Henry Morgan Limited
ACN 602 041 770
Level 9 Riverside Centre
123 Eagle Street
Brisbane QLD 4000

Henry Morgan

26 May 2017

Dear Ms Banh

I refer to the ASX query letter dated 24 May 2017.

Henry Morgan Limited responds as follows:

1. *Using the formula for net tangible asset backing below, please provide a detailed breakdown of how the Company calculated its NTA in the Announcement, including the values used for each of the variables "A", "I", "L" and "N".*

$$NTA = \frac{(A - I - L)}{N}$$

Where:

A =	total assets. In calculating this, the value of investments at the end of the month are calculated at "net market value" (that is, the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of the disposal). