Our Ref: CS:CS:20180488

30 May 2019

ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 20000

Attention: **Company Announcements**

By fax: **1300 135 638**

Dear Sir/Madam

John Bridgeman Limited (NSX:JBL) off-market takeover bid for Benjamin Hornigold Limited (ASX:BHD)

We act for Benjamin Hornigold Limited ACN 614 854 045 (**Company**).

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

AJ & Co Lawyers Pty Ltd
ABN 55 464 159 383

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Target's Statement

In response to the offer by John Bridgeman Limited (JBL) to acquire all of the shares and options in Benjamin Hornigold Limited (BHD)

In the absence of a Superior Proposal, the Voting Directors of BHD recommend you ACCEPT the Improved JBL Offer to purchase your BHD Shares and Options for

(a) 1.5 JBL Shares per BHD Share;

(b) 0.50 JBL Options per BHD Option.

The Independent Expert has concluded that:

1. **the JBL Share Offer is fair and reasonable to BHD Shareholders not Associated with JBL; and**
2. **the JBL Option Offer is not fair but is reasonable to BHD Optionholders 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.

Legal Adviser

Important Notices

Nature of this document

This document is a Target's Statement dated 30 May 2019 issued by Benjamin Hornigold Limited ACN 614 854 045 (**BHD**) in accordance with Division 3 of Part 6.5 of the Corporations Act, in response to the off-market takeover bid announced on 26 April 2019 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 BHD 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 Improved JBL Offer. This Target's Statement should not be taken as personal financial, investment or tax advice, as each BHD Securityholder'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. BHD Securityholders 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 BHD. 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 BHD operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; the price performance of BHD Shares, including the risk of possible price decline in the absence of the Improved JBL Offer or other takeover or merger speculation; and risks associated with the business and operations of BHD.

None of BHD, 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 30 May 2019 and provided to the ASX on 30 May 2019. 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 BHD or its advisers. Accordingly, BHD 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 BHD nor any of its officers or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of BHD, 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

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

The Corporations Act requires the name and address of BHD Securityholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including 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 BHD Securities which you hold, please contact the BHD Registry, Link Market Services on 1300 880 467 (within Australia) or +61 1300 880 467 (outside Australia) between 8.30am and 5.30pm (AEST), Monday to Friday.

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Key Dates

Announcement Date	26 April 2019
Date of the Bidder's Statement	17 May 2019
Share Offer Period Commences	17 May 2019
Option Offer Period Commences	17 May 2019
Date of this Target's Statement	30 May 2019
Last date for JBL to provide Notice of Status of Conditions[1]	14 June 2019
Option Offer Period Ends (unless extended by JBL)	21 June 2019
Share Offer Period ends (unless extended by JBL)	21 June 2019

Further Information

BHD Securityholders may call 1300 880 467 (within Australia) or +61 1300 880 467 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST) if they have any queries in relation to the Improved JBL Offer.

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

Letter from Directors

Dear Securityholders,

Background

On 26 April 2019, JBL announced its intention to make an unsolicited takeover offer for all of the BHD Shares and BHD Options in which it does not have a Relevant Interest (**JBL Offer**).

On 28 May 2019, JBL announced an increase in the consideration being offered for BHD Shares (**Improved JBL Offer**).

At the date of JBL's Bidder's Statement, JBL held a Relevant Interest in 113,398 BHD Shares and Voting Power of approximately 0.47% in Benjamin Hornigold Limited. At the date of this Target's Statement, JBL held a Relevant Interest in 2,568,764 BHD Shares and Voting Power of 10.63% in Benjamin Hornigold Limited.

Under the terms of the Improved JBL Offer, you are being offered:

(a) 1.5 JBL Shares per BHD Share (**Share Offer**); and

(b) 0.50 JBL Options per BHD Option (**Option Offer**).

JBL shares and options are listed on the NSX. On 10 April 2019, the NSX suspended JBL from official quotation pursuant to NSX Listing Rule 2.18. The suspension has and will remain in place while the NSX conducts enquiries into JBL. Unless and until JBL is reinstated, any BHD Securityholder who accepts the Improved JBL Offer will receive JBL Shares or JBL Options and will find their securities illiquid until such time as the NSX suspension is removed. This is outside the control of the Directors of BHD.

The Improved JBL Offer is not subject to any minimum acceptance condition. This means JBL may be in a position where it holds less than 50.1% of BHD Shares and less than 50.1% of BHD Options depending on the acceptances received from BHD Securityholders. This may have a number of implications for remaining BHD Securityholders which are discussed in this Target's Statement.

The Independent Expert has concluded that the Improved JBL Offer is:

(a) fair and reasonable for BHD Shareholders not Associated with JBL; and

(b) not fair but reasonable for BHD Optionholders not Associated with JBL.

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

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

- the increase in consideration which forms the Improved JBL Offer;
- the considerations and opinions contained in the Independent Expert Report prepared by Leadenhall;
- the likely scale of the Merged Group compared with the potential impact of BHD remaining a micro-cap listed investment company listed on the ASX;

- the continuing suspension of trade of BHD Securities on the ASX which has continued from 30 July 2018 and the inability of the Directors of BHD to gain clarity from the ASX as to the precise steps which need to be taken by BHD to enable reinstatement to trade ; and
- the Section 249D Meeting and the Section 249F Meeting.

As at the date of this Target's Statement, no Superior Proposal has emerged. Whilst the Voting Directors are aware the Section 249D Meeting and the Section 249F Meeting have been called, the Voting Directors are of the opinion that the outcome of the Section 249D Meeting and the Section 249F Meeting are uncertain and will not, in the view of the Voting Directors, decrease the uncertainties which have led to the continuing suspension of BHD Shares and BHD Options from trade on the ASX since 30 July 2018 and do not constitute a Superior Proposal.

In the view of the Directors, it is unlikely that BHD Securities will be re-admitted to trade during the Offer Period, given the ASX has articulated the suspension of BHD Securities will remain pending finalisation of regulatory queries. This is outside the control of BHD Directors.

These and other reasons for recommending that you accept the Improved 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 BHD's formal response to the Improved JBL Offer. The Independent Expert's Report is set out in Annexure A. The Directors 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 Improved JBL Offer.

The Improved JBL Offer is scheduled to close at 7:00pm (Sydney time) on 21 June 2019 . To accept the Improved JBL Offer, you should follow the instructions outlined in the Bidder's Statement, the Acceptance Form and Section 4.1 of this Target's Statement.

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

BHD Securityholders should note that there are risks associated with a continuing investment in BHD as well as risks associated with accepting the Improved 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 BHD and its Directors and cannot be mitigated.

If you accept the Improved JBL Offer before 9 June 2019, JBL will have a Relevant Interest in your BHD Shares and you will not be able to participate in voting on any resolution considered at the Section 249D Meeting or the Section 249F Meeting.

If you need any more information about the Improved JBL Offer, we recommend that you seek professional advice, or call 1300 880 467 (within Australia) or +61 1300 880 467 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).

Yours faithfully

Peter Aardoom
Non-Executive Director, Benjamin Hornigold Limited
30 May 2019

1. Reasons why you may wish to 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 BHD Securityholders that they accept the Improved JBL Offer, in the absence of a Superior Proposal .

The Offer Consideration under the Improved JBL Offer is:

(a) 1.5 JBL Shares per BHD Share; and

(b) 0.50 JBL Options per BHD Option.

1.1 The Improved JBL Offer delivers value for your BHD Shares and/or BHD Options

The Independent Expert has valued 100% of BHD Shares at a price of between **50 cents** and **55 cents** per BHD Share whilst the fair market value of the JBL Share Offer Consideration is between **43 cents** and **55 cents** per BHD Share (assuming 100% of BHD Shareholders accept the Improved JBL Offer) and between **44 cents** and **57 cents** per BHD Share (assuming 25% of BHD Shareholders accept the Improved JBL Offer). The Independent Expert has opined that the JBL Share Offer is fair and reasonable to BHD Shareholders not Associated with JBL.

The Independent Expert has valued 100% of BHD Options at a price of between **2 cents** and **2.8 cents** per BHD Option whilst the fair market value of the JBL Option Offer Consideration is between **nil** and **1 cent** per BHD Option. The Independent Expert has opined that, in the absence of a Superior Proposal, the JBL Option Offer is not fair but is reasonable to BHD Optionholders not Associated with JBL.

The Improved JBL Offer provides BHD Securityholders with the opportunity to realise value for their entire BHD investment. If you accept the Improved JBL Offer, subject to satisfaction or waiver of the Defeating Condition, you will:

(a) receive:

  (i) 1.5 JBL Shares for each of your BHD Shares; and

  (ii) 0.50 JBL Options per BHD Option;

(b) not incur any brokerage fees which would likely be incurred if you were to sell your BHD Securities on-market (assuming the reinstatement of trading of BHD Securities on the ASX, which the Directors do not consider likely during the Offer Period – see section 8.2(a) of this Target's Statement); 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 Improved JBL Offer being accepted by you; and

  (ii) the date on which the Defeating Condition has been freed or fulfilled,

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

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

If you retain your BHD Shares and/or BHD Options, 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 BHD Securityholder. The key risk factors for remaining a BHD Securityholder are discussed in Section 8.1.

The Improved JBL Offer is subject to one Defeating Condition in the form of regulatory approval. JBL Shareholders will consider resolutions to approve the issue of the Offer Consideration to BHD Securityholders on 12 June 2019. There is no minimum acquisition threshold, meaning there is a very real chance that JBL will become a minority owner of BHD if less than 50.1% of BHD Securityholders accept the Improved JBL Offer. BHD Securityholders should note that JBL Shareholder approval and any regulatory approval are outside the control of BHD and (in certain cases) JBL.

The Defeating Condition is defined in this Target's Statement. BHD Securityholders should refer to Section 7.4 of this Target's Statement for further information on the status of the Defeating Condition and any ASX announcements made by JBL as its status are the date of the Target's Statement.

1.2 The Improved JBL Offer will result in a Merged Group which may offer a more diversified investment

BHD's investment strategy is to create a portfolio of investments with potential for providing returns to BHD Shareholders, as assessed by its investment manager using a high conviction investment approach.

In contrast, the principal activities of JBL consist of providing investment management services to listed and unlisted investment companies, including BHD, BRL, HML 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 management services agreement, JBL holds the following Relevant Interests in each of those entities as at the date of this Target's Statement:

(a) 46.28% in HML;

(b) 78.59% in BRL; and

(c) 10.63% 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 BHD if the Improved JBL Offer is successful.

If the Improved 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 BHD becoming a subsidiary investment company.

You may believe that an investment in the Merged Group may meet your investment objectives.

1.3 The Improved JBL Offer Consideration will trade on the NSX

JBL is listed on the NSX, however is currently suspended from trading.

The Offer Consideration will be listed on the NSX. The NSX is an alternative Australian securities exchange 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.

JBL shares and options are listed on the NSX. On 10 April 2019, the NSX suspended JBL from official quotation pursuant to NSX Listing Rule 2.18. The suspension has and will remain in place while the NSX conducts enquiries into JBL. Unless and until JBL is reinstated, any BHD Securityholder who accepts the Improved JBL Offer will find their securities illiquid and unable to be traded on the NSX.

The NSX is a smaller exchange than the ASX (where BHD Shares and BHD Options are currently listed). BHD has been suspended from trade on the ASX since 30 July 2018. At the date of this Target's Statement, the ASX has indicated that it will not lift the suspension of BHD Securities pending further regulatory queries.

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 for the benefit of BHD Securityholders. However, there is no certainty as to when or if the suspension will be lifted. In the view of the Directors, it is unlikely that BHD Securities will be re-admitted to trade during the Offer Period, given the ASX has articulated the suspension will remain pending finalisation of regulatory queries. This is outside the control of BHD Directors.

1.4 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 Corporate Action to the Improved JBL Offer have been put to BHD or are currently under consideration by BHD, and the Voting Directors are not aware of any other offer or proposal that might be an alternative to the Improved JBL Offer to acquire BHD Securities.

In light of JBL's role as investment manager of BHD, the Voting Directors consider that it is unlikely that a Superior Proposal to acquire BHD Securities will be forthcoming before the end of the Offer Period.

If a Corporate Action to acquire BHD Securities is received or formulated prior to the end of the Offer Period, the Voting Directors will carefully consider the proposal and advise BHD Securityholders of their recommendation.

BHD Securityholders should note that the Voting Directors consider the outcome of the Section 249D Meeting and the Section 249F Meeting uncertain and that either outcome will not, in the view of the Voting Directors, decrease the uncertainties which have led to the continuing suspension of BHD Shares and BHD Options from trade on the ASX since 30 July 2018.

1.5 There are risks to not accepting the Improved JBL Offer

If you choose not to accept the Improved 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 BHD Shareholder and/or BHD Optionholder**

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

(i) the risk that BHD 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 BHD from the official list of the ASX;

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

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

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

(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 BHD's investment manager that may lead to negative returns being realised by BHD.

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 BHD's profitability and BHD Securityholders may suffer a loss in either the short or longer term.

BHD Securityholders should refer to Section 8 of this Target's Statement for further information regarding the risks associated with an investment in BHD.

(b) **Risk of unstable board of directors and uncertain operating future**

If either outcome of the Section 249D Meeting or the Section 249F Meeting is successful, it could result in a change in the entire board of BHD.

The Voting Directors are of the view that:

(i) the nominee directors the subject of the resolutions to be considered at the Section 249D Meeting are representatives of Ramcap, and appear to represent an opportunistic attempt to take control of BHD without making an alternative takeover offer for BHD Securities;

(ii) whilst the requisitioning shareholders of the Section 249F Meeting represent certain BHD Shareholders, the nominee directors the subject of the resolutions to be considered at the Section 249F Meeting do not hold sufficient experience or qualifications to be directors of a listed investment company; and

(iii) it is possible that a combination of nominee directors and the Directors may remain on the board, with uncertainty surrounding the operating future of BHD.

(c) **BHD Share and/or BHD Option price may fall if the Improved JBL Offer is unsuccessful**

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

(d) **Risk of receiving materially less value if JBL acquires less than 50.1% of BHD's voting power**

The Improved JBL Offer is not subject to any minimum acceptance condition. While accepting the Improved JBL Offer may assist in mitigating such circumstances, the Voting Directors believe it is likely that JBL will hold less than 50.1% of BHD Shares and less than 50.1% of BHD Options.

Where less than 50.1% of BHD Securityholders accept the Improved JBL Offer, there is a risk that BHD Securityholders who accept the Improved JBL Offer and become JBL Shareholders will receive materially less value (which arises as JBL may hold a less than 50.1% interest in a listed investment company). This means that JBL's interest in BHD may be classified as an equity investment of JBL, rather than as an entity which JBL controls and which may be consolidated for the purposes of JBL's accounts.

The Voting Directors recommend that BHD Securityholders read the Bidder's Statement in its entirety to ensure they are fully informed regarding the likely impact of the varying scenarios disclosed by JBL in relation to the acquisition of BHD and make an informed decision as to whether the JBL investment profile reflects their personal investment strategy and risk profile.

(e) **Risk of compulsory acquisition**

If the Defeating Condition is 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 BHD Shares and/or BHD Options will be compulsorily acquired and you will receive the same consideration that you would have received under the Improved JBL Offer. However, you are unlikely to receive the consideration at the same time as those BHD Securityholders who accept the Improved JBL Offer and will therefore suffer a reduced final return from your BHD Shares and BHD Options.

(f) **Risk of becoming a minority shareholder**

The Improved JBL Offer is not subject to any minimum acceptance Defeating Condition. If you have not accepted the Improved JBL Offer by the end of the Offer Period in respect of all of your BHD Shares and/or BHD Options, you may become a minority BHD Securityholder in a company controlled by a single large BHD Securityholder, being JBL. JBL will have control of the company (to the extent it acquires Relevant Interests in at least 50.1% of BHD Securities) which may reduce liquidity of BHD Securities. This may make it more difficult to sell your BHD Securities outside the Improved JBL Offer at current price levels. Refer to Section 8.1 regarding the possible implications of becoming a minority BHD Securityholder.

There is also a possibility of BHD being delisted following the Improved JBL Offer, depending on the level of acceptances. JBL has stated in its Bidder's Statement that where it acquires between 50% and 90% of BHD Shares, it intends to procure that BHD be removed from the official list of the ASX (subject to BHD Shareholder approval where necessary). This means you may be a securityholder in an unlisted company controlled by JBL with no exit mechanism for your investment other than an off-market transfer of your shares.

1.6 Other matters

In considering to accept the Improved 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 BHD including the Section 249D Meeting or the Section 249F Meeting;

(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 Improved JBL Offer; and

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

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

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

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

You may believe that the Offer Consideration of 1.5 JBL Shares per BHD Share and 0.50 JBL Options per BHD Option is insufficient and you may hold a different view as to the value of BHD Securities to both the Voting Directors and the Independent Expert.

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

As BHD has been suspended from trade on the ASX since 30 July 2018 and is otherwise a thinly traded stock, its last trading price may not be a reliable guide to the fair value of BHD Shares.

2.2 You may wish to remain a BHD Securityholder

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

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

2.3 The Merged Group may not meet your investment objectives

BHD's investment strategy is to create a portfolio of investments with potential for providing returns to BHD Shareholders, as assessed by its investment manager using a high conviction investment approach.

In contrast, the principal activities of JBL consists of providing investment management services to listed investment companies, including BHD, 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 may be less desirable than an investment in BHD depending on your investment objectives.

The composition of the Merged Group could potentially result in various outcomes and further 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 securities which are listed on the NSX

JBL Shares and JBL Options are listed on the NSX.

The Voting Directors note JBL Shares have been suspended from official quotation since 10 April 2019 pursuant to NSX Listing Rule 2.18. The suspension has and will remain in place while the NSX conducts enquiries into JBL. NSX has stated that JBL will be reinstated to official quotation once the NSX's enquiries have been completed and JBL is in compliance with the NSX Listing Rules.

In the event JBL is reinstated, the level of liquidity of JBL Shares and JBL Options on the NSX may be lower than on other larger and more established markets such as the ASX. However, BHD Shareholders and BHD Optionholders should note that whilst BHD Shares and BHD Options are listed on the official list of the ASX, they are currently suspended from trade and despite efforts from BHD to have BHD Securities reinstated to trade, there is no certainty that they will be re-instated by the ASX. As a result, there is no on-market liquidity in BHD Shares and/or BHD Options at this time.

2.5 JBL is suspended from official quotation

On 10 April 2019, the NSX suspended JBL from official quotation pursuant to NSX Listing Rule 2.18. If JBL remains suspended, BHD Securityholders who accept the Improved JBL Offer will find their securities illiquid until JBL is reinstated to official quotation (if it is reinstated).

The NSX had advised that the suspension has and will remain in place while the NSX conducts enquiries into JBL. There is a risk that JBL may be suspended from official quotation for a lengthy period of time. NSX has stated that JBL will be reinstated to official quotation once the NSX's enquiries have been completed and JBL is in compliance with the NSX Listing Rules.

JBL has provided responses to NSX queries on 12 April 2019, 17 April 2019, 24 April 2019, 1 May 2019, 9 May 2019 and 16 May 2019. The Voting Directors have reviewed the NSX queries and JBL responses and have formed the preliminary view that the reason for JBL's suspension is not apparent. The Voting Directors cannot finalise this view until the NSX has completed its enquiries and made a final decision on the quotation of JBL's securities.

Because the cause and purpose of the suspension are unclear, there is a risk that, even after reinstatement, JBL may again be suspended from official quotation for the purpose of the NSX conducting additional enquiries. The Voting Directors cannot speculate on the matter any further.

2.6 Financial reports present uncertainty as to JBL continuing as a going concern

JBL released its financial report for the half year ended 31 December 2018 to the NSX on 14 March 2019 (**2019 half year report**). A copy of the 2019 half year report is attached as Annexure A to the Bidder's Statement. The 2019 half year report is the second consecutive financial report to be prepared for JBL which has highlighted uncertainty as to the financial position of JBL.

JBL's directors have expressed the view that JBL has adequate financial resources to continue as a going concern and that JBL and the consolidated entity (as that term is defined in the the 2019 half year report) will be able to realise its assets and settle its liabilities in the normal course of business and at the amount stated in the 2019 half year report.

BHD Securityholders should carefully read the 2019 half year report, the Bidder's Statement and this Target's Statement and assess whether the uncertainty as to the financial position of JBL is in accordance with your individual investment strategy. The Voting Directors recommend that you carefully consider the statements made by JBL's directors in the Bidder's Statement regarding JBL's financial position.

The Independent Expert has had the benefit of the 2019 half year report in preparing the Independent Expert Report and assessing the nature of the Improved JBL Offer. The Voting Directors' assessment of this issue is reflected in their recommendation to BHD Securityholders.

2.7 Risk of JBL obtaining voting power of less than 50.1% in BHD

The Improved JBL Offer is not subject to any minimum acceptance condition. While accepting the Improved JBL Offer may assist in mitigating such circumstances, the Voting Directors believe it is likely that JBL will hold less than 50.1% of BHD Shares and less than 50.1% of BHD Options, as it is dependent on acceptances received by BHD Securityholders.

Where less than 50.1% of BHD Securityholders accept the Improved JBL Offer, there is a risk that BHD Securityholders who accept the Improved JBL Offer and become JBL Shareholders will receive materially less value (which arises as JBL may hold less than 50.1% interest in a listed investment company). This means that JBL's interest in BHD may be classified as an equity investment of JBL, rather than as an entity which JBL controls and which may be consolidated for the purposes of JBL's accounts.

The Voting Directors recommend that BHD Securityholders read the Bidder's Statement in its entirety to ensure they are fully informed regarding the likely impact of the varying scenarios disclosed by JBL in relation to the acquisition of BHD Securities and make an informed decision as to whether the JBL investment profile reflects their personal investment strategy and risk profile.

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

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

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

2.9 You may believe a winding up or liquidation of BHD is a better outcome for your investment

The Directors of BHD are aware that the requisitioning shareholders of the Section 249F Meeting have proposed to wind up or liquidate BHD if the resolutions to be considered at the Section 249F are successfully passed. The Independent Expert has estimated that the value of BHD shares in a winding up scenario scenario to be between 49 cents and 52cents per BHD share, noting that this scenario is subject to significant uncertainty in respect of the timing and quantum of any distributions to BHD Shareholders.

BHD Securityholders should note that:

(a) given that BHD is solvent, a members voluntary liquidation (**MVL**) would have to be undertaken. The appointment of a liquidator under an MVL requires a special resolution of members (75% acceptance by voting BHD Shareholders). This is a relatively high voting threshold which may be difficult to achieve;

(b) there is the potential the JBL will take legal action in relation to termination of the investment management agreement;

(c) not all assets are able to be realised immediately. Realisation of the related party loan will likely only occur upon expiry of the loans;

(d) there is the possibility the JBL will restructure BHD's investment portfolio in the intervening period which may make it more difficult to realise BHD's assets within a reasonable timeframe.

If you believe that this would be a better outcome for your investment, you may wish to not accept the Improved JBL Offer for your BHD Securities.

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

If you accept the Improved 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, BHD Securityholders 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 BHD Securityholders to consult with their independent taxation advisers regarding the taxation implications of accepting the Improved JBL Offer given their own particular circumstances.

2.11 Other matters

In considering whether or not to accept the Improved 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 BHD including the Section 249F Meeting or the Section 249D Meeting;

(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 Improved JBL Offer; and

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

2.12 You may wish to continue to hold BHD Shares to participate in the Section 249D Meeting or Section 249F Meeting.

If you accept the Improved JBL Offer, JBL will have a Relevant Interest in your BHD Shares and you will not be able to participate in voting on any resolution considered at the Section 249D Meeting or the Section 249F Meeting.

You may believe that the outcomes described by the requisitioning shareholders of the Section 249D Meeting or the Section 249F Meeting or the expertise of the nominee directors the subject of the resolutions to be considered at the Section 249F Meeting or Section 249D Meeting offer a more attractive proposition than the Improved JBL Offer.

3. Frequently asked questions

This Section 3 answers some commonly asked questions about the Improved JBL Offer. It is not intended to address all relevant issues for BHD Securityholders. 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 BHD Shares?	The Improved JBL Offer is being made by JBL, which: • at the date of the Bidder's Statement holds a Relevant Interest in 46,459 BHD Shares, and Voting Power of 0.19%; • as at the date of this Target's Statement holds a Relevant Interest in 2,568,764 BHD Shares and Voting Power of 10.63%; and • is the investment manager of BHD. Further information in relation to JBL is set out in Section 6 of this Target's Statement.
What is JBL offering for my BHD Shares?	The Share Offer Consideration under the JBL Share Offer is 1.5 JBL Shares per BHD Share.
What is JBL offering for my BHD Options?	The Option Offer Consideration under the JBL Option Offer is 0.50 JBL Options per BHD Option.
What is the Bidder's Statement?	The Bidder's Statement is the document prepared by JBL setting out the terms of the Improved JBL Offer, a copy of which was originally dated and lodged with ASIC and released on ASX on 3 May 2019. It is varied by the Supplementary Bidder's Statement and the Variation Notice.
What is this Target's Statement?	This Target's Statement is BHD's formal response to the Improved JBL Offer. The Target's Statement contains information to help you decide whether to accept the Improved JBL Offer for your BHD Securities and responds to the Bidder's Statement, the Supplementary Bidder's Statement and the Notice of Variation.
What choices do I have as a BHD Securityholder?	As a BHD Securityholder, you have the following choices in respect of your BHD Securities: (a) accept the Improved JBL Offer for your BHD Shares and/or BHD Options; (b) sell some or all of your BHD Shares or BHD Options on-market (noting that this option is only available where BHD is re-admitted to trade on the ASX during the Offer Period); (c) sell some or all of your BHD Shares or BHD Options off-market, unless you have previously accepted the Improved JBL Offer; (d) reject the JBL Offer by doing nothing.

