

Henry Morgan Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Henry Morgan Limited
ACN:	602 041 770
Reporting period:	For the year ended 30 June 2019
Previous period:	For the year ended 30 June 2018

2. Results for announcement to the market

			\$
2.1 Revenues from ordinary activities	up	65.7% to	(4,261,085)
2.2 Loss from ordinary activities after tax attributable to the owners of Henry Morgan Limited	up	57.9% to	(5,579,440)
2.3 Loss for the year attributable to the owners of Henry Morgan Limited	up	57.9% to	(5,579,440)

2.4 There were no dividends paid, recommended or declared during the current financial period. It is not proposed to pay a dividend at this time.

Comments

The loss for the Company after providing for income tax amounted to \$5,579,440 (30 June 2018: \$13,253,940).

3. Statement of Comprehensive Income – attached

4. Statement of Financial Position – attached

5. Statement of Cashflows – attached

6. Statement of changes in equity – attached

7. Dividend payments – refer 2.4 above

8. Dividend reinvestment plan – not applicable at this time as no dividends are currently payable.

9. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>94.36</u>	<u>112.27</u>

10. Control gained over entities

Not applicable.

11. Loss of control over entities

Not applicable.

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12. Other significant information

Securities suspended from quotation

Trading in the Company's securities on the Australian Securities Exchange ("ASX") was voluntarily suspended by the Company on 8 June 2017 in order to avoid the market trading on an uninformed basis pending resolution with ASIC of certain matters concerning the Company's prospectus dated 2 June 2017 for the issue of bonus options. Those matters with ASIC have been resolved.

In relation to the continuing suspension of trading in the Company's securities, the ASX has indicated that it will not lift the suspension at this time, pending their further queries.

The Company is taking every reasonable step to have this suspension lifted and is ensuring that it is doing all things lawfully required to enable this to happen for the benefit of shareholders.

Further information is available in the announcements made by the Company to the ASX which can be accessed at <https://henrymorgan.com.au/investor-centre/announcements.html>

13. Foreign entities

Not applicable.

14. Commentary on results for the period

	2019	2018
	Cents	Cents
Basic earnings per share	(17.40)	(43.29)
Diluted earnings per share	(17.40)	(43.29)

Only options with an exercise price lower than the average market price of ordinary shares of the Company during the period are considered when calculating diluted earnings per share. In the case of a loss, the options are anti-dilutive and consequently the diluted and the basic earnings per share are the same.

During August 2018 1,731,782 of these options were exercised at \$1.00 per share and the remaining 2,782,009 options expired and were cancelled on 31 August 2018.

	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	32,071,112
Adjustments for calculation of diluted earnings per share:	
Options over ordinary shares	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>32,071,112</u>

14.2 There were no returns to shareholders during the year.

14.3 Significant features of operating performance

Total revenue for the financial year includes the net unrealised losses from investment activities of \$5,383,675 (2018: unrealised losses of \$11,012,051). In respect of its investment in JB Financial Group Pty Ltd, the Company has calculated a valuation of \$4.12 per share (2018: \$4.65 per share). The carrying amount for the Company's investments in unlisted assets as at 30 June 2019 has been reduced to \$28,787,372 (2018: \$36,491,504).

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14.4 Segments – not applicable

14.5 Trends in performance

The Company is a Listed Investment Company ("LIC") providing investors with the opportunity to gain exposure to an actively managed investment portfolio. The Company invests in global markets through derivative instruments providing exposure to equities, equity indices, bonds, currencies and commodities. The Company also invests in listed and unlisted securities and in foreign currency banknotes with the aim of achieving above average risk-adjusted returns (whilst limiting volatility) over the medium to long term. The market-based nature of the Company's investment returns may result in fluctuations in financial performance from year to year.

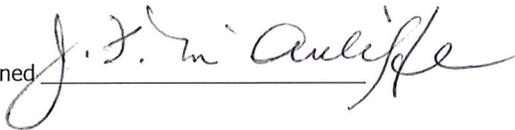
14.6 Factors which may affect the results of the Company in the future include the following:

- The Company has rationalised costs during the second half of the financial year. These cost reductions may be expected to improve profitability of the Company's operations in future financial years;
- The Company is looking into ways to increase revenues from its underlying, existing investments;
- The Company's access to capital resources whether it be through capital or debt raisings.

15. Audit qualification or review

The report is based on accounts which are in the process of being audited.

16. Signed

Signed 

Date: 4 September 2019

Henry Morgan Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

	Note	2019	2018
		\$	\$
Revenue	1	(4,519,837)	(12,459,343)
Interest revenue calculated using the effective interest method		<u>258,752</u>	<u>29,713</u>
Total revenue		<u>(4,261,085)</u>	<u>(12,429,630)</u>
Expenses			
Management and performance fees	2	(760,354)	(1,714,418)
Impairment of assets		(350,000)	(250,000)
Accounting and audit costs		(290,201)	(1,465,454)
Broker commissions		(819,634)	(1,921,011)
Directors' fees		(428,299)	(333,047)
Finance costs		(3,188)	(42,413)
Legal fees		(471,152)	(378,945)
Other expenses		<u>(436,715)</u>	<u>(369,686)</u>
Total expenses		<u>(3,559,543)</u>	<u>(6,474,974)</u>
Loss before income tax benefit		(7,820,628)	(18,904,604)
Income tax benefit	3	<u>2,241,188</u>	<u>5,650,664</u>
Loss after income tax benefit for the year attributable to the owners of Henry Morgan Limited		(5,579,440)	(13,253,940)
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to the owners of Henry Morgan Limited		<u>(5,579,440)</u>	<u>(13,253,940)</u>
		Cents	Cents
Basic earnings per share	10	(17.40)	(43.29)
Diluted earnings per share	10	(17.40)	(43.29)

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

Henry Morgan Limited
Statement of financial position
As at 30 June 2019

	Note	2019	2018
		\$	\$
Assets			
Cash and cash equivalents	4	11,122	314,729
Balances held with brokers		-	122,073
Term deposits		-	52,018
Derivative financial assets		-	60,139
Current tax receivable	3	-	187,746
Loans and receivables	5	2,328,236	374,267
Investments at fair value through profit or loss	6	28,787,372	36,491,504
Prepayments		-	16,644
		<u>31,126,730</u>	<u>37,619,120</u>
Total assets			
Liabilities			
Trade and other payables	7	229,222	166,828
Derivative financial liabilities		-	70,794
Deferred tax liability	3	375,042	3,011,374
		<u>604,264</u>	<u>3,248,996</u>
Total liabilities			
Net assets			
		<u>30,552,466</u>	<u>34,370,124</u>
Equity			
Issued capital	8	32,614,781	30,882,999
Retained profits		<u>(2,092,315)</u>	<u>3,487,125</u>
		<u>30,552,466</u>	<u>34,370,124</u>
Total equity			

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

Henry Morgan Limited
Statement of changes in equity
For the year ended 30 June 2019

	Issued capital \$	Retained profits \$	Total equity \$
Balance at 1 July 2017	30,877,999	16,741,065	47,619,064
Loss after income tax benefit for the year	-	(13,253,940)	(13,253,940)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(13,253,940)	(13,253,940)
<i>Transactions with owners in their capacity as owners:</i>			
Shares issued on exercise of options	5,000	-	5,000
Balance at 30 June 2018	<u>30,882,999</u>	<u>3,487,125</u>	<u>34,370,124</u>
	Issued capital \$	Retained profits/ (accumula ted losses) \$	Total equity \$
Balance at 1 July 2018	30,882,999	3,487,125	34,370,124
Loss after income tax benefit for the year	-	(5,579,440)	(5,579,440)
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	(5,579,440)	(5,579,440)
<i>Transactions with owners in their capacity as owners:</i>			
Shares issued on exercise of options	1,731,782	-	1,731,782
Balance at 30 June 2019	<u>32,614,781</u>	<u>(2,092,315)</u>	<u>30,522,466</u>

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

Henry Morgan Limited
Statement of cash flows
For the year ended 30 June 2019

	Note	2019	2018
		\$	\$
Cash flows from operating activities			
Net proceeds on sale of investments		(934,107)	(1,774,516)
Management and performance fees paid		(635,897)	(5,221,744)
Payments from brokers for initial trading margin		122,073	3,354,603
Commissions paid to investment brokers		(825,048)	(2,727,653)
Payments for operating and administrative expenses		(1,417,094)	(2,657,037)
Proceeds from sale of shares		2,917,075	3,850,069
Purchase of investments		-	(3,073,475)
Proceeds from repayment of foreign currency notes		1,645,634	2,900,000
Payment for foreign currency notes		(1,330,000)	(3,414,659)
Proceeds from foreign currency notes revenue		21,741	86,587
Interest received		2,482	7,829
Interest and other finance costs paid		(3,188)	(43,427)
Payment of money received in error		-	(495,672)
Income taxes received		597,918	714,120
		<u>161,589</u>	<u>(8,494,975)</u>
Net cash from/ (used in) operating activities	11		
Cash flows from investing activities			
Receipt from placement of term deposit		52,018	137,905
Receipts from repayment of related party loans		162,004	-
Payments for related party loan		<u>(2,411,000)</u>	<u>(450,000)</u>
		<u>(2,196,978)</u>	<u>(312,095)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from exercise of options	10	<u>1,731,782</u>	<u>5,000</u>
		<u>1,731,782</u>	<u>5,000</u>
Net cash from financing activities			
Net decrease in cash and cash equivalents		(303,607)	(8,802,070)
Cash and cash equivalents at the beginning of the financial year		<u>314,729</u>	<u>9,116,799</u>
		<u>11,122</u>	<u>314,729</u>
Cash and cash equivalents at the end of the financial year	4		

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

Henry Morgan Limited
Notes to the preliminary financial statements
30 June 2019

Note 1. Revenue

	2019	2018
	\$	\$
<i>Net gains / (losses) on financial instruments measured at fair value through profit or loss</i>		
Net realised (losses) / gains from trading activities	(937,546)	(1,353,148)
Net unrealised (losses) / gains from trading activities	63,269	(70,794)
Net realised losses from investment activities	900,602	(252,798)
Net unrealised (losses) / gains from investment activities	<u>(5,383,675)</u>	<u>(11,012,051)</u>
	<u>(5,357,350)</u>	<u>(12,688,791)</u>
 <i>Other revenue</i>		
Foreign exchange gains on foreign currency banknotes (a)	12,476	130,945
Trading fee on foreign currency banknotes (a)	19,173	91,304
Dividends	-	7,199
Other revenue - GST refund (b)	<u>805,864</u>	<u>-</u>
	<u>837,513</u>	<u>229,448</u>
 Revenue	 <u>(4,519,837)</u>	 <u>(12,459,343)</u>

(a) Refer to Note 6 for details regarding these revenue items in respect of foreign currency banknotes.

(b) During the year the Company conducted a review of GST payments made during the 2017 and 2018 financial years. The Company has received a refund of GST previously paid in respect of reduced input tax credit amounts available.

Accounting policy for revenue recognition

The Company recognises revenue as follows:

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

Net gain on investments

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

Interest

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

Other revenue

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

Taxation rebate

Tax rebate relates to unrecovered GST from prior period management and performance fees.

Note 2. Management and performance fees

In accordance with the Management Services Agreement ("MSA") dated 12 March 2015, the Investment Manager will receive a management fee of 2% per annum (plus GST) calculated and paid monthly in arrears based on the net tangible assets of the Company and a performance fee paid quarterly in arrears. The performance fee is calculated as 23% of the investment return at the end of the last day of the relevant quarter. During the financial year a complete review since inception of the Company's management fee and performance fee calculations under the Company's Management Services Agreement with John Bridgeman Limited has been performed. In the course of this review, a question has arisen as to the interpretation of the "High-Water Mark" for the purposes of the performance fee calculation. Refer to note 12 for further information.

