companies trade on higher multiples. The most comparable company in terms of EBIT margin is FairFX Group.
- In general, the travel companies have higher multiples than the foreign exchange companies. A combination of factors including size (the travel companies are generally larger) and diversification (the travel companies tend to have a more diverse product offering and operate in multiple jurisdictions) are likely to contribute to this. We consider that an appropriate multiple for Crown Currency would be closer to the observed multiples for the foreign exchange comparable companies than the travel companies.

- Of the four comparable companies operating in the foreign exchange industry, only one, Currency Exchange International, operates foreign exchange retail outlets. Currency Exchange International also has an extensive wholesale foreign exchange network outside of its retail establishments. FairFX does provide retail services, however it does not operate storefronts instead sending orders for physical currency by registered mail. These are the two most similar businesses to Crown Currency from an operational perspective.
- The average current year EBIT multiple for the foreign exchange comparable companies (excluding outliers) is 12.3x and the forecast EBIT multiple is 9.0x.

In addition to our analysis of trading multiples, we have also reviewed relevant transaction multiples, from Australia and overseas. The table below shows the historical (where available) EBITDA and EBIT multiples from relevant transactions with publicly available data.

Table 55: Transaction Multiples

Target	Acquirer	Date	Target Country	Ent. Value (AU$'m)	Historical multiple EBITDA	Historical multiple EBIT	Forecast multiple EBITDA	Forecast multiple EBIT
Crown Currency	JBFG	Dec-16	Australia	14.9	n/a	n/a	5.7x	5.9x
City Forex	FairFX Group	Feb-18	United Kingdom	10.7	8.6x	n/a	n/a	n/a

Source: S&P CapitalIQ, HML and Leadenhall analysis

Notes:

1. The forecast multiple for the Crown Currency transaction is based on FY17 actual performance as forecast performance as at the date of the transaction was not avaialble. We consider this to be a resonable proxy for the purposes of our analysis.

We have considered the following factors in relation to the above transaction multiples in determining an appropriate earnings multiple to apply to the valuation of Crown Currency:

- The comparable transactions are control transactions. As such the implied multiples include a premium for control. The transaction multiples would be lower on a minority basis.
- Crown Currency has grown significantly since the acquisition in 2016 during which time management has demonstrated an ability to roll-out a significant growth strategy whilst still maintaining strong performance in existing stores. On this basis, we would expect the current multiple for Crown Currency would be higher than implied by the original acquisition by JBFG.
- Both of the targets are smaller scale than Crown Currency which indicates an appropriate multiple for Crown Currency would be higher than those shown above (after adjusting for a control premium)

Our key considerations in selecting appropriate earnings multiples to apply to our valuation of Crown Currency are summarised below:

- We have placed more reliance on the public company trading multiples as guidance in selecting earnings multiples on a minority basis, in particular the multiples of those companies operating in the foreign exchange industry.
- Although we have allowed for growth in the ramp-up of existing stores in our selected maintainable earnings, we consider that there is still potential for further growth in the short to medium term through additional store roll-outs in addition to those contemplated in our maintainable earnings as well as additional growth from the existing stores which should be considered when selecting an earnings multiple.
- Although Crown has successfully opened a large number of stores in the short period since being acquired by JBFG, there is still some uncertainty as to whether these and other new stores will be able to perform at the same level as the existing portfolio. This could be seen as a risk until these stores reach maturity.

Based on the consideration discussed above, we have selected the following earnings multiples to apply to our valuation of Crown Currency (on a minority basis).

Table 56: Selected earnings multiples

	EBIT multiple	
	Low	High
Selected multiple	8.5x	9.0x

Source: Leadenhall analysis

Valuation summary

Based on the selected maintainable earnings and multiples, the resulting value of Crown Currency on a minority basis is set out in the table below:

Table 57: Summary of Crown Currency CFME analysis

	Low	Hgh
Selected maintainable earnings	5.6	6.0
Selected earnings multiple (minority)	8.5x	9.0x
Enterprise value (minority basis)	**47.6**	**54.0**

Source: Leadenhall analysis

DCF Analysis

Crown Currency management have prepared a five year forecast for the period FY19 to FY23. We have prepared a high level DCF analysis based on this model (we have revised and simplified some of the assumptions for the purposes of our analysis). The key assumptions adopted in the DCF analysis are as follows:

- First year revenue for a new store of $190,000 with a growth rates in line with the historical ramp up profile for new stores.
- Mature store revenue growth of 3% per annum.
- Direct labour costs of 28% of revenue.
- Overheads based on historical cost and grown at a rate between 3% and 5% depending on correlation with portfolio size.
- Terminal growth rate of 3% to reflect intention to continue to grow the store portfolio after the forecast period.
- Addition of 4 new store per year from FY20 to FY23 with estimated capex of $340,000 per new store.
- Discount rate of 13% based on a capital asset model build-up utilising market data based on the companies identified as comparable to Crown Currency.
- Discount for lack of control of 20%, which is in line with observed range as set out in further detail in Appendix 9.

Based on the above assumptions the value of Crown Currency is $52.1 million which is within our CFME range.

APPENDIX 5: VALUATION OF JBTH

Maintainable earnings

As discussed above, JBTH (Comprising JB Markets, JB Alpha and Genesis) is in its early stages of growth and has only been trading profitably in recent months after a period of developing the trading platforms, business processes and resourcing to scale the business. Significant growth is anticipated by JBFG management in the near term through the following initiatives as discussed in Section 6.13:

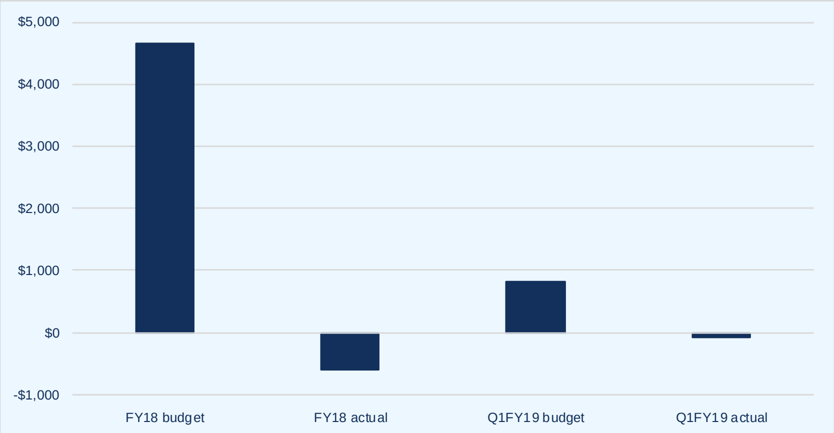
- Recent joint venture initiatives with Saxo Capital (launched in April 2018) and partnership with SQM
- Acquiring new external clients through marketing initiatives and potential to expand broker footprint,
- Potential launch of a retail version of the JB Hi-Alpha fund, which if executed as envisaged, could result in a significant inflow of FUM to the wholesale JB Hi-Alpha fund

Despite the above factors there is material uncertainty as to whether JBTH will be able achieve some or all of its strategic goals due to the significant reliance on internal funds and uncertainty over whether incremental trading volumes will be able to be generated through new client acquisitions and the likelihood of JBL being able to launch any new funds in the near-term.

When considering an appropriate level of future maintainable earnings for JBTH we have considered the recent results and available budgets for the underlying businesses as follows:

- Historical performance of JB Markets, the primary contributor to JBTH performance. The performance of JB Markets is largely dependent on the volume of trading conducted by BHD and HML. External revenue sources are relatively insignificant and are dependent on acquisition of new clients or brokers. JB Markets has limited track record to date of acquiring significant new clients. Of the 15 months JB Markets from July 2017, JB markets has recorded a profit in seven months. Over the total period NPAT was approximately breakeven.
- Available budgets for the business as well as historical accuracy of management forecasts. A summary of our analysis is set out in the figure below:

Figure 10: JBTH NPAT ($'000)



Source: HML and Leadenhall analysis

Notes:

1. *The figures above include JB Markets and Genesis unless otherwise noted.*
2. *The budget provided does not include NPAT. We have estimated NPAT based on a 30% tax rate.*
3. *FY18 actual performance excludes $0.9 million in other income recognised by JB Markets that relate to the forgiveness of a debt owed by JB Markets to JBFG.*

In relation to the budget financial performance of JBTH above we note the following:

- JBTH reported an after tax loss in FY18 which was significantly below budget. The variance was primarily attributable to JB Markets lack of traction in attracting new external clients as well as a lack of volatility in global interest rate markets which limited the success of Genesis's core trading strategy. These factors that have persisted in the first quarter of FY19.
- There is significant growth forecast in the second half of FY19 which is primarily attributable to JB Markets growth strategies discussed above. We note that a number of these growth strategies have been on foot for some time and are yet to be executed in line with forecast expectations.