Question	Answer
	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 Improved JBL Offer.
What are the Voting Directors recommending?	The Voting Directors recommend that you accept the Improved 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. These recommendations have been made after consideration of all relevant factors, including the Section 249D Meeting, the Section 249F Meeting and 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 Improved JBL Offer is: (a) fair and reasonable for BHD Shareholders not Associated with JBL; and (b) not fair but reasonable for BHD Optionholders not Associated with JBL. The Independent Expert has valued 100% of BHD Shares at a price of between 50 cents and 55 cents per BHD Share whilst the fair market value of the JBL Share Offer Consideration is between 43 cents and 55 cents per BHD Share (assuming 100% of BHD Shareholders accept the Improved JBL Offer) and between 44 cents and 57 cents per BHD Share (assuming 25% of BHD Shareholders accept the Improved JBL Offer). The Independent Expert has opined that the JBL Share Offer is fair and reasonable to BHD Shareholders not Associated with JBL. The Independent Expert has valued 100% of BHD Options at a price of between 2 cents and 2.8 cents per BHD Option whilst the fair market value of the JBL Option Offer Consideration is between nil and 1 cent per BHD Option. The Independent Expert has opined that, in the absence of a Superior Proposal, the JBL Option Offer is not fair but is reasonable to BHD Optionholders not Associated with JBL. A copy of the Independent Expert's Report is attached to this Target's Statement as Annexure A. You should read the Independent Expert's Report carefully.
Are there any reasons why I might not accept the Improved JBL Offer?	Possible reasons for not accepting the Improved JBL Offer are set out in detail in Section 2 of this Target's Statement.

Question	Answer
How do I accept the Improved JBL Offer?	Instructions on how to accept the Improved JBL Offer are set out in Section 4.2 of this Target's Statement, Section 4 of the Bidder's Statement and the Acceptance Form which accompanies the Bidder's Statement. If you wish to accept the Improved JBL Offer, you should follow these instructions carefully to ensure that your acceptance is valid.
How do I reject the Improved JBL Offer?	To reject the Improved JBL Offer, you do not need to do anything.
I accepted the JBL Offer before 28 May 2019. Will I receive the Improved JBL Offer?	Yes. All acceptances submitted by BHD Securityholders prior to 28 May 2019 will receive the Improved JBL Offer Consideration once the Offers become unconditional.
When does the Improved 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 21 June 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 Improved JBL Offer. BHD Securityholders are also encouraged to monitor the BHD website at http://www.benjaminhornigold.com.au for any updates released by BHD to ASX on the Improved JBL Offer.
What will happen if Superior Proposal emerges?	The Voting Directors will carefully consider any Superior Proposal and will advise you whether the Superior Proposal affects their recommendation that you accept the Improved 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 Improved 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).
What will happen if the Resolutions to considered at the Section 249D Meeting or the Section 249F Meeting are successful?	If a change in directors occurs as a result of the Section 249D Meeting or the Section 249F Meeting the nominee directors will likely review the Improved JBL Offer and the Voting Directors' recommendations. A change in directors will not result in cancellation of the Improved JBL Offer or a cancellation of acceptances.
Can JBL withdraw the Improved JBL Offer?	JBL may be able to withdraw the Improved 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 Improved JBL Offer if you have already accepted it.

Question	Answer
What happens if JBL increases the Offer Consideration?	If you accept the Improved JBL Offer and JBL subsequently increases the Offer Consideration and the Improved JBL Offer becomes unconditional, you will receive the increased consideration for your BHD Shares and BHD Options. However, the increased Offer Consideration will not be available to BHD Securityholders who have already sold their BHD Shares and BHD Options on-market.
Can I accept the Improved JBL Offer for only some of my BHD Shares and/or BHD Options?	No, you cannot accept the Improved JBL Offer for only some of your BHD Shares and/or BHD Options. You may only accept the Improved JBL Offer for all of your BHD Shares and/or BHD Options.
Will I be forced to sell my BHD Shares and/or BHD Options?	You cannot be forced to sell your BHD Shares and/or BHD Options unless JBL proceeds to compulsorily acquire BHD Shares and/or BHD Options 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 BHD Shares (under the Improved JBL Offer or otherwise). If JBL acquires 90% or more of all BHD Shares and proceeds to compulsorily acquire all BHD Securities on issue, then you will be paid the same consideration as is payable by JBL under the Improved JBL Offer, however will receive it later than you would have had you accepted the Improved JBL Offer. 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 Improved JBL Offer?	A non-exhaustive list of risks in accepting or rejecting the Improved JBL Offer is set out in Section 8 of this Target's Statement and the Bidder's Statement. These risks include (in summary): (a) JBL's suspension; (b) circumstances arising from JBL obtaining voting power of less than 50% in BHD; (c) liquidity risks; (d) ASX and NSX listing and suspension considerations; (e) JBL Shares and the available market for JBL Shares; (f) JBL Shareholder approval risk; (g) BHD Shares and the available market for BHD shares; (h) Synergy risks for the Merged Group and JBL; (i) JBL performance risk; (j) BHD performance risk; (k) Commonality of investment manager risk; and (l) Regulatory risk. You should carefully consider the risk factors that could affect the performance of BHD and JBL, potential outcomes of Section 249D Meeting or of the Section 249F Meeting in making a decision regarding the Improved JBL Offer. Many of

Question	Answer
	these risks are outside the control of BHD and its Directors, and cannot be mitigated.
Is JBL still suspended on the NSX? If so, for how long?	JBL remains suspended from the NSX at the date of this Target's Statement. The length of this suspension is unknown to BHD. The NSX suspended JBL from official quotation pursuant to NSX Listing Rule 2.18 on 10 April 2019. The suspension has and will remain in place while the NSX conducts enquiries into JBL. NSX has stated that JBL will be reinstated to official quotation once the NSX's enquiries have been completed and JBL is in compliance with the NSX Listing Rules. JBL has provided responses to NSX queries on 12 April 2019, 17 April 2019, 24 April 2019, 1 May 2019, 9 May 2019 and 16 May 2019. If JBL remains suspended, BHD Securityholders who accept the Improved JBL Offer and receive the Offer Consideration will find their Offer Consideration is illiquid until JBL is reinstated to official quotation.
If JBL is reinstated, could it be suspended in the future?	If JBL is reinstated to the NSX, it is possible it will again be suspended from official quotation in the future. The Voting Directors have reviewed the NSX queries and JBL responses and have formed the preliminary view that the reason for JBL's suspension is not apparent. The Voting Directors cannot finalise this view until the NSX has completed its enquiries and made a final decision on the quotation of JBL's securities. Because the cause and purpose of these circumstances are unclear, there is a risk that, even after reinstatement, JBL may again be suspended from official quotation for the purpose of the NSX conducting additional enquiries. The Voting Directors are unable to provide further guidance to BHD Shareholders based on the publicly available material available to them.
What are the specific risks associated with an investment in JBL	JBL has advised in the Bidder's Statement that the specific risk associated with an investment in JBL are: (a) JBL may be unable to achieve its objectives as investment manager of the entities for which it acts in this capacity; (b) JBL is dependent upon the talent and experience of its key personnel and may be negatively impacted if such people leave; (c) in addition to seeking the reinstatement of JBL Securities to trading by NSX, the level of liquidity of JBL Shares on the NSX market may be lower than on other, larger and more established markets; (d) 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

Question	Answer
	equity markets and adversely impact the value of JBL's assets;
	(e) risks associated with using derivatives for investment, hedging, leverage and investment implementation and exit purposes;
	(f) risks associated with taking short futures positions;
	(g) dependence by JBL upon its investment management agreements;
	(h) dependence by JBL upon the performance and management fees generated by JBL as an investment manager;
	(i) JBL's ability to achieve its performance objectives, produce returns that are positive or compare favourably against its peers;
	(j) JBL's current investment portfolio is heavily focussed on investments in unlisted companies which may mean that achieving a return on investment is more difficult than in larger capitalised or listed companies;
	(k) concentration risk may mean that poor performance in a specific market may significantly affect JBL. In addition, JBL's investments concentrate risk on the financial services industry;
	(l) JBL has an investment of approximately $14 million in BRL. BRL's investment portfolio includes an investment in companies operating in the retail food industry. Risks associated with this industry include concentration risk, property risk, market disruptors (in particular in the form of delivery aggregators) and competition, rising inflationary costs, labour and electricity costs, and funding risks;
	(m) overseas investments of JBL are subject to exchange rate volatility which may reduce the value of JBL's assets;
	(n) entities upon which JBL's investments depend may default on their obligations to JBL;
	(o) governments or regulators may pass laws, create policy or implement regulation that affects JBL or its assets;
	(p) JBL's investments may be difficult or impossible to sell;
	(q) 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;
	(r) leverage risk may mean that gains and losses may be significantly greater than those in a company that is not leveraged;
	(s) 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

Question	Answer
	costs, which may mean that the investment system implemented by JBL may not generate profitable trading signals; (t) JBL may be exposed to certain risks in respect of collateral delivered to counterparties in respect of derivatives arrangements; (u) JBL may not be able to undertake its investment activities if it ceases to be an authorised representative of JB Markets Pty Ltd (AFSL No. 323182); and (v) the most recent audit opinions of JBL and JB Financial Group refer to a material uncertainty regarding going concern. These risks are described in further detail in section 9.2 of the Bidder's Statement. Specific transaction risks associated with the Offers are: (a) the consideration under the Improved JBL Offer is new JBL Shares and/or JBL Options and accordingly: (i) the value of the consideration may fluctuate depending on the value of the JBL Shares and/or JBL Options from time to time; (ii) there may be an adverse impact on the market price of JBL Shares and/or JBL Options, should JBL Shareholders and/or JBL Optionholders or current BHD Shareholders and/or BHD Optionholders who accept the Offers seek to sell JBL Shares and/or JBL Options on market; and (iii) the value of JBL Shares and/or JBL Options at the date of their issue to BHD Shareholders and/or BHD Optionholders may vary from their value on the date of acceptance of the Offers; (b) it is possible that JBL may not acquire all BHD Shares and/or BHD Options under the Offers; (c) where JBL obtains voting power of 50.01% or less in BHD, BHD Shareholders and Optionholders may receive materially less value than if JBL obtains voting power of more than 50.01%. (d) JBL may not receive sufficient acceptances under the Offers for CGT rollover relief to be available to BHD Shareholders and/or BHD Optionholders; and (e) as the consideration payable under the Share Offer consists of JBL Shares and the consideration payable under the Option Offer consists of JBL Options, the interests of JBL Shareholders and JBL Optionholders (including BHD Shareholders and Optionholders who accept the Offers) will be diluted to some degree.

Question	Answer
What happens if I don't accept the Improved JBL Offer	If you do not accept the Improved JBL Offer, you will remain a BHD Shareholder and will not be issued JBL Shares. However, if JBL becomes entitled to compulsorily acquire your BHD Shares, it intends to do so, If this occurs, you will still receive JBL Shares for your BHD Shares but at a later date than you would have received it if you had accepted the Improved JBL Offer. If JBL acquires 90 percent or more of the BHD Shares it is entitled to proceed to compulsory acquisition of the outstanding BHD Shares and elects to do so, JBL intends to amend the constitution of BHD and seek to delist BHD. If JBL acquires more than 50% but less than 90% of BHD, and gains effective control of BHD, JBL would have control of a voting majority in BHD and would be in a position to control the composition of BHD's board. If JBL acquires 75% or more of BHD Shares, it intends to seek the removal of BHD from the ASX. To the extent that BHD is not a wholly-owned subsidiary of JBL, and there are minority shareholders of BHD, JBL intends to ensure that any JBL nominees appointed to the board of BHD act at all times in accordance with their fiduciary duties and that all requisite shareholder approvals and other legal requirements are complied with. Except for the changes and intentions set out in section 8 of the Bidder's Statement, JBL currently intends to continue the existing business of BHD (which may change as new information becomes available or circumstances change).
Is the JBL Share Offer conditional?	Yes, the JBL Share Offer is subject to a single condition (**Defeating Condition**), being, before the end of the Offer Period, the Regulatory Approvals are: (a) granted, given, made or obtained unconditionally, or on the basis of conditions that impose only non-material requirements incidental to the approval or consent; (b) remain in full force and effect; and (c) do not become subject to any notice, indication or intention to revoke, suspend, restrict, modify or renew them. See Section 7.3 of this Target's Statement for further detail on the Defeating Condition.
Is the JBL Option Offer Conditional?	Yes, the JBL Option Offer is subject to the JBL Share Offer.
What happens if the Defeating Condition is not satisfied or waived?	If the Defeating Condition are not satisfied or waived by JBL before the Improved JBL Offer closes, the Improved JBL Offer will lapse. You will then be free to deal with your BHD Shares

Question	Answer
	and/or BHD Options as you see fit, even if you had accepted the Improved JBL Offer. If the Defeating Condition is satisfied or waived by this time, you will be paid the Offer Consideration by JBL (subject to the terms of the Improved JBL Offer in the Bidder's Statement).
When will I receive the Offer Consideration if I accept the Improved JBL Offer?	If you accept the Improved JBL Offer, you will have to wait for the Improved JBL Offer to become unconditional before you will be sent your consideration. See Section 7.7 of this Target's Statement for further information.
What is BHD's current dividend policy?	BHD's dividend policy is to pay up to 50% of realised net profit after tax in dividends to shareholders on a quarterly basis. Any dividend will be franked to the maximum extent possible. Payment of dividends by BHD depends upon: (a) the availability of distributable earnings; and (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 any other factors the BHD Board considers relevant. A special dividend of $0.12 per share was declared by BHD on 15 January 2018 and paid on 9 March 2018. This special dividend was 10% franked. BHD gives no assurances about the payment of dividends, the extent of payout ratios or the future level of franking of dividends. Details regarding JBL's dividend policy is set out in section 12.3 of the Bidder's Statement.
What are the tax implications of accepting the Improved JBL Offer?	A general outline of the tax implications of accepting the Improved 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 Improved JBL Offer. While there is no minimum acceptance threshold, there is a Defeating Condition. As such, a capital gain may occur in the event the Defeating Condition is satisfied or waived.
Who should I call if I have questions?	If you have any further queries in relation to the Improved JBL Offer or how to accept the Improved JBL Offer, you should call 1300 880 467 (within Australia) or +61 1300 880 467 (outside Australia), Monday to Friday between 8.30am and 5.30pm (AEST).

4. Your choices as a BHD Securityholder

4.1 What are your choices?

If you are a BHD Securityholder, you have the following choices available to you:

(a) accept the Improved JBL Offer;

(b) sell some or all of your BHD Securities on-market;

(c) sell some or all of your BHD Securities off-market; or

(d) reject the Improved JBL Offer and do nothing.

*BHD Shares and Options are currently suspended from trade on the ASX. This option is available to BHD Securityholders in the event BHD 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 BHD Securities.

4.2 Accept the Improved JBL Offer

Your Voting Directors recommend that you accept the Improved 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 contents of the Independent Expert's Report and opinion of the Independent Expert contained in the Independent Expert's Report included with this Target's Statement and the contents of the materials provided for the Section 249D Meeting and the Section 249F Meeting received as at the date of this Target's Statement.

(a) How to accept the Improved JBL Offer

If you choose to accept the Improved JBL Offer, then your acceptance must be received by JBL before the end of the Offer Period. Instructions on how to accept the Improved JBL Offer are set out in Section 4 of the Bidder's Statement and on the Acceptance Form that accompanies the Bidder's Statement. If you wish to accept the Improved JBL Offer, you should follow these instructions carefully to ensure that your acceptance is valid.

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

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

(ii) if your BHD Shares and/or BHD Options are in a CHESS Holding and you want to accept the Improved JBL Offer, you should:

(A) instruct your Controlling Participant (normally your broker) to initiate acceptance of the Improved 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 our 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 wish to accept the Improved JBL Offer, acceptance of the Improved 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 Improved 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 Improved JBL Offer (see Section 7.7 of this Target's Statement for further information on timing for issue of the Offer Consideration). Furthermore, JBL will have a Relevant Interest in your shares and will be entitled to exercise the voting rights attached to your Shares at the Section 249D and section 249F Meetings.

The effect of acceptance of the Improved 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 BHD Securities.

Accepting the Improved 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 Superior Proposal that may emerge;

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

(iii) prevent you from otherwise selling your BHD Securities.

The taxation implications of accepting the Improved 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 Improved 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 Improved JBL Offer.

4.3 Sell your BHD Shares and/or BHD Options 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.

BHD has been suspended from trade on the ASX since 30 July 2018, and may remain suspended for the duration of the Offer Period. As a result, BHD Securities are unable to be sold on market.

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

However, in the event that BHD is re-admitted to trade on the ASX during the Offer Period, BHD Securityholders will be free to sell their BHD Shares and/or BHD Options on-market on the ASX, provided they have not already accepted the Improved JBL Offer (or if a BHD Shareholder or BHD Optionholder has accepted the Improved JBL Offer, they have validly withdrawn that acceptance).

BHD Securityholders who sell their BHD Shares and/or BHD Options on-market:

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

(b) may receive more or less for their BHD Shares and/or BHD Options than the consideration under the Improved 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 Condition and the end of the Offer Period, as would be the case if accepting into the Improved JBL Offer.

BHD Securityholders who sell their BHD Shares and/or BHD Options on-market may be liable for capital gains tax 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 BHD Securities on-market.

BHD Securityholders who wish to sell their BHD Shares and/or BHD Options on-market should contact their stockbroker for instructions on how to effect that sale. BHD Securityholders should note that any sale on-market can only occur if BHD is re-admitted to trade on the ASX.

4.4 Sell your BHD Shares and/or BHD Options off-market

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

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 Condition and the end of the Offer Period, as would be the case if you were accepting into the Improved JBL Offer.

BHD Securityholders who sell their BHD Securities off-market may be liable for capital gains tax 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 BHD Securities off-market.

4.5 Reject the Improved JBL Offer and do nothing

If you do not wish to accept the Improved JBL Offer and wish to retain your BHD Shares and/or BHD Options, you do not need to take any action.

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

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

Further, if the Improved JBL Offer is successful (i.e. the Defeating Condition is satisfied or waived) but JBL does not become entitled to compulsorily acquire your BHD Shares and/or BHD Options, you will remain a minority shareholder in BHD with potential adverse implications, including those described in this Target's Statement.

If you do not accept the offer, you will be entitled to exercise the voting rights attached to your BHD Shares at the Section 249D Meeting and Section 249F Meeting.

5. Information relating to BHD

5.1 Introduction

BHD is a listed investment company providing the opportunity to invest in a portfolio which is actively managed by JBL, an investment manager with experienced and skilled personnel.

BHD was incorporated on 28 September 2016 as an unlisted public company limited by shares. On 3 January 2017, it changed its name to Benjamin Hornigold Ltd. On 12 May 2017, it was admitted to the official list of the ASX.

5.2 Overview of business strategy

BHD's investment strategy is to create a portfolio of investments with the most potential for providing returns to shareholders, as assessed by JBL using its high conviction, active investment approach. JBL focuses on identifying and capitalising on opportunities which JBL believes are undervalued and provide significant growth potential. This approach is supported by detailed analysis using JBL's conviction matrix.

JBL utilises its experienced investment team to implement this strategy, and will adopt a staged investment process in selecting appropriate investments.

Investment Returns

BHD believes by allowing JBL to adopt a high conviction philosophy, it will be able to identify and capitalise on opportunities it considers undervalued and with the potential for growth in both the listed and unlisted environments.

Investment returns are generated by following four key decision making stages:

Investment idea generation	• Determine the appropriate valuation of an investment, compared to similar products and within the context of existing investment trends and market conditions. • Identify where there is a fundamental undervaluation or over valuation, and a favourable trend.
Investment decision making	• Taking into consideration the absolute valuation, relative valuations, diversification strategies and risk management processes, select the investment opportunity most likely to result in an increase in valuation and performance.
Monitoring the investment	• Monitor fundamental valuations and macroeconomic factors affecting the investment. • Take into consideration the impact of government policy changes, key data regarding inflation and employment, political events and elections, geopolitical concerns including war and terrorism.
Exiting the investment	• Sell or otherwise liquidate the investment if the investment is no longer favourably priced to deliver an expected reward. versus risk, or if the value of the investment has increased and exiting the investment would provide a return to the Portfolio.

For listed assets, returns are generated upon the sale of those assets on market. For unlisted assets such as unlisted equities, BHD anticipates realising returns through a future sale or the potential listing of such equities, depending on the circumstances of the investment. BHD will only make investments where JBL assesses the prospects for growth are reasonably high and the investment is reasonably valued.

Diversification guidelines

BHD invests in financial products, including listed and unlisted equities, derivatives, futures and cash.

The potential investment universe in which JBL may identify investment opportunities is broad, and is not be restricted to particular sectors, geographical regions, financial products or benchmarks. Instead, investment decisions are based on the level of conviction and include:

(a) listed and unlisted equity securities;

(b) cash and cash-like investments;

(c) derivatives, including OTC products;

(d) currencies; and

(e) structured products.

Location of material assets

BHD trades in domestic and global financial markets, across categories such as listed equities, derivatives and currencies, subject to market conditions.

The cash holdings of BHD may only be invested in bank accounts with Australian authorised deposit taking instructions or such other cash or cash equivalent investments as determined by BHD from time to time.

Short selling assets

BHD does not engage in short-selling physical assets but may hold short futures positions.

In taking short positions, BHD bears the risk of an increase in price of the underlying investment over which the short position is taken. Such an increase could lead to a substantial loss.

BHD's strategy to manage the risks of short positions is to:

(a) control the futures position sizes in each market;

(b) diversify across futures markets; and

(c) take a mixture of long and short positions.

5.3 BHD historical financial information summary

On 28 February 2019, BHD released its audit reviewed results for the half year ended 31 December 2018 financial reports, including the full/half year results release, are available on BHD website at www.benjaminhornigold.com.au.

BHD's financial position as at 31 December 2018 can be summarised as follows:

(a) Total assets of $16,225,055;

(b) Net assets of $15,963,081;

(c) Cash and cash equivalents net of debt of $2,833,570;

For the year ended 31 December 2018, the following results were recorded:

(a) Revenue of $(508,596); and

(b) Net loss of $(1,902,469).

5.4 BHD Director and Senior Management Profiles

Stuart McAuliffe BA, MEd, Grad. Dip. Legal Studies
Executive Chairman

Stuart has over 25 years' experience investing in global equity, bond, currency and commodity markets. 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 with short term technical trading patterns to maximise returns while managing risk.

Stuart has been involved in two successful initial public offerings over the past two years, raising more than $6 million for NSX listed John Bridgeman Limited (NSX: JBL), and over $15 million for ASX listed Henry Morgan Limited (ASX: HML), as well as undertaking several capital raisings for unlisted companies.

He has been managing director of ASX listed Henry Morgan Limited (ASX: HML) since the company was admitted to the ASX in February 2016. Henry Morgan Limited is an ASX listed investment company, which is open for investment by both retail and wholesale investors through the purchase of its shares. The objective of the company is to provide its shareholders with moderate to high portfolio appreciation over the long-term by taking advantage of imbalances in global market valuations through the active management of investments in global exchange traded futures contracts including equity market indices, currency and interest rate futures.

Stuart believes that great investment decisions are derived from an in-depth understanding of historical forces. Stuart's undergraduate degree was a Bachelor of Arts from University of Queensland with 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.

As a former 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.

Stuart McAuliffe has been a Director of BHD since September 2016 and was appointed Managing Director on 24 October 2018, having held the role of Chairman of BHD from February 2017 to October 2018.

He has been Managing Director of JBL since 8 January 2015.

Peter Aardoom
Non-executive Director

Peter Aardoom was appointed as a Non-executive Director in February 2017.

Peter is a highly skilled and experienced financial markets executive. He has excellent technical skills and in-depth knowledge of equity, debt, commodity, foreign exchange and fixed income markets. He 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 commenced his career in Rotterdam in the physical energy markets with Petroned, a subsidiary of Vitol Trading. With the expansion of the oil futures markets, he moved to London to further his career with Itochu and Shearson Lehman Hutton where he worked on one of the largest oil trading desks in the world, servicing predominantly US hedge funds

Since then, Peter has held multiple senior positions with some of the largest international and Australian financial services companies in the world, including Lehman Brothers, Bell Commodities, Ord Minnett Jardine Fleming, JP Morgan and MF Global, and has built and managed successful and professional teams within these organisations.

In more recent years, Peter was the Brisbane manager of Aliom Pty Ltd, a derivatives investment, broking and trading company which managed Aliom Managed Futures Fund No. 1. In the past 3 years, he has been involved in general corporate activity, capital raising, and the successful listings of John Bridgeman Limited and Henry Morgan Limited.

Peter is RG146 qualified to deal in and give advice on securities, derivatives, managed funds and foreign exchange and holds various UK industry qualifications. His extensive network provides access to fund managers, institutions, local and international broking firms and high net worth individuals. His experience extends to institutional investor presentations, marketing, and promotion.

Peter is currently a director of JB Markets, a financial services company operating as a securities and derivatives broker and dealer for wholesale and retail clients. As director and responsible manager, he has direct responsibility for all day to day business decisions about the provision of financial services by the company.

Bryan Cook
Non-executive Director

Bryan Cook was appointed as a Non-executive Director in September 2017.Bryan has extensive operational, leadership and strategic experience built over 24 years in private and public companies. He has a track record of 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.

Peter Ziegler
Non-executive Director

Peter Ziegler was appointed as a Non-executive Director on 28 May 2019.

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 at Ernst & Young and 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.

Jody Wright
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.

6. Information relating to JBL

6.1 Disclaimer

The Improved 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 BHD. BHD 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 BHD

The Improved JBL Offer is being made by JBL.

At the date of the Target's Statement, JBL held a Relevant Interest in 2,568,764 BHD Shares and Voting Power of 10.63%.

6.3 JBL Directors and senior management

John McAuliffe AM | Chairman

John McAuliffe was appointed as Chairman of the JBL Board in March 2015.

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 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 courses 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 a former 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.

Stuart McAuliffe | Managing Director

Stuart McAuliffe's profile is set out in Section 5.4 of this Target's Statement.

Ross Patane | Non-executive Director

Ross Patane was appointed as a JBL Director in March 2015.

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.

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.

Jody Wright | Company Secretary

Jody Wright's profile is set out in Section 5.4 of this Target's Statement.

6.4 JBL's intentions upon acquisition of 90% or more of BHD Shares and/or BHD Options

This Section sets out JBL's current intention if it acquires 90% or more of the BHD Shares and is entitled to proceed to compulsory acquisition of the outstanding BHD Securities.

Compulsory acquisition

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

In those circumstances, JBL is also entitled to acquire BHD Shares issued after the Improved JBL 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 of the Corporations Act, to seek to compulsorily acquire any of the BHD Securities which it has not acquired or have not been exercised if JBL:

(a) achieves 90% voting power in BHD; and

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

If there are any BHD Securities outstanding, JBL intends to compulsorily acquire those BHD Securities if it is able to do so.

Amend BHD constitution

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

ASX listing

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

Directors

JBL intends to replace all members of the BHD Board and of the board of any company on which BHD has nominee directors with JBL nominee directors. Those nominees have not yet been identified by JBL.