Henry Morgan Limited
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Note 2. Management and performance fees (continued)

The investment return is defined as the percentage by which the mark-to-market value (after estimated taxes) at the end of the last day of the relevant quarter exceeds the mark-to-market value (after estimated taxes) at the end of the last day of the quarter immediately prior to the relevant quarter, excluding any additions to or reductions in equity in the Company during the relevant quarter including dividend reinvestments, new issues, the exercise of share options, share buyback and payment of dividends.

The Investment Manager has charged management fees of \$760,354 (30 June 2018: \$1,194,780) and no performance fees have been charged (30 June 2018: \$519,638) for the current reporting period. As at 30 June 2019 \$117,978 of management fees were outstanding (as at 30 June 2018 all fees payable to the Investment Manager were paid).

The Company has appointed the Investment Manager for an initial term of five years unless terminated earlier in accordance with the terms of the MSA. After the initial five-year term, the Company at a general meeting may resolve by ordinary resolution to terminate the MSA on three months' notice after the resolution is passed, or for the MSA to be extended in accordance with its terms.

If the MSA is terminated without cause, the Investment Manager is entitled to a termination payment. The termination payment will be equal to 5% of the NTA backing of each share in each class of shares in the Company as calculated under the Listing Rules multiplied by the number of shares on issue in that class of shares as at the termination date. The percentage of NTA backing in respect of the calculation of the termination payment will be reduced on a pro-rata basis in accordance with the length of time served by the Investment Manager under the MSA.

Note 3. Income tax

	2019	2018
	\$	\$
<i>Income tax benefit</i>		
Deferred tax - origination and reversal of temporary differences, and movement to current	<u>(2,241,188)</u>	<u>(5,650,664)</u>
Aggregate income tax benefit	<u><u>(2,241,188)</u></u>	<u><u>(5,650,664)</u></u>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	<u>(7,820,628)</u>	<u>(18,904,604)</u>
Tax at the statutory tax rate of 30%	(2,346,188)	(5,671,381)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Prior year non deductible legal fees	-	20,717
Impairment of assets	<u>105,000</u>	<u>-</u>
Income tax benefit	<u><u>(2,241,188)</u></u>	<u><u>(5,650,664)</u></u>

Henry Morgan Limited
Notes to the preliminary financial statements
30 June 2019

Note 3. Income tax (continued)

	2019	2018
	\$	\$
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Unrealised gains on financial assets	5,373,236	6,655,919
Unrealised gains on trading assets	22,723	18,045
Accrued expenses	(20,550)	(41,162)
Capital raising costs (deductible over 5 years)	(36,180)	(57,550)
Tax losses	(4,850,549)	(3,323,867)
Capitalised expenses to form part of cost base	(197,084)	(171,576)
Interest receivable	83,446	(68,435)
	<u>375,042</u>	<u>3,011,374</u>
Deferred tax liability	<u>375,042</u>	<u>3,011,374</u>
	2019	2018
	\$	\$
<i>Income tax refund due</i>		
Income tax refund due	<u>-</u>	<u>187,746</u>

Accounting policy for income tax

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

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

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

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

Note 4. Cash and cash equivalents

	2019	2018
	\$	\$
Cash at bank	8,333	46,867
Cash held with investment brokers - unrestricted	2,789	267,862
	<u>11,122</u>	<u>314,729</u>
	<u>11,122</u>	<u>314,729</u>

Accounting policy for cash and cash equivalents

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

Henry Morgan Limited
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Note 5. Loans and receivables

	2019	2018
	\$	\$
Trade receivables	109,125	113,228
Long-term loans (a)	2,163,621	221,884
Other receivables	55,490	39,155
	<u>2,328,236</u>	<u>374,267</u>

(a) On 8 August 2018 the Company entered into a short term agreement with JBL to lend them \$2,411,000 with a maturity date one year at 11.5% pa interest. On 16 October 2018 the term of the loan was extended to 8 February 2020 which was further extended on the 28 June 2019 to 31 March 2021. Management have considered the recoverability of the loan and have impaired the asset by \$600,000 based on estimates of the recoverable amount that JBL is expected to be able to repay.