- Genesis is a mature business with a proven trading strategy in respect of global interest rate derivatives (NPAT of $0.7 million in FY16 and $0.1 million in FY17). However, the strategy is dependent on volatility in global interest rate markets which have been relatively static in recent years due to limited interest rate changes by global central banks which has resulted in Genesis recording a loss in FY18 and YTD FY19. However, more recently the US and other central banks have begun to focus more on monetary policies and therefore there have been some indications that volatility is returning to the market with Genesis operating profitably in September and October 2018 (total profit before tax of $0.3 million for the two months). If this trend persists, this may indicate that increased volatility appears to be returning in the market which will positively impact trading conditions for Genesis.
- JBTH has recently entered into partnerships with Saxo and SQM. Whilst management believe there is significant upside from these partnerships, nothing has been realised to date and the launch of the SQM platform is slightly behind schedule.
- JBTH has a significant customer concentration risk with the majority of income currently generated from brokerage services provided to clients of JBL, primarily HML and BHD. Whilst there is currently no exclusive agreement in place to provide these services, HML and BHD are indirectly aligned through their investments and loans in respect of JBFG. Provided HML and BHD continue to trade their stated global macro strategy through derivatives there is no reason to believe that the volumes from JBL clients would decline/cease in the future unless there was a change in management/ownership structure of JBL.
- We have been provided with the board approved budget for FY19 which anticipates substantial growth in the business over this period. However, we consider there are significant risks to achieving the anticipated, growth in particular:
  - The FY19 forecast assumes a sustained level of trading volumes at or above record levels for the business. Whilst the business has a short trading period, there is a risk that performance will not consistently achieve these levels, particularly as a similar growth profile was projected for FY18 but FY18 performance was behind budget by a significant amount.
  - The forecast growth is reliant on the launch of new LIC's which JBTH has no control over which we consider a third party would place limited value to in the current environment whereby JBL-managed vehicles have been in a persistent trading suspension.
  - The inherent uncertainty in markets and trading volumes.
  - There is significant growth in revenue projected from third parties and from products other than futures broking, which to date have contributed very little to earnings. There is a risk that new client and product growth will not accelerate at the rate forecast.

Based on the above factors, determining a level of maintainable earnings is subjective as there is a range of assumptions which could reasonably be made. In determining an appropriate level of maintainable earnings for JBTH we have therefore prepared an analysis based on a range of potential scenarios as follows:

- NPAT generated by Genesis has ranged between $nil and $0.7 million in recent periods. Recent earnings trends and global central bank behaviour would suggest a favourable trading environment for Genesis in the near-term.
- We have prepared an analysis of potential near-term earnings scenarios for JB Markets (including JB Alpha) based on the following assumptions based on YTD FY19 trading and the FY19 budget:
  - **September 2018 quarter run rate:** full year trading at Q1FY19 run rate results in FY19 NPAT of $0.2 million (excluding Genesis). It should be noted that no revenue from new strategic initiatives was earned during the period so this estimate provide no allowance for the potential success of these initiatives.
  - **September 2018 run rate:** September 2018 was the third best trading month for JB Markets since inception and was driven by increased trading by HML and BHD. If JB Markets were able to sustain this level of performance over a full year this would result in NPAT of $1.6 million (excluding Genesis). It should be noted that no revenue from new strategic initiatives was earned in this period so this estimate provide no allowance for the potential success of these initiatives.
  - **Low growth**: BHD and HML volumes based on interquartile mean (the average excluding the top and bottom 25% of values) of last 12 months and 25% assumed success rate of strategic initiatives. This scenario results in NPAT of $0.9 million (excluding Genesis).

- **High growth**: 25% increase on internal brokerage from the low scenario (based on more recent run rates) and 50% assumed success rate of strategic initiatives. This scenario results in NPAT of $1.9 million (excluding Genesis).

After considering the above analysis we have selected the following maintainable earnings for JBTH in total.

Table 58: Selected maintainable earnings

$m	NPAT Low	NPAT High
Selected maintainable earnings	1.5	2.0

Source: Leadenhall analysis

In selecting our maintainable earnings for JBTH we have considered the recent run-rates for the business and the growth anticipated from new initiatives (including SQM platform, new LIC's and launch of JB Hi-Alpha to new clients) the potential to grow third party clients. We note that our assessed earnings is significantly below the management approved FY19 budget for JBTH. However, given there is a poor track record of achieving budget results, we do not consider this to be unreasonable.

Earnings multiple

In respect of public company trading multiples, we note that there are limited Australian companies which operate in the same segments as JBTH listed on the ASX. However, as the business operates in global markets we have also considered international companies with similar businesses.

The following table sets out the historical and forecast trading PE multiples for the selected comparable companies.

Table 59: Trading multiples of comparable companies

Company	Location	Market cap (AU$'m)	NPAT Growth Current	NPAT Growth Forecast	NPAT Margin Current	NPAT Margin Forecast	PE Multiple Current	PE Multiple Forecast
CME Group Inc.	United States	93,460.5	-44%	12%	54%	49%	30.1x	27.0x
E*TRADE	United States	17,742.9	62%	3%	35%	34%	12.9x	12.5x
Interactive Brokers	United States	5,339.8	108%	28%	8%	10%	24.6x	19.3x
Swissquote Group	Switzerland	1,062.7	26%	16%	22%	22%	15.6x	13.5x
Moelis Australia	Australia	717.3	30%	5%	30%	30%	18.7x	17.8x
CMC Markets	United Kingdom	601.1	-42%	31%	18%	21%	11.9x	9.1x
BinckBank	Netherlands	445.5	252%	-16%	22%	18%	9.0x	10.7x
GAIN Capital Holdengs	United States	443.2	-424%	-34%	10%	7%	8.9x	13.5x
High							**30.1x**	**27.0x**
Low							**8.9x**	**9.1x**
Average							**16.5x**	**15.4x**
Median							**14.3x**	**13.5x**
Interquartile mean							**14.8x**	**14.3x**

Source: S&P Capital IQ and Leadenhall analysis as at 21 November 2018

Note: In the table above, current refers to the current financial year for which actual results are not yet available (generally FY19) and forecast relates to the next financial year (generally FY20). The comparable companies have a mix of financial year end dates.

It should be noted that the above multiples are based on trading of minority shareholders.

We have considered the following factors in relation to the comparable company trading multiples in determining an appropriate earnings multiple to apply to the valuation of JBTH:

- Based on forecast revenue and profitability, JBTH would be considerably smaller than all of the comparable companies. All other things being equal, smaller companies trade on lower multiples.

- JB Markets, the key driver of JBTH growth, is still in the start-up phase of its lifecycle with significant earnings growth forecast in the short to medium term. Some of this potential growth has been allowed for in the maintainable earnings. However, there is potential for significant additional growth, from additional funds expected to be launched by JBL, the partnerships with Saxo and CQG and the potential to generate meaningful brokerage from new third-party clients which has not been fully reflected in our assessed maintainable earnings.
- Moelis Australia, has had a dramatic increase in share price since listing on the ASX in April 2017. Upon listing Moelis had a market cap of $293.8 million on a 10.3x forecast EBIT multiple. Since then, actual FY17 performance exceeded forecasts in the prospectus by 46% at a revenue level, 77% at an EBITDA level and 73% at an EBIT level. In terms of operations, Moelis has more diversified product offering than JB Markets and only derived 13.6% of income from equities broking and research in FY17. Moelis is currently trading at a multiple towards the higher end of the comparable companies. The market seems to be factoring in continued impressive growth based of recent performance. Given, the size of Moelis, its track record of achieving growth, diversified product offering and client base we consider that a reasonable multiple for JBTH would be considerably lower than Moelis.
- The interquartile mean of the current year forecast PE multiples is 14.8x.

In addition to our analysis of trading multiples, we have also searched for relevant transaction multiples, from Australia and overseas. We have identified a number of comparable transactions, as set out in the table below.