Operations

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

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

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

(c) explore other investment strategies for BHD; and

(d) make appropriate provisions for any of BHD's ongoing liabilities.

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

Employees

With the benefit of its detailed review, JBL will consider the best allocation of BHD employees to continuing and new roles. The review of BHD operations may result in redundancies or additional staff recruitment.

JBL's current intention is to continue the employment of the majority of BHD present employees.

If any employees are made redundant, they will receive their full entitlements at law.

BHD notes that despite this statement in section 8.2 of the Bidder's Statement, BHD does not at the date of this Target's Statement have any employees.

6.5 JBL's intentions upon acquisition of between 50% and 90% of BHD Shares

This Section sets out JBL's current intentions if, by virtue of acceptance of the Offers, it was to gain effective control of BHD but was not entitled to proceed to compulsory acquisition of the outstanding BHD Shares and/or BHD Options.

Compulsory acquisition

If JBL does not become entitled to compulsorily acquire BHD Shares and/or BHD Options 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 BHD Shares and/or BHD Options if it becomes entitled to do so.

ASX listing

ASX guidance indicates that ASX would likely approve an application for BHD 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 Share Offer, JBL owns or controls at least 75% of the BHD Shares and the Share Offer remained open for at least two weeks after JBL attained ownership or control of at least 75% of the BHD Shares; and

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

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

Directors

Depending on the level of ownership achieved, JBL intends to replace some of the members of the BHD Board (and the board of any company on which BHD has nominee directors) with JBL nominee directors.

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

To the extent JBL gains effective control of less than 50% of BHD Shares, 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.

BHD Shareholders are referred to section 8 of this Target's Statement which outlines the risks associated with JBL acquiring less than 50% of BHD's Shares.

7. Details about the Improved JBL Offer

7.1 Offer Consideration

The Offer Consideration under the Improved JBL Offer is:

(a) 1.5 JBL Shares per BHD Share; and

(b) 0.50 JBL Options per BHD Options.

7.2 Offer Period

The Improved JBL Offer is open for acceptance from 17 May 2019 until 21 June 2019 (7:00pm Sydney time) unless extended or withdrawn.

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

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

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

However, if the Improved JBL Offer is unconditional (i.e. the Defeating Condition is 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:

(a) JBL improves the Offer Consideration under the Improved JBL Offer; or

(b) JBL's Voting Power in BHD 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 Condition of the Improved JBL Offer

The Improved JBL Offer is subject to the satisfaction of a Defeating Condition which is defined in this Target's Statement and concerns obtaining the relevant Regulatory Approvals. Before the end of the Offer Period, the Regulatory Approvals are:

(a) granted, given, made or obtained unconditionally, or on the basis of conditions that impose only non-material requirements incidental to the approval or consent;

(b) remain in full force and effect; and

(c) do not become subject to any notice, indication or intention to revoke, suspend, restrict, modify or renew them.

7.4 Status of Defeating Condition

Bidder's Statement indicates that, unless the Offer Period is extended, JBL will give a notice of status of the Defeating Condition for the Improved JBL Offer (**Condition Notice**) to the ASX and BHD by 14 June 2019 (subject to variation in accordance with the Corporations Act).

JBL is required to set out in its Condition Notice:

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

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

(c) JBL's Voting Power in BHD (including Voting Power acquired as a result of acceptances received under the Improved 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 BHD Securityholders of the new date for JBL to give the Condition Notice.

If the Defeating Condition is satisfied or waived (so that the Improved 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 BHD a notice that states that the particular Defeating Condition has been satisfied.

7.5 Effect of acceptance

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

In summary, BHD Securityholders who accept the Improved JBL Offer while it remains subject to the Defeating Condition will give up their right to sell their BHD Shares and/or BHD Options on the ASX or otherwise deal with their BHD Shares and/or BHD Options while the Improved JBL Offer remains open, unless they withdraw their acceptance in accordance with the terms of the Improved JBL Offer (see Section 7.6 below).

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

If you accept the Improved JBL Offer and it becomes unconditional, you:

(a) will be obliged to sell your BHD Shares and/or BHD Options to JBL;

(b) will receive the relevant Offer Consideration under the Improved JBL Offer for those BHD Shares and/or BHD Options; and

(c) JBL will have a Relevant Interest in your BHD Shares and be entitled to exercise them at the Section 249D Meeting and the Section 249F Meeting.

7.6 Withdrawal of your acceptance

Once you accept the Improved JBL Offer (even if it remains subject to the Defeating Conditions) you will not be able to sell to otherwise deal with your BHD Securities, subject to your limited statutory rights to withdraw your acceptance in certain circumstances.

BHD Securityholders may only withdraw their acceptance of the Improved JBL Offer if:

(a) The Defeating Condition is not satisfied or waived by the end of the Offer Period. In that situation, you will be free to deal with your BHD Shares and/or BHD Options; or

(b) JBL varies the Improved 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 extends the Offer Period for more than 1 month, while the Improved 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 Improved JBL Offer; and

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

In any event, you will be paid within 21 days after the end of the Offer Period (assuming all Defeating Condition of the Improved 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 Condition 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 Improved 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 Improved 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 Improved 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 Improved JBL Offer.

7.8 Lapse of Improved JBL Offer

The Improved JBL Offer will lapse if the Defeating Condition is not satisfied or waived by the end of the Offer Period. In this case, all acceptances of the Improved JBL Offer will be void and have no effect. In that situation, you will be free to deal with your BHD Shares and/or BHD Options as you see fit.

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

If JBL acquires 90% of BHD Shares (by number) and the Improved JBL Offer becomes unconditional, JBL will be entitled to proceed to compulsory acquisition of all outstanding BHD Securities. JBL has stated that it intends to compulsorily acquire all outstanding BHD Securities 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 BHD Shares to give it a Relevant Interest in 90% (by number) of BHD 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 BHD Shares; and

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

then JBL will be entitled to compulsorily acquire any outstanding BHD Securities for which it did not receive acceptances, on the same terms as the Improved 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 BHD Securityholders who have not accepted the Improved JBL Offer. BHD Securityholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant BHD Securityholders to establish to the satisfaction of a Court that the terms of the Improved JBL Offer do not represent “fair value”.

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

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

General Compulsory Acquisition

BHD Securityholders should also be aware that if JBL does not become entitled to compulsorily acquire BHD Securities 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 BHD 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 BHD Securities; 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 BHD Securities.

JBL has stated that it intends to exercise this power if it reaches the 90% threshold in the future. If BHD Shareholders with at least 10% of BHD 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 BHD Shares the subject to the compulsory acquisition notice.

8. Risk factors

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

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

This Section describes some of the potential risks associated with BHD's business and an investment in BHD. An investment in BHD exposes investors to the specific and general risks facing BHD's 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 BHD's business, financial condition, operating and financial performance and returns to BHD Securityholders. Many of the circumstances giving rise to these risks are beyond the control of BHD, its Directors and management.

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

BHD Securityholders should carefully consider and evaluate BHD and its business and whether they should continue to hold BHD Securities, having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors, as set out below. BHD Securityholders 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 Improved JBL Offer.

8.2 Risks specific to an investment in BHD

(a) Current suspension from trading on ASX

BHD Securities have been suspended from trading on the ASX since 30 July 2018. In relation to the continuing suspension of trading in BHD Securities, the ASX has indicated that it will not lift the suspension at this time, pending further regulatory queries.

In the view of the Directors, it is unlikely that BHD Securities will be re-admitted to trade during the Offer Period, given the ASX has articulated the suspension will remain pending finalisation of regulatory queries. This is outside the control of BHD Directors.

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.[3]

There is a risk that the ASX could exercise its discretion under the ASX Listing Rules and determine that BHD is no longer capable of being listed on the ASX. There is no mechanism for automatic removal of BHD from the official list,

[3] ASX Listing Rule 17.12.

however the discretion of the ASX under the Listing Rules is broad and the ASX has not articulated to BHD as to the steps it can take to cease being suspended.

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 for the benefit of BHD Securityholders. However, there is no certainty as to when, or if, the suspension will be lifted.

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

(b) Re-admission of BHD Securities to the ASX

BHD Shares have been suspended from trading on the ASX since 30 July 2018. If the ASX determines that BHD is able to be re-admitted to trading on the ASX it is likely that BHD Shares will trade at a significant discount to the last trading price of $0.71 per BHD Share given the elapse of time since BHD Shareholders were able to facilitate on-market transactions for their BHD Shares and general market sentiment.

(c) Section 249D Meeting

Certain shareholders have requisitioned the Section 249D Meeting. The purpose of the meeting is to replace the Directors with nominee Directors as detailed in the notice of meeting dispatched for the Section 249D Meeting.

The Directors are of the view that if the proposed resolutions are passed at the Section 249D Meeting, with the result that the new directors are appointed and the Directors are removed, the future of BHD will be uncertain.

As detailed in the notice of meeting for the Section 249D Meeting, each of the nominee directors are directors of RAMcap. Mr Stephen Matthews is the Company Secretary of RAMcap.

RAMcap and Mr Stephen Matthews have corresponded with the Company during 2019 in relation to requests for the register both directly and from time to time, through their legal advisers HWL Ebsworth Lawyers.

The requisition notice was received by the Company under cover of correspondence from HWL Ebsworth advising that they acted for Mr Stephen Matthews. HWL Ebsworth have advised the Company’s legal advisers that they do not act for the nominee directors nor the Requisitioning Shareholders.

The Company is also aware that Mr Stephen Matthews has corresponded with Shareholders for the purposes of identifying Shareholders who were minded to requisition this meeting and seek to appoint the nominee directors. This correspondence advised that RAMcap’s intentions for the Company if their nominee directors were elected to the board would:

> *‘… promptly terminate any and all BHD contracts with associates of the present BHD directors, terminate the employment of the then employees ,realise the BHD assets and deploy the entirety of the proceeds (after setting aside $85,000 for 6 months of administration expenses …) in a portfolio of shares which will be similar to the RAMcap portfolio.*
>
> *… seek to change the name of the company - we’re thinking RAMcap Invest Co Limited- and to have its shares re-quoted on ASX as a regular Listed Investment Company. As a regular LIC there shall be no internal borrowings and we shall seek shareholder approval and implementation of a share buy-back plan.’*

RAMcap is a hedge fund. It was established in March 2018. All correspondence between BHD, the nominee directors and RAMcap has been through Stephen Matthews, the Company Secretary. During background checks, it has come to light that Mr Stephen Matthews was:

(i) On 16 June 1999 found guilty of contempt of court for "disobeying an order made by O'Connor J". The order related to his restraint from publishing reports or allowing to be published reports about securities. Mr Matthews was sentenced to 2 months imprisonment. The sentence was suspended on the basis that Mr Matthews refrain from contravening any of the orders made by O'Connor J for a period of twelve months [ASIC v Matthews [1999] FCA 803];

(ii) On 4 May 2000 found guilty of contempt of court for "breaching court orders preventing him from giving advice and publishing reports about securities" and sentenced to imprisonment for 3 months [ASIC v Matthews [2000] NSWSC 392];

(iii) On 15 August 2001 found guilty of contempt of court for breaching court orders permanently restraining him from "undertaking, either directly or indirectly, the business of advising other persons about securities; and/or publishing securities reports, except as otherwise permitted by the Corporations Law" and sentenced to twelve months imprisonment. The sentence was suspended on the basis that Mr Matthews be of good behaviour for a period of two years [ASIC v Matthews [2001] NSWSC 735]; and

(iv) On 21 April 2009 found guilty of contempt of court for again breaching court orders (as identified in paragraph two above) and sentenced to 6 months imprisonment [ASIC v Matthews [2009] NSWSC 285]. An appeal by Mr Matthews in relation to this sentence was dismissed.

There are no contracts between BHD and associates of the Directors.

Despite the assertions made, BHD is unable to terminate the Management Services Agreement without cause for a term of 5 years from March 2017 (i.e. 2022). After this date, the Management Services Agreement can be terminated by a resolution of Shareholders confirming the termination. Termination fees are payable to the investment manager upon termination in these circumstances.

Any challenge to these terms as proposed by Mr Stephen Matthews would see the Company in a protracted dispute with JBL as BHD's investment manager – a process which would not be for the benefit of Shareholders as they expend further shareholder funds on legal and advisory fees. RAMcap and the nominee directors have not had the opportunity to review the terms of the Management Services Agreement and any such statements by them to Shareholders are misleading and incorrect.

The Directors are of the view that the Section 249D Meeting is akin to a control transaction and are further of the view that a takeover offer is the appropriate mechanism for a control transaction to take place in relation to BHD, rather than the replacement of the directors such as is proposed by the Section 249D Meeting and as set out in Mr Stephen Matthew's correspondence to Shareholders.

The Directors are also concerned that Mr Stephen Matthews would act as a shadow director in circumstances where these resolutions were successful and that he is not a fit nor proper person to participate in the operations of a listed investment company given the issues identified in background checks undertaken by BHD.

The Directors have recommended to Shareholders that they vote against all resolutions proposed at the Section 249D Meeting to mitigate these risks and additional costs which will have a detrimental impact on the NTA of BHD.

(d) Section 249F Meeting

Certain shareholders have requisitioned the Section 249F Meeting. The purpose of the meeting is to replace the Directors with nominee directors as detailed in the notice of meeting dispatched for the Section 249F Meeting.

The Directors are of the view that if the proposed resolutions are passed at the Section 249F Meeting, with the result that the new directors are appointed and the Directors are removed, the future of BHD will be uncertain.

BHD has commenced proceedings in the Supreme Court of Queensland in relation to the Section 249F Meeting in relation to certain identified defects in the notice of meeting, explanatory memorandum and proxy form. As at the date of this Target's Statement the proceedings have not been heard.

The stated intentions of the requisitioning shareholders for the Section 249F Meeting are to:

(i) have BHD's suspension from trading on the ASX lifted;

(ii) have the accounts of BHD forensically examined to gain insight into the financial position of BHD; and

(iii) return the maximum amount of the remaining capital to Shareholders.

The Directors have taken all steps and continue to take steps to seek reinstatement of BHD Securities to trade on the ASX. There is no certainty that if the proposed resolutions are passed that the nominee directors will be in a better position to advance reinstatement.

Forensic examination of accounts is a lengthy and expensive process. BHD has at all times complied with its obligations to provide audited accounts to Shareholders, ASIC and the ASX. Where further queries have been made by ASX in accordance with their discretionary powers under the ASX Listing Rules, those queries have been promptly and fulsomely answered by BHD.

Moreover, the accounts of BHD have been audited on six monthly basis, formerly by KPMG and currently by Pitcher Partners.

The Directors have recommended to Shareholders that they vote against all resolutions proposed at the Section 249F Meeting to mitigate these risks and additional costs which will have a detrimental impact on the NTA of BHD.

(e) Minority ownership consequences and liquidity risk

The Improved JBL Offer is not subject to any minimum acceptance condition. As a result, JBL is likely to be in a position where it holds less than 50.1% of BHD Shares and less than 50.1% of BHD Options.

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

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

(ii) the liquidity of BHD Securities may be lower in the event trading in BHD Securities 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; or

(iv) if the number of BHD Securityholders is less than that required by the ASX Listing Rules to maintain an ASX listing, then the ASX may suspend and/or de-list BHD. If this occurs, any remaining BHD Securityholders will not be able to sell their BHD Securities on-market.

(f) Liquidity risk

There is risk that BHD's underlying investment portfolio may not be easily sold when the investment manager decides it is an appropriate time for them to be sold. A lack of liquidity could result in a loss if the delay in the sale of the 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.

(g) Listed investment Company risks

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) applicable regulatory environment in Australia and internationally.

(h) 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 fluctuation which in many cases reflect a diverse range of non-entity specific influence 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.

(i) 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 BHD's portfolio.

Foreign exchange fluctuations may have a positive or adverse impact on the investment returns of BHD. BHD'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 hedging will be successful. BHD may also hedge the exposure of the other investments in BHD 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.

(j) Derivatives risk

There is a risk that the use of derivatives can have a negative impact on BHD'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 BHD:

(i) 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 will 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, BHD 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). BHD employs derivatives for investment, hedging, leverage and investment implementation and exit purposes.

General risks such as liquidity and counterparty or market risks can be magnified by the use of derivatives because of the leverage effect they exert on BHD. BHD 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 where possible. If BHD enters into any derivative transaction with any other counterparty, it will seek to ensure the counterparty is creditworthy and viable.

(k) Possibility of future BHD Share price and BHD Option price depreciation

The Voting Directors cannot predict whether the BHD Share price and/or the BHD Option price would in fact decrease or increase in the absence of the Improved JBL Offer, as there may be other reasons for share price movements. There is a risk that BHD Securities may trade at a price below the last market price if the Improved JBL Offer does not proceed and no Superior Proposal emerges and BHD is re-admitted to trade on the ASX.

(l) Ability to attract key personnel

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

8.3 Risks associated with accepting the Improved JBL Offer and becoming a JBL Shareholder and/or JBL Optionholder

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

(a) You will not be able to sell your BHD Securities on-market

If you accept the Improved JBL Offer, you will no longer be able to trade your BHD Securities on-market, unless you are entitled to withdraw your acceptance of the Improved JBL Offer in the limited circumstances described in Section 7.6 of this Target's Statement. There is a possibility that the BHD Share or BHD Option price on the ASX may exceed the price offered pursuant to the Improved JBL Offer in 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 BHD will not be re-admitted to trade on the ASX during the Offer Period, which will mean you are unable to trade your BHD Securities on-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 Improved JBL Offer, you will not be able to accept any Superior Proposal (should such a proposal eventuate) as you will have entered a binding contract for the sale of your BHD Securities. 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

JBL Shareholder approval is required for JBL to acquire all of the BHD Shares under the Improved JBL Offer pursuant to NSX Listing Rule 6.41 as the acquisition is a change to the nature and scale of activities of JBL.

These resolutions will be considered by JBL Shareholders at an extraordinary general meeting to be held on 12 June 2019. If JBL Shareholder approval is not received, the Improved JBL Offer may be withdrawn or extended and/or a Supplementary Bidder's Statement may be lodged.

(d) Issue of JBL Securities as consideration

BHD Securityholders are being offered consideration under the Improved JBL Offer that consists of a specified number of JBL Securities (rather than a number of JBL Securities with a specified market value). The market value of JBL Securities at the time at which they are received by BHD Securityholders may vary from their market value on the date that BHD Securityholders accept the Improved JBL Offer. Accordingly, market fluctuations could affect the value of the consideration paid (in the form of JBL Securities) 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 Securities changes during the Offer Period. Some BHD Securityholders may not intend to continue to hold JBL Securities and may wish to sell them on the NSX (subject to JBL being reinstated to official quotation on the NSX, see section 2.5 of this Target's Statement for further details). There is a risk that if a significant number of BHD Securityholders seek to sell their JBL Securities that the share and/or option 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 Securities could also have a material adverse effect on JBL and the price of JBL Securities.

(e) NSX

JBL Securities 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 or may not have the ability to not trade on the NSX. You may need to engage the services of another broker if you wish to sell the JBL Securities you receive if you accept the Improved JBL Offer (subject to JBL being reinstated to official quotation on the NSX, see section 2.5 of this Target's Statement for further details).

(f) Liquidity

JBL Securities are listed on the NSX.

The Voting Directors note JBL Shares have been suspended from official quotation since 10 April 2019 pursuant to NSX Listing Rule 2.18. The suspension has and will remain in place while the NSX conducts enquiries into JBL. NSX has stated that JBL will be reinstated to official quotation once the NSX's enquiries have been completed and JBL is in compliance with the NSX Listing Rules. This is discussed in more detail below.

In the event JBL is reinstated, 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 Securities you receive if you accept the Improved JBL Offer.

The Voting Directors encourage you to read JBL's analysis in section 9 of its Bidder's Statement.

(g) JBL is suspended from official quotation

On 10 April 2019, the NSX suspended JBL from official quotation pursuant to NSX Listing Rule 2.18. If JBL remains suspended, BHD Securityholders who accept the Improved JBL Offer will find their securities illiquid until JBL is reinstated to official quotation.

The suspension has and will remain in place while the NSX conducts enquiries into JBL. There is a risk that JBL may be suspended from official quotation for a lengthy period of time. NSX has stated that JBL will be reinstated to official quotation once the NSX's enquiries have been completed and JBL is in compliance with the NSX Listing Rules.

JBL has provided responses to NSX queries on 12 April 2019, 17 April 2019, 24 April 2019, 1 May 2019, 9 May 2019 and 16 May 2019. The Voting Directors have reviewed the NSX queries and JBL responses and have formed the preliminary view that the reason for JBL's suspension is not apparent. The Voting Directors cannot finalise this view until the NSX has completed its enquiries and made a final decision on the quotation of JBL's securities.

If JBL remains suspended, BHD Securityholders who accept the bid will find their securities illiquid until JBL is reinstated to official quotation. There is a risk that JBL may be suspended from official quotation for a lengthy period of time. Additionally, there is a risk that, even after reinstatement, JBL may again be suspended from official quotation for the purpose of the NSX conducting additional enquiries.

Because the cause and purpose of the suspension are unclear, there is a risk that, even after reinstatement, JBL may again be suspended from official quotation for the purpose of the NSX conducting additional enquiries. BHD cannot speculate on the matter any further.

(h) 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. This could have a material adverse impact on the financial performance of JBL.

(i) Risk of JBL obtaining voting power of less than 50% in BHD

The Improved JBL Offer is not subject to any minimum acceptance condition. While accepting the Improved JBL Offer may assist in mitigating such circumstances, the Voting Directors believe it is likely that JBL will hold less than 50.1% of BHD Shares and less than 50.1% of BHD Options.

Where less than 50.1% of BHD Securityholders accept the Improved JBL Offer, there is a risk that BHD Securityholders who accept the Improved JBL Offer and become JBL Shareholders will receive materially less value (which arises as JBL may hold a less than 50.1% interest in a listed investment company). This means that JBL's interest in BHD may be classified as an equity investment of JBL, rather than as an entity which JBL controls and which may be consolidated for the purposes of JBL's accounts.

The Voting Directors recommend that BHD Securityholders read the Bidder's Statement in its entirety to ensure they are fully informed regarding the likely impact of the varying scenarios disclosed by JBL in relation to the acquisition of BHD and make an informed decision as to whether the JBL investment profile reflects their personal investment strategy and risk profile.

(j) Taxation consequences

The taxation consequences of disposing of your BHD Securities pursuant to the Improved 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.

(k) Management Services Agreement with JBL

JBL is the current manager of BHD pursuant to the Management Services Agreement. The success and profitability of BHD 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 BHD's portfolio of investments is a risk. If the Management Services Agreement is terminated, BHD will need to identify and engage a suitable replacement either externally or employ appropriately qualified investment professionals internally.

The term of the Management Services agreement is 5 years from 29 March 2017. The Management Services Agreement can only be terminated after this time by special resolution of BHD Shareholders and the consent of JBL. After this period, termination fees are payable in the event of early termination equivalent of 5% of the NTA multiplied by the number of BHD Shares on issue as at the termination date on a pro-rata basis (in accordance with the length of time served under the Management Services Agreement). As at the date of this Target's Statement, the termination fee payable to JBL would, based on BHD's calculations be approximately $446,000.

(l) Management Fee description

JBL is the current manager of BHD pursuant to the Management Services Agreement. The success and profitability of BHD 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 BHD's portfolio is a risk. If the Management Services Agreement is terminated BHD would need to identify and engage a suitable replacement either externally or employ appropriately qualified investment professionals internally.

Under the Management Services Agreement with BHD, 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 3% per annum (plus GST) calculated and paid monthly in arrears based on the net tangible assets of BHD and a performance fee paid quarterly in arrears. The performance fee is calculated as 27% of the investment return at the end of the last day of the relevant quarter. The payment for a performance fee in any quarter is subject to BHD achieving a 'highwater mark' hurdle; that is, the net tangible assets (excluding taxes) of BHD on the last business day of the quarter exceeding the previous highest net tangible assets (excluding taxes) achieved by BHD before any performance fee becomes payable.

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 BHD 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 estimates 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 BHD 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 $694,035 (2017: $88,019) and performance fees of $474,795 (2017: Nil).

(m) Commonality of investment manager

JBL also acts as investment manager for other entities including HML, Bartholomew Roberts Pty Ltd ACN 612 024 549 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 BHD and BHD Securityholders and/or the Merged Group.

(n) 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, BHD 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). BHD 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.

(o) Performance of JBL

In section 9.2 of the Bidder's Statement, JBL raised a number of risks related to the general performance of JBL which BHD Securityholders should be mindful of when making a decision. For completeness, these risks are summarised 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) risks associated with the retail food industry;

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

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

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

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

(xvii) 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;

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

(xix) 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;

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

(xxi) 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 BHD encourage BHD Securityholders to carefully read section 9.2 of the Bidder's Statement and the Questions and Answers set out in section 2 of the Bidder's Statement.

8.4 General risks

(a) Fluctuation in price of BHD Securities

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

Generally applicable factors which may affect the market price of securities 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 Securities 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 security prices 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, general market conditions or the retail industry. Depending on the nature of any such changes, it may adversely impact the operations or future financial performance of BHD.

(c) Interest rate fluctuations

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect BHD's cost of servicing these borrowings which may adversely affect its financial position.

9. Tax consequences

The taxation consequences of accepting the Improved 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 BHD Securityholder.

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

In general terms, if you accept the Improved 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 BHD Securityholder. 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 BHD Securityholders should obtain independent taxation advice which is particular to their own personal circumstances, prior to accepting the Improved JBL Offer.

Neither BHD 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, BHD has:

(a) 24,155,241 fully paid ordinary BHD Shares on issue; and

(b) 16,674,856 BHD Options on issue.

10.2 Substantial holders

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

Name	Number of BHD Shares directly held	% of issued capital of BHD	Number of BHD Shares in which hold a Relevant Interest	Voting Power
Stuart McAuliffe	1,000	0.00%	2,568,764	10.63%
John Bridgeman Limited*	45,359	0.19%	2,568,764	10.63%
John Hawkins Pty Ltd*	0	0.00%	2,568,764	10.63%
Henry Avery Partners Pty Limited*	0	0.00%	2,568,764	10.63%
Investment Administration Services Pty Ltd (IAS)	1,166,596	4.83%	1,166,596	4.76%
Wealth Focus Pty Ltd and Sulieman Ravell	1	0.00%	1,748,338	7.238%
GM Enterprises Australia Pty Ltd ATF GTM Super Fund and Victor John Plummer, Jonathan Allan Dixon, Wendy Lynn Cowan and Susan Jean Dixon ATF Dixon Super Fund, Miller Wealth Management Pty Ltd, Acade Pty Ltd (trading as Dixon Financial Group), Inspired Asset Management Pty Ltd, Tony Bennett, Gary Desmond Miller, Susan Jean Dixon, Wendy Lynn Cowen and Jonathan Allan Dixon	1,748,337	7.238%	1,748,337	7.238%

* These substantial shareholders are duplicates, being the relevant interests of entities controlled by Stuart McAuliffe

10.3 Notice of JBL's Voting Power

As at the date of the Bidder's Statement, JBL held a Relevant Interest in 113,398 BHD Shares of and Voting Power in BHD of 0.47%.