On 10 July 2017, the Company entered into a short term agreement with Capital Credit Pty Ltd ('Capital Credit') (formerly Growth Point Capital Limited) (a controlled entity of the Investment Manager for accounting standard purposes). A maturity date of one year from the advance date applied, together with a 5% p.a. interest rate. On the 10 July 2018, the loan was extended until 7 January 2020.

On 28 June 2019 the facility with Capital Credit was novated to JB Financial Group Pty Ltd ('JBFG'). Following the novation, management have reassessed the loan's recoverability based on JBFG's ability to pay its debts as and when they fall due and have reversed the previous period impairment made of \$250,000 which has been taken directly to the profit and loss account. The term of the loan was extended to the 31 March 2021. The balance outstanding at 30 June 2019 was \$449,063.

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowances for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Company has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. The impact of adopting AASB 9 has not had a material impact on the financial position or the performance of the Company.

Note 6. Investments at fair value through profit or loss

	2019	2018
	\$	\$
Listed ordinary shares (a)	94,235	2,043,046
Unlisted ordinary shares	28,361,656	33,802,854
Foreign currency banknotes (b)	331,481	645,604
	<u>28,787,372</u>	<u>36,491,504</u>

Henry Morgan Limited
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Note 6. Investments at fair value through profit or loss (continued)

(a) As at 30 June 2018 listed ordinary shares consisted of 1,453,573 shares in the Investment Manager and 68,039 shares in Benjamin Hornigold Ltd ('BHD'). Of the shares in the Manager, 1,398,573 of those shares were bought back by the Investment Manager on 3 August 2018 for \$2,867,074 (\$2.05 per share) cash which was the price paid for the shares on 17 November 2017. The Company still holds remaining 55,000 shares in the Investment Manager post the share buyback.

During the year BHD has been subject to a takeover bid by the Investment Manager. As a result, the Company accepted the terms and sold each BHD share in return for 1.5 shares in the Investment Manager. As such the Company received a further 102,058 shares in the Investment Manager and no longer holds any BHD shares. The Company now holds 157,059 shares in the Investment Manager.

(b) As at 30 June 2019 foreign currency banknotes are held in the custody of Kings Currency Exchange Pty Ltd ('Kings') (a controlled entity of the Investment Manager for accounting purposes). The banknotes are traded and managed by Kings on behalf of the Company under a services agreement which provides for a minimum return to the Company of 5% per annum on the Australian dollar value of the banknotes. Realised returns over 5% per annum on the banknotes are retained by Kings as a fee for trading the banknotes on behalf of the Company. As the owner of these banknotes, any foreign exchange movement in the value of the banknotes accrues to the Company. The Company has designated the instrument at fair value through profit or loss. The Company earned \$19,173 trading fee (30 June 2018: nil) and a foreign exchange gain of \$1,112 (30 June 2018: nil) on the banknotes during the year. \$2,148 of the fee remained collectable at 30 June 2019 (30 June 2018: nil).

As at 30 June 2019, no foreign currency banknotes were held in the custody of JBFX (a controlled entity of the Investment Manager for accounting purposes) as all positions were liquidated during the year. As at 30 June 2018, the balance of foreign currency banknotes held with JBFX was \$645,604. The Company designated the instrument at fair value through profit or loss. The Company earned \$91,304 trading fee and a foreign exchange gain of \$130,945 on the banknotes during the year. As at 30 June 2019 all fees have been settled (30 June 2018: \$4,717 of the fee remained collectable).

Note 7. Trade and other payables

	2019 \$	2018 \$
Trade payables	160,506	25,327
Accrued expenses	68,497	137,004
Other payables	219	4,497
	<u>229,222</u>	<u>166,828</u>

Accounting policy for trade and other payables

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

Note 8. Issued capital

	2019 Shares	2018 Shares	2019 \$	2018 \$
Ordinary shares - fully paid	<u>32,346,922</u>	<u>30,615,140</u>	<u>32,614,781</u>	<u>30,882,999</u>

