

29 January 2019

Ms Clare Porta  
Adviser, Listings Compliance (Sydney)  
ASX Compliance Pty Ltd  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

**By email:** clare.porta@asx.com.au

Dear Clare

**Chapmans Limited (CHP or the Company): ASX Query Letter re CHP Announcements**

We refer to your query letter dated 21 December 2018 (**ASX Letter**). We note that CHP has been granted an extension to close of business, 29 January 2019 and has responded within the agreed timetable.

**1 Responses**

1. CHP had \$116,291 as at 31 December 2018. The company does not believe that this amount is negligible. The company has formed this view based on its opinion that any amount above \$100,000 is not considered negligible.
2. CHP does expect to continue its operations and to meet its business objectives. CHP will achieve this via its continued focus on generating advisory and fee based revenue and careful control of its costs. In addition, it is currently undertaking a sale of a number of its investments in order to strengthen the balance sheet and cash reserves. Further to recent discussions with the ASX, the Company is considering seeking shareholder approval to delist from the ASX and to gain admission to the National Stock Exchange or the TSX Venture exchange in Canada. The company considers this matter an important part of being able to continue its operations and to meet its business objectives.
3. Since 30 September 2018, no funds have been advanced to any investee company. Notwithstanding this, CHP advanced \$28,000 to Syn Dynamics Australia Pty Ltd, which is a consolidated entity of the CHP group (not treated as an investee company for accounting purposes).

The current balance of loans to investee companies is zero. Please note that the loan provided to 20Four Media Holdings Pty Ltd has been written off as a result of the company recently being placed into liquidation.

4. The estimated operating cash outflows for the March 2019 quarter is approximately \$295,000. This consists of \$95,000 in staff costs and \$200,000 in administration costs (\$100,000 in legal expenses, approximately \$50,000 in audit, valuations and accountancy fees and the balance of \$50,000 in other administration expenses of the business). The estimated investing cash outflows is \$150,000 but this is subject to funds being available.

5. (a) Capital Mining Limited  
(b) 20Four Media Holdings Pty Ltd  
(c) The difference, i.e. \$206,250, \$182,250 relating to transaction costs of the issue of shares and options and approximately \$24,000 relating to repayment of loan to an unrelated party.
6. The current carrying value of GPU One investment is \$1.2M AUD (\$1.1424M CAD x 1.05 exchange rate; current valuation of \$10.5M CAD x 10.88% = \$1.142M CAD).
7. The company is a minority shareholder in many of its investments and is also not represented on the board. Therefore, we provide the following information in respect of Securrency Inc., GPU One, MJ Life Sciences Pty Ltd and 20Four Media Holdings Pty Ltd.

Securrency Inc. has raised at least \$5.5M USD in convertible notes on similar terms to CHP (we are not privy to all the terms and dates of every note issue). The pre-money valuation of the notes was \$50M USD, therefore the post money valuation on the basis that the notes are converted is \$55.5M USD. CHP invested \$1M USD (therefore, based on full conversion by these note holders), CHP would hold a 1.8% shareholding interest. This investment has an implied value of \$1.39M AUD (\$1M USD @ 0.72 USD exchange rate conversion).

GPU One has not issued any further capital since the company's share disposal. CHP's sale of shares and the founder conversion of debt into equity was done at a post money valuation of \$10.5M CAD. CHP holds 10.88% and the implied value of its holding is \$1.2M AUD (CAD 1.05 exchange rate).

MJ Life Sciences Pty Ltd has not issued any capital since 1 January 2018. Based on CHP's investment of \$500,000 USD and its ownership of 50% of MJ Life, the implied value of this investment is \$694,000 AUD (USD 0.72 exchange rate).

20Four Media Holdings Pty Ltd, did issue shares during this period, however, as it has been placed into liquidation, the company does not have access to information required regarding share issues. The value of the investment has been fully written off.

8. SDA has not completed the capital raise. The capital raise is ongoing and CHP is uncertain if and when it will be completed.
9. CHP advises that \$62,500 of advisory fees have been earned since 30 September 2018. The \$62,500 in fees are payable but are yet to be received. CHP expects to earn \$325,000 in advisory fees in the next 3 months.
10. (a) The original amount to be issued as per AGM was up to \$2,962,500. As per the amended March Appendix 4c, the net proceeds from borrowings is \$2,662,000 (\$2,703,000 – item 3.5 less \$41,000 – item 3.6). An amount of \$300,000 repaid in cash in the June quarter is reduced from the \$2,962,500 which equals \$2,662,500. The small difference of \$500 is a rounding amount.  
(b) The \$41,000 loan repayment was a loan to be repaid in cash and not shares.  
(c) The repayment of \$300,000 of Investor Loans repaid in cash rather than in equity was primarily due to the delay in the shares to be issued.  
(d) The item included in the cash flow statement under the heading "cash flow from financing activities - proceeds from borrowings" of \$423,607 is a net figure. Therefore, there is no separate line item for the repayments of borrowings. The cash flow statement has been reviewed and signed off by the company's auditor.