Table 60: JBTH comparable transactions

Target	Acquirer	Date	Target Country	Equ. Value (AU$'m)	PE multiple historical	PE multiple forecast
KCG Holdings	Virtu Financial Inc	Jul-17	US	1,852.9	6.3x	n/a
Newedge Group	Societe Generale	May-14	France	779.1	39.3x	n/a
Saxo Bank A/S	TPG Capital	Dec-11	Denmark	1,787.1	22.1x	n/a
optionsXpress Holdings	Charles Schwab Corporation	Sep-11	US	1,023.1	19.8x	n/a
TradeStation Group Inc.	Monex Group Inc	Jun-11	US	366.8	40.1x	n/a
Average					**25.5x**	
Median					**22.1x**	

Source: S&P CapitalIQ and Leadenhall analysis

In relation to the comparable transactions we note the following:

- Some of the transactions occurred a number of years ago and as such have limited relevance.
- There is limited publicly available information and as such forecast PE multiples implied by the transactions cannot be determined which limits the usefulness of the information.
- The comparable transactions show a large range of historical PE multiples with an average of 25.4x.
- It is likely that the comparable transactions include a premium for control. As such an equivalent minority multiple would be less than the control multiples shown in the table above.
- All of the target companies are much larger than JBTH. All other things being equal larger companies trade on higher multiples.

Our key considerations in selecting appropriate earnings multiples to apply to our valuation of JBTH are summarised below:

- We have placed little reliance on the comparable transactions due to the significant period of time since the transactions took place, the discrepancy in size between JBTH and the target companies and that these multiples are all based on historical earnings which provide limited comparison for JBTH.
- JBFG acquired Genesis for $11.2 million in September 2017. As part of the acquisition process, on 26 June 2017, HML announced Genesis' expected FY17 EBIT was $1.2 million. In a subsequent announcement on 15 August this expectation was revised to expected FY17 EBITDA of approximately $0.7 million, with FY18 EBITDA forecast to be $1.7 million. Based on these expectations, the historical EBITDA transaction multiple was 16.0x and the forecast EBITDA multiple was 6.6x. Assuming limited depreciation and a tax rate of 30% this would translate to a forecast PE multiple of approximately 9.4x.

- Whilst most of the comparable companies do not have the same potential for growth as JBTH, they are larger (all other things being equal larger companies trade on higher multiples), more diversified with less customer concentration risk and have a proven track record of success. Whilst JBTH has the potential for significant growth it is yet to consistently operate on a profitable basis and deliver on the growth expectations. Based on these factors we consider it reasonable to select a forecast multiple towards the lower end of the comparable companies and below the average multiple.

Based on the above, we have selected the following earnings multiples to apply to our valuation of JBTH (on a minority basis).

Table 61: Selected earnings multiples

	PE Multiple	
	Low	High
Selected multiple	11.0x	12.0x

Source: Leadenhall analysis

Value conclusion

Based on our above analysis our assessed value of JBTH is as follows:

Table 62: Summary of JBTH CFME analysis

	Low	Hgh
Selected maintainable earnings	1.5	2.0
Selected earnings multiple (minority)	11.0x	12.0x
Enterprise value (minority basis)	**16.5**	**24.0**

Source: Leadenhall analysis

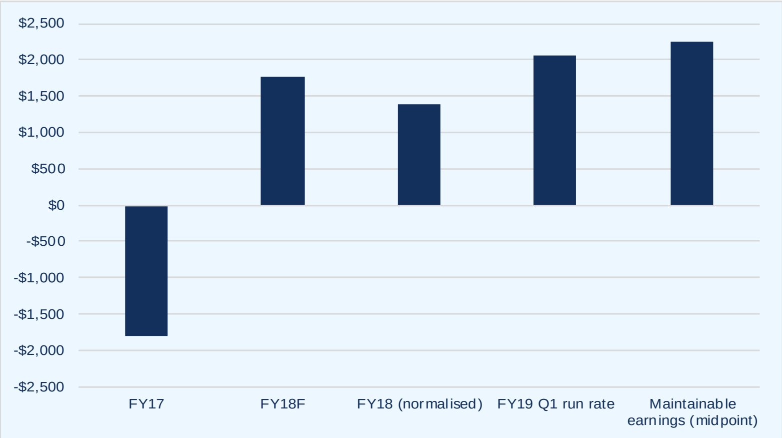
APPENDIX 6: VALUATION OF R&S

Maintainable earnings

When considering an appropriate level of future maintainable earnings for R&S we have considered the following factors:

- Historical and forecast performance. R&S was formed by the amalgamation of a number of existing and mature businesses. Some short-term growth has been allowed for in the earnings to reflect a return to profitability after a downturn primarily attributable to the integration and rebranding process. This return to profitability is reflected in the relatively strong performance realised in the first quarter of FY19. A summary of our analysis of historical and forecast performance is set out in the figure below.

  Figure 11: R&S EBIT ($'000)

  Source: HML and Leadenhall analysis

- We have been provided with the board approved budget for FY19 which anticipates significant growth in the business over this period. However, we consider there are significant risks to achieving the anticipated growth in particular:
  - Year to date revenue is significantly behind budget, although considerable cost savings, after allowing for one off costs, have resulted in YTD EBIT in line with budget expectation.
  - The component businesses of R&S are relatively mature businesses with most of them having been in operation for over ten years prior to being acquired by JBFG. Mature businesses tend to have relatively stable growth profiles unless there is a significant change in the business (i.e. new product launch or technological advancement). The FY19 budget forecasts organic growth in revenue of between 2.24% and 11.7% across their service offerings which includes growth from existing clients and new opportunities. Whilst there is an opportunity for consolidation within some subsectors for R&S as well as potential for cross-selling across service lines, we consider these growth rates to be high for a mature business.
- We have reviewed the FY19 forecast and conducted a high level analysis based on more modest growth in line with Q1 FY19 actual growth rates. This still allows for significant growth from FY18, primarily attributable increased focus on business development activities now that the integration activities are substantially complete.

After considering the historical earnings, forecast earnings and margins of comparable companies, we have selected the following maintainable earnings.

Table 63: Selected maintainable earnings

$m	EBIT	
	Low	High
Selected maintainable earnings	2.0	2.5

Source: Leadenhall analysis

Earnings multiple

In respect of public company trading multiples, we note that there are limited companies which operate in the same segments as R&S listed on the ASX. However, as the business operates in global markets we have also considered international companies with similar businesses.

The following table sets out the historical and forecast trading EBIT multiples for the selected comparable companies.

Table 64: Trading multiples of comparable companies

Company	Location	EV	EBIT Growth		EBIT Margin		EBIT Multiple	
		(AU$'m)	Current	Forecast	Current	Forecast	Current	Forecast
Automatic Data Processing	United States	86,053.3	20%	12%	22%	23%	20.4x	18.2x
Alliance Data Systems	United States	43,586.0	40%	12%	24%	25%	16.7x	14.9x
Intrum	Sweden	9,821.9	52%	45%	31%	39%	15.5x	10.7x
Dun & Bradstreet	United States	8,811.4	9%	8%	26%	27%	14.2x	13.2x
Coface	France	5,848.7	31%	-4%	14%	13%	19.4x	20.2x
B2Holding	Norway	2,194.5	n/a	16%	46%	45%	9.7x	8.4x
Credit Corp	Australia	1,122.8	n/a	13%	34%	35%	10.3x	9.1x
Atento	Luxembourg	1,043.2	7%	13%	6%	6%	7.2x	6.4x
Axactor	Norway	761.7	372%	182%	18%	34%	21.7x	7.7x
Collection House	Australia	256.4	-9%	9%	28%	29%	6.3x	5.8x
Low							**6.3x**	**5.8x**
High							**21.7x**	**20.2x**
Average							**14.1x**	**11.5x**
Median							**14.9x**	**9.9x**
Interquartile mean							**14.3x**	**10.7x**

Source: S&P Capital IQ and Leadenhall analysis as at 21 November 2018

Note: In the table above, current refers to the current financial year for which actual results are not yet available (generally FY19) and forecast relates to the next financial year (generally FY20). The comparable companies have a mix of financial year end dates.

It should be noted that these multiples are based on trading of minority shareholders.

We have considered the following factors in relation to the comparable company trading multiples in determining an appropriate earnings multiple to apply to the valuation of R&S:

- Based on forecast revenue and margins, R&S is significantly smaller than all of the comparable companies. All other things being equal, smaller companies trade on lower multiples. The most comparable company in terms of size is Collection House.
- Historical and forecast performance. R&S was formed by the amalgamation of a number of existing and mature businesses. Some short-term growth has been allowed for in the earnings to reflect a return to profitability after a downturn primarily attributable to the integration and rebranding process. The comparable companies have a range of forecast EBIT growth and we consider that R&S would sit at the mid to lower end of the comparable companies once operating at an optimised level.
- Most of the comparable companies operate primarily in the debt collection and purchasing market. The most comparable company in terms of both size and operations is Collection House. Earning for the current year are projected to decline compared to the previous year. This is likely negatively impacting current and forecast trading multiples. On the other hand, Collection House has significantly higher forecast EBIT margins than R&S (around 15% higher). Collection House offers a number of similar services to R&S including debt collection and asset location recovery and sale. In addition, Collection House also provides debt purchasing services, receivables management, repayment arrangement management, credit management training, finance brokerage and business process outsourcing.
- The most comparable companies to R&S in terms of EBIT margin are Atento and Coface. The other comparable companies operate on significantly higher EBIT margins. All other things being equal, companies with higher margins trade on higher multiples.
- The average current EBIT multiple for the comparable companies is 14.1x and the median is 14.9x. The interquartile mean (the average excluding the top and bottom 25% of values) is 14.3x.