Henry Morgan Limited
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Note 8. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2017	30,610,140		30,877,999
Fully paid ordinary shares issued on exercise of options	October 2017	<u>5,000</u>	\$1.00	<u>5,000</u>
Balance	30 June 2018	30,615,140		30,882,999
Fully paid ordinary shares issued on exercise of options	August 2018	<u>1,731,782</u>	\$1.00	<u>1,731,782</u>
Balance	30 June 2019	<u><u>32,346,922</u></u>		<u><u>32,614,781</u></u>

Ordinary shares

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

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

Options on issue

At 30 June 2018 there were 4,513,791 options over ordinary shares in the Company. During August 2018 1,731,782 of these options were exercised at \$1.00 per share and the remaining 2,782,009 shares expired and were cancelled on 31 August 2018.

Capital risk management

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

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

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

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

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

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Note 9. Options

In accordance with the Company's replacement prospectus of 23 December 2015, attached to each ordinary share issued under the prospectus was an option with an exercise price of \$1 per option, exercisable from the date of issue to 31 August 2018. Any unexercised options after this date have been cancelled.

During August 2018 1,731,782 shares were issued on exercise of options (October 2017 5,000 shares were issued on exercise of options). As at 30 June 2019, no options (2018: 4,518,791) remained outstanding.

	2019	2018
Options outstanding:		
Opening balance	4,513,791	4,518,791
Options exercised - October 2017	-	(5,000)
Options exercised - August 2018	(1,731,782)	-
Options expired and cancelled	<u>(2,782,009)</u>	<u>-</u>
Closing balance	<u>-</u>	<u>4,513,791</u>

Note 10. Earnings per share

	2019	2018
	\$	\$
Loss after income tax attributable to the owners of Henry Morgan Limited	<u>(5,579,440)</u>	<u>(13,253,940)</u>
	Cents	Cents
Basic earnings per share	(17.40)	(43.29)
Diluted earnings per share	(17.40)	(43.29)

In the calculation of diluted earnings per share, only options with an exercise price lower than the average market price of ordinary shares of the Company during the period are considered when calculating the effect of the options. In the case of a loss, the options are considered to have no dilutionary impact and consequently the diluted and the basic earnings per share are the same.

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>32,071,112</u>	<u>30,613,743</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>32,071,112</u>	<u>30,613,743</u>

Accounting policy for earnings per share

Basic earnings per share

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

Note 11. Reconciliation of loss after income tax to net cash from/(used in) operating activities

	2019	2018
	\$	\$
Loss after income tax benefit for the year	(5,579,440)	(13,253,940)
Adjustments for:		
Net unrealised (losses) / gains from investment activities	5,383,675	11,012,051
Net unrealised (losses) / gains from trading activities	(63,269)	(350,574)
Unrealised (gain)/loss on foreign exchange notes	(20,683)	(222,250)
Impairment of assets	350,000	250,000
Change in operating assets and liabilities:		
Increase in loans and receivables	(17,614)	(70,063)
Increase in deferred tax assets	(2,636,332)	(5,698,313)
Decrease/(increase) in prepayments	16,644	(2,179)
Decrease in term deposits	-	(1,015)
Balances held with brokers and proprietary trading platforms	122,074	3,354,603
Increase/(decrease) in trade and other payables	88,305	(5,031,015)
Increase in provision for income tax	187,746	817,295
Proceeds from sales of shares	2,066,471	2,955,238
Purchase of investments	(70,794)	(1,831,458)
Purchase of foreign currency notes	334,806	(423,355)
Net cash from/(used in) operating activities	<u>161,589</u>	<u>(8,494,975)</u>

Note 12. Contingent liability

During the financial year a complete review since inception of the Company's management fee and performance fee calculations under the Company's Management Services Agreement with John Bridgeman Limited has been performed. In the course of this review, a question has arisen as to the interpretation of the "High-Water Mark" for the purposes of the performance fee calculation. The Company is currently seeking external legal advice on the calculation of the performance fee payable by the Company to John Bridgeman Limited in compliance with the Management Services Agreement. Upon the Company's receipt of this external legal advice, the Company will advise shareholders of the outcome of its enquiry through a release on the ASX platform.