JBL is required to notify the ASX and BHD 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 BHD

Shares (being the Relevant Interests in BHD 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 2,568,764 BHD Shares and held Voting Power of 10.63%.

10.4 Directors of BHD

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

Name	Position
Stuart McAuliffe	Executive Chairman
Peter Aardoom	Non-Executive Director
Bryan Cook	Non-Executive Director
Peter Ziegler	Non-Executive Director

Section 5.6 of this Target's Statement provides professional profiles of each of the Directors.

For the purpose of assessing the Improved JBL Offer and in light of the Association between Mr Stuart McAuliffe and JBL, BHD has formed the IBC, which comprises Mr Peter Aardoom and Mr Bryan Cook. The IBC has full delegated authority to deal with all aspects of the Improved JBL Offer. Mr Peter Ziegler is not a member of the IBC given his recent appointment as a BHD Director.

Given his Association with JBL, Mr Stuart McAuliffe is not considered to be an independent director of BHD in relation to the Improved JBL Offer. Accordingly, Mr Stuart McAuliffe has not participated in the consideration given by the Voting Directors to the Improved JBL Offer, or the review of this Target's Statement, until this Target's Statement was presented to the full BHD Board for approval.

10.5 Recommendation of Voting Directors

Each of the Voting Directors unanimously recommend that BHD Securityholders accept the Improved 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).

10.6 Recommendation of Mr Peter Ziegler

Mr Peter Ziegler has formed the view that it is not appropriate for him to make any recommendation due to the short period of time that he has served as a director of BHD.

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 BHD Securityholders should accept or reject the Improved JBL Offer.

10.8 Interests of Directors in BHD Shares and BHD Options

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

Director	Number of BHD Shares directly held	Number of BHD Shares in which hold Relevant Interest	Voting Power	Number of BHD Options directly held	Number of BHD Options in which hold Relevant Interest
Stuart McAuliffe	1,000	2,568,764[4]	10.63%	Nil	1,130,182[5]
Peter Aardoom	Nil	4,535	0.02%	Nil	Nil
Bryan Cook	Nil	7,000	0.03%	Nil	7,000
Peter Ziegler	Nil	Nil	Nil	Nil	Nil

Each Director who owns BHD Securities intends to accept the Improved JBL Offer in respect of their BHD Securities, in the absence of a Superior Proposal.

10.9 Recent dealings in BHD Securities by Directors

No Director has acquired or disposed interests in any BHD Securities in the four months preceding the date of this Target's Statement.

10.10 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 BHD, Mr Stuart McAuliffe is an Associate of JBL.

10.11 Impact of the Improved JBL Offer on BHD's senior management and Director arrangements

Director arrangements

As a result of the Improved 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 BHD or a related body corporate of BHD.

BHD 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:

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

(b) that will or may be given to any person in connection with the transfer of the whole or any part of BHD 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 Improved JBL Offer, other than in their capacity as a holder of BHD Securities.

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

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[4] Relevant interest includes entities Controlled by Stuart McAuliffe.
[5] Relevant interest includes entities Controlled by Stuart McAuliffe.

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

Executive and employee arrangements

BHD does not have any employees. Mr Stuart McAuliffe, Managing Director holds an executive role however does not receive additional remuneration for his services as Managing Director.

10.12 Material contracts

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

10.13 Status of discussions regarding alternative proposals

While the Voting Directors will duly consider any interest received from third parties subject to their obligations under the Corporations 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 including the Section 249D Meeting and the Section 249F Meeting.

The Voting Directors will keep BHD Securityholders informed of any material developments in this regard.

10.14 Material litigation

BHD has commenced litigation in the Supreme Court of Queensland against the shareholders who have convened the Section 249F Meeting. The litigation concerns whether, in convening the Section 249F Meeting, the convening shareholders complied with the requirements of the Corporations Act. If the Supreme Court of Queensland finds that the convening shareholders failed to comply with the requirements of the Corporations Act, the Court may or may not declare that the Section 249F Meeting cannot occur.

BHD has also received correspondence from Australian solicitors retained by certain shareholders alleging various breaches of the Corporations Act, including breaches of directors' duties and conflicts of interest. The Voting Directors are of the view that the allegations have not been clearly articulated, including by reference to relevant evidence. As such, the Voting Directors are not in a position to accurately explain the nature of any litigation that may arise from the allegations, nor the relief a court may grant should the litigation materialise. As at the date of this Target's Statement, it is not known whether any of the allegations will materialise into litigation.

10.15 Consents

Each person named in this Section 10.15 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 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 BHD 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 BHD's 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 BHD's Registry in the form and context in which it is named.

10.16 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. BHD 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 and the NSX). 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.

BHD Securityholders are entitled to obtain from BHD 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 BHD.

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.

10.17 Continuous disclosure

BHD 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 BHD 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, BHD 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 BHD Securities. This obligation has continued to be complied with whilst BHD 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 BHD website at www.benjaminhornigold.com.au.

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

(a) the Half Yearly Report;

(b) the Annual Report;

(c) BHD's Constitution; and

(d) any document lodged by BHD 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 BHD, 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 BHD website at www.benjaminhornigold.com.au.

BHD Securityholders are also encouraged to monitor the BHD website at www.benjaminhornigold.com.au for any updates on the Improved JBL Offer.

The following announcements have been lodged on BHD's ASX platform since the lodgement of the BHD financial report for the half year dated 31 December 2018 (lodgement with ASX on 28 February 2019):

Date	Description of Announcement
30.05.2019	Change in substantial holding from JBL
29.05.2019	Initial Director's Interest Notice – Peter Ziegler
29.05.2019	Change in substantial holding from JBL
28.05.2019	Appointment of Director- Peter Ziegler
28.05.2019	Commencement of Proceedings – section 249F meeting
28.05.2019	Notice of Variation of Offer
28.05.2019	Takeover Announcement – JBL announces increased consideration
28.05.2019	Change in substantial holding from JBL
27.05.2019	Change in substantial holding from JBL
24.05.2019	Change in substantial holding from JBL

Date	Description of Announcement
23.05.2019	Withdrawal of Requests to Convene Meeting Under Section 249D
17.05.2019	JBL Notice of Dispatch of Bidder's Statement
17.05.2019	Bidders Statement – Off-market bid
15.05.2019	Net Tangible Asset Backing
14.05.2019	First Supplementary Bidder's Statement (clearer version)
13.05.2019	Notice of General Meeting/Proxy Form
13.05.2019	Company Secretary Appointment/Resignation
08.05.2019	Section 249F Notice of Meeting
03.05.2019	Change in substantial holdings from JBL
03.05.2019	Offers for Securities in BHD by John Bridgeman
03.05.2019	JBL Bidder's Statement takeover offers for BHD
29.04.2019	Shareholder correspondence
26.04.2019	JBL to make takeover offer for BHD
26.04.2019	John Bridgeman takeover offer for Benjamin Hornigold
26.04.2019	Receipt of Notice under Section 249D
15.04.2019	Net Tangible Asset Backing
12.04.2019	Becoming a substantial holder
01.04.2019	JBL Confirmation of payment
29.03.2019	Response to ASX Query
22.03.2019	Becoming a substantial holder
22.03.2019	Notice of proposed general meeting
18.03.2019	HML Variation of Orders
14.03.2019	Net Tangible Asset Backing
13.03.2019	Third Supplementary Bidders Statement
12.03.2019	Update on Orders
07.03.2019	JBL Repayment to BHD
07.03.2019	Update on John Bridgeman takeover offer
05.03.2019	JBL Update on BHD takeover offer
28.02.2019	Half Yearly Report and Accounts

10.18 Insurance and indemnities

BHD 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 BHD, except liability to BHD 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, BHD 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 BHD's constitution, against personal liability arising from their respective positions with BHD and its related bodies corporate. This obligation has continued to be complied with whilst BHD has been suspended from trade on the ASX. BHD holds a directors' and officers' insurance policy on behalf of current Directors and officers of BHD and its Controlled Entities.

10.19 No other material information

This Target's Statement is required to include all the information that BHD Securityholders and their respective professional advisers would reasonably require to make an informed assessment whether to accept the Improved JBL Offer, but only to the extent to which it is reasonable for BHD Securityholders 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 Voting Director of BHD.

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

(a) the nature of BHD Securityholders;

(b) matters that BHD Securityholders may reasonably be expected to know;

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

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

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

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

(f) BHD Annual Reports, Half Year Report and releases to the ASX before the date of this Target's Statement;

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

(h) 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 and Supplementary 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 26 April 2019, being the date of announcement of the JBL Offer.
Annual Report	means BHD's 2018 annual report for the financial year ended 30 June 2018, as released to the ASX on 1 November 2018.
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.
BRL	means Bartholomew Roberts Pty Ltd (ACN 612 024 549) and each of its Controlled Entities and, here relevant, means one of more of those Controlled Entities, as the context requires.
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.
BHD Board	means the board of Directors of BHD.
BHD Options	means an option to subscribe to ordinary shares in the capital of BHD.
BHD Optionholder	means a holder of BHD Options.
BHD Securities	means BHD Shares and BHD Options.
BHD Securityholders	means BHD Shareholders and BHD Optionholders.
BHD Shares	means a fully paid ordinary share in the capital of BHD.
BHD Shareholder	means a holder of BHD Shares.
BHD Registry	means Link Market Services Limited ABN 54 083 214 537 of Level 21, 10 Eagle Street, Brisbane Qld 4000.
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 3 May 2019 and the Supplementary Bidder's Statement.
BRL	Bartholomew Roberts Pty Ltd ACN 612 024 549
Broker	means a person who is a share broker and a participant in CHESS.
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 BHD Shares and/or BHD Options on the CHESS sub-register of BHD.
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.
Controlled Entities	has the meaning given in the Accounting Standards.

Controlling Participant	means the Participant who is designated as the controlling participant for BHD Shares or BHD Options in a CHESS Holding in accordance with the ASX Settlement Operating Rules.
Corporate Proposal	means a proposal for a corporate transaction involving BHD Shares which, in the view of the Voting Directors, is capable of completion.
Corporations Act	means *Corporations Act 2001* (Cth).
Defeating Condition	has the meaning given in section 13 of the Bidder's Statement as repeated here. The Share Offer and any contracts resulting from acceptance of the Share Offer are subject to fulfilment of the following condition. Before the end of the Offer Period, the Regulatory Approvals are: (a) granted, given, made or obtained unconditionally, or on the basis of conditions that impose only non-material requirements incidental to the approval or consent; (b) remain in full force and effect; and (c) do not become subject to any notice, indication or intention to revoke, suspend, restrict, modify or renew them.
Director	means a director of BHD as at the date of this Target's Statement.
Follow On Compulsory Acquisition	has the meaning given in Section 7.9 of this Target's Statement.
Foreign Shareholder	means a BHD Shareholder whose address on the BHD 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).
Half Year Report	means BHD's audit reviewed financial report for the half year ended 31 December 2018, as released to the ASX on 28 February 2019 and supplemented by further disclosure made to the ASX on 29 March 2019.
HML	means Henry Morgan Limited (ACN 602 041 770).
IBC	means the Independent Board Committee established by the BHD Board to consider the JBL Offer and Improved JBL Offer and comprising the Voting Directors.
Improved JBL Offer or JBL Offer	means the offer made by JBL to acquire all BHD Shares and BHD Options on the terms set out in the Bidder's Statement, as varied by JBL on 28 May 2019

	pursuant to section 650D of the Corporations Act to increase the offer consideration to 1.5 JBL Shares per BHD Share and 0.5 JBL Options per 1 BHD Option.
Independent Expert	means Leadenhall Corporate Advisory Pty Ltd.
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 A.
Issuer Sponsored Holding	means a holding of BHD Shares and or BHD Options on the BHD issuer sponsored sub-register.
JBL	means the bidder, John Bridgeman Limited (ACN 603 477 185) and each of its subsidiaries.
JBL Option	means an option to subscribe to ordinary shares in the capital of JBL.
JBL Option Offer	means the offer by JBL to acquire BHD Options on the terms and conditions contained in the Bidder's Statement.
JBL Optionholder	means a holder of JBL Options.
JBL Securities	means JBL Shares and JBL Options.
JBL Share	means a fully paid ordinary share in the capital of JBL.
JBL Shareholder	means a holder of JBL Shares.
JBL Share Offer	means the offer by JBL to acquire BHD Shares on the terms and conditions contained in the Bidder's Statement.
Merged Group	means JBL and each of its Subsidiaries (including, potentially, BHD) 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.
JBL Offer	means: (a) the Share Offer; and (b) the Option Offer, and **Offer** means either one of them or both, as the context requires.
Offer Period	means the period from17 May 2019 until 7:00pm (Sydney time) on 21 June 2019], unless the Improved JBL Offer is further extended or withdrawn.

Offer Consideration	means the Option Offer Consideration and the Share Offer Consideration as varied by the Variation Notice.
Option Offer Consideration	means 0.50 JBL Options per BHD Option, being the consideration to be provided to BHD Shareholders under the JBL Offer.
Participant	has the meaning given in the ASX Settlement Operating Rules.
Ramcap	means RAMcap Limited ACN 624 983 964.
Register Date	means 6 May 2019 , being the date set by JBL under section 633(2) of the Corporations Act.
Regulatory Agency	has the meaning given in section 13 of the Bidder's Statement.
Regulatory Approval	has the meaning given in section 13 of the Bidder's Statement.
Regulatory Authority	has the meaning given in section 13 of the Bidder's Statement.
Relevant Interest	has the meaning given in section 9 of the Corporations Act.
Section	means a section of this Target's Statement.
Section 249D Meeting	means the resolutions to be considered at a general meeting requisitioned by certain shareholders representing 5% of the issued capital of BHD (and as set out in the notice of meeting and explanatory memorandum dated 13 May 2019) seeking the removal of the Directors and appointment of new directors associated with RAMcap, to be held at 2.00pm on 12 June 2019.
Section 249F Meeting	means the resolutions to be considered at a general meeting requisitioned by certain Shareholders representing 5% of the issued capital of BHD (and as set out in the notice of meeting and explanatory memorandum dated 6 May 2019) seeking the removal of the Directors and appointment of directors associated with the requisitioning Shareholders, to be held at 1.00pm on 13 June 2019.
Share Offer Consideration	means 1.5 JBL Shares per BHD Share, being the consideration to be provided to BHD Shareholders under the Improved JBL Offer, as set out in Section 7.1 of this Target's Statement.
Subsidiaries	has the meaning given to that term in Section 9 of the Corporations Act.
Superior Proposal	means a corporate action in relation to the acquisition of BHD Shares that: (a) is actually proposed or offered; and (b) in the determination of the BHD Board, acting in good faith and satisfying its fiduciary and statutory duties:

	(i) would be likely to be completed substantially in accordance with its terms; and (ii) if completion of that corporate action occurred, would result in a transaction more favourable to BHD Shareholders than the Improved JBL Offer.
Supplementary Bidder's Statement	means JBL's supplementary bidders statement dated 14 May 2019 supplementing the Bidder's Statement.
Target's Statement	this document, being BHD's target statement.
Voting Power	has the meaning given in section 610 of the Corporations Act.
Variation Notice	means the notice served on BHD by JBL pursuant to section 650D of the Corporations Act, increasing the offer consideration from 1 JBL Share per 1 BHD Share and 0.5 JBL Options per 1 BHD Options to 1.5 JBL Shares per 1 BHD Share and 0.5 JBL Options per 1 BHD Option.
Voting Directors	Mr Peter Aardoom and Mr Bryan Cook.

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 30 May 2019 (being the date on which this Target's Statement was lodged with ASIC) and has been approved by a resolution of the Directors of BHD.

Signed for and on behalf of BHD:

Peter Aardoom
Non-Executive Director

30 May 2019

13. Corporate Directory

13.1 Directors

Stuart McAuliffe
Peter Aardoom
Bryan Cook
Peter Ziegler

13.2 Company Secretary

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 BHD Registry

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

Annexure A Independent Expert's Report

BENJAMIN HORNIGOLD LIMITED

Proposed Acquisition By John Bridgeman Limited

Independent Expert's Report and Financial Services Guide

30 May 2019

Now you know LEADENHALL

30 May 2019

The Independent Directors
Benjamin Hornigold Limited
GPO Box 3112
Brisbane QLD 4001

Dear Directors,

Independent Expert's Report for Benjamin Hornigold Limited

1. Introduction

Benjamin Hornigold Limited ("**BHD**") is a listed investment company ("**LIC**") listed on the Australian Securities Exchange ("**ASX**"). Whilst BHD is listed on the ASX, trading in its shares has been suspended since July 2018.

BHD'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. JBL has been listed on the National Stock Exchange of Australia ("**NSX**") since May 2015, although its shares have been suspended from trading since 10 April 2019.

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

- BHD's activities primarily comprise trading in derivatives contracts and investmenting in foreign currency traded by JB Financial Group Pty Ltd's ("**JBFG**") foreign currency business and loans advanced to JBFG and JBL.
- The main investment of JBL is JBFG, an unlisted financial services company with operating businesses encompassing foreign exchange retailing, securities brokerage and trading and a mercantile services business. JBL has a direct interest in JBFG and an indirect interest through a controlling interest in Bartholomew Roberts Pty Ltd ("**BRL**"), an unlisted investment company whose main investment is a 32.8% interest in JBFG.
- JBL is also the investment manager for Henry Morgan Limited ("**HML**"), a LIC with a focus on investing in global markets. After completion of an off-market takeover offer for HML, JBL has a 46.28% interest in HML. HML's principal investment is an interest in JBFG.

On 26 April 2019, JBL announced its intention to make an off-market takeover offer for all of the issued shares and options in BHD for consideration of 1.0 JBL share for each BHD share ("**BHD Offer"**) and 0.5 JBL options for each BHD option ("**BHD Option Offer"**). On 28 May 2019, JBL announced an increase in the consideration offered pursuant to the BHD Offer to 1.5 JBL shares for each BHD share.

Further details on the BHD Offer, the BHD Option Offer and the relationships of BHD and JBL are set out in Section 1 of our detailed report.

2. Purpose

As JBL and BHD have a common director (Mr Stuart McAuliffe), the independent directors of BHD have requested Leadenhall Corporate Advisory Pty Ltd ("**Leadenhall**") to prepare an independent expert's report ("**IER**") to assess whether the BHD Offer is fair and reasonable to BHD shareholders not associated with JBL ("**BHD 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 BHD in order to assist the BHD Non-Associated Shareholders in their consideration of the BHD Offer. As part of our analysis we will also assess whether the BHD Option offer is fair and reasonable to BHD optionholders not associated with JBL.

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ABN 11 114 534 619 AFSL 293586

3. Basis of evaluation

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

- Assessed it as fair if the value of a BHD share (on a control basis) is less than or equal to the value of the proposed consideration, being 1.5 JBL shares after the BHD Offer ("**Enlarged JBL**") on a minority basis.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to BHD Non-Associated Shareholders outweigh the disadvantages.

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

4. Revised consideration

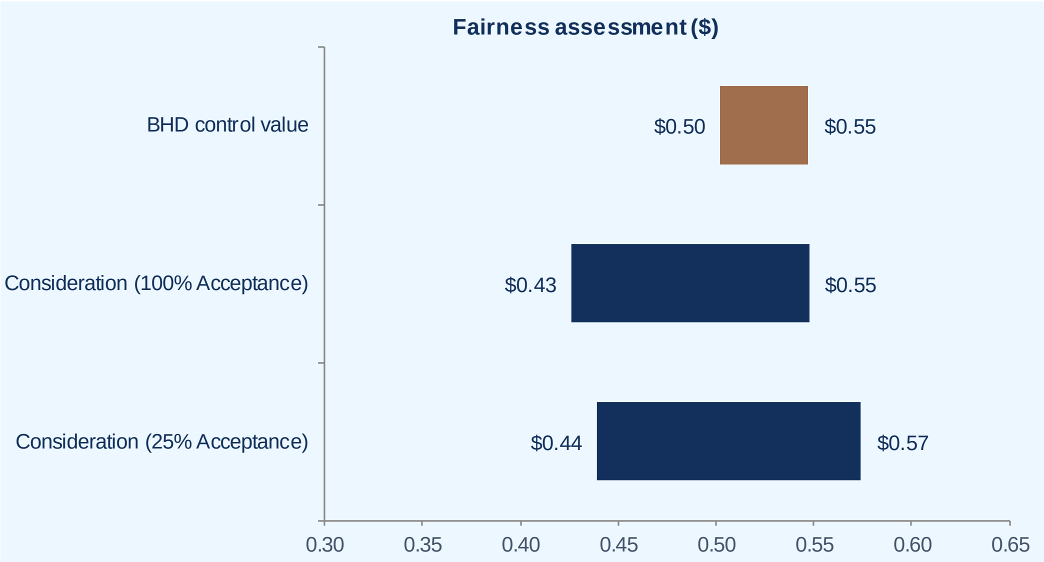
Prior to the announcement of the increased consideration pursuant to the BHD Offer we provided a substantially complete draft of our IER to the independent directors of BHD. Subsequent to receipt of the revised terms of the BHD Offer we issued our final report with the conclusions set out below.

5. The BHD Offer is fair

Conclusions

The value of a share in Enlarged JBL will vary depending on the number of BHD shareholders that accept the offer. For the purpose of our analysis we have therefore considered a range of scenarios of BHD shareholder acceptance as set out below:

Figure 1: Fairness summary



Source: Leadenhall analysis
Note: Table subject to rounding

As set out above, we have determined that the fair market value of the 1.5 shares in Enlarged JBL (on a minority basis) to be received as consideration is within our assessed range of the fair market value of a BHD share (on a control basis). Accordingly the BHD offer is fair. As set out above, our conclusion does not change regardless of the level of BHD shareholder acceptance.

We note that the fair market value of Enlarged JBL declines for higher acceptance levels of the BHD Offer as the issue of shares by JBL pursuant to the BHD Offer is dilutive to JBL shareholders.

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Value of BHD

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

Table 1: BHD valuation summary

$'000	Low	High
Investments		
Foreign currency notes	6,759	6,759
Related party loans and convertible notes	4,383	4,383
Interest in JBL	15	15
Total investments	**11,157**	**11,157**
Other net assets		
Net cash	2,041	2,041
Other net assets	116	116
Deferred taxes (net)	-	1,220
Management agreement termination	(388)	(423)
Other realisation costs	(466)	(418)
Total other net assets	**1,303**	**2,535**
Assessed net asset value	**12,460**	**13,692**
Dilutionary impact of options	(330)	(472)
Net asset value after options	**12,130**	**13,220**
Number of shares ('000)	24,155	24,155
Value per share ($)	**0.50**	**0.55**

Source: Leadenhall analysis
Note: Table subject to rounding

Key assumptions adopted in our assessed value of BHD include:

- We have assumed that the investments of BHD (including loans and other receivables from JBL and other related parties) could be realised in an orderly basis.
- We have allowed for realisation costs in the event the portfolio was to be realised including management agreement termination costs, potential tax leakage and transaction costs.

Further details of our assessed value of BHD are are set in Section 7 of our detailed report.

We highlight that our assessed value of a BHD share should not be considered to reflect the price at which BHD shares would trade if the BHD Offer lapses and the current trading suspension of BHD shares is lifted. The price at which BHD shares would trade in this scenario will depend on a range of factors including JBL's holding subsequent to the offer, the likely significant selling pressures when/if BHD shares are able to be traded again and ongoing costs and management fees incurred by BHD. As a result of these factors we consider it likely that BHD 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 sum of the parts ("**SOTP**") analysis for each of JBL's underlying investments and businesses (as well as other net assets/liabilities). For the purpose of our analysis we have relied on publicly available information (including information included in our previous IER's for BHD and HML) in respect of JBL as we have not had access to JBL management for the purpose of this report.

In assessing the fair market value of Enlarged JBL we have considered the following factors:

- We prepared a valuation of enlarged JBL as part of the IER for the HML Offer issued 29 March 2019. We have considered any changes to our assessed value of Enlarged JBL based on our understanding of the underlying businesses of JBL and HML and public announcements made since the date of our IER.
- The dilutionary impact of options on issue and to be issued pursuant to the BHD Offer.
- A discount for lack of control ("**DLOC**") of 5.0% to 7.5% to reflect the minority position BHD Non-Associated Shareholders will have 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) has been prepared on a minority basis.
- A discount for lack of marketability ("**DLOM**") of 20% to 30% to reflect that whilst shares in Enlarged JBL will be listed:
  - JBL is currently in a trading suspension with no clear guidance on when this will be lifted.
  - Even if the suspension is lifted, 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. For example, excluding the buyback by JBL, only 17,678 shares have been traded in the 12 months to 10 April 2019 when JBL was suspended from trading by the NSX.
  - 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 positive 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 2: Enlarged JBL summary

$'000	BHD (100%)		BHD (25%)	
	Low	High	Low	High
Investments				
Interest in JBFG	7,257	7,775	7,257	7,775
Interest in HML	11,189	12,774	11,189	12,774
Interest in BRL	9,160	10,105	9,160	10,105
Interest in BHD (including options)	13,314	14,534	2,828	3,133
Total investments	**40,920**	**45,188**	**30,434**	**33,788**
Other net liabilities				
External funds management business	-	100	-	100
Corporate costs	(5,600)	(5,600)	(5,600)	(5,600)
Net debt	(3,728)	(3,728)	(3,728)	(3,728)
Related party loans	(8,523)	(8,523)	(8,523)	(8,523)
Other net assets	7,588	7,588	7,588	7,588
Deferred taxes	-	(507)	-	(507)
Total net liabilities	**(10,263)**	**(10,670)**	**(10,263)**	**(10,670)**
Assessed value of Enlarged JBL	**30,657**	**34,519**	**20,171**	**23,118**
Dilutive impact of options	(13)	(58)	(12)	(59)
Assessed valued of Enlarged JBL after options	**30,644**	**34,460**	**20,160**	**23,060**
Discount for lack of control	5%	5%	7.5%	7.5%
Assessed value of Enlarged JBL (marketable minority)	**29,112**	**32,737**	**18,648**	**21,330**
Discount for lack of marketability	30%	20%	30%	20%
Assessed value of Enlarged JBL (illiquid minority)	**20,378**	**26,190**	**13,053**	**17,064**
Number of JBL shares on issue ('000)	71,748	71,748	44,574	44,574
Value per share ($)	**0.28**	**0.37**	**0.29**	**0.38**

Source: Leadenhall analysis
Note: Table subject to rounding

Further details of our assessed value of Enlarged JBL are are set in Section 8 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 BHD Offer, available liquidity, operational performance of JBL and its investments, ongoing costs and the regulatory and political environment.