In addition to our analysis of trading multiples, we have also reviewed relevant transaction multiples, from Australia and overseas. The table below shows the historical and forecast (where available) EBITDA and EBIT multiples from relevant transactions with publicly available data.

Table 65: Transaction multiples

Target	Acquirer	Date	Target Country	Ent. Value (AU$'m)	Historical multiple EBITDA	Historical multiple EBIT	Forecast multiple EBITDA	Forecast multiple EBIT
Lindorff Group	Intrum Justitia	Jun-17	Norway	5,857.7	16.5x	27.1x	n/a	n/a
Transcom Worldwide	Altor Equity Partners	Mar-17	Sweden	375.0	9.4x	12.7x	7.3x	9.8x
ALTOR GmbH	Axactor	Sep-16	Germany	50.0	n/a	12.0x	n/a	n/a
Ikas Norge	Axactor	Mar-16	Norway	45.5	n/a	11.3x	n/a	n/a
Illion	Archer Capital	Jun-15	Australia	220.0	n/a	16.8x	n/a	n/a
Average					**13.0x**	**17.2x**	**7.3x**	**9.8x**
Median					**13.0x**	**14.8x**	**7.3x**	**9.8x**

Source: S&P CapitalIQ, HML and Leadenhall analysis
Notes:
1. Illion was formerly know as Dun & Bradstreet Australia

The observed multiples from comparable transactions are control multiples and include any premium paid for control.

We have considered the following factors in relation to the above transaction multiples in determining an appropriate earnings multiple to apply to the valuation of R&S:

- Transaction multiples incorporate varying degrees of control premium and possibly an element of special value to the extent this was paid for by the acquirers.
- The most comparable transactions in terms of size are the acquisition of ALTOR GmbH and Ikas Norge. In relation to these transactions we note:
  - If a control premium of 20% was applied to the transaction enterprise value the resulting historical EBIT multiples would have been 9.6x for ALTOR GmbH and 9.0x for Ikas Norge.
  - The historical EBIT margin for Ikas Norge was 28% which is significantly higher than R&S (there was insufficient information to determine the historical EBIT margin for ALTOR GmbH).
  - Based on revenue, both of these companies are larger than R&S.

In selecting appropriate earnings multiples to apply to our valuation of R&S we have placed the most weight on the market trading multiple, in particular the Collection House multiples primarily due to size and comparability of operations.

Based on the consideration discussed above, we have selected the following earnings multiples to apply to our valuation of R&S.

Table 66: Selected earnings multiples

	EBIT Multiple Low	EBIT Multiple High
Selected multiple	6.5x	7.5x

Source: Leadenhall analysis

Value conclusion

Based on our above analysis our assessed value of R&S is as follows:

Table 67: Summary of R&S CFME analysis

	Low	Hgh
Selected maintainable earnings	2.0	2.5
Selected earnings multiple (minority)	6.5x	7.5x
Enterprise value (minority basis)	**13.0**	**18.8**

Source: Leadenhall analysis

APPENDIX 7: SURPLUS ASSETS AND NET DEBT OF JBFG

Introduction

In order to assess the value of JBFG, it is necessary to identify any other assets and liabilities not included in the enterprise value calculated. These can be:

- **Surplus assets**: assets held by the company that are not utilised in its business operation. This could be investments, unused plant and equipment held for resale, or any other assets that is not required to run the operating business. It is necessary to ensure that any income from surplus assets (i.e. rent / dividends) is excluded from the business value.
- **Non-operating liabilities**: liabilities of a company not directly related to its current business operations, although they may relate to previous business activities, for example claims against the entity.
- **Net debt**: comprising of debt used to fund a business, less surplus cash held by the company.

We have considered these factors on a consolidated basis for JBFG as set out below.

Surplus assets

We have identified the following surplus assets of JBFG as follows:

- **Growth Point Capital**: JBFG acquired Growth Point Capital in November 2017 for $1 million. Since acquisition, Growth Point Capital has made a loss despite forecasting modest profits. There have been no other significant changes in operations since acquisition other than the establishment of a back-office function in Manilla. Growth Point Capital currently generates monthly trailing commission of between $33,000 and $35,000. Based on the initial purchase price and general rules of thumb regarding pricing of loan books with trail commission of between 1.5x and 2.0x annual trailing commission, we have assessed the fair market value of Growth Point Capital to be $0.5 million to $1.0 million.
- **Capital Credit**: In 2017, Capital Credit Pty Ltd, as subsidiary of JBFG, acquired a debt ledger at a total cost of $2.8 million. The current carrying value of the purchased debt ledgers is $0.6 million and this amount has been recognised as a surplus asset.
- **Term deposit:** JBFG has a term deposit with a balance of $0.5 million as at 30 September 2018.

Non-operating liabilities

We note that there are some corporate costs within JBFG which have not been allocated to individual business units above. Based on our discussions with JBFG management, these largely pertain to senior management salaries which are largely dedicated to evaluating growth options and other strategic initiatives for JBFG. As we have not included any benefits associated with any such initiatives in our earnings analysis of the underlying businesses above, we have similarly not included the associated costs.

Net cash

The cash position of JBFG as at 30 September 2018 is primarily comprised of:

- **Cash & cash equivalents:** of $9.4 million (excluding foreign currency held as inventory and client segregated fund).
- **Loans:** relates to funds loaned to the consoldiated JBFG Group to JBL, BRL, HML and BHD. This excludes the convertible loan extended by BHD to JBFG.
- **BHD Convertible loan:** convertible loan with a current carrying value of $2.4 million extended to JBFG by BHD in Agust 2017.
- **Regulated capital requirements:** of $0.4 million in respect of regulated funds required to be held by JB Markets.

Our assessed value of JBFG assumes that the currency note funding to Crown Currency currently provided by BHD and, to a lesser extent, HML continues on the existing terms. To the extent Enlarged JBL were to include 100% of JBFG, BHD and HML, the consolidated group would likely need to retain these amounts to fund the businesses. This could reduce the value of the consolidated group. However, our conclusions are not sensitive to alternate assumptions in this respect.

APPENDIX 8: COMPARABLE COMPANIES

The following company descriptions by category of business are extracted from descriptions provided by S&P Capital IQ.

Company	Description
Currency Exchange International, Corp.	Currency Exchange International, Corp. provides currency exchange and related products in the United States and Canada.
FairFX Group Plc	FAIRFX Group PLC provides foreign exchange payment services to private clients and corporations in the United Kingdom.
OFX Group Limited	OFX Group Limited provides online international payments and foreign exchange services for consumer and business clients in Australia, New Zealand, Europe, North America, and Asia.
The Western Union Company	The Western Union Company provides money movement and payment services worldwide.
Corporate Travel Management Limited	Corporate Travel Management Limited, a travel management solutions company, manages the purchase and delivery of travel services for the corporate market worldwide.
Flight Centre Travel Group Limited	Flight Centre Travel Group Limited provides travel retailing services primarily under the Flight Centre brand in leisure, corporate, and wholesale travel sectors worldwide.
Helloworld Travel Limited	Helloworld Travel Limited operates as a travel distribution company in Australia, New Zealand, and internationally.
Mantra Group Limited	Mantra Group Limited provides accommodation services.
SeaLink Travel Group Limited	SeaLink Travel Group Limited operates as a tourism and transport company in Australia.
Webjet Limited	Webjet Limited provides online travel booking services in Australia, New Zealand, and internationally.
ABG Sundal Collier Holding ASA	ABG Sundal Collier Holding ASA, together with its subsidiaries, provides investment banking, stock broking, and corporate advisory services in Norway, Sweden, Denmark, and internationally.
Bell Financial Group Limited	Bell Financial Group Limited provides stock broking, investment, and financial advisory services to private, institutional, and corporate clients.
BinckBank N.V.	BinckBank N.V., together with its subsidiaries, provides online brokerage services in financial instruments for private and professional investors.
CMC Markets Plc	CMC Markets plc, together with its subsidiaries, provides online and mobile trading services for retail and institutional clients in the United Kingdom and internationally.
CME Group Inc.	CME Group Inc., through its subsidiaries, operates contract markets for the trading of futures and options on futures contracts worldwide.
Compagnie Financière Tradition SA	Compagnie Financière Tradition SA operates as an interdealer broker of financial and non-financial products worldwide.
E*TRADE Financial Corporation	E*TRADE Financial Corporation, a financial services company, provides brokerage and related products and services primarily to individual retail investors under the E*TRADE Financial brand.

Company	Description
GAIN Capital Holdings, Inc.	GAIN Capital Holdings, Inc., together with its subsidiary, provides trading services and solutions to retail, institutional, and futures service customers worldwide.
Interactive Brokers Group, Inc.	Interactive Brokers Group, Inc. operates as an automated electronic broker in approximately 120 electronic exchanges and market centres worldwide.
Lang & Schwarz Aktiengesellschaft	Lang & Schwarz Aktiengesellschaft, through its subsidiaries, provides financial services in Germany.
Moelis Australia Limited	Moelis Australia Limited, together with its subsidiaries, provides various financial services.
Oppenheimer Holdings Inc.	Oppenheimer Holdings Inc., through its subsidiaries, provides middle-market investment bank and full service broker-dealer products and services.
Swissquote Group Holding Ltd	Swissquote Group Holding Ltd, through its subsidiaries, provides online financial and foreign exchange trading services in Switzerland, Europe, North America, the Middle East, Asia, and internationally.
Alliance Data Systems Corporation	Alliance Data Systems Corporation provides data-driven marketing and loyalty solutions worldwide.
Atento S.A.	Atento S.A., together with its subsidiaries, provides customer relationship management and business process outsourcing services and solutions in Brazil, the Americas, Europe, the Middle East, and Africa.
Automatic Data Processing, Inc.	Automatic Data Processing, Inc. provides business process outsourcing services worldwide.
Axactor AB (publ)	Axactor AB (publ), through its subsidiaries, operates as a debt management company in Sweden, Spain, Norway, Italy, and Germany.
B2Holding ASA	B2Holding ASA engages in the acquisition, management, and collection of unsecured and secured non-performing loans.
Coface SA	COFACE SA, through its subsidiaries, provides credit insurance products and related services for small and medium enterprises, mid-market companies, multi-nationals, financial institutions, and clients of distributer partners.
Collection House Limited	Collection House Limited provides debt collection and receivables management services in Australia and New Zealand.
Credit Corp Group Limited	Credit Corp Group Limited provides debt purchase and collection, and consumer lending services.
Intrum AB (publ)	Intrum AB (publ), together with its subsidiaries, provides credit management and financial services in Europe and internationally.
MaxWorldwide, Inc.	MaxWorldwide, Inc. provides Internet-based marketing solutions for advertisers and Web publishers in the United States.
The Dun & Bradstreet Corporation	The Dun & Bradstreet Corporation provides commercial data, analytics, and insight on businesses.

APPENDIX 9: CONTROL PREMIUM

Background

The difference between the control value and the liquid minority value of a security is the control premium. The inverse of a control premium is a minority discount (also known as a discount for lack of control). A control premium is said to exist because the holder of a controlling stake has several rights that a minority holder does not enjoy (subject to shareholders agreements and other legal constraints), including the ability to:

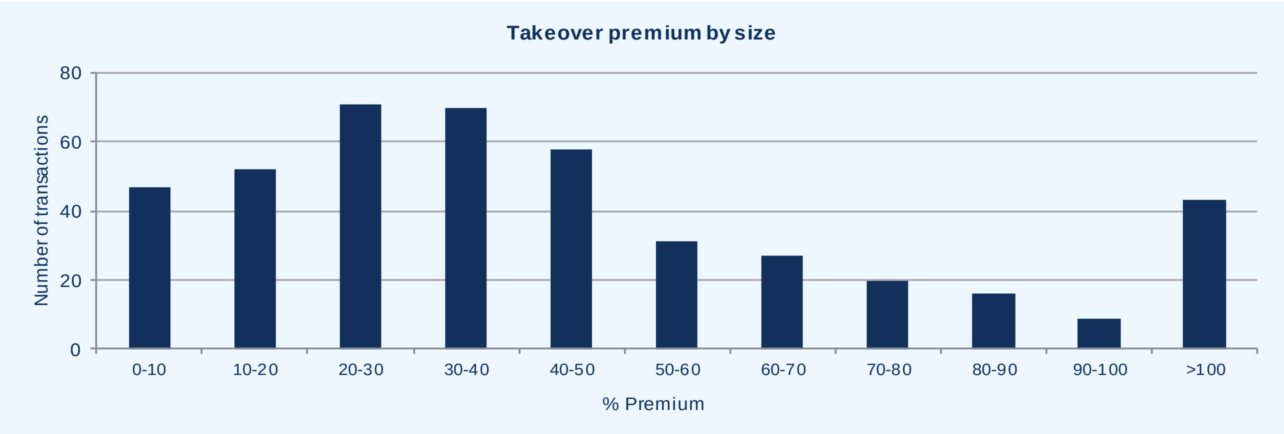
- Appoint or change operational management
- Appoint or change members of the board
- Determine management compensation
- Determine owner's remuneration, including remuneration to related party employees
- Determine the size and timing of dividends
- Control the dissemination of information about the company
- Set strategic focus of the organisation, including acquisitions, divestments and any restructuring
- Set the financial structure of the company (debt / equity mix)
- Block any or all of the above actions

The most common approach to quantifying a control premium is to analyse the size of premiums implied from prices paid in corporate takeovers which may include synergistic benefits as well as control. Another method is the comparison between prices of voting and non-voting shares in the same company. We note that the size of the control premium should generally be an outcome of a valuation and not an input into one, as there is significant judgement involved.

Takeover Premiums

Dispersion of premiums

The following chart shows the spread of premiums paid in takeovers between 2007 and 2017. We note that these takeover premiums may not be purely control premiums, for example the very high premiums are likely to include synergy benefits, while the very low premiums may be influenced by share prices rising in anticipation of a bid.

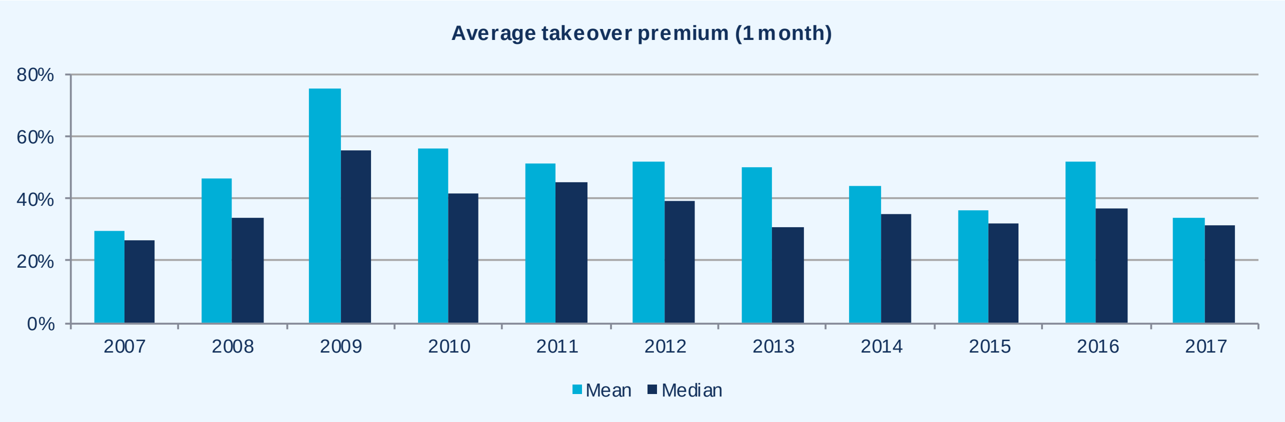


Sources: Capital IQ, Leadenhall analysis

This chart highlights the dispersion of premiums paid in takeovers. The chart shows a long tail of high premium transactions, although the most common recorded premiums are in the range of 20% to 40%, with approximately 65% of all premiums falling in the range of 0% to 50%.

Premiums over time

The following chart shows the average premium paid in completed takeovers compared to the price one month before the initial announcement.

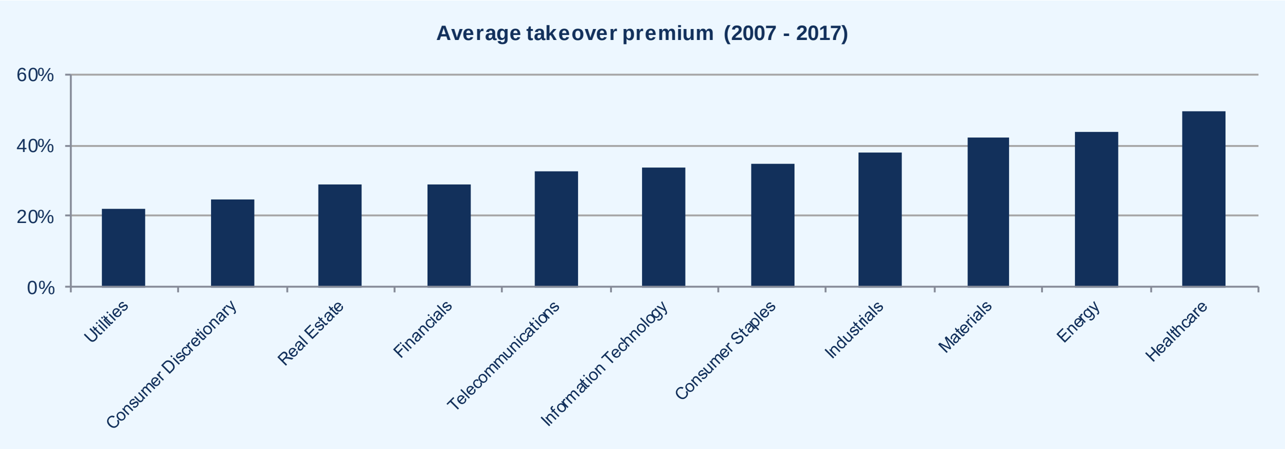


Sources: Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude transactions with implied control premiums below zero and transactions which we consider to be outliers.

The chart indicates that while premiums vary over time, there is no clearly discernible pattern. The mean is higher than the median due to a small number of high premiums.

Premiums by industry

The following chart shows the average takeover premium by industry, compared to the share price one month before the takeover was announced. Most industries show an average premium of 20% to 40%.



Sources: Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude specific transactions with implied control premiums below zero or over 100% which we consider to be outliers.

Key factors that generally lead to higher premiums being observed include:

- Competitive tension arising from more than one party presenting a takeover offer.
- Favourable trading conditions in certain industries (e.g. recent mining and tech booms).
- Significant synergistic, special or strategic value.
- Scrip offers where the price of the acquiring entity's shares increases between announcement and completion.

Industry Practice

In Australia, industry practice is to apply a control premium in the range of 20% to 40%, as shown in the following list quoting ranges noted in various independent experts' reports.

- Deloitte - 20% to 40%
- Ernst & Young - 20% to 40%
- Grant Samuel - 20% to 35%
- KPMG - 25% to 35%
- Lonergan Edwards - 30% to 35%
- PwC - 20% to 40%

The range of control premiums shown above is consistent with most academic and professional literature on the topic.

Alternative View

Whilst common practice is to accept the existence of a control premium in the order of 20% to 40%, certain industry practitioners (particularly in the US) disagree with the validity of this conclusion. Those with an alternate view point to the fact that very few listed companies are acquired each year as evidence that 100% of a company is not necessarily worth more than the proportionate value of a small interest. Those practitioners agree that the reason we see some takeovers at a premium is that if a company is not well run, there is a control premium related to the difference in value between a hypothetical well-run company and the company being run as it is.

Impact of Methodologies Used

The requirement for an explicit valuation adjustment for a control premium depends on the valuation methodology and approach adopted and the level of value to be examined. It may be necessary to apply a control premium to the value of a liquid minority value to determine the control value. Alternatively, in order to estimate the value of a minority interest, it may be necessary to apply a minority discount to a proportional interest in the control value of the company.

Discounted cash flow

The discounted cash flow methodology generally assumes control of the cash flows generated by the assets being valued. Accordingly, such valuations reflect a premium for control. Where a minority value is sought a minority discount must therefore be applied. The most common exception to this is where a discounted dividend model has been used to directly determine the value of an illiquid minority holding.

Capitalisation of earnings

Depending on the type of multiple selected, the capitalisation of earnings methodology can reflect a control value (transaction multiples) or a liquid minority value (listed company trading multiples).

Asset based methodologies

Asset based methodologies implicitly assume control of the assets being valued. Accordingly, such valuations reflect a control value.

Intermediate Levels of Ownership

There are a number of intermediate levels of ownership between a portfolio interest and 100% ownership. Different levels of ownership will confer different degrees of control and rights as shown below.

- 90% - can compulsory purchase remaining shares if certain conditions are satisfied
- 75% - power to pass special resolutions
- > 50% - gives control depending on the structure of other interests (but not absolute control)
- > 25% - ability to block a special resolution
- > 20% - power to elect directors, generally gives significant influence, depending on other shareholding blocks
- < 20% - generally has only limited influence

Conceptually, the value of each of these interests lies somewhere between the portfolio value (liquid minority value) and the value of a 100% interest (control value). Each of these levels confers different degrees of control and therefore different levels of control premium or minority discount.

50%

For all practical purposes, a 50% voting interest would generally confer a similar level of control to holdings of greater than 50%, at least where the balance of the shares are listed and widely held. Where there are other significant holders, such as in a 50/50 joint venture, 50% interests involve different considerations depending upon the particular circumstances.

Strategic parcels do not always attract a control premium. In fact, if there is no bidder, the owner may be forced to sell the shares through the share market, usually at a discount to the prevailing market price. This reflects the fact that the sale of a parcel of shares significantly larger than the average number of shares traded on an average day in a particular stock generally causes a stock overhang, therefore there is more stock available for sale than there are buyers for the stock and in order to clear the level of stock available, the share price is usually reduced by what is referred to as a blockage discount.

20% to 50%

Holdings of less than 50% but more than 20% can confer a significant degree of influence on the owner. If the balance of shareholders is widely spread, a holding of less than 50% can still convey effective control of the business. However, it may not provide direct ownership of assets or access to cash flow. This level of holding has a strategic value because it may allow the holder significant influence over the company's management, possibly additional access to information and a board seat.

<20%

Holdings of less than 20% are rarely considered strategic and would normally be valued in the same way as a portfolio interest given the stake would not be able to pass any ordinary or special resolution on their own if they were against the interests of the other shareholders. Depending on the circumstances, a blockage discount may also apply.

As explained above, the amount of control premium or minority discount that would apply in specific circumstances is highly subjective. In relation to the appropriate level of control premium, Aswath Damodaran, a noted corporate finance and valuation professor, notes "*the value of controlling a firm has to lie in being able to run it differently (and better)*". A controlling shareholder will be able to implement their desired changes. However, it is not certain that a non-controlling shareholder would be able to implement changes they desired. Thus, following the logic of Damodaran and the fact that the strategic value of the holding typically diminishes as the level of holding decreases, the appropriate control premium for a non-controlling shareholder should be lower than that control premium for a controlling stake.

Key Factors in Determining a Reasonable Control Premium

Key factors to consider in determining a reasonable control premium include:

- **Size of holding** – Generally, larger stakes attract a higher control premium
- **Other holdings** – The dispersion of other shareholders is highly relevant to the ability for a major shareholder to exert control. The wider dispersed other holdings are, the higher the control premium
- **Industry premiums** – Evidence of premiums recently paid in a given industry can indicate the level of premium that may be appropriate
- **Size of business** – medium sized businesses in a consolidating industry are likely to be acquired at a larger premium than other businesses
- **Dividends** – a high dividend pay-out generally leads to a low premium for control
- **Gearing** – a company that is not optimally geared may attract a higher premium than otherwise, as the incoming shareholder has the opportunity to adjust the financing structure
- **Board composition** – the ability to appoint directors would increase the control premium attaching to a given parcel of shares. The existence of independent directors would tend to decrease the level of premium as this may serve to reduce any oppression of minority interests and therefore support the level of the illiquid minority value
- **Shareholders' agreement** - the existence and contents of a shareholders agreement, with any protection such as tag along and drag along rights offered to minority shareholders lowers the appropriate control premium

APPENDIX 10: MARKETABILITY DISCOUNT

Introduction

Non-controlling interests in unlisted companies generally sell at a discount to the price of comparable listed securities. This difference is known as the discount for lack of marketability ("DLOM") or liquidity discount. It arises because investors place a significant value on liquidity – the ability to sell an investment quickly at a reasonable price. DLOMs generally fall in the range between 10% and 40%. However, there are circumstances where the appropriate discount could be significantly in excess of 40%.

Evidence for DLOM

Restricted stock studies

Many US companies with publicly traded stocks also issue shares that are subject to resale and transfer restrictions (restricted stock). These shares are identical to the publicly traded shares in all respects except for the lack of registration and the restrictions on trading. There have been many studies that compare the prices of restricted stock transactions to the public market trading prices of the freely traded securities on the same day. As the shares are identical in every respect except for their trading status, the difference is solely due to the illiquidity or lack of marketability of the restricted stock. The following table, compiled by John Stockdale, Sr., summarises a number of such studies.

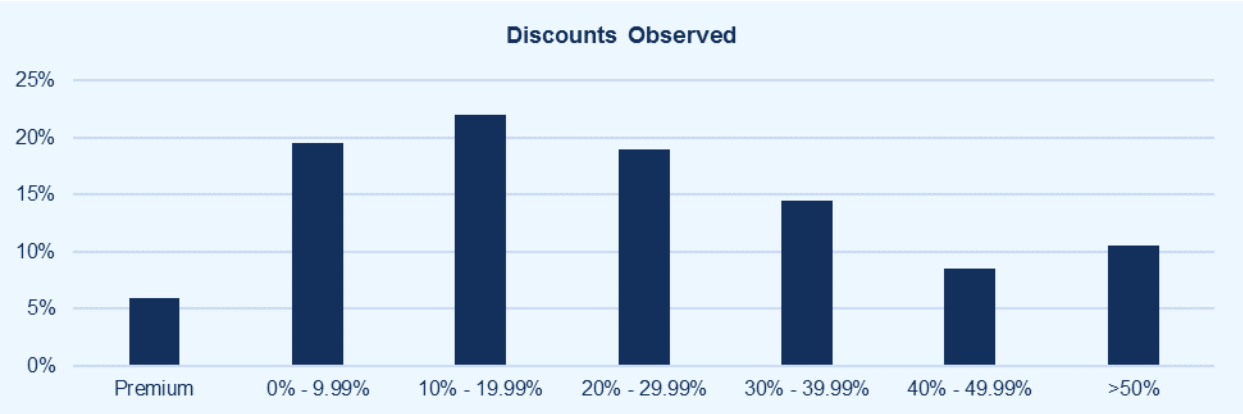
Study	Period	Number of companies	DLOM Mean	DLOM Median
SEC Institutional Investor	1966 – 1969	398	24%	-
Gelman	1968 – 1970	89	33%	33%
Moroney	1968 – 1970	145	36%	33%
Maher	1969 – 1973	34	36%	33%
Trout	1968 – 1970	60	34%	-
Standard Research Consultants	1978 – 1982	28	-	45%
Johnson & Racette	1967 – 1973	86	34%	-
Williamette Management Associates	1981 – 1984	33	-	31%
Wruck – Registered	1979 – 1984	36	-4%	2%
Wruck – Unregistered	1979 – 1984	37	14%	12%
Silber	1981 – 1988	69	34%	-
Hertzel & Smith	1980 – 1987	106	20%	13%
Management Planning Inc.	1980 – 1995	49	28%	29%
Johnson	1991 – 1995	72	20%	-
Columbia Financial Advisers	1996 – 1997	23	21%	14%
Columbia Financial Advisers	1997 – 1998	15	13%	9%
Bajaj, Dennis, Ferris & Sarin	1990 – 1995	88	22%	21%
FMV database	1980 – 1997	243	23%	21%
FMV database	1997 – 2007	311	21%	16%
FMV database	2007 – 2008	43	9%	6%
Finnerty	1991 – 1997	101	20%	16%
Wu	1986 – 1997	301	9%	20%
Barclay, Holderness & Sheehan	1979 – 1997	594	19%	17%
Trugman Associates	2007 – 2008	80	18%	14%

Source: BVR's Guide to Discounts for Lack of Marketability, John Stockdale, Sr.

The more recent studies tend to show a smaller level of discount due to the Securities and Exchange Commission ("SEC") relaxing the conditions attached to restricted stock as follows:

- In 1990 the SEC allowed trading among qualified investors holding restricted stock. This appears to have reduced the discount in restricted stock transactions, as none of the studies after this change found a mean or median discount greater than 22%, while many of the earlier studies reported figures in excess of 30%.
- In 1997 the SEC reduced the holding period for restricted stock from two years to one year. This had a limited impact on the discount for restricted stock transactions, as shown by the 2% reduction in the mean discount from the transactions in the FMV database.
- In 2008 the holding period was further reduced from one year to six months. Observed discounts were notably lower after this change, with both relevant studies finding a mean discount below 20%. This highlights the importance of expected time to realisation in assessing a suitable DLOM.

Restricted stock studies generally show a positively skewed distribution. This is perhaps best illustrated by the following summary of six separate studies, collated by Stockdale:



Source: BVR's Guide to Discounts for Lack of Marketability, John Stockdale, Sr.

Restricted stock studies have some limitations; in particular they tend to involve relatively small and risky firms; and the individual discounts observed are widely dispersed (although mostly in the range of 0% to 50%). Also, the restrictions typically relate to an escrow period which is not directly comparable with a lack of marketability, where the security can be transferred at any time if a willing buyer can be found.

Pre-IPO studies

Pre-IPO studies attempt to quantify the DLOM by comparing share prices in IPO transactions with transaction prices in the same shares prior to the IPO. The data available to us from these studies is US based, with two of the most widely referenced studies summarised in the following tables:

Time between transaction and IPO	DLOM	
	Mean	Median
0-30 days	30%	25%
31-60 days	40%	38%
61-90 days	42%	43%
91-120 days	49%	50%
121-153 days	55%	54%

Source: BVR's Guide to Discounts for Lack of Marketability, John Stockdale, Sr.

As with the restricted stock studies, these studies show the importance of expected time to realisation. A potential caution with pre-IPO studies is the issue of sample bias, in that only companies that achieved an IPO are included. It is possible that such companies are those that have been successful over the period between the benchmark transaction and the IPO date, possibly overstating the impact of illiquidity, particularly where the time between the benchmark transaction and the IPO is relatively long.

Event studies

Event studies consider the abnormal return on a stock around a specific event such as a listing or delisting. Two such studies are discussed briefly below.

Sanger and McConnell studied the excess returns to stocks moving from over-the counter ("OTC") trading to a listing on the New York Stock Exchange over the period 1966 to 1977. The study computed an average DLOM of 20.4% before the introduction of NASDAQ in 1971, and 16.9% thereafter. It is important to note that the study does not consider the element of DLOM that should exist between a private company compared to one listed for OTC trading.

In 2003 Abbott studied the returns from stocks that delisted from NASDAQ during the period 1982 to 2001. The study identified an average DLOM of 18%. Abbott also identified three factors affecting the size of DLOM:

- **Market value** – the larger the company, the smaller the DLOM.
- **Cumulative return** – the higher the return (including dividends) before the event, the smaller the resulting DLOM.
- **Volume** – the larger the turnover of shares in the market, the smaller the DLOM.

Other studies

Various other studies have been performed, with results generally consistent with those presented in this appendix. However, we consider the studies referred to above to be more reliable. Some examples of other studies undertaken include:

- **Listed Private Equity** - in these studies a comparison is made between the market price of listed private equity investments and their net asset value. However, this difference would include the discount for lack of control as well as the DLOM. Further, the base value (book value of net assets) is an opinion provided by management or consultants, and so not necessarily very reliable evidence of market value. These studies do highlight an important issue which is that the level of DLOM changes significantly over time.
- **Bid-Ask Spread** - these studies analyse the bid-ask spread of listed companies. They measure relative illiquidity among listed companies and so are not necessarily a good indication of DLOM for private companies. A bid-ask spread study by Damodaran highlighted that spread decreases when:
  - revenue increases
  - companies are profitable as opposed to loss making
  - cash as a % of value increases
  - trading volume increases
- **Private company transactions** - these studies compare the prices paid in minority transactions involving private companies with a base price representing the value on a liquid basis. The problem with such studies is determining a base price for comparison to the transaction price. A 1975 survey by H Calvin Coolidge used net asset value as a base price, which he believed was reasonable for the asset intensive companies in the study, which resulted in a mean DLOM of 36%, with the median DLOM also 36%.
- **Surveys** - for example the Pepperdine survey found a median DLOM of 20% for private equity and venture capital investors. However, only 5% of these investors responded that they would make an investment without suitable investor protection such as shareholder agreements, buy/sell agreements and employment agreements. This is not always representative of the circumstances of the company for which a DLOM is to be determined.

Quantitative Models

Various quantitative models for determining DLOM have been developed. At present these models have many limitations, typically including:

- The models proposed to date do not generally fit the observed data well.
- Many of the models require inputs, such as volatility or time horizon to realise an investment, which are unknown for most of the circumstances where we need to apply a DLOM.
- A number of models move from subjectively determining an overall DLOM, to subjectively determining a number of other factors, leading to a DLOM that appears more scientific than it actually is.