11. The proceeds from borrowings of \$423,607 can be reconciled as follows. Note 6 – Loans receivable opening balance of \$545,095 less the closing balance of \$141,168 = \$403,927. Note 10 – Borrowings closing balance of \$30,000 less the opening balance of \$10,320 = \$19,680. The sum of the two is \$423,607. The cash flow statement and notes have been reviewed and signed off by the company's auditor.
12. Refer attached schedule.
13. CHP provides the following information that it considers relevant. The balance sheet of CHP shows a net asset position of \$3.46M as at 30 June 2018, (the last accounts reviewed by the company's auditors). In particular, the Securrency Inc, GPU One and MJ Life Science investments have an implied value of in excess of \$3M. In addition, CHP has demonstrated the ability to access funds when required, (refer recent capital raises undertaken in the past 12 months).

Yours Sincerely



Peter Dykes  
Executive Chairman  
Chapmans Limited

CHAPMANS LIMITED

LOANS RECEIVED FROM OTHER PARTIES (LIABILITY)

Loan - Peter Dykes

Opening Bal at 1 Jan 18

12/03/2018	loan by Peter Dykes	30,000.00	-	30,000.00
13/08/2018	repayment of loan	-	30,000.00	-



21 December 2018

Mr Peter Dykes  
Executive Chairman  
Chapmans Limited  
Level 12  
95 Pitt Street  
Sydney NSW 2000

By email

Dear Mr Dykes

**Chapmans Limited ('CHP' or the 'Company'): ASX Query Letter re CHP Announcements**

ASX Limited ('ASX') refers to the following:

- A. CHP's announcement titled 'Notification of Shortfall' released on the ASX Market Announcements Platform ('MAP') on 19 December 2018 disclosing that it had received gross proceeds of \$33,364.27 via subscriptions from eligible shareholders under the rights issue announced on 28 November 2018 and summarised in paragraph C below.
- B. CHP's 'Second Supplementary Prospectus' dated 5 December 2018 and released on MAP on the same day which includes the following statements under the heading 'Material uncertainty related to going concern' (references to the 'Offer' in the following excerpts are references to the rights issue summarised in paragraph C below):

*'In the opinion of the Company, its current intention is to raise funds through this Offer, which will enable the Company to continue as a going concern. The Company will also continue to fund its working capital requirements on an ongoing basis from fees generated from advisory mandates, the sale of existing investments and via a combination of equity and/or debt raisings from professional and sophisticated investors...*

*Further, the Company has undertaken and implemented procedures to reduce its ongoing costs (and therefore its cash outflows). Such procedures include, for example, reducing Directors' fees...*

*The Company anticipates that the funds raised from the Offer will last 4 months. This is because the Company intends to allocate the majority of the funds raised to the payment of existing trade creditors...'*

- C. CHP's announcement titled 'Non-Renounceable Issue' released on MAP on 28 November 2018 disclosing that:
  - it will undertake a non-renounceable rights issue on the basis of one new fully paid ordinary share for every two existing shares held by eligible shareholders ('Entitlement') to raise a maximum of \$678,515 (before expenses) to fund general working capital ('Rights Issue');
  - the Rights Issue is not underwritten and will close on 17 December 2018;
  - Entitlements of eligible shareholders which are not taken up will form part of the shortfall;
  - eligible shareholders can apply for additional new shares which will be allocated from any shortfall ('Shortfall Shares'); and
  - the directors may at their discretion place any Shortfall Shares to third parties within three months of the closing date.

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- D. CHP's announcement titled 'Strategic Fintech Investment in Tapp Group Ltd' released on MAP on 27 November 2018 disclosing that CHP had entered into the following arrangements:
- binding documentation to make a strategic cornerstone investment of \$250,000 in Tapp Group Limited ('Tapp'), an unlisted mobile payment platform business, through a convertible note with a one year term and a 10% coupon; and
  - a corporate advisory mandate with Tapp to provide advice, counsel and services for an initial 12 month period.
- E. CHP's announcement titled 'Director Resignations' released on MAP on 15 November 2018 disclosing that Anthony Dunlop and Daler Fayziev had resigned from CHP's board, effective immediately.
- F. CHP's Appendix 4C quarterly report for the three months ended 30 September 2018 released on MAP on 31 October 2018 ('September Quarter Appendix 4C') in which CHP reported:
- receipts from customers for the quarter of \$200,000 which was stated to be '*revenue generated from advisory mandate fees*';
  - negative net operating cash flows for the quarter of \$405,000;
  - payments to acquire investments during the quarter of \$126,000;
  - loans to investee companies during the quarter of \$250,000;
  - gross proceeds from issues of shares during the quarter of \$1,160,000;
  - cash at the end of the quarter of \$321,000; and
  - estimated cash outflows for the next quarter of \$600,000 comprising an estimated \$190,000 for staff costs and \$410,000 for administration and corporate costs.
- G. CHP's announcement titled 'Chapmans re-weights investment in GPU One' released on MAP on 31 October 2018 disclosing that:
- it had divested approximately \$420,000 (CAD\$400,000) of its previous \$2.55 million (CAD\$2.5 million) investment in GPU.One;
  - it now holds a 10.88% interest in GPU.One following the partial divestment and GPU.One's shareholder debt restructuring (through a debt to equity conversion); and
  - GPU.One's revised valuation (100%) is CAD\$10.5 million.
- H. CHP's announcement titled 'Syn Dynamics Update' released on MAP on 24 October 2018 ('Syn Dynamics Announcement') disclosing that:
- Syn Dynamics Australia Pty Ltd (SDA) (80% CHP) plans to raise \$2 million to construct its first commercial production plant for its waste-to-energy technology;
  - CHP will not participate in the \$2 million raise and, in turn, will be diluted to a 60.6% shareholding which reflects a pre-money valuation of \$6.25 million; and
  - the capital raise is expected to close on or before 31 December 2018.
- I. CHP's announcement titled 'Company Update' released on MAP on 24 September 2018 which included the following statements:
- '*The Company intends to leverage the strengths of its Malaysian shareholder and board connections for the development of fee generating advisory roles and origination of new investment opportunities in line with the Company's revised focus. This is to be achieved through an expansion of the Company's existing Malaysian office located in Kuala Lumpur...*
  - '*Further revisions to the Company's investment approach are to include (wherever possible) an overall reduction in substantial holding limits to non-controlling positions and focus on opportunities with less active roles through participation and co-investment with well established and proven partners.*'

- J. CHP's announcement titled '20Four Media Holdings – Update' released on MAP on 7 September 2018 which included the following statement:

*'The directors of Chapmans wish to advise that Chapmans does not intend to invest or otherwise advance any further funds to 20FOUR. Chapmans' investment in 20FOUR including funds advanced as debt and equity have been fully impaired as per the Company's Half Year Report for the period ended 30 June 2018.'*

- K. CHP's half yearly report for the period ended 30 June 2018 released on MAP on 31 August 2018 (the 'Half Year Accounts') which includes the following disclosures:

- impairment of receivables of \$666,069 in the statement of profit or loss which includes an allowance of \$146,246 for expected credit losses against trade receivables of \$146,246 (per Note 6 to the financial statements on page 15) and an allowance of \$519,824 for expected credit losses against loans receivable (calculated based on Note 6);
- a loans receivable balance of \$141,168 in Note 6 which includes a loan of \$138,000 to a related party, Dato' Muhamad Adlan bin Berhan, from CHP (per note 15 to the financial statements on page 19); and
- proceeds from borrowings of \$423,607 and repayments of borrowings of nil in the statement of cash flows.

- L. CHP's announcement titled 'Placement' and subsequent Appendix 3B which were released on MAP on 29 August 2018 disclosing that CHP had raised \$286,250 via the issue of 232,723,577 shares to professional and sophisticated investors at \$0.00123 per share on 29 August 2018 ('29 August Placement Announcements').

- M. CHP's announcement titled 'Placement' released on MAP on 15 August 2018 disclosing that it had raised \$250,000 via a placement of 162,000,000 shares to professional and sophisticated investors, and its subsequent Appendix 3B released on MAP on 23 August 2018 disclosing that CHP had issued 162,337,662 shares at \$0.00154 per share on 21 August 2018 ('23 August Placement Announcements').

- N. CHP's Appendix 4C for the three months ended 30 June 2018 released on MAP on 31 July 2018 ('June Quarter Appendix 4C') in which CHP reported:

- receipts from customers of \$190,000 for the six months to 30 June;
- net cash used in operating activities of \$845,000 for the six months to 30 June;
- proceeds from disposal of investments of \$1,375,000 for the six months to 30 June; and
- repayments of borrowings during the quarter of \$300,000.

- O. CHP's announcement titled 'Chapmans successfully raises \$830,000' released on MAP on 12 July 2018 disclosing that CHP had received firm commitments for \$830,000 of shares to be issued via a placement of 500,000,000 shares to professional and sophisticated Investors at \$0.00166 per share, and its subsequent Appendix 3B released on MAP on 17 July 2018 disclosing that the 500,000,000 shares had been issued at \$0.00166 per share on 17 July 2018 ('17 July Placement Announcements').

- P. CHP's Appendix 3B released on MAP on 5 June 2018 disclosing the issuance of the 295,250,000 shares at \$0.008 per share on 5 June 2018 in satisfaction of \$2,362,000 of loans provided by certain investors following the approval of resolution 6 at the annual general meeting ('AGM') on 31 May 2018 ('Investor Loans Appendix 3B').

- Q. CHP's announcement titled 'Amended Appendix 4C' lodged on MAP on 22 May 2018 which contained CHP's amended Appendix 4C quarterly report for the three months ended 31 March 2018 ('Amended March Quarter Appendix 4C') and made the following statements:

*'In addition, the company wishes to confirm that notwithstanding the approval in the AGM at resolution 6 requested up to \$2.9625m of debt be converted, the company will only convert a total of \$2.662m in order to be debt free...*

*For clarity, the amount to be converted is \$2.662m (which is \$2.703m proceeds from borrowings – item 3.5 in the Appendix 4C less \$41k – item 3.6 Appendix 4C...)'*

R. CHP's announcement titled 'Notice of Annual General Meeting/Proxy Form' released on MAP on 1 May 2018 ('AGM Notice') which includes the following statements:

- In section 7.1: *'As announced on 16 April 2018 in the announcement entitled 'Chapmans secures amended GPU.One Term Sheet and Capital Raise' (Announcement), the Company conducted a capital raising which was comprised of an issue of Shares (such Shares being the subject of Resolution 4) and a raising of \$2,962,500 (Recent Capital Raising) which was structured as simple unsecured loans with each loan having an interest rate of 8% p.a. and repayment date of 30 June 2018 (Investor Loans).*

*As at the date of the Meeting, the total amount outstanding on the Investor Loans will be \$2,962,500 (excluding interest) and as foreshadowed in the Announcement, the Company proposes, subject to Resolution 6 being passed, to issue 370,312,500 shares at \$0.008 per Share (Conversion Shares) to the Investors in full and final satisfaction of its obligations in relation to the Investor Loans. The accrued interest is to be paid in cash...*

- In section 7.2(d): *'the persons to whom, the Conversion Shares will be issued are the following sophisticated and professional investors who advanced the Investor Loans referred to above in section 7.1: (i) Beyo Group Pty Ltd; (ii) Angus Paul; (iii) Bacic Holdings Pty Ltd; (iv) Aust-Sport Financial Services Pty Ltd; (v) Currandooley Pty Ltd; (vi) Peter Alan Torney; (vii) Stirling Wealth Group Limited; and (viii) Wecu Investments Pty Ltd.'*

ASX notes that given CHP has only received gross proceeds of \$33,364.27 from eligible shareholders under the Rights Issue, its pro-forma cash balance at 30 September 2018 would be \$354,364 (based on the cash balance at 30 September 2018 of \$321,000 and making no other pro-forma adjustments). Based on CHP's recent announcements, it would appear that its cash flows for the December 2018 quarter will reflect a combination of:

- cash outflows of approximately \$850,000 which would reflect CHP's recent \$250,000 investment in Tapp and estimated operating cash outflows of \$600,000 disclosed in the September Quarter Appendix 4C;
- a cash inflow of approximately \$420,000 from the divestment of part of CHP's GPU.One shareholding; and
- cash inflows from corporate advisory fees (which ASX notes amounted to \$200,000 in the September 2018 quarter).

Based on the foregoing assumptions, if the Shortfall Shares are not able to be immediately placed with third parties, it is possible to conclude that CHP's cash balance could be approximately \$124,364 at 31 December 2018, assuming the corporate advisory fees it receives for the December 2018 quarter are the same as for the September 2018 quarter. However, if cash inflows from corporate advisory fees in the December 2018 quarter are significantly lower than in the September 2018 quarter, it is possible to conclude that CHP could have a negligible cash balance at 31 December 2018.