6. The BHD Offer is reasonable

Introduction

As the BHD Offer is fair it is also reasonable. However, we have also considered the advantages and disadvantages of the transaction as set out below.

Advantages

There are limited alternatives are available to BHD

The outlook for BHD is very uncertain at the moment since:

- BHD has been in a trading suspension since July 2018 and there is no visibility on when this will be lifted. Furthermore, it would seem unlikely that BHD 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. In the absence of significant cash profits (which have not occurred to date) it is also likely that shareholder value would continue to be eroded through management fees, listing fees and administration costs.
- BHD is managed by JBL pursuant to an investment management agreement ("**IMA**") with an initial term to 29 March 2022. Based on our understanding of the agreement, other than in the case of any form of insolvency or material breach of the agreement, the IMA cannot be terminated without incurring an early termination fee.
- Two separate meetings of BHD shareholders have been called under Section 249D and 249F of the Corporations Act to consider the nomination of new board members and alternative courses of action which may include realising the investments of BHD. However, the outcome of these meetings is uncertain.

In the absence of any alternate takeover offer, the ability of BHD's shareholders to successfully consider alternate courses of action for the investments of BHD without the support of JBL as manager appear to be limited to a liquidation of BHD. As discussed below, this scenario is subject to significant uncertainty in respect of the timing and quantum of any distributions to shareholders.

The share price of Enlarged JBL may benefit from potential synergies

Enlarged JBL may benefit from potential scale benefits as well as cost 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 BHD Offer exceed 75% and JBL delisted BHD, 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 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 trading suspension and historical lack of liquidity of JBL shares as mentioned above.
- The timing and quantum of any distributable cash flow benefits from synergies is uncertain.

Disadvantages

Liquidation of the portfolio may provide a better outcome than the offer from JBL

We have considered the value to BHD Non-Associated shareholders in a liquidation scenario as set out in Appendix 7. We note that this analysis has been conducted on a stand-alone basis and does not explicitly consider any specific implications if a new board of directors is formed.

In analysing the potential value to shareholders in this scenario we have assumed that:

- All investments are realised at their current values as the majority of BHD's investments are in on-demand currency notes and cash.
- The loans to JBL and JBFG would be realised at maturity within 12 months.
- Ongoing operating costs based on recent run-rates of operational costs for BHD.
- Estimated liquidation costs based on discussions with administrators over likely costs for liquidation.

Based on our analysis the potential realisable value to BHD shareholders in this scenario is between $0.49 to $0.52 per BHD share. Approximately $8.8 million ($0.36 per BHD share) of BHD's investments are held in cash and on-demand currency notes which could provide access to some liquidity in the near-term.

In evaluating this alternative it is important to highlight that:

- This would require a special resolution which must be passed by at least 75% of the shareholders entitled to vote. As a result, if JBL and its associated entities were to acquire a relevant interest of 25% or more this course of action would likely not be available to BHD shareholders. As at the date of this report, JBL has a relevant interest in BHD of 10.63%. Furthermore, prior to the cancellation of the acceptances required by the Takeover Panel Orders, JBL had a relevant interest in BHD of 37.1%. As JBL has improved the financial terms of the BHD Offer, it is possible that BHD shareholders who previously accepted the Initial BHD Offer will accept the BHD Offer.
- $4.4 million of BHD's net assets comprise loans with JBL and other companies in which JBL has interests. There is likely to be a very limited market for potential acquirers of these assets if any. As a result it would be necessary to realise these loans as they mature over the next 12 months. Whilst exposure to JBL and JBFG would remain in this scenario as a consequence of these loans, any deterioration in JBL's and/or JBFG's ability to satisfy these obligations at the date of maturity may also indicate a deterioration in the value of JBL shares which BHD Non-Associated Shareholders would be exposed to if they were to accept the BHD Offer.
- As a result of the above and the nature of a liquidation process, it is possible that the costs incurred will be greater than envisaged and there could be a protracted timeline prior to any distributions to shareholders. Furthermore, it is possible that this course of action will be challenged by JBL which could result in additional costs and delays.
- There is the possibility that JBL will restructure BHD's investment portfolio prior to any shareholder meeting held to consider the winding up of BHD which may make it more difficult to realise BHD's assets within a reasonable timeframe.

Going concern risks

JBL's financial report for the half year ended 31 December 2018 highlighted uncertainty as to the ability of JBL (inclusive of the consolidated operations of JBFG) to operate as a going concern for the second consecutive reporting period. JBL's directors have expressed the view that JBL and JBFG have adequate financial resources to continue as a going concern and that JBL will be able to realise its assets and settle its liabilities in the normal course of business and at the amount stated in the 2019 half year report. However there remains material uncertainty about JBL's ability to fund any continuing operating losses within the group. It is therefore possible that shareholders accepting the offer may realise no value for their shares in the event of the insolvency of JBL.

JBL is able to access additional value which is not included in the consideration

Due to the current IMA between JBL and BHD, and BHD providing funding for foreign currency notes to JBFG, it is likely that if JBL were acquire control of BHD, JBL would realise synergies and other benefits that may not be available to other potential acquirers of BHD. As our analysis of BHD did not attribute any value to these benefits we do not consider that any such special or strategic value is included in the consideration pursuant to the BHD Offer.

Risks of JBL obtaining a relevant interest of less than 50% in BHD

At the time of our previous IER for BHD, JBL had a 37.1% relevant interest in BHD which was reduced to 0.19% due to the Takeover Panel Orders. As at 29 May 2019, JBL had a 10.63% relevant interest in BHD. If JBL acquires in excess of 50% of BHD, it is JBL's intention to replace all BHD directors, evaluate the performance and strategy of BHD and, should JBL obtain in excess of 75% of BHD, delist BHD from the ASX.

The most significant detriment to the value of Enlarged JBL if JBL was to acquire less than 50% of BHD is the continuing costs associated with BHD operating as a listed entity. These include listing and compliance costs, external directors fees and significant audit and accounting fees. Due to the small scale of BHD and uncertain investment returns, these costs would likely erode shareholder value in the absence of any trading gains or realised returns from investments.

Enlarged JBL shares may not provide access to any incremental liquidity

Shareholders who accept the BHD Offer will receive shares in Enlarged JBL that are listed on the NSX but currently suspended from trading. If the trading suspension is lifted shareholders who accept the BHD Offer may have additional access to liquidity but there are considerable risks as to when and if any liquidity will be available to BHD shareholders. For example:

- There is no visibility of when the current trading suspension for JBL will be lifted.
- JBL shares have historically been extremely illiquid. We consider it unlikely that this would change in the near-term regardless of whether the BHD Offer proceeds.

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

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

- Our assessed value of JBL is largely driven by its direct and indirect interest in JBFG, a diverse group of financial services businesses. JBFG is an unlisted company that has been loss-making historically. Future returns to shareholders of Enlarged JBL will therefore be dependent on JBL's ability to achieve returns through growth in operating cash flows and/or achieving a liquidity event for all or some of the assets or businesses of JBFG, both of which are highly uncertain.
- The auditors of JBL and JBFG have identified going concern risks in recent financial reports (including 31 December 2018 for JBL). To the extent these risks become pervasive, it is likely that JBL shareholders would receive little, if any, value for their shares.
- JBL and/or JBFG may require substantial additional capital in the future which will defer the ability to pay dividends and may dilute the ownership interests of shareholders that don't participate in any future capital raisings.

Furthermore, an investment in Enlarged JBL will result in the following changes to BHD shareholder's investment profile:

- 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 poor investment track record of JBL and the prolonged line of enquiry between JBL, a number of the entities they manage and the regulators of the NSX and ASX.
- 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 BHD, BHD investors may 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.
- BHD shareholders will not control JBL.

There are execution risks associated with the BHD Offer

The BHD offer is subject to JBL shareholder approval. Furthermore, the outcome and any implications of the shareholder meetings being convened under Sections 249D and 249F of the Corporations Act are uncertain.

Tax implications

As set out in Section 9 of the Target's statement, if shareholders accept the BHD 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. Opinion on BHD Offer

In our opinion, for the above reasons the BHD Offer is fair and reasonable to BHD 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 BHD Offer is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the BHD 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.

8. The BHD Option Offer is not fair but reasonable

Basis of evaluation

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

- Assessed if the BHD Option Offer is fair if the value of a BHD option is less than or equal to the fair market value of the proposed consideration, being the value of the options in Enlarged JBL to be issued as consideration.
- Assessed it as reasonable if it is fair, or despite not being fair, the advantages to holders of BHD Options ("**BHD Optionholders**") outweigh the disadvantages.

Summary

Our fairness assessment of the BHD Option Offer is summarised below.

Figure 2: BHD Option Offer Fairness summary

Fairness summary - BHD Option Offer				
$ / share	**100%**		**25%**	
	Low	**High**	**Low**	**High**
Assessed value per BHD Option	0.020	0.028	0.020	0.028
Consideration				
Assesed value of Enlarged JBL Options	0.000	0.002	0.001	0.003
JBL options issued as consideration	0.50	0.50	0.50	0.50
Fair market value of consideration	**0.000**	**0.001**	**0.000**	**0.001**
Fair (unfair) amount per option	**(0.020)**	**(0.027)**	**(0.019)**	**(0.027)**

Source: Leadenhall analysis
Note: Table subject to rounding

As set out above, we have determined that the fair market value of a BHD option exceeds the fair market value of an option in Enlarged JBL to be received as consideration. Accordingly the BHD Option Offer is not fair.

Value of a BHD Option

We have assessed the fair market value of a BHD Option using the Black-Scholes option pricing model ("**BOPM**") which is a widely accepted model for valuing securities of this nature. In valuing a BHD Option, the key assumptions adopted were:

- **Spot Price**: based on our assessed value of a BHD share above.
- **Risk free rate**: of 1.3% based on the average of the yield on Australian treasury bonds over the term.
- **Exercise Price**: $1.00 based on the terms of the options.
- **Life**: based on an expiry date of 28 April 2020.
- **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.

Value of a JBL Option

Similarly as for the BHD Options we have assessed the fair market value of an Enlarged JBL Option using the BOPM. The key assumptions adopted were:

- **Spot Price**: based on our assessed value of an Enlarged JBL share above.
- **Risk free rate**: of 1.3% based on the average of the yield Australian treasury bonds over the term.
- **Exercise Price**: $1.10 per share based on the terms of the options.
- **Life**: based on an expiry date of 31 March 2020.
- **Dividend yield**: nil as the payment of any dividends is uncertain over the term of the options.
- **Volatility:** of 55% in line with the assessed volatility for BHD options as per above.

Reasonableness

In determining whether the BHD Option Offer is reasonable to BHD Optionholders, we have considered whether the advantages of the transaction outweigh the disadvantages.

Most of the advantages and disadvantages of the BHD Offer presented above apply equally to BHD Optionholders. However, in a liquidation scenario it would be unlikely that BHD Optionholders would realise any value for their securities. Under the BHD Option Offer there remains potential future value for BHD Optionholders whereas BHD optionholders are unlikely to realise any value under the alternative scenarios. As a result, as we consider that the BHD Option Offer is reasonable.

Opinion

In our opinion, for the above reasons the BHD Option Offer is not fair but reasonable to optionholders, in the absence of a superior proposal.

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.

General Financial Product Advice

The advice produced in our report is general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

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We charge fees for providing reports. These fees will be agreed with the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Leadenhall is entitled to receive a fixed fee of $60,000 (excl. GST) for preparing this report. This fee is not contingent upon the outcome of the BHD Offer.

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.

30 May 2019

Contents

1 THE PROPOSED TRANSACTION

1.1 Background

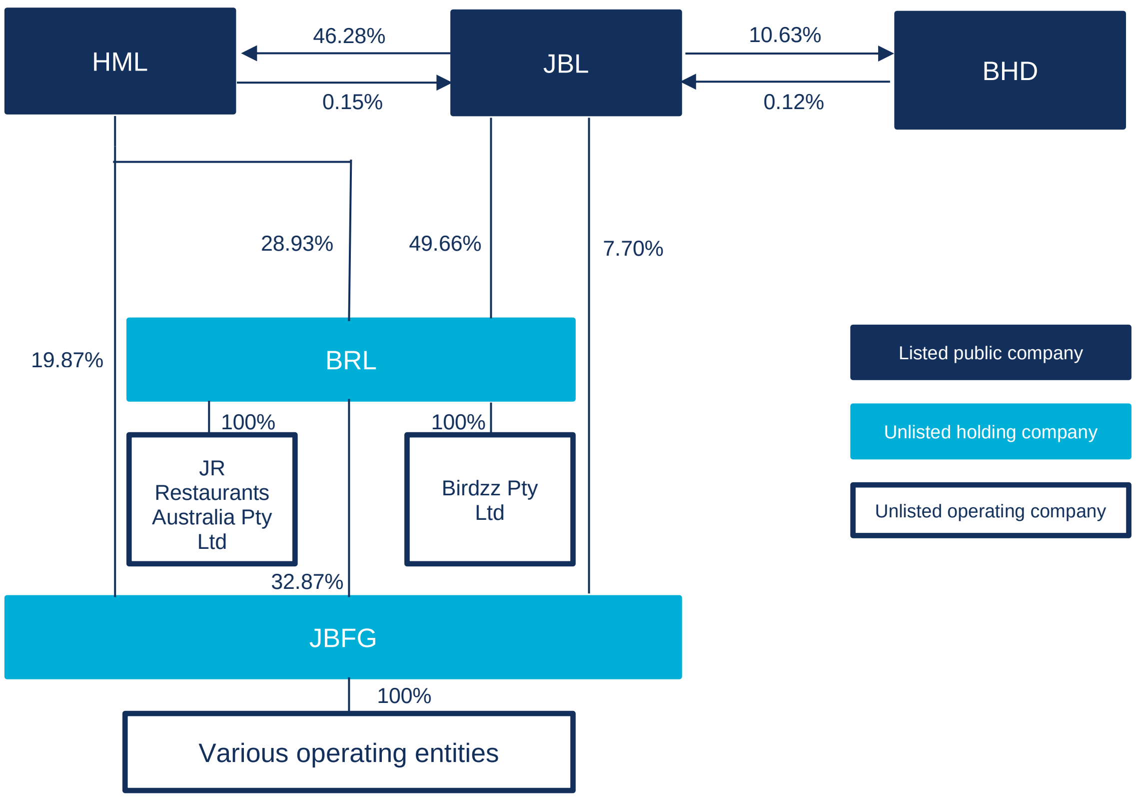
BHD is a LIC with a high conviction investment strategy focused on identifying equities and other opportunities viewed as reasonably valued with high growth prospects, with the aim of achieving above average returns over the medium to long term. However, BHD's primary activities currently comprise trading in derivatives, investing in 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.

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 BHD and it's related entities is summarised out in the figure below.

Figure 3: Structure of BHD, JBL and other group entities



Source: JBL Bidder's Statement and subsequent market announcements regarding BHD Offer Acceptances

On 10 September 2018, JBL announced its intention to make off-market takeover offers for all of the issued shares in BHD and HML for consideration of 0.65 JBL shares for each BHD share and 0.5 JBL options for each BHD option ("**Initial BHD Offer**") and 1.0 JBL shares for each HML share ("**HML Offer**"). On 5 March 2019 JBL announced that the JBL Board had decided not to proceed with the Initial BHD Offer.

Leadenhall was engaged by the independent directors of BHD and HML to prepare IER's to assess whether each of the offers from JBL was fair and reasonable to securityholders not associated with JBL. On 6 December 2018 BHD and HML issued their target's statements in respect of the offers from JBL which included separate IERs from Leadenhall.

On 29 March 2019 HML issued a supplementary target's statement (which included a supplementary IER from Leadenhall) in response to the orders issued by the Takeovers Panel in respect of a declaration of unacceptable circumstances in response to an application received from various HML shareholders. On 15 April 2019 the HML Offer closed at which point JBL had a relevant interest in HML of 46.28%.

1.2 Proposed transaction

On 26 April 2019, JBL announced its intention to make an off-market takeover offer for all of the issued shares and options in BHD for consideration of 1.0 JBL share for each BHD share and 0.5 JBL options for each BHD option. On 28 May 2019, JBL announced an increase in the consideration offered pursuant to the BHD Offer to 1.5 JBL shares for each BHD share.

1.3 JBL's intentions if the offer is accepted:

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

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

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

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

If JBL acquires less than 50% of the BHD shares JBL intends to endeavour to implement its intentions set out above to the extent to which it is able to do so.

1.4 Conditions

The offer is subject only to satisfactory receipt of JBL shareholder approval. Approval of JBL shareholders will be sought at a general meeting of JBL, which is scheduled to occur on 12 June 2019. If shareholder approval is granted, JBL will be in a position to immediately allot any acceptances of the BHD Offer received prior to 12 June 2019.

The offer for BHD options is only subject to the offer for BHD shares becoming unconditional.

1.5 Other shareholder actions

Recently, two separate general meetings of shareholders have been called. A summary of the resolutions to be considered as well as the explanatory statement issued with the notices of meeting is provided below.

1.5.1 General meeting of shareholders convened under Section 249D of the Corporations Act

Section 249D of the Corporations Act requires the directors of a company to call and arrange a general meeting at the request of members with at least 5% of the votes that may be cast at the general meeting. On 24 April 2019, BHD received a request to convene a general meeting pursuant to Section 249D from 63 shareholders representing 5.21% voting shares in BHD. Ramcap Limited ("**Ramcap**"), an unrelated party with no shareholding in BHD, together with the requisitioning shareholders, has put forward resolutions to be considered at the meeting arranged by the directors of BHD under Section 249D to be held on Wednesday 12 June 2019. The resolutions put forward by Ramcap relate to the removal of the current BHD directors to be replaced by the nominee directors which are each also directors of Ramcap.

Ramcap is a small Australian hedge fund which was established in March 2018. If the resolutions proposed by Ramcap are approved, the stated intention of the proposed board is to:

- Terminate any and all BHD contracts with associates of the present BHD directors.
- Terminate the employment of employees. We are not aware of any persons currently employed by BHD.
- Realise the BHD assets and deploy the entirety of the proceeds in a portfolio of shares which will be similar to the Ramcap portfolio.
- Seek to change the name of the company and have its shares relisted on the ASX.
- Seek shareholder approval for the implementation of a share buy-back plan and issue of 5 million bonus shares in Ramcap Limited to continuing BHD shareholders.

1.5.2 General meeting of shareholders convened under Section 249F of the Corporations Act

Section 249F of the Corporations Act allows for members representing at least 5% of the votes that may be cast at a general meeting to call, arrange and hold a general meeting. A number of BHD shareholders that applied to the Takeovers Panel in relation to the Initial BHD Offer, together with certain other BHD shareholders, have called a general meeting to be held on Thursday 13 June 2019 under Section 249F of the Corporations Act. The primary purpose of the meeting is to consider resolutions in relation to the removal and replacement of the current directors of BHD.

If the resolutions are approved, the stated aim of the proposed new board is to:

- Have BHD's suspension from trading on the ASX lifted.
- Have the accounts of BHD forensically reviewed to gain insight into the true financial position of BHD.
- Return the maximum amount of the remaining capital to BHD shareholders.

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 BHD have a common director (Stuart McAuliffe), the independent directors of BHD have requested Leadenhall to prepare an IER in accordance with Section 640. This report is to accompany the Target's Statement to be sent to shareholders of BHD in order to assist the BHD Non-Associated Shareholders in the consideration of the BHD Offer.

2.2 Basis of evaluation

Introduction

Section 640 requires an independent expert to assess whether a takeover offer is fair and reasonable to 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 assessment 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 100% ownership of the target, irrespective of whether the consideration is scrip or cash. We have therefore assessed whether the BHD Offer is fair by comparing the fair market value of a BHD share on a control basis prior to the transaction (the securities subject to the offer) to the fair market value of the shares /options 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 BHD Offer as being reasonable if it is fair, or if despite not being fair, Leadenhall believes that there are sufficient reasons for BHD Non-Associated Shareholders to vote in favour of the proposal. We have therefore considered whether the advantages to BHD Non-Associated Shareholders of the BHD Offer outweigh the disadvantages. To assess the reasonableness of the BHD Offer we have considered the following significant factors recommended by RG 111.13:

- JBL's existing voting power in BHD and any other significant holding blocks.
- The liquidity of the market in BHD securities including the likelihood and timing of the removal of the current suspension in trading of BHD shares.

- The impact of the transaction on the financial situation and solvency of BHD.
- Opportunity costs.
- The alternative options available to BHD and the likelihood of those options occurring.
- The bargaining position of BHD.
- Tax losses, cash flow or other benefits that could be achieved by JBL as a result of the BHD Offer.
- Whether there is selective treatment of any security holder, particularly any related party.
- Any special value of BHD to JBL.
- The value to an alternative bidder and likelihood of an alternative offer being made.

We have also considered any other significant advantages and disadvantages to BHD Non-Associated Shareholders of the BHD Offer.

2.3 Information Sources

The BHD offer is a hostile takeover offer, therefore we have had limited access to JBL management. As such, we have relied upon publicly available information (including information included in our previous IERs for BHD and HML) in conducting our analysis of JBL, HML, BRL and JBFG. We have given particular consideration to the following documents:

- BHD IER dated 6 December 2018 prepared in relation to the Initial BHD Offer
- HML IER dated 6 December 2018 prepared in relation to the HML Offer
- Supplementary HML IER dated 29 March 2019 prepared in relation to the HML offer
- Information provided to us for the purpose of preparing the above reports
- The bidders statement and supplementary bidders statement of JBL in relation to the BHD offer
- Notices of meeting and shareholder correspondence relating to the Section 249D and 249F meeting
- JBL announcement dated 28 May 2019 setting out the increase in the BHD Offer consideration

2.4 Individual circumstances

We have evaluated the BHD Offer for BHD 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 BHD Offer from the one adopted in this report. Accordingly, individuals may reach a different conclusion to ours on whether the BHD Offer is fair and reasonable. If in doubt investors should consult an independent financial adviser about the impact of the BHD 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 acquisition 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 JBFG and 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 BRL and JBFG is provided in Sections 5.4 and 5.5 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 relevant 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:

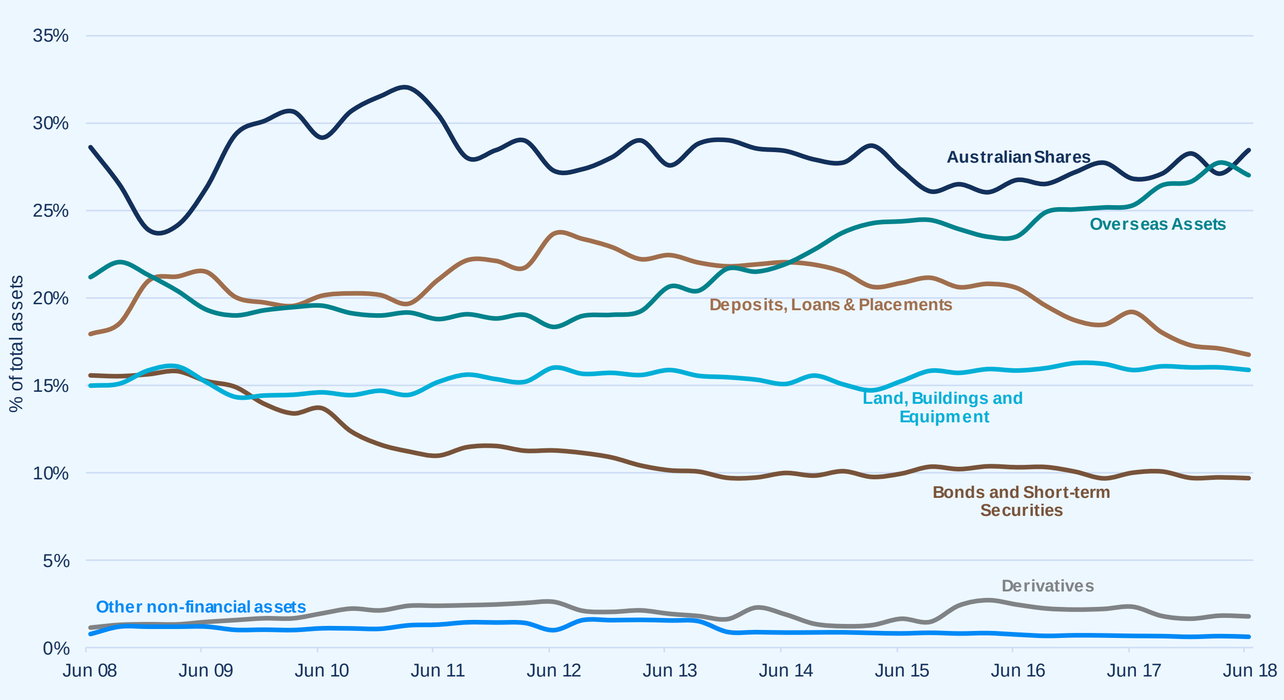
- Having a greater distribution reach.
- Access to a more diverse range of financial advisers.
- A broader product portfolio.
- Cost efficiencies from consolidating back-office operations and costs of research.

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 4: 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

The number of LIC's on the ASX has grown substantially in recent times from 56 in June 2012 to 113 in May 2019. 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 was 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

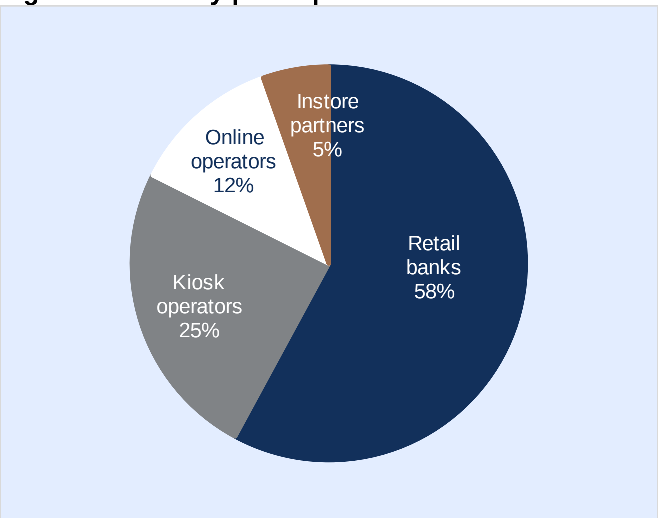
Foreign exchange retailers assist customers through providing currency exchange services. FX retailers derive profit from the margin between the price they buy and sell each currency. Some retailers also charge transactions fees and provide other services such as international money transfers, etc. Demand 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 5: 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 3: 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[1].
- **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[2].
- **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 was expected to increase in FY18 according to IBISWorld.

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

- **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 was 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.

3.3.4 Outlook

Over the five years to FY18, industry revenue was 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 6: 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, was 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 was 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 4: 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 BHD

4.1 Background and history

BHD is a LIC that began operations in May 2017. BHD's investment portfolio is managed by JBL using a high conviction investment strategy focused on identifying reasonably valued equities and other opportunities viewed as high growth prospects, with the aim of achieving above average returns over the medium to long term. BHD is intended to hold a relatively concentrated portfolio maintaining between 5 and 10 investment ideas. In addition to derivatives trading, 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 Crown Currency BHD also holds a 0.12% interest in JBL.

4.2 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 5.2. 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.

JBL's primary trading strategy is to use leverage to trade high volumes of derivatives for a relatively low initial cash outlay. Since inception, BHD has incurred significant trading losses which, along with trading costs incurred, have been the primary contributor to the decline in NTA over time. In addition to trading, BHD has invested in a number of other assets. 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 JB Trading House Pty Ltd ("**JBTH**") shares at the fair value of JBTH shares at the time of conversion.
  - 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 Crown Currency. The key terms of the trading agreement between BHD and Crown Currency 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.
  - Initially BHD received a return of 9% per annum on the Australian dollar value of the banknotes, the return was reduced to 5% on 1 September 2018.
  - 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 5: Top five foreign currencies held by BHD as at 30 April 2019

Currency	AUD equivalent
US dollar	1,725,491
Japanese Yen	954,125
Euro	763,392
New Zealand Dollar	630,937
Great British Pound	545,190
Other	2,140,009
Total	**6,759,144**

Source: BHD

In addition to the above, BHD has a 0.12% interest in JBL.

As of 2 August 2018, BHD was granted broker facilities with Saxo Capital Markets (Australia) Pty Ltd ("**Saxo**") consisting of a $1 million credit line and a $5 million trading line to provide additional capacity for trading derivative future contracts. If negative balances occur, 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. To date these facilities have not been used.

4.3 Key personnel

The current directors and senior management team of BHD comprise:

Table 6: BHD key personnel

Name	Background
Stuart McAuliffe **(Executive Chairman)**	Stuart has over 25 years' experience investing in global equity, bond, currency and commodity markets. Stuart is a former Associate Professor at Bond University and has lectured nationally and international in the fields of economic forecasting, valuation modelling, financial structures and risk management.
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 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

4.4 Financial performance

The audited statements of financial performance for FY17 (28 September 2016 to 30 June 2017), FY18 and the half year to December 2018 are set out in the table below.

Table 7: Statement of financial performance of BHD

$'000	FY17	FY18	H1FY19
Investment income			
Net realised gain/(loss) on financial instruments at fair value	1,155	10	(1,365)
Net unrealised gain/(loss) on financial instruments at fair value	(476)	(430)	43
Foreign exchange gains	-	169	225
Trading fee on foreign currency investment	-	610	127
Other income	-	71	115
Total income	**679**	**429**	**(855)**
Expenses			
Broker commission costs	(309)	(3,064)	(1,211)
Directors' fees	(30)	(203)	(72)
Management fees	(88)	(694)	(230)
Performance fees	-	(475)	-
Other expenses	(66)	(461)	(691)
Total expenses	**(493)**	**(4,898)**	**(2,205)**
EBITDA	**186**	**(4,468)**	**(3,060)**
Depreciation & amortisation	-	-	-
EBIT	**186**	**(4,468)**	**(3,060)**
Interest income	-	209	347
Interest expense	-	(18)	(4)
Net profit/(loss) before tax	**186**	**(4,277)**	**(2,718)**
Income tax	(56)	1,283	815
Net profit/(loss) after tax	**131**	**(2,994)**	**(1,902)**

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. There has been a significant YTD loss from trading in FY19 which management attribute to poor trading conditions.
- The increase in broker commission cost in FY18 is primarily due to a full year of expenses being reflected.
- JBL waived all performance fees in FY17.

4.5 Financial position

The audited consolidated statements of financial position as at 30 June 2017 and 2018 and unaudited statement of financial position as at 31 March 2019 are set out below.

Table 8: Statement of financial position of BHD

$'000	Jun-17	Jun-18	Mar-19
Assets			
Cash & cash equivalents	16,182	1,121	244
Balances held with brokers	3,507	87	2,133
Derivative financial assets	8	23	-
Investments at fair value through profit or loss	-	10,668	8,985
Loans and other receivables	550	4,735	2,211
Prepayments	-	9	20
Deferred tax assets	341	1,624	2,597
Total assets	**20,589**	**18,269**	**16,190**
Liabilities			
Derivative financial liabilities	(484)	(50)	(202)
Trade and other payables	(348)	(190)	(213)
Current tax payable	(166)	(163)	(123)
Total liabilities	**(998)**	**(403)**	**(538)**
Net assets	**19,591**	**17,866**	**15,652**

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 represent security against initial margins on open derivative positions.
- The primary investments of BHD as at 31 March 2019 were $6.5 million invested in foreign currency banknotes and a $2.2 million convertible loan advanced to JBFG (carried at $2.5 million at 31 March 2019 being face value of $2.2 million plus capitalised interest). After FY18 year end the maturity date of the convertible loan was extended by 18 months from 11 September 2018 to 11 March 2020.
- The decline in other receivables as at 31 March 2019 was due to the repayment of $4.5 million in refundable performance fees by JBL. The current balance of other receivables primarily relates to a $0.85 million loan to Genesis and a $1.1 million loan to JBL.
- Deferred tax assets primarily relate to carried forward tax losses.

4.6 Cash flow

The audited statements of cash flows for FY17, FY18 and the six months to 31 December 2018 are set out in the table below.

Table 9: Statement of cash flows of BHD

$'000	FY17	FY18	H1FY19
Cash flow from operating activities			
Net proceeds from sale of investments	1,155	(457)	(1,674)
Management and performance fees paid	(33)	(5,778)	(193)
Receipts from / (payments to) brokers for initial trading margin	(3,507)	3,420	95
Commissions and brokerage fees paid	(91)	(3,309)	(1,105)
Payments for operating and administrative expenses	(85)	(512)	(669)
Interest received	-	209	150
Interest and other finance costs paid	-	(18)	(4)
Proceeds from sale of listed shares	-	281	1,100
Payments for investment in listed shares	-	(1,489)	-
Payments for foreign currency bank notes	-	(7,399)	5,898
Proceeds from foreign curency revenue	-	-	99
Payment for convertible note	-	(2,305)	-
Income tax paid	-	-	(166)
GST refund	-	-	115
Net cash used in operating activities	**(2,561)**	**(17,357)**	**3,646**
Cash flows from investing activities			
Loans to related parties	-	-	(1,934)
Net cash provided by investing activities	**-**	**-**	**(1,934)**
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)	1,712
Cash and cash equivalents at beginning of year	-	16,182	1,121
Cash and cash equivalents at end of year	**16,182**	**1,121**	**2,834**

Source: BHD

We note the following in respect of the historical cash flows of BHD set out above:

- $4.5 million of the $5.8 million paid in management and performance fees in FY18 was repaid by JBL in March 2019.
- 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. In the first half of FY19, the majority of BHD's investment in foreign currency banknotes was recalled as JBFG utilised funds drawn down from the external debt facility to fund the foreign currency banknotes internally. Subsequent to the half year end, BHD has reinvested in foreign currency banknotes.
- Related party loans comprise a $0.8 million loan extended to genesis and a $1.1 million loan extended to JBL.

4.7 Recent events

Subsequent to 31 December 2018, the following material events occurred:

- On 10 September 2018, JBL announced its intention to make an off-market takeover bid for all of the issued shares an option in BHD. On 28 December 2018, an application was made by certain shareholders of BHD to the Takeovers Panel in respect of the bid. At the time of the application, JBL had a relevant interest in 38.87% of the shares in BHD. On 25 January 2019, the Takeovers Panel made a declaration of unacceptable circumstances in relation to the affairs of BHD and set out the terms under which the offer could proceed. Among other things, in order to proceed with the bid, JBL was required to cancel all previous acceptance and repay the $4.5 million in refundable performance fees. On 5 March 2019 the board of JBL allowed the offer to lapse.
- In March 2019, JBL repaid $4.5 million in performance fees previously charged to BHD.

4.8 Capital structure and shareholders

As at 16 May 2019, 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 10: BHD's significant shareholders

Shareholder name	Number of shares	% of total shares
BNP Paribas Nominees Pty Ltd	1,744,619	7.22%
Nilcoy Pty Ltd (The Stuart Family S/F)	1,156,674	4.79%
HSBC Custody Nominees	1,088,305	4.51%
Victor John Plummer	1,013,009	4.19%
Henry Morgam Limited	68,039	0.28%
John Bridgeman Limited	45,359	0.19%
Bryan Cook	7,000	0.03%
Peter Aardoom	4,535	0.02%
Stuart McAuliffe	1,000	0.00%
Other shareholders	19,026,701	78.77%
Total	**24,155,241**	**100.00%**

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.

4.9 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 2018.
- 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. 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.

5 PROFILE OF ENLARGED JBL

5.1 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 but is currently suspended from trading. JBL is currently the investment manager for four related parties, HML, BRL, BHD and the JB Hi Alpha Fund.

5.2 Overview of operations

As an investment manager JBL aims to generate long-term total returns from a specialised managed futures strategy. JBL's stated 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.

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 its clients, however there are no formal exclusive trading agreements in place.

A summary of the IMAs with each of these parties is set out in the table below:

Table 11: Key terms of JBL's IMAs

Terms	BHD	BRL	HML	JB Hi-Alpha
Start date	29 March 2017	21 June 2016	12 March 2015	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, 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 JBL with 20 business days notice. ♦ Termination in the event of insolvency.
Authorised investments	Opportunities considered by JBL to provide a return on investment acceptable to BHD, in accordance with guidance provided by BHD from time to time.	Opportunities considered by JBL to provide a return on investment acceptable to BRL, in accordance with guidance provided by BRL from time to time.	♦ 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	Predominantly invest and trade in global futures markets across categories such as share indices, interest rates, currencies and commodities. Investments will be in exchange traded 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: 3% of NTA per annum (paid monthly in arrears) ♦ Performance fee: 27% of the quarterly investment return	♦ Performance fee: 23% of the quarterly investment return ♦ Management fee: 2% of NTA per annum (paid monthly in arrears)		♦ Management fee: 2% of NTA per annum (paid monthly in arrears) ♦ Performance fee: 23% of the quarterly investment return
High water mark	Yes	No	Yes	Yes

Source: JBL

In addition to providing investment management services to other parties, JBL manages internal investments. Currently the key investments of JBL are:

- 49.66% interest in BRL
- 46.28% interest in HML
- 7.7% interest in JBFG
- 4.13% relevant interest in BHD (including the interests of HML and Stuart McAuliffe and acceptances of the BHD Offer to date)

5.3 HML

5.3.1 Overview

HML is an investment company that was listed on the ASX in February 2016 with the intention of generating positive absolute returns with low correlation to market returns, over the medium to long term.. HML's investment portfolio is managed by JBL and its stated strategy is investing in global markets including through exchange traded futures contracts, including 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. Since HML made its investment in JBFG, JBFG has acquired a variety of financial services businesses as detailed in Section 5.5.

On 10 September 2018, JBL announced its intention to make an off-market takeover bid for all of the issued shares in HML. The JBL takeover offer closed on 15 April 2019. Currently, JBL holds a 46.28% interest in HML.

5.4 BRL

5.4.1 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. BRL has engaged JBL to manage its investments. Target asset classes include unlisted equities (long and short term), private equity and venture capital investments.

Currently the key investments of BRL are:

- A 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.

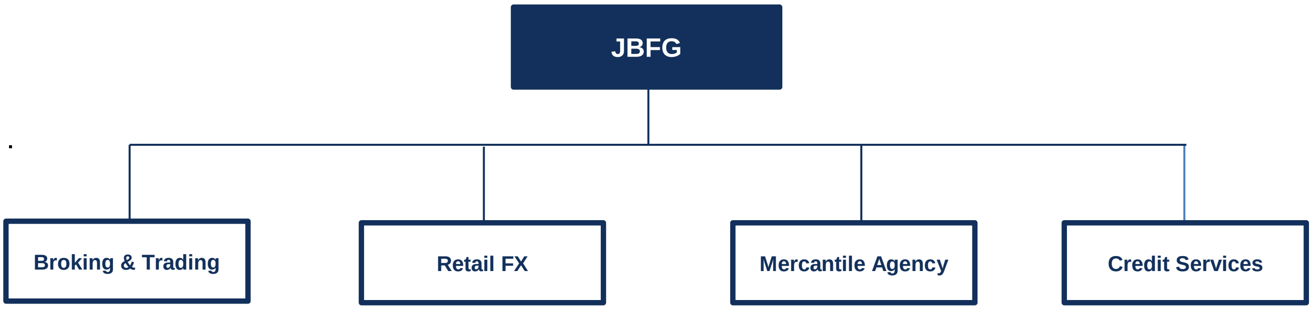
5.5 JBFG

5.5.1 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:

Figure 8: JBFG operating divisions



Source: JBFG

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

5.5.2 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. JBTH has recently developed the JB Prime Multi Asset platform in partnership with CQG. The platform went live on 13 February 2019. A new company, JB Prime Pty Ltd, was established as a wholly owned subsidiary and corporate authorised representative of JB Markets for the purpose of this venture. JB Markets is now focussed on marketing and signing up new users to the platform.

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 Pty Ltd ("**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. Genesis is currently in the process of negotiating a merger agreement which could result in a significant increase in JBFG's potential earnings from the business if the transaction proceeds.

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

5.5.3 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 17 new stores opened between January 2017 and May 2019, giving a total of 29. 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 wholesalers, 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.

5.5.4 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.

5.5.5 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.

5.5.6 Recent disposals

Until recently JBFG also operated early stage fintech and foreign currency wholesale divisions. Given the early stage nature of these operations and the need for capital 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.

5.6 Key personnel

The current directors and senior management team of JBL comprise:

Table 12: JBL and JBFG key personnel

John McAuliffe **Chairman & Non-executive Director**	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 is the former 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 was previously 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**	Refer to Table 6.
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.

Jody Wright **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.

Source: JBL

5.7 Going concern

JBL's FY18 financial statements (refer to Sections 5.8 to 5.10 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

In March 2019, JBL released its financial report for the half year ended 31 December 2018 which highlighted uncertainty as to the ability of JBL (inclusive of the consolidated operations of JBFG) to operate as a going concern for the second consecutive reporting period. As at 31 December 2018 the net current asset position had improved significantly from negative $2.3 million as at 30 June 2018 to positive $2.8 million. This change is primarily attributable to the cash received under the external debt facility (corresponding liability is non-current) and the reclassification of the refundable BHD performance fee from current liabilities to non-current liabilities.

5.8 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 and BRL).

Table 13: Consolidated statement of financial performance of JBL

$'000	Consolidated		
	FY17	FY18	H1FY19
Revenue			
Management fees	786	1,712	609
Performance fees	7,109	904	-
Net gain / (loss) on financial instruments	3,208	(2,916)	(379)
Foreign currency exchange revenue	4,329	11,368	6,946
Proprietary trading revenue	-	14,778	7,787
Professional services revenue	3,789	17,751	8,569
Brokerage and commission	1,031	5,039	2,034
Consultancy fee income	-	893	-
Restaurant sales	-	1,558	769
Other income	852	(26)	1,747
Total revenue	**21,103**	**51,061**	**28,082**
Expenses			
Commissions paid to investment brokers	(280)	(3,003)	(1,657)
Dealing expenses	(3)	(40)	(61)
Occupancy expenses	(1,031)	(4,161)	(2,440)
Employee benefits expenses	(6,953)	(25,858)	(10,910)
Foreign banknote usage fee	-	(619)	(48)
Restaurant cost of sales	-	(693)	(324)
Restaurant running costs	-	-	(131)
Exchange fees	-	(4,560)	(2,601)
Traders fees	-	(5,617)	(2,299)
Professional services expenses	(3,047)	(11,123)	(5,182)
Insurance expense	(157)	(237)	
Travel expenses	(886)	(1,219)	(127)
Market information systems	-	-	(210)
Management fees	(504)	(140)	-
Advertising	(378)	(702)	(235)
Printing and stationery	(104)	(248)	(94)
IT & communications	(260)	(1,333)	(610)
Professional subscriptions	(30)	(725)	(467)
Security expenses	(5)	(526)	(112)
Administration costs	(150)	(412)	(307)
Merchant fees	(58)	(157)	(74)
Other expenses	(449)	(1,241)	(584)
Total expenses	**(14,294)**	**(62,615)**	**(28,475)**
EBITDA	**6,809**	**(11,555)**	**(394)**
Depreciation & amortisation	(379)	(1,925)	(1,093)
Impairment expense	-	(7,679)	(87)
EBIT	**6,430**	**(21,158)**	**(1,574)**
Interest income	17	205	18
Interest expense	(91)	(735)	(754)
Net profit before tax	**6,355**	**(21,688)**	**(2,310)**
Income tax (expense) / benefit	(1,931)	5,016	785
Net profit after tax	**4,424**	**(16,673)**	**(1,526)**
Foreign currency translation	(1)	0	-
Total comprehensive income	**4,423**	**(16,672)**	**(1,526)**

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 in FY18 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.
- YTD FY19 performance has shown a positive trajectory from the significant losses recorded in FY18 and is indicative of continued growth in most of the JBFG businesses as well the cost savings initiatives implemented by management.

We have previously 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.

5.9 Financial position

The audited statements of financial position as at 30 June 2017 and 2018 and 31 December 2018 are set out below.

Table 14: Statement of financial position of JBL

$'000	FY17	FY18	Dec-18
Current assets			
Cash & cash equivalents	11,643	18,919	19,360
Inventory	48	46	46
Trade & other receivables	17,064	9,088	2,850
Balances held with brokers	-	3,414	2,465
Financial instruments	-	58	43
Term deposits	594	908	733
Purchased debt ledgers	700	157	147
Other current assets	396	1,322	1,084
Total current assets	**30,445**	**33,912**	**26,727**
Non-current assets			
Financial assets held at fair value	6,671	3,582	3,570
Property, plant & equipment	4,302	5,659	5,320
Intangibles	32,986	42,881	42,798
Deferred tax assets	3,115	7,857	8,976
Purchased debt ledgers	2,100	435	349
Other non-current assets	91	764	888
Total non-current assets	**49,264**	**61,177**	**61,901**
Total Assets	**79,709**	**95,089**	**88,628**
Current liabilities			
Trade & other payables	(8,378)	(31,944)	(18,785)
Borrowings	(2,229)	(3,030)	(3,530)
Income tax	(3,199)	(81)	(588)
Provisions	(792)	(1,459)	(1,018)
Total current liabilities	**(14,599)**	**(36,514)**	**(23,921)**
Non-current liabilities			
Trade & other payables	(1,212)	(304)	(265)
Borrowings	(5,813)	(5,286)	(21,577)
Derivative financial instruments	-	-	(556)
Deferred tax liabilities	(1,069)	(2,630)	(2,659)
Provisions	(542)	(683)	(677)
Total non-current liabilities	**(8,637)**	**(8,903)**	**(25,735)**
Total liabilities	**(23,236)**	**(45,417)**	**(49,656)**
Net assets	**56,473**	**49,672**	**38,972**

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 ($9.14 million at 30 June 2018 and $8.5 million at 31 December 2018) and segregated funds held on behalf of clients ($4.2 million at 30 June 2018 and $3.8 million at 31 December 2018).
- Inventory relates to the single Johnny Rockets restaurant owned and operated by BRL.
- The decline in trade in other receivables balance between June and December 2018 was primarily due to the settlement of a receivable by way of a transfer of JBFG shares.

- 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 decrease in trade and other payables between June and December 2018 was primarily due to the withdrawal of external funding of foreign currency banknotes and the reclassification of the BHD refundable performance fee to non-current borrowings.
- The increase in non-current borrowings between June and December 2018 primarily relates to:
  - $7 million external senior debt facility entered into by JBFG (at December $1.9 million of this facility was classified as current borrowings)
  - $2.5 million facility extended by Stuart McAuliffe (at December 2018 there was $0.25 million outstanding on the facility)
  - $1.1 million facility extended by BHD (at December 2018 there was $1.0 million outstanding on the facility)
  - $2.4 million facility extended by HML (at December 2018 there was $2.3 million outstanding on the facility)
  - $4.5 million owed to BHD in refundable performance fees that was converted to a loan on 17 September 2019. The $4.5 million was subsequently repaid in March 2019.
- Both current and non-current provisions primarily relate to employee benefits.
- We note that in the future, JBL may consolidate HML into their corporate accounts. However, as the HML Offer had not concluded as at 31 December 2018, the statement of financial position as at 31 December 2018 does not include the impact of JBL's current investment in HML.

We have also previously analysed unaudited stand-alone balances for JBL for FY17 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.

5.10 Statement of cash flows

The audited consolidated statements of cash flows for FY17, FY18 and the six months to 31 December 2018 are set out below.

Table 15: Statement of cash flows of JBL

$'000	FY17	FY18	H1FY19
Cash flow from operating activities			
Receipts from customers	11,599	71,076	29,215
Payments to suppliers and employees	(8,222)	(63,195)	(31,140)
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	34
Payment to broker on initial margins	-	(3,414)	1,522
Dividends received	593	5	-
Interest received	13	205	56
Interest and other finance costs paid	(78)	(555)	(238)
Tax paid	(919)	(1,284)	394
Net cash used in operating activities	**(1,493)**	**2,956**	**(158)**
Cash flow from investing activities			
Payments for purchase of subsidiaries, net of cash acquired	(8,273)	3,559	-
Payments for purchase of other investments	-	-	(286)
Payments for purchase of property, plant & equipment	(1,496)	(2,197)	(245)
Payments for purchase of intangible assets	(1,169)	(2,369)	(198)
Payments for purchase of equity investments	-	-	-
Payments for purchase of financial assets held as security	-	-	-
Placement of term deposits	-	(314)	175
Bank overdraft payment	-	-	(19)
Proceeds from disposal of property, plant & equipment	-	115	960
Net cash used in investing activities	**(10,939)**	**(1,206)**	**387**
Cash flow from financing activities			
Proceeds from issue of shares	7,358	5,075	-
Loans from related parties	-	-	5,568
Repayment of lease liabilities	-	-	(52)
Proceeds from borrowings	-	-	7,000
Proceeds from issue of convertible notes	3,849	2,200	
Borrowings	3,201	-	
Funds paid to investors			(6,460)
Share buy-back and other debt raising costs	-	-	(4,867)
Issue of shares to non-controlling interest	9,871	-	
Share issue transaction costs	(72)	(52)	
Repayment of borrowings	-	(1,697)	(977)
Payment of pre-acquisition dividends	(2,001)	-	
Net cash provided by financing activities	**22,207**	**5,526**	**211**
Net increase in cash held	9,775	7,276	441
Cash and cash equivalents at beginning of year	1,869	11,643	18,919
Foreign exchange impact	(0)	-	-
Cash and cash equivalents at end of year	**11,643**	**18,919**	**19,360**

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.

5.11 Capital structure

As at 16 May 2019, JBL had 35,583,338 shares on issue. 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 16: Summary of JBL listed options

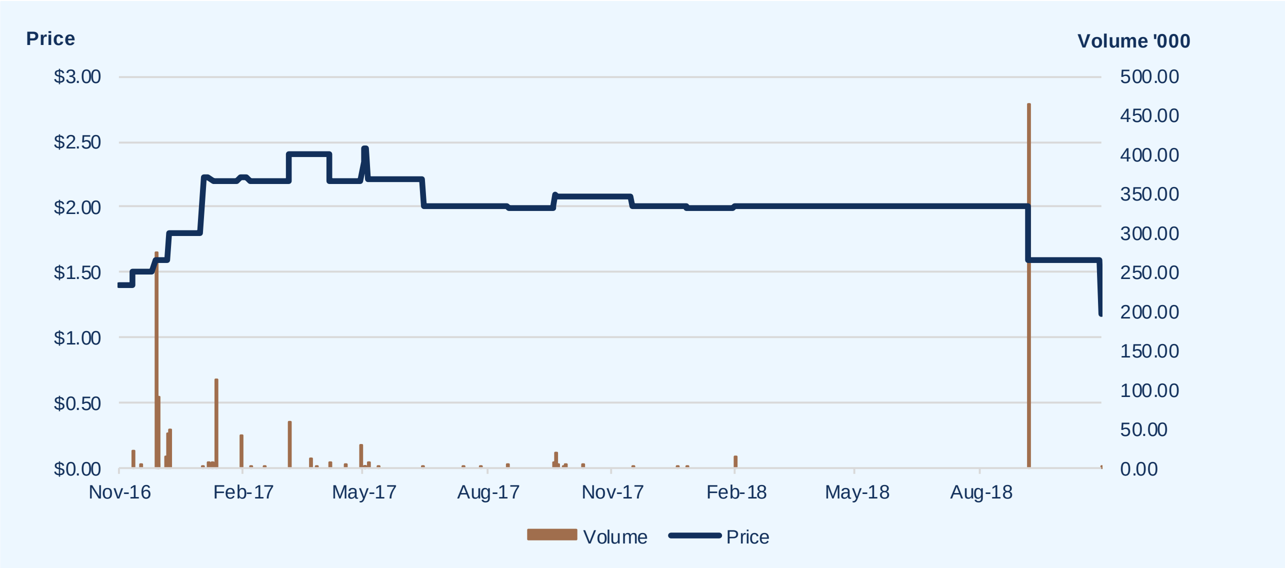
Option class	Grant date	Expiry date	Exercise price	Number on issue
JBLOA listed options	Various	31 March 2020	$1.10	16,376,300
JBLOB listed options	10 March 2018	31 March 2020	$1.20	1,452,500
JBLOC listed options	10 March 2018	31 March 2020	$1.50	1,540,000
JBLOD listed options	10 March 2018	31 March 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

5.12 Share price performance

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

Figure 9: 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 has been suspended from trading since 10 April 2019. Since this date JBL has received and complied with a number of information requests from the NSX. However, the timeline for the lifting of the suspension remains unclear.
- 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.

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.

6 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
- The capitalisation of earnings approach
- 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.

6.1 BHD

In selecting an appropriate valuation methodology to value BHD, we have considered the following factors:

- BHD 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 BHD shares has been suspended since July 2018. This means that an analysis of share market trading is not a reliable measure of the value of a BHD share.
- BHD's main assets are its investments in foreign exchange notes and loans to JBL and JBFG. We consider that these assets can each be valued reliably.

Accordingly, we are of the opinion that the most appropriate methodology to value BHD is the net assets on a going concern basis aggregating the value of individual investments and considering any other net assets of BHD.

6.2 Enlarged JBL

Enlarged JBL would largely comprise investments in HML, BHD, JBFG and BRL, each of which we have valued on a stand-alone basis. 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:

- Enlarged JBL's investments in JBFG, BRL, BHD and HML. In relation to these investments we note:
  - In valuing Enlarged JBL's interest in JBFG and BRL 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
  - HML is a LIC with its main assets being its investments in JBFG and BRL which we have valued individually and aggregated.
  - In respect of BHD we have utilised our assessed value for BHD (on a control basis) excluding realisation costs.
- 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 BHD Offer.

For the purpose of our analysis we have separately considered each aspect of Enlarged JBL individually. Due to the nature of the transaction, other than for BHD, we have relied upon publicly available information (including information included previous IER's for BHD and HML) in our valuation analysis.

7 BHD VALUATION

7.1 Summary

We have assessed the fair market value of BHD (on a control basis) 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 17: Net asset based valuation of BHD

$'000	Low	High
Investments		
Foreign currency notes	6,759	6,759
Related party loans and convertible notes	4,383	4,383
Interest in JBL	15	15
Total investments	**11,157**	**11,157**
Other net assets		
Net cash	2,041	2,041
Other net assets	116	116
Deferred taxes (net)	-	1,220
Management agreement termination	(388)	(423)
Other realisation costs	(466)	(418)
Total other net assets	**1,303**	**2,535**
Assessed net asset value	**12,460**	**13,692**
Dilutionary impact of options	(330)	(472)
Net asset value after options	**12,130**	**13,220**
Number of shares ('000)	24,155	24,155
Value per share ($)	**0.50**	**0.55**

Source: Leadenhall analysis

7.2 Analysis

Foreign currency notes

As at 30 April 2019 BHD owned $6.8 million in foreign currency banknotes which are traded by Crown Currency. These notes provide for a minimum return of 5% per annum and are repayable to BHD on demand. As the notes are repayable to BHD with 30 days notice, we have assessed the book value to be reflective of the fair market value of these notes assuming an orderly realisation.

Related party loans

Loans comprise the following:

Table 18: BHD related party loans

$'000	
JBL Loan	1,043
JBFG convertible note	2,482
Other	858
Total	**4,383**

Source: Leadenhall analysis

In respect of the above we note:

- **JBL Loan:** on 8 August 2018, BHD made a loan of $1.2 million (book value as at 30 April 2019 is $1 million) to JBL to assist with working capital requirements. This loan had an initial term of one year, which was subsequently extended for a further six months, 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 $0.3 million of 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 conversion option. 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 $2.5 million.
- **Other:** relates to a loan of $0.9 million extended to Genesis on 24 December 2018. The loan has a maturity date of 31 October 2019 and an interest rate of 9% per annum. We have assessed the book value to be representative of fair market value for similar reasons to the JBL Loan set out above.

Interest in JBL

BHD has a small interest in JBL (0.12%). We have estimated the value of BHD's interest in JBL based on our assessed value of Enlarged JBL. 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 30 April 2019, the most recently available balance date, BHD had net cash of $2.0 million which is largely held in active trading accounts.
- **Other net liabilities:** Other net liabilities 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 net deferred tax asset of $2.4 million as at 30 April 2019 in respect of tax losses from operations. For the purpose of our valuation of BHD in an orderly realisation, due to the uncertainty of whether a potential acquirer would be able to realise these losses and the timeline for doing so, we have included 50% of the deferred tax assets as the high end of our valuation range and 0% at the low end.
- **Management agreement termination:** 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 $0.4 million to represent the cost of terminating the management agreement based on the above NTA.
- **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.

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.

7.3 Value of options outstanding

BHD currently has 24.15 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**: $0.50 to $0.55 based on our assessed value of a BHD share as set out above.
- **Risk free rate**: of 1.3% based on the average of the yield on one and two year Australian treasury bonds as at 30 April 2019.
- **Exercise Price**: $1.00 and expiry term based on the terms of the options.
- **Life**: of 0.99 years based on an expiry date of 28 April 2020 and a valuation date of 30 April 2019.
- **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.

Based on the above the calculated value of a BHD option is $0.02 to $0.03, which results in a total value of BHD options of $0.33 million to $0.47 million.

7.4 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 BHD 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.

7.5 Cross-check

As at 30 April 2019 the before tax NTA was $0.5514 and after tax NTA was $0.6524. The NTA as at 30 April 2019 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.

8 ENLARGED JBL VALUATION

8.1 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 BHD shareholders that accept the offer. In conducting our analysis, we have therefore considered three broad levels of acceptance of the BHD Offer.

Enlarged JBL will comprise investments in JBFG, BRL, HML and BHD as well as its funds management business as summarised below:

Table 19: Assessed value of Enlarged JBL

$'000	BHD (100%)		BHD (25%)	
	Low	High	Low	High
Investments				
Interest in JBFG	7,257	7,775	7,257	7,775
Interest in HML	11,189	12,774	11,189	12,774
Interest in BRL	9,160	10,105	9,160	10,105
Interest in BHD (including options)	13,314	14,534	2,828	3,133
Total investments	**40,920**	**45,188**	**30,434**	**33,788**
Other net liabilities				
External funds management business	-	100	-	100
Corporate costs	(5,600)	(5,600)	(5,600)	(5,600)
Net debt	(3,728)	(3,728)	(3,728)	(3,728)
Related party loans	(8,523)	(8,523)	(8,523)	(8,523)
Other net assets	7,588	7,588	7,588	7,588
Deferred taxes	-	(507)	-	(507)
Total net liabilities	**(10,263)**	**(10,670)**	**(10,263)**	**(10,670)**
Assessed value of Enlarged JBL	**30,657**	**34,519**	**20,171**	**23,118**
Dilutive impact of options	(13)	(58)	(12)	(59)
Assessed valued of Enlarged JBL after options	**30,644**	**34,460**	**20,160**	**23,060**
Discount for lack of control	5%	5%	7.5%	7.5%
Assessed value of Enlarged JBL (marketable minority)	**29,112**	**32,737**	**18,648**	**21,330**
Discount for lack of marketability	30%	20%	30%	20%
Assessed value of Enlarged JBL (illiquid minority)	**20,378**	**26,190**	**13,053**	**17,064**
Number of JBL shares on issue ('000)	71,748	71,748	44,574	44,574
Value per share ($)	**0.28**	**0.37**	**0.29**	**0.38**

Source: Leadenhall analysis

We have set out our valuation analysis for the Enlarged JBL in the section below.

8.2 Investment in JBFG

8.2.1 Approach

We have estimated the value of JBFG using a SOTP analysis of each of the underlying businesses as set out below. 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 BHD shareholders will hold a minority stake in Enlarged JBL.

In assessing the value of each business of JBFG using the SOTP we have primarily considered the CFME method.

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 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.

8.2.2 Analysis

As we have had limited access to JBL and JBFG management in preparing our report, we have relied upon publicly available information (including information provided to us for the purpose of preparing previous IER's) in our valuation of JBFG. In doing so we have primarily referred to our Initial BHD IER and our First Supplementary HML IER. We note that there have been no public announcements made in respect of any aspect of the JBFG business since the issue of our First Supplementary HML IER. Further detail in respect of our key considerations in valuing the components of JBFG is set out in Appendix 4 to Appendix 6.

Table 3: SOTP value of JBFG

Assessed value of JBFG (minority value)								
$'m Business unit	Reference	Earnings basis	Selected earnings Low	Selected earnings High	Selected multiple Low	Selected multiple High	Value Low	Value High
Crown Currency	Appendix 4	EBIT	5.6	6.0	8.5x	9.0x	47.6	54.0
JB Trading House	Appendix 5	NPAT	1.5	2.5	11.0x	12.0x	16.5	30.0
R&S	Appendix 6	EBIT	2.0	2.5	6.5x	7.5x	13.0	18.8
Total							**77.1**	**102.8**
Related party loans							4.1	4.1
Surplus assets							2.3	2.9
Net cash							3.1	3.1
Total equity value (minority basis)							**86.6**	**112.9**
Number of shares (million)							26.9	26.9
Value per JBFG share (minority value)							**$ 3.22**	**$ 4.19**
Selected value							**$ 3.50**	**$ 3.75**

Source: Leadenhall analysis

We have selected a value of a JBFG share in the range of $3.50 to $3.75 per share after taking into account the following factors:

- Our SOTP analysis set out in the table above. We note that due to the early stage of some of JBFG's businesses, the range is necessarily wide. When selecting our assessed range we have put more emphasis on the low end of the range.
- Recent transactions in JBFG shares which ranged in price from $5.51 to $6.14 between April 2017 and September 2017. We note that 53,981 JBFG shares have been acquired by JBL at a price of $5.86 since our HML IER.
- The fair value estimate of $4.19 per JBFG share applied in the half year accounts of HML as at 31 December 2018.

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 $2.5 million and a 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 (and associated risks) from trading volumes expected from internal funds 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:** JBFG 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 four surplus assets of JBFG:
  - A purchased debt ledger, which had a carrying value of $0.5 million as at 31 January 2019 (latest balance sheet date publicly available).
  - 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.
  - Term deposits of $0.8 million as at 31 January 2019 (latest balance sheet date publicly available).
  - Other financial assets of $0.4 million as at 31 January 2019 (latest balance sheet date publicly available) primarily comprised of prepayments. We consider the book value to be representative of fair value.
- **Net cash**: as summarised in the table below:

JBFG Net Cash	
Component	**$'m**
Net cash	
Cash and cash equivalents	12.6
External loan facility	(7.1)
Convertible loan	(2.5)
Total	**3.1**
Related party loans	
JBFG loan to JBL	7.1
JBL loan to Capital Credit	(1.3)
JBL loan to Crown Currency	(0.4)
BRL loan to Ashdale	(0.0)
HML loan to Capital credit	(0.4)
BHD loan to Genesis	(0.9)
Total	**4.1**

Source: HML Supplementary IER

In respect of the above we note the following:

- **Cash and cash equivalents:** the balance of $12.6 million excludes foreign currency held as inventory, client segregated funds and $0.4 million required as regulated capital.
- **External loans:** as at 31 January 2019, the balance of JBFG's external loan facility was $7.1 million.
- **BHD convertible loan:** relates to the convertible loan with a current carrying value of $2.4 million as at 31 December 2018, as discussed in Section 7.2. The conversion option is currently out of the money based on our assessed values and as such we have not attributed any value to this component.

We note that 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 and 31 December 2018. Whilst this risk remains, the current account deficiency has been remedied since 30 June 2018 primarily due to $7 million in external debt funding secured in November 2018. In addition, based on management accounts, JBFG operated at approximately break even during the six months to 31 December 2018. We note that as part of the external funding agreement, 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 BHD Offer.

8.2.3 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 $3.75 per share.

Our assessed value of Enlarged JBL's interest in JBFG is summarised below:

Table 20: Assessed value of Enlarged JBL's interest in JBFG

$'000	Low	High
Assessed value of a JBFG share ($)	3.50	3.75
Number of JBFG shares held ('000)	2,073	2,073
Assessed value of JBL's investment in JBFG	**7,257**	**7,775**

Source: Leadenhall analysis

8.3 Investment in HML

8.3.1 Approach

In determining the fair market value of a HML share 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.

8.3.2 Analysis

We have relied on publicly available information (including information provided to us for the purpose of preparing previous IER's) in our valuation of HML. In doing so we have primarily referred to our Initial HML IER and our First Supplementary HML IER. In addition, since the issue of our First Supplementary HML IER, HML have released updated NTA figures (most recently as at 30 April 2019), which we have considered in our valuation analysis.

We set out below our assessment of the fair market value of the net assets of HML, based on the net asset approach:

Table 21: Net asset based valuation of HML

$'000	Low	High
Investments		
Interest in JBFG	18,725	20,063
Interest in BRL	5,336	5,887
Interest in JBL	19	19
Interest in BHD	34	37
Related party loans	2,669	2,669
Total investments	**26,783**	**28,675**
Other net liabilities		
Net cash	1,111	1,111
Other net liabilities	(207)	(207)
Deferred taxes (net)	-	(44)
Corporate costs	(3,200)	(1,600)
Total other net liabilities	**(2,296)**	**(740)**
Net asset value	**24,488**	**27,934**
1% reduction for movement in NTA between Feb and April 2019	(277)	(295)
Assessed net asset value	**24,211**	**27,639**
Number of shares ('000)	32,347	32,347
Value per share ($)	**0.75**	**0.85**

Source: Leadenhall analysis

In respect of the above we note the following:

- **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 8.2. in undertaking the analysis we have also considered recent transactions in the shares of JBFG as well as HML's most recently audited carrying value of its investment in JBFG. As HML owns a minority stake in JBFG we have conducted this analysis on a minority basis.
- **Investment in BRL:** similarly for BRL, we have estimated the value of BRL using a SOTP analysis for each of BRL's investments, primarily comprised of an investment in JBFG. As HML owns a minority stake in BRL we have conducted this analysis on a minority basis.
- **Investment in JBL:** HML has a small interest in JBL 0.15%. We have estimated the value of HML's interest in JBL based on our assessed value of Enlarged JBL. Any reasonable difference in value between JBL and Enlarged JBL would not impact our conclusion.

- **Investment 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 7.
- **Related party loans:** are primarily comprised of a loan to JBL with a book value of $2.3 million as at 28 February 2018 (latest information available).
- **Net cash:** as at 28 February 2019 (latest information available), HML had net cash of $1.1 million.
- **Other net liabilities:** primarily relates to working capital (trade receivables and payables).
- **Deferred taxes:** net deferred taxes are comprised of a deferred tax liability, which primarily relates to HML's unrealised gain on its investment in JBFG (adjusted to reflect our selected JBFG value) and a deferred tax asset related to tax losses.
- **Corporate costs:** in order to apply to delist HML, JBL must secure at least a 75% interest in HML. Currently JBL has a 46.28% interest in HML. Whilst HML remains as a public company, costs such as accounting and audit fees, registry fees and directors fees would continue to be incurred. We have estimated these costs to be $0.8 million per annum. In the low scenario, we have allowed for these costs to be incurred on an ongoing basis and in the high scenario we have assumed that JBL will reach the delisting threshold within a shorter timeframe or HML will otherwise be delisted because of continued suspension of trading.

8.3.3 Assessed value of Enlarged JBL's interest in HML

Our assessed value of Enlarged JBL's interest in HML is summarised below:

Table 22: Assessed value of Enlarged JBL's interest in HML

$'000	Low	High
Assessed value of HML	24,211	27,639
Less interest in BHD	(34)	(37)
Total	**24,177**	**27,602**
Interest in HML	46%	46%
Value of Enlarged JBL's investment in HML	**11,189**	**12,774**

Source: Leadenhall analysis

8.4 Investment in BRL

8.4.1 Approach

In determining the fair market value of a BRL share we have estimated the fair market value of the net assets of BRL by aggregating the value of individual investments and considering any other assets and liabilities of BRL.

8.4.2 Analysis

As we have had limited access to JBL and BRL management in preparing our report, we have relied upon publicly available information (including information provided to us for the purpose of preparing previous IER's) in our valuation of BRL. In doing so we have primarily referred to our Initial BHD IER and our First Supplementary HML IER. We note that there have been no public announcements made in respect of any aspect of the JBFG business since the issue of our Supplementary HML IER.

We set out below our assessment of the fair market value of BRL, based on the net asset approach:

Table 23: Net assets based valuation of BRL

$'000	Low	High
Investments		
Interest in JBFG	30,974	33,186
Franchises	-	500
Total investments	**30,974**	**33,686**
Other net liabilities		
Net cash	50	50
Related party loans	(175)	(175)
Other net liabilities	(8,269)	(8,269)
Deferred taxes (net)	(2,189)	(2,853)
Corporate costs	(320)	(240)
Total other net liabilities	**(10,903)**	**(11,487)**
Assessed net asset value	**20,071**	**22,199**
Dilutionary impact of options	(1,625)	(1,850)
Net asset value after options	**18,446**	**20,350**
Number of shares ('000)	5,177	5,177
Value per share ($)	**3.56**	**3.93**

Source: Leadenhall analysis

In respect of the above we note the following:

- **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 8.2. in undertaking the analysis we have also considered recent transactions in the shares of JBFG as well as HML's most recently audited carrying value of its investment in JBFG (BRL's accounts are not audited). As BRL owns a minority stake in JBFG we have conducted this analysis on a minority basis.
- **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 master franchise agreements. We understand BRL has agreed to a deferred roll-out plan with the franchisor. Given the significant uncertainty regarding the ability of BRL to meet the requirements of the franchise agreements, the book value of the franchise agreements was fully impaired at 30 June 2018. As such we have assessed the value of the franchise assets to be nil at the low end and $0.5 million at the high end to allow for some prospect that stores will be opened in the future or the agreements could be sold/assigned to a third party.
- **Net cash**: as at 31 December 2018 (latest information available) BRL had net cash of $50,000.
- **Related party plans**: as at 31 December 2018 (latest information available) comprised of a net loan to JBFG of $40,000 and a loan from JBL of $215,000.
- **Other net liabilities**: primarily relates to $7.15 million in management and performance fees payable to JBL as well as well as other related party payables.
- **Deferred taxes:** net deferred taxes are comprised of a deferred tax liability, which primarily relates to BRL's unrealised gain on its investment in JBFG (adjusted to reflect our selected JBFG value), and a deferred tax asset related to tax losses.

- **Corporate costs:** corporate costs for BRL predominantly relate to accounting and director fees. We have estimated ongoing corporate costs to be $60,000 to $80,000 per annum and we have allowed for these costs to be incurred on an ongoing basis.
- **Dilutionary impact of options:** BRL currently has 826,390 options outstanding. To assess the fair market value of the options we have utilised the BOPM using the following inputs:
  - Spot price based on the assessed BRL values above
  - Risk free rate of approximately 1.3% based on the yield on Australian treasury bonds
  - Exercise price of $1.00 per share as per the terms of the options
  - Nil dividend yield as the payment of any dividends is uncertain over the term of the options
  - Life of 1.98 years based on an expiry date of 22 April 2021 and a valuation date of 30 April 2019
  - 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

8.4.3 Assessed value of Enlarged JBL's interest in BRL

Our assessed value of Enlarged JBL's interest in BRL is summarised below:

Table 24: Assessed value of Enlarged JBL's interest in BRL

$'000	Low	High
Assessed value of a BRL share ($)	3.56	3.93
Number of BRL shares held ('000)	2,571	2,571
Assessed value of JBL's investment in BRL	**9,160**	**10,105**

Source: Leadenhall analysis

8.5 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 7, excluding realisation costs.

Our assessed value of Enlarged JBL's interest in BHD is summarised below:

Table 25: Assessed value of Enlarged JBL's interest in BHD

$'000	BHD (100%)		BHD (25%)	
	Low	High	Low	High
Assessed value of BHD (before option dilution)	12,460	13,692	12,460	13,692
Deduct corporate costs	-	-	(2,000)	(2,000)
Add: realisation and termination costs	854	842	854	842
Total	**13,314**	**14,534**	**11,314**	**12,534**
Interest in BHD	100%	100%	25%	25%
Value of Enlarged JBL's investment in BHD (100%)	**13,314**	**14,534**	**2,828**	**3,133**

Source: Leadenhall analysis

In respect of the above we note the following:

- In order to apply to delist BHD, JBL must secure at least a 75% interest in BHD. Whilst BHD remains as a public company, costs such as accounting and audit fees, registry fees and directors fees would continue to be incurred. We have estimated these costs to be $0.5 million per annum. As such in the 25% scenario, we have allowed for these costs to be incurred on an ongoing basis.

- In our valuation of BHD on a stand-alone basis we have assumed assets would be realised in an orderly fashion. In our valuation of Enlarged JBL we have assumed BHD will continue to operate and as such the estimated realisation costs have added back to our assessed value of BHD on a stand-alone basis.

8.6 Funds management business

Currently JBL acts as investment manager for BHD, HML, BRL and the JB Hi Alpha Funds (retail and wholesale) pursuant to IMAs which generally have a five year term. The JB High-Alpha funds currently have combined FUM of approximately $4.1 million ($3.6 million in retail FUM and $0.5 million in wholesale FUM). Management is anticipating continued growth in the JB Hi-Alpha funds.

In FY18, JBL generated management fees of $1.7 million from these mandates which was largely from BHD and HML. 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, JBL intends to continue to increase its shareholdings in HML and BHD. In this scenario, BHD and HML 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.

8.7 Synergies and corporate costs

Whilst Enlarged JBL may benefit from costs savings and other synergies of the combined group, our assessed value of BHD does not include the ongoing costs associated with the business 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 BHD Offer 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.

8.8 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 at 31 December 2018 as follows:

- **Net debt:** of $3.7 million which was comprised of:
  - JBL convertible notes totalling $3.6 million
  - Loan of $0.25 million from Stuart McAuliffe
  - Cash on hand of $0.1 million.
- **Loans:** related party loans are primarily comprised of:
  - A $1.0 million loan extended by BHD
  - A $2.3 million loan extended by HML
  - Net loans of $5.5 million extended by JBFG primarily for the purpose of repaying the refundable performance fee to BHD.
- **Other net assets:** primarily relate to working capital, including the $7.3 million receivable from BRL.
- **Deferred taxes**: net deferred taxes are comprised of a deferred tax liability, which primarily relates to JBL's unrealised gain on its investments, and a deferred tax asset related to tax losses.

Based on publicly available information, we are not aware of any other assets or liabilities of JBL.

8.9 Discounts

8.9.1 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.

8.9.2 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 in the range of 5.0% to 7.5% in our assessed value of Enlarged JBL.

8.9.3 DLOM

Whilst Enlarged JBL will be listed, due to the lack of any meaningful recent external trading volumes in JBL shares and the current suspension from trading, 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 10.

- JBL shares are currently suspended from trading on the NSX pending satisfactory responses to NSX queries. Whilst JBL has responded to each of the NSX's information requests to date there has been no indication as to when or if the trading suspension will be lifted.
- Even if the suspension is lifted, 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.
- Trading in JBL shares has historically been extremely illiquid since the original takeover offers for HML and BHD were announced. In particular in the 12 months to 30 April 2019, excluding a mandatory on-market share buyback by JBL in September 2018, only 3,015 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 discounting the intrinsic value of the underlying businesses.

Based on the above considerations, we have applied a DLOM of 20% to 30% in our assessed value of Enlarged JBL.

8.10 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**: 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 5.11.
- **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.

8.11 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. 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 1.5 JBL shares for each BHD share
BHD Option Offer	An off-market takeover bid for BHD options for 0.5 JBL options for each BHD option
BHD optionholders	BHD optionholders not associated with JBL
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 BHD Offer
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
R&S	Risk and Security Management Pty Ltd
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.
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: VALUATION OF JBFG

A summary of our SOTP analysis for JBFG is set out in the table below:

Table 26: SOTP value of JBFG

Assessed value of JBFG (minority value)								
$'m	Reference	Earnings basis	Selected earnings		Selected multiple		Value	
Business unit			Low	High	Low	High	Low	High
Crown Currency	Appendix 4	EBIT	5.6	6.0	8.5x	9.0x	47.6	54.0
JB Trading House	Appendix 5	NPAT	1.5	2.5	11.0x	12.0x	16.5	30.0
R&S	Appendix 6	EBIT	2.0	2.5	6.5x	7.5x	13.0	18.8
Total							**77.1**	**102.8**
Related party loans							4.1	4.1
Surplus assets							2.3	2.9
Net cash							3.1	3.1
Total equity value (minority basis)							**86.6**	**112.9**
Number of shares (million)							26.9	26.9
Value per JBFG share (minority value)							**$ 3.22**	**$ 4.19**
Selected value							**$ 3.50**	**$ 3.75**

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

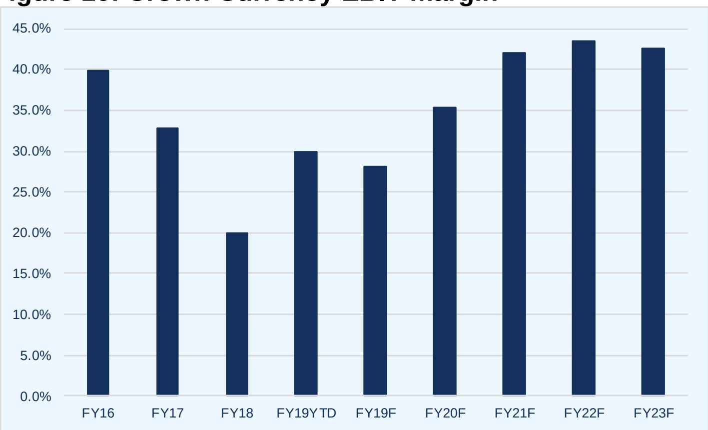
We have assessed the fair market value of Crown Currency using the CFME method, with a broad cross-check to a high level DCF analysis. This assessment has been made on a minority basis.

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 29 operating stores of which 15 were opened prior to 30 June 2017 (mature stores) and 14 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. 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 10: Crown Currency EBIT margin



Source: HML IER

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 half of FY19 suggests Crown Currency is only slightly behind the FY19 budget despite no new stores opening.
- That the current financing arrangements for funding foreign currency would be replicable with a third party financier.

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 27: Estimated maintainable earnings for a portfolio of 29 mature Crown Currency Stores

Earnings component	Low $'000	High $'000
Revenue		
- Existing 15 stores (mature)	9,486	9,486
- Existing 14 stores (growth) at mature run rate	7,980	8,260
Total revenue	**17,466**	**17,746**
EBIT margin	32%	34%
EBIT	**5,589**	**6,034**

Source: HML IER 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 uncertainty of these stores being able to replicate historical growth rates.

4. EBIT margin based on consideration of historical and forecast performance performance

After considering the historical earnings, forecast earnings and margins of Crown Currency and comparable companies we have selected the following maintainable earnings:

Table 28: 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 29: Trading multiples of comparable companies

Name	Location	EV	EBIT Growth		EBIT Margin		EBIT Multiple		HML Supp IER	
		(AU$'m)	Current	Forecast	Current	Forecast	Current	Forecast	Current	Forecast
Foreign Exchange										
The Western Union	United States	16,024.4	-5%	0%	20%	20%	10.5x	10.5x	9.2x	9.0x
OFX Group	Australia	293.2	19%	-4%	20%	19%	11.2x	11.7x	15.4x	13.2x
FairFX Group	United Kingdom	338.9	367%	52%	34%	37%	16.6x	10.9x	13.4x	8.4x
Currency Exchange International	United States	103.7	18%	28%	21%	24%	8.4x	6.6x	8.4x	6.6x
High							**16.6x**	**11.7x**	**15.4x**	**13.2x**
Low							**8.4x**	**6.6x**	**8.4x**	**6.6x**
Average							**11.7x**	**9.9x**	**11.6x**	**9.3x**
Median							**10.8x**	**10.7x**	**11.3x**	**8.7x**
Australian Travel										
Flight Centre	Australia	3,792.2	-4%	12%	11%	12%	11.0x	9.8x	8.8x	8.2x
Corporate Travel Management	Australia	2,703.3	26%	19%	30%	31%	20.0x	16.8x	19.6x	16.5x
Webjet	Australia	2,142.1	51%	52%	27%	32%	21.0x	13.8x	20.2x	13.2x
Helloworld Travel	Australia	478.0	15%	12%	15%	16%	12.6x	11.3x	12.8x	11.5x
SeaLink	Australia	463.8	22%	14%	17%	18%	8.0x	7.0x	8.8x	7.7x
High							**21.0x**	**16.8x**	**20.2x**	**16.5x**
Low							**8.0x**	**7.0x**	**8.8x**	**7.7x**
Average							**14.5x**	**11.7x**	**14.0x**	**11.4x**
Median							**12.6x**	**11.3x**	**12.8x**	**11.5x**

Source: S&P Capital IQ and Leadenhall analysis as at 15 May 2019

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.

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 10.9x and 6.6x.
- 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 being equal, 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 is 11.8x and the forecast EBIT multiple is 9.7x.

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 30: Transaction Multiples

Target	Acquirer	Date	Target Country	Ent. Value	Historical multiple		Forecast multiple	
					EBITDA	EBIT	EBITDA	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, JBL 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 further 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 31: 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 32: 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

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:

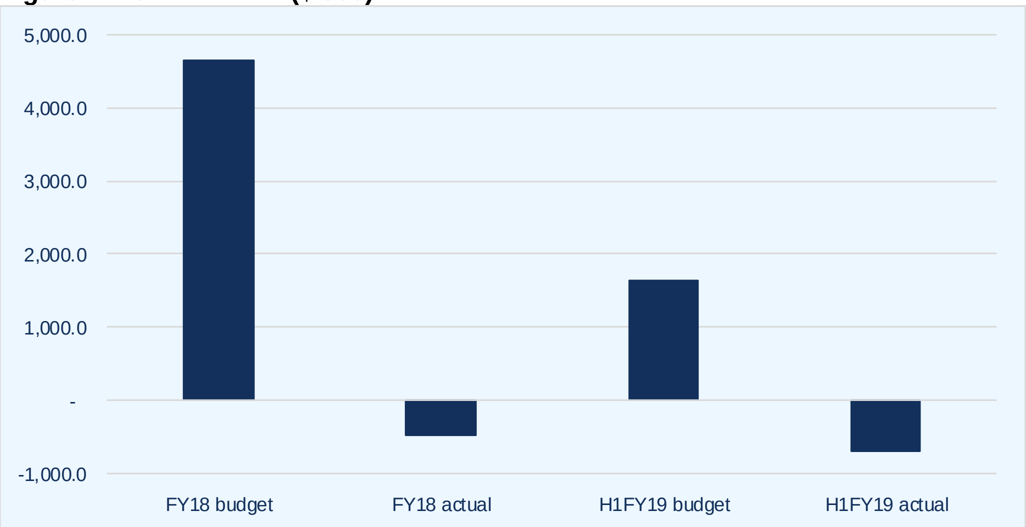
- Recent joint venture initiatives with Saxo Capital (launched in April 2018)
- Acquiring new external clients through marketing initiatives and the hiring of new brokers
- The launch of a retail version of the JB Hi-Alpha wholesale fund, and a marketing push to increase FUM in both the retail and wholesale Hi-Alpha funds
- The launch of the JB Prime Multi Asset platform, developed in partnership with CQG, on 13 February 2019
- The merger agreement being negotiated by Genesis which could result in a significant increase in JBFG's potential earning from the business if the transaction proceeds

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 significantly influenced on the volume of trading conducted by internal funds. 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 20 months from May 2017 to December 2018, JB markets has recorded a profit in nine 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 11: JBTH NPAT ($'000)



Source: HML IER 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 half 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 limited interest rate changes by global central banks which has resulted in Genesis recording a loss in FY18 and the first half of FY19. Genesis are currently involved in merger discussions which if successful could result in a significant reduction in costs and increase in returns to JBTH from the merged entity.
- JBTH has recently entered into a partnership with Saxo. Whilst management believe there is significant upside from this partnership, only a small amount of revenue has been generated to date.
- JB Markets has recently launched is Multi Asset Platform in conjunction with CQG which has the potential to significant increase external broking revenue in the short to medium term.
- JBTH has a significant customer concentration risk with the majority of income currently generated from brokerage services provided to clients of JBL.
- We have previously been provided with the board approved budget for FY19 for the purposes of preparing our HML Supplementary HML IER. The FY19 budget 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 H1FY19 trading and the FY19 budget:
  - **September 2018 quarter run rate:** full year trading at Q1FY19 run rate results in FY19 NPAT of negative $0.3 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. We have used the September quarter in our analysis as the December quarter NPAT was negative.

- **September 2018 run rate:** September 2018 was the third best trading month for JB Markets since inception to 31 December 2018 (latest information available) and was driven by increased trading by BHD and HML. 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**: Volumes from internal funds based on the 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 33: Selected maintainable earnings

$m	NPAT Low	NPAT High
Selected maintainable earnings	1.5	2.5

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 CQG Multi Asset 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 34: 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	96,126.4	19%	12%	48%	51%	28.4x	25.4x
E*TRADE	United States	16,913.2	0%	3%	35%	35%	11.1x	10.8x
Interactive Brokers	United States	5,863.0	9%	16%	9%	10%	22.1x	19.0x
Swissquote Group	Switzerland	784.2	-13%	38%	17%	21%	14.1x	10.2x
Moelis Australia	Australia	627.1	41%	10%	30%	31%	15.2x	13.8x
CMC Markets	United Kingdom	419.6	-84%	186%	6%	15%	28.1x	9.8x
BinckBank	Netherlands	680.8	-38%	17%	15%	17%	19.5x	16.6x
GAIN Capital Holdings	United States	240.1	-128%	-180%	-10%	6%	n/a	7.9x
High							**28.4x**	**25.4x**
Low							**11.1x**	**7.9x**
Average							**19.8x**	**14.2x**
Median							**19.5x**	**12.3x**
Interquartile mean							**19.8x**	**12.8x**

Source: S&P Capital IQ and Leadenhall analysis as at 15 May 2019

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.*

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 partnership with Saxo, the successful implementation of the CQG Multi Asset Platform and the potential to generate meaningful brokerage from new third-party clients which has not been fully reflected in our assessed maintainable earnings.
- In the future, management forecasts indicate that JBTH is expected to generate NPAT margins at the higher end of the comparable companies, although this is not reflected in actual trading to date. All other things being equal, companies with higher margins trade on higher multiples.
- The interquartile mean of the current year PE multiples is 19.8x and 12.8x for the forecast year.

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 35: 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 36: 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 37: Summary of JBTH CFME analysis

	Low	Hgh
Selected maintainable earnings	1.5	2.5
Selected earnings multiple (minority)	11.0x	12.0x
Enterprise value (minority basis)	**16.5**	**30.0**

Source: Leadenhall analysis

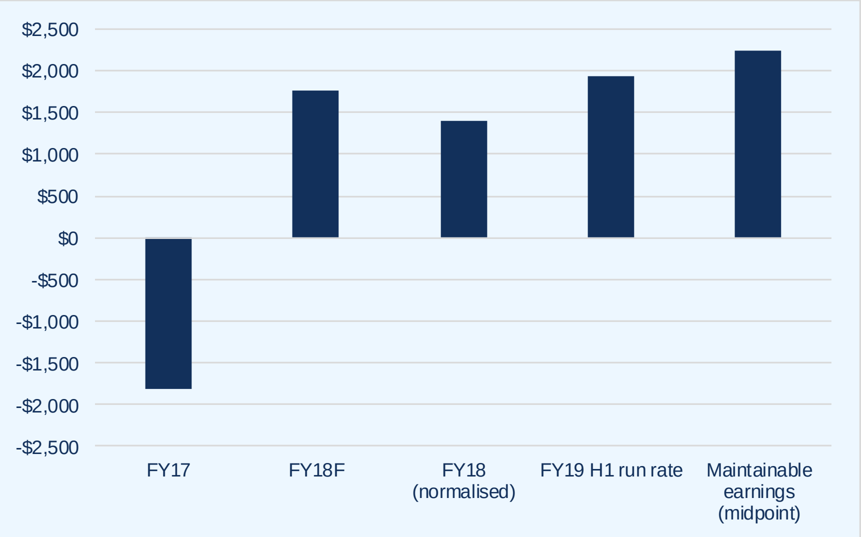
APPENDIX 6: VALUATION OF R&S

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 12: R&S EBIT ($'000)



Source: HML IER 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:
  - H1FY19 revenue is significantly behind budget, although considerable cost savings, after allowing for one off costs, have resulted in 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 38: Selected maintainable earnings

$m	EBIT Low	EBIT 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 39: Trading multiples of comparable companies

Company	Location	EV (AU$'m)	EBIT Growth		EBIT Margin		EBIT Multiple	
			Current	Forecast	Current	Forecast	Current	Forecast
Automatic Data Processing	United States	101,817.0	22%	12%	22%	23%	22.6x	20.1x
Alliance Data Systems	United States	40,620.3	10%	10%	29%	29%	16.9x	15.4x
Intrum	Sweden	11,146.7	51%	15%	37%	40%	12.4x	10.8x
Coface	France	6,390.1	-7%	2%	13%	13%	21.2x	20.7x
B2Holding	Norway	2,558.1	n/a	15%	48%	49%	9.5x	8.2x
Credit Corp	Australia	1,535.4	n/a	12%	34%	35%	13.9x	12.4x
Atento	Luxembourg	832.5	26%	12%	6%	6%	5.8x	5.2x
Collection House	Australia	270.4	-8%	15%	28%	29%	6.6x	5.7x
Low							**5.8x**	**5.2x**
High							**22.6x**	**20.7x**
Average							**13.6x**	**12.3x**
Median							**13.1x**	**11.6x**
Interquartile mean							**13.2x**	**11.7x**

Source: S&P Capital IQ and Leadenhall analysis as at 15 May 2019

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.
- 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. Earnings 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 13.6x and the median is 13.1x. The interquartile mean (the average excluding the top and bottom 25% of values) is 13.2x.

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 40: Transaction multiples

Target	Acquirer	Date	Target Country	Ent. Value	Historical multiple EBITDA	Historical multiple EBIT	Forecast multiple EBITDA	Forecast multiple EBIT
Dun & Bradstreet	Consortium	Feb-19	United States	8,997.1	12.5x	13.2x	12.6x	13.9x
R&S	JBFG	Jun-17	Australia	34.0	n/a	n/a	19.3x	19.3x
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[1]	Archer Capital	Jun-15	Australia	220.0	n/a	16.8x	n/a	n/a
Average					**12.8x**	**16.4x**	**13.1x**	**14.3x**
Median					**12.5x**	**13.2x**	**12.6x**	**13.9x**

Source: S&P CapitalIQ 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 41: 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 42: 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: BHD LIQUIDATION SCENARIO

Liquidation value

As part of our analysis of the alternative options available to BHD shareholders we have considered the potential quantum of a return to shareholders under a liquidation scenario. A summary of this analysis is set out below.

Table 43: BHD liquidation scenario analysis

$'000	Low	High
Investments		
Foreign currency notes	6,759	6,759
Loan to JBL	1,043	1,043
Convertible loan (JBFG)	2,482	2,482
Loan to Genesis	858	858
Interest in JBL	34	34
Total investments	**11,176**	**11,176**
Other net assets		
Net cash	2,041	2,041
Other net assets	116	116
Deferred taxes	-	-
IMA termination cost	(389)	-
Unavoidable transaction costs	(200)	(200)
Liquidation costs	(200)	(100)
Operating expenses and trading losses	(750)	(450)
Total	**11,795**	**12,583**
Number of shares	24,154	24,154
Value per share	**0.49**	**0.52**

Source: BHD and Leadenhall analysis

Note: the liquidation scenario has been prepared on a stand alone basis and is not necessarily representative of capital that would be returned to shareholders should the current board be replaced at either of the Section 249D or 249F meetings.

In respect of the above we note the following:

- **Investments:** based on our assessed values set out in Section 7.
- **Other net assets:** primarily relates to cash of $2 million held in various trading accounts as at 30 April 2019.
- **Deferred taxes:** as at 30 April 2019, BHD had tax losses of $2.4 million. We do not consider that this amount would be recoverable in a liquidation scenario.
- **IMA termination cost:** in the event the IMA with JBL is terminated due to insolvency, there is no early termination payment payable. However, it is possible that JBL could take legal action if IMA is terminated within the initial term. For the purpose of our analysis we have assumed that any damages or settlement under such a scenario would not exceed the early termination payment provided for in the IMA. As it is possible that no early termination costs would be incurred in the event of liquidation we have only included an early termination payment in the low scenario.
- **Liquidation costs:** we have estimated liquidation costs based on discussions with insolvency professionals in respect of the cost of realising and distributing the assets of BHD and coordinating the affairs of BHD whilst the realisation process is being undertaken.

- **Operating expenses and trading losses:** in a liquidation scenario, there will be a period of time where the status quo is retained whilst the required preparations are made to hold a meeting of members, terminate the IMA and appoint a liquidator. Based on historical trading it is likely that BHD will expend significant cash during this period which we have estimated to be three months at which point any ongoing costs are reflected in the liquidation costs above. We have assumed monthly costs of $0.25 million in the low scenario and $0.15 million in the high scenario. The assumed costs in the low scenario include provision for some trading losses as well as operating expenses and in the high scenario we have assumed that cash expenditure is limited to operating expenses.

Based on the above, we have estimated that BHD shareholders would receive a distribution of between $0.49 and $0.52 per BHD share in the event BHD was wound up.

Risks to liquidation

We consider that there are a number of risks associated with a liquidation scenario as summarised below:

- Given that BHD is solvent, a members voluntary liquidation ("**MVL**") would have to be undertaken. The appointment of a liquidator under an MVL requires a special resolution of members (75% acceptance by voting members). This is a relatively high voting threshold which may be difficult to achieve.
- There is the potential that JBL will take legal action in relation to termination of the investment management agreement.
- Not all assets are able to be realised immediately. Realisation of the related party loan will likely only occur upon expiry of the loans.
- There is the possibility the JBL will restructure BHD's investment portfolio in the intervening period which may make it more difficult to realise BHD's assets within a reasonable timeframe.

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:

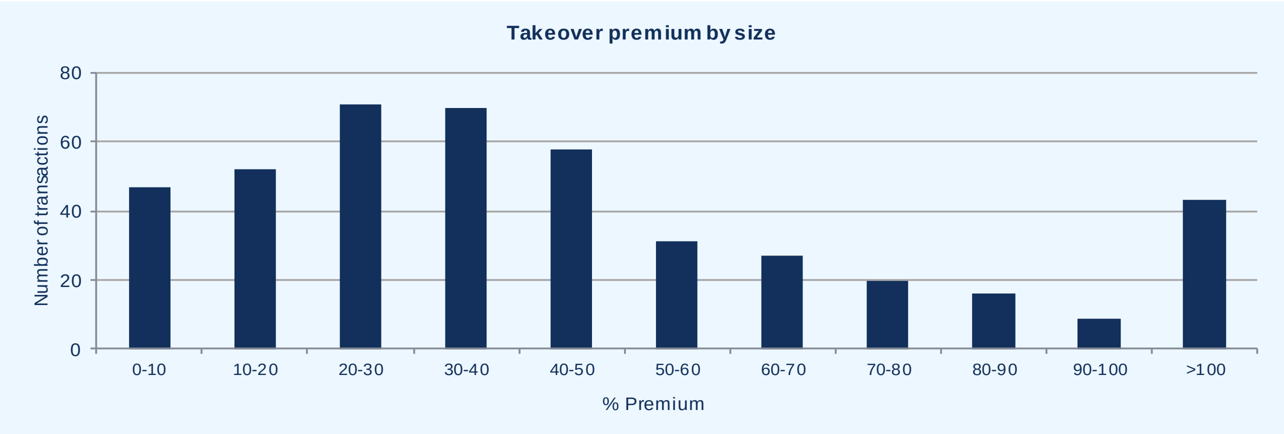
- Appoint or change operational management
- Appoint or change members of the board
- Determine management compensation
- Determine owner's remuneration, including remuneration to related party employees
- Determine the size and timing of dividends
- Control the dissemination of information about the 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.

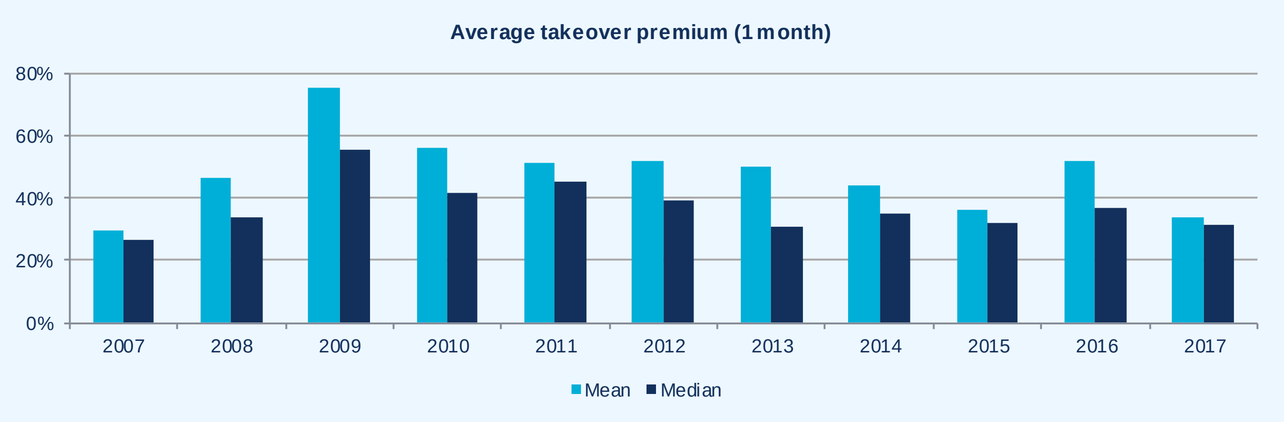


Sources: Capital IQ, Leadenhall analysis

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.

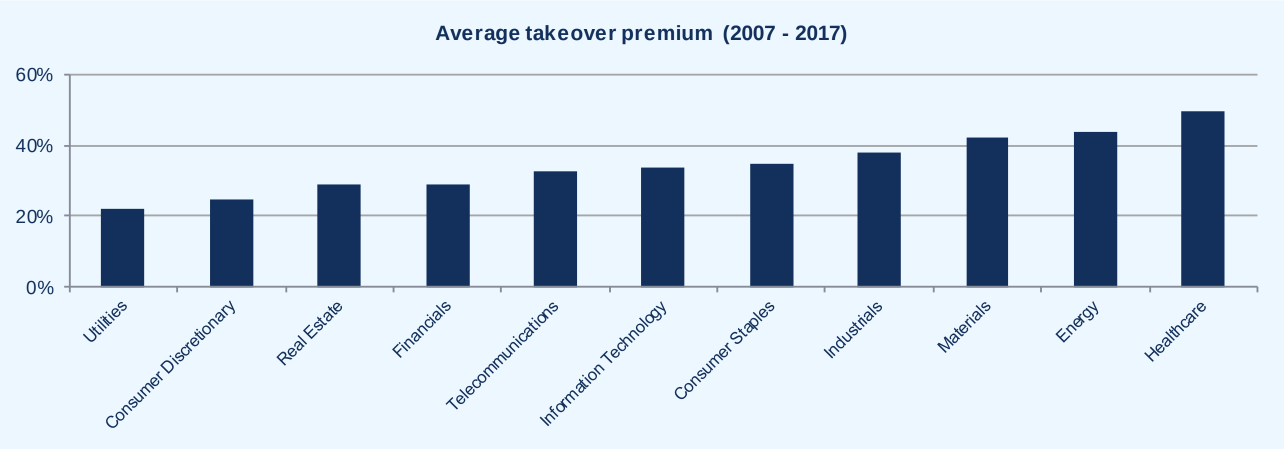


Sources: Capital IQ, Leadenhall analysis
Note: The average premiums presented above exclude transactions with implied control premiums below zero and transactions which we consider to be outliers.

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.

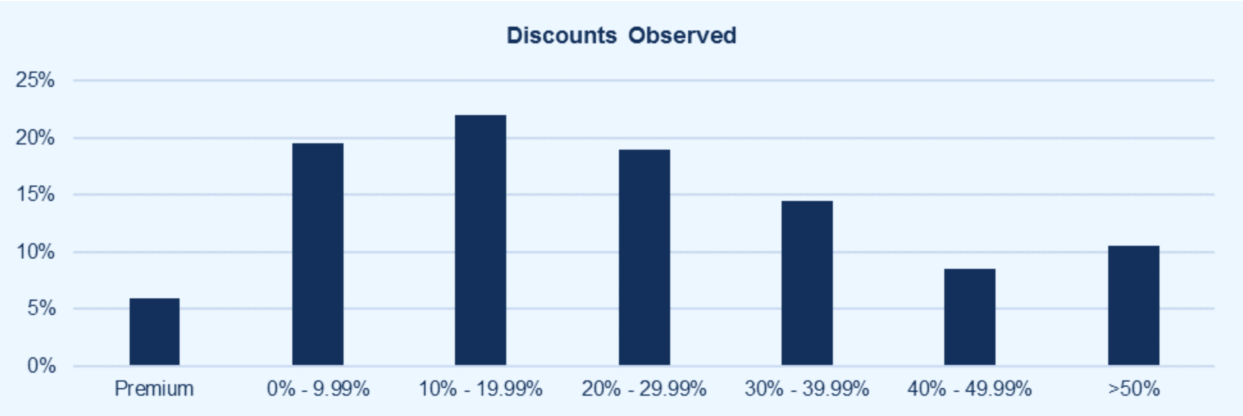
Study	Period	Number of companies	DLOM Mean	DLOM Median
SEC Institutional Investor	1966 – 1969	398	24%	-
Gelman	1968 – 1970	89	33%	33%
Moroney	1968 – 1970	145	36%	33%
Maher	1969 – 1973	34	36%	33%
Trout	1968 – 1970	60	34%	-
Standard Research Consultants	1978 – 1982	28	-	45%
Johnson & Racette	1967 – 1973	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	DLOM 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	17	53%	41%	41%
NSX:JBL	John Bridgeman Limited	14	417%	258%	191%
IQT320325090	Henry Morgan Limited	n/a	n/a	47%	54%
Average		**16**	**235%**	**115%**	**95%**
Trading & securities brokers					
XTRA:LUS	Lang & Schwarz Aktiengesellschaft	94	45%	41%	37%
ASX:BFG	Bell Financial Group Limited	238	40%	35%	39%
NYSE:GCAP	GAIN Capital Holdings, Inc.	280	35%	46%	42%
LSE:CMCX	CMC Markets Plc	417	44%	37%	46%
NYSE:OPY	Oppenheimer Holdings Inc.	486	27%	26%	28%
ASX:MOE	Moelis Australia Limited	642	36%	39%	39%
SWX:CFT	Compagnie Financière Tradition SA	1,040	17%	18%	18%
Average		**457**	**35%**	**34%**	**36%**
Fund managers					
NSX:ASS	Asset Resolution Limited	9	28%	28%	23%
ASX:KAM	K2 Asset Management Holdings Ltd	18	91%	81%	73%
ASX:FSI	Flagship Investments Limited	44	28%	28%	27%
ASX:MVT	Mercantile Investment Company Limi	44	28%	29%	31%
ASX:WAA	WAM Active Limited	46	19%	18%	19%
ASX:EDC	Eildon Capital Limited	47	23%	21%	21%
ASX:MEC	Morphic Ethical Equities Fund Limitec	49	27%	26%	26%
ASX:LSX	Lion Selection Group Limited	52	55%	60%	62%
ASX:PCG	Pengana Capital Group Limited	164	39%	39%	39%
ASX:PAC	Pacific Current Group Limited	225	25%	29%	33%
ASX:PMC	Platinum Capital Limited	469	28%	25%	26%
Average		**106**	**36%**	**35%**	**35%**
Average (all)		**220**	**55%**	**46%**	**44%**

Source: S&P CapIQ and Leadenhall analysis

APPENDIX 12: QUALIFICATIONS, DECLARATIONS AND CONSENTS

Responsibility and purpose

This report has been prepared for BHD's shareholders for the purpose of assessing the fairness and reasonableness of the BHD Offer. 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 BHD, 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 BHD'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 BHD, JBL and their officers, employees, agents or advisors. BHD 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 BHD, JBL and their officers, employees, agents or advisors or the failure by BHD, 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 BHD, 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 BHD Offer.

We advise that in the previous two years we have undertaken the following engagements in respect of BHD, 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.
- In December 2018 we issued separate IERs for BHD and HML in respect of offers from JBL.
- In February 2019 we were engaged to prepare supplementary IERs for HML and BHD in response to the orders from the Takeovers Panel. Our IER for BHD was never finalised as the JBL offer for BHD was withdrawn. Our supplementary IER for HML was issued in March 2019.

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 BHD Offer. Our only role has been the preparation of this report.

Leadenhall has acted independently of BHD. Compensation payable to Leadenhall is not contingent on the conclusion, content or future use of this report.