Factors impacting DLOM

Several studies have sought to identify factors affecting DLOM and if possible to quantify that impact. The studies to date identified a number of key factors, however there is insufficient evidence to point to any specific numerical relationships between the factors impacting DLOM and the level of DLOM itself, thus after evaluating how the relevant factors apply to the specific circumstances, we are left with a subjective judgement of what an appropriate DLOM should be. The key factors identified are listed below.

Factor	Smaller DLOM (< 20%)	Larger DLOM (>30%)
Size		
Revenue	Higher	Lower
Market value	Higher	Lower
Financial Stability		
Rate of return - profitability	Higher	Lower
Earnings stability	Stable	Volatile
Financial distress	Low risk	High risk
Market / Book value	Low	High
Financial Markets		
Interest rates	Low	High
Volatility	Low	High
Company structure		
Non-executive directors	Many	Few
Block size	Large	Small
Other holdings	Fragmented	Large blocks
Time to sale	Short	Long
Shareholder rights		
Shareholders agreement	Extensive	None
Tag along / drag along rights	Extensive	None
Right to appoint director(s)	Extensive	None
Restrictions on transferability	None	Severe
Expected disposal period		
Exit intentions of majority	Short term	None
Potential buyers of block	Many	One or none
Other		
Industry	The relationship between industry and DLOM is inconclusive from empirical studies. However, it may be the case that at certain points in time industries that are in demand with investors would experience relatively lower DLOMs than other industries.	
Dividends	It is often suggested that the payment of dividends reduces DLOM. While this is intuitively appealing, after adjusting for size and financial strength, empirical studies have failed to find a significant relationship between dividends and DLOM.	
Complexity of group	A complex group structure may not be appealing to investors. However, this factor should not be double counted, if it has been taken into account in determining a control value, eg. through the discount rate applied.	

Source: Leadenhall analysis

Note: 'Higher' and 'Lower' refer to the market as a whole and not specifically to the comparable companies (if any) used to determine a base value. Thus, to allow for factors such as size or earnings stability in determining suitable base value and then in assessing the DLOM to be applied would not be double counting.

The list of factors highlighted above, is a general indication of the main factors to be considered in determining a DLOM. However, the selection of a DLOM remains a subjective issue. It is important to ensure factors that have been considered in selecting a base (pre-DLOM) value are not double counted when applying the DLOM. In this regard allowing for size in the DLOM and for example the discount rate is NOT double counting, as the observed DLOM % for transactions involving smaller companies is higher than for larger companies. It is also important to remember that in a given set of circumstances one single factor can outweigh several contradictory factors, for example the existence of a savoy clause[1] in a shareholders' agreement may outweigh many other factors, leading to a very low DLOM.

Note 1: A savoy clause allows one party to a joint venture to nominate a price, at which the other party can choose to sell its own interest or buy out the proposing party's interest.

APPENDIX 11: VOLATILITY ANALYSIS

Ticker	Company name	Market cap (A$m)	1-year	2-year	3-year
ASX:BHD	Benjamin Hornigold Limited	19	37%	n/a	n/a
NSX:JBL	John Bridgeman Limited	54	107%	78%	87%
IQT320325090	Henry Morgan Limited	61	91%	52%	55%
Average		**45**	**79%**	**65%**	**71%**
Trading & securities brokers					
XTRA:LUS	Lang & Schwarz Aktiengesellschaft	166	48%	50%	32%
ASX:BFG	Bell Financial Group Limited	197	40%	38%	43%
NYSE:GCAP	GAIN Capital Holdings, Inc.	394	49%	50%	44%
NYSE:OPY	Oppenheimer Holdings Inc.	443	40%	37%	35%
LSE:CMCX	CMC Markets Plc	891	41%	45%	n/a
ASX:MOE	Moelis Australia Limited	915	41%	n/a	n/a
SWX:CFT	Compagnie Financière Tradition SA	972	33%	20%	23%
Average		**568**	**42%**	**40%**	**35%**
Fund managers					
NSX:ASS	Asset Resolution Limited	10	26%	22%	22%
ASX:FSI	Flagship Investments Limited	42	29%	26%	26%
ASX:LSX	Lion Selection Group Limited	42	65%	66%	83%
ASX:EDC	Eildon Capital Limited	46	19%	20%	20%
ASX:WAA	WAM Active Limited	46	16%	19%	21%
ASX:MEC	Morphic Ethical Equities Fund Limited	47	24%	24%	24%
ASX:MVT	Mercantile Investment Company Limite	51	29%	33%	36%
ASX:KAM	K2 Asset Management Holdings Ltd	47	71%	65%	63%
ASX:PCG	Pengana Capital Group Limited	268	41%	n/a	n/a
ASX:PAC	Pacific Current Group Limited	293	34%	36%	40%
ASX:PMC	Platinum Capital Limited	568	22%	26%	25%
Average		**133**	**34%**	**34%**	**36%**
Average (all)		**265**	**43%**	**39%**	**40%**

APPENDIX 12: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for HML's shareholders for the purpose of assessing the fairness and reasonableness of the Proposed Transaction. Leadenhall expressly disclaims any liability to any shareholder, or anyone else, whether for our negligence or otherwise, if the report is used for any other purpose or by any other person.

Reliance on information

In preparing this report we relied on the information provided to us by HML, and their investment manager JBL, being complete and accurate and we have assumed it has been prepared in accordance with applicable Accounting Standards and relevant national and state legislation. We have not performed an audit, review or financial due diligence on the information provided. Drafts of our report were issued to HML's management and independent directors for confirmation of factual accuracy.

Prospective information

To the extent that this report refers to prospective financial information, we note that the forecasts and projections supplied to us are, by definition, based upon assumptions about events and circumstances that have not yet transpired. Actual results in the future may be different from the prospective financial information referred to in this report and the variation may be material, since anticipated events frequently do not occur as expected. Accordingly, we give no assurance that any forecast results will be achieved. Any future variation between the actual results and the prospective financial information utilised in this report may affect the conclusions included in this report.

Market conditions

Leadenhall's opinion is based on prevailing market, economic and other conditions as at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon the conclusion reached in this report.

As a valuation is based upon expectations of future results it involves significant judgement. Although we consider the assumptions used and the conclusions reached in this report are reasonable, other parties may have alternative expectations of the future, which may result in different valuation conclusions. The conclusions reached by other parties may be outside Leadenhall's preferred range

Indemnities

In recognition that Leadenhall may rely on information provided by HML, JBL and their officers, employees, agents or advisors, HML and JBL have agreed that they will not make any claim against Leadenhall to recover any loss or damage which they may suffer as a result of that reliance and that they will indemnify Leadenhall against any liability that arises out of Leadenhall's reliance on the information provided by HML, JBL and their officers, employees, agents or advisors or the failure by HML, JBL and their officers, employees, agents or advisors to provide Leadenhall with any material information relating to this report.

Qualifications

The personnel of Leadenhall principally involved in the preparation of this report were Dave Pearson, CA, CPA, CFA, CBV, M.App.Fin., B.Comm., Richard Norris, BA (Hons), FCA, M.App.Fin., Andrew Steere CA, B.Bus., M.Comm., Grad Dip.App.Fin. and Katy Lawrence B.Comm., CA, Grad Dip.App.Fin.

This report has been prepared in accordance with "APES 225 – Valuation Services" issued by the Accounting Professional & Ethical Standards Board and is a valuation engagement in accordance with that standard.

Independence

Leadenhall and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with HML, JBL or any other related entities or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

We advise that in the previous two years we have undertaken the following engagements in respect of HML, JBL and other group related entities:

- In April 2018 we were engaged to prepare an IER in relation to a previous transaction contemplated between HML and JBL. Our work was completed and our report was issued in draft to ASIC however the transaction did not complete and our report was never issued in final.
- In June 2018 we were engaged to provide a review opinion in respect of HML's valuation of unlisted investments.

The fees for the above engagements were not material in the context of Leadenhall group revenue over the last two financial years.

Leadenhall was not involved in setting the terms of, or any negotiations leading to, the Proposed Transactions. Our only role has been the preparation of this report.

We note that separately Leadenhall was engaged by the independent directors of BHD to prepare an IER in order to assess whether the BHD Offer was fair and reasonable to BHD shareholders not associated with JBL. Our IER in respect of the BHD Offer was issued on the same date as this report. Our conclusion was that the BHD Offer was not fair but reasonable to BHD Non-Associated Shareholders.

Leadenhall has acted independently of HML. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.