Even if CHP is successful in placing the Shortfall Shares to raise the maximum of \$650,000 (after costs) from the Rights Issue, it is possible to conclude that if CHP were to continue to expend cash at the rate indicated by the September Quarter Appendix 4C, CHP may not have sufficient cash to continue funding its operations.

### Questions and Requests for Information

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

1. Does CHP believe that it could have a negligible cash balance at 31 December 2018?
  - a) If the answer to this question is 'no', please explain why CHP has formed this view.
  - b) If the answer to this question is 'yes', what actions does CHP propose to take to address such a scenario?
2. Does CHP expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
3. Has CHP made any loans to its investee companies since 30 September 2018? What is the current balance of loans to investee companies? How much of this outstanding balance does CHP believe is recoverable?
4. Please provide an estimate of CHP's operating and investing cash outflows for the March 2019 quarter.



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5. Please address the following questions regarding items in the September Quarter Appendix 4C:
    - a) Which investee company received the investment of \$126,000 disclosed in item 2.1(c)?
    - b) Which investee companies received the loans to investee companies of \$250,000 disclosed in item 3.9?
    - c) Why were the gross proceeds from issues of shares only \$1,160,000 in item 3.1 when ASX calculates that the total proceeds from issues of shares should have been no less than \$1,366,250 based on the 17 July Placement Announcements, the 23 August Placement Announcements and the 29 August Placement Announcements?
  6. What is the current carrying value of CHP's GPU.One investment (in AUD) following the partial divestment and revised valuation?
  7. If any of CHP's investee companies have completed a capital raising since 1 January 2018, please provide the following information in relation to the most recent capital raising:
    - a) date of the capital raising and amount of capital raised;
    - b) the post-money valuation; and
    - c) CHP's shareholding interest and the implied value of CHP's shareholding, based on that capital raising.
  8. Has SDA completed the capital raising that was detailed in the Syn Dynamics Announcement? If not, when does SDA anticipate the capital raising will be completed?
  9. Please advise what corporate advisory fees CHP has received since 30 September 2018 and what corporate advisory fees it expects to receive in the next 3 months.
  10. In relation to the 'Investor Loans', please explain the reasons for the following (with reference to the 'Investor Loan' from Stirling Wealth Group Limited, a related entity of Mr Peter Dykes, where relevant):
    - a) the discrepancy in the proceeds from the Investor Loans, namely \$2,962,500 in the AGM Notice and \$2,703,000 in the Amended March Quarter Appendix 4C;
    - b) the repayment of \$41,000 of Investor Loans in cash during the March 2018 quarter rather than through conversion to equity;
    - c) the repayment of \$300,000 of Investor Loans in cash rather than through conversion to equity during the June 2018 quarter; and
    - d) repayments of borrowings of nil in the statement of cash flows in the Half Year Accounts.
  11. Please provide further details in relation to the proceeds from borrowings of \$423,607 in the statement of cash flows in the Half Year Accounts (including any relationship to the 'Investor Loans', if relevant). Given no repayments of borrowings were disclosed in the statement of cash flows, where are these borrowings reflected in the balance sheet at 30 June 2018?
  12. Please detail all related party loan transactions since 1 January 2018 together with any current outstanding loan balances.
  13. Please provide any other information that CHP considers may be relevant to ASX forming an opinion on whether CHP is in compliance with Listing Rule 12.2.

Once ASX has received and analysed the information above, it is likely to make further enquiries of CHP.

In providing the information above, ASX would remind you that an officer or employee of a listed entity who gives, or authorises or permits the giving of, materially false or misleading information to ASX:

- knowingly, breaches section 1309(1) of the Corporations Act, which is a criminal offence punishable by a fine of up to 200 penalty units and/or imprisonment for up to 5 years; or
- without taking reasonable steps to ensure that the information was not false or misleading, breaches section 1309(2) of the Corporations Act, which is a criminal offence punishable by a fine of up to 100 penalty units and/or imprisonment for up to 2 years.

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**When and where to send your response**

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **12.00 pm AEDT on Friday, 18 January 2019**.

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

Your response should be sent directly to me by e-mail. It should not be sent directly to the ASX Market Announcements Office. This will allow ASX to review your response to confirm that it is in a form appropriate for release to the market, before it is published on MAP.

Should you have any queries in relation to the above, please let me know.

Yours sincerely,

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**Clare Porta**  
Adviser, Listings Compliance (Sydney)

cc: Tim Flahvin, Thomson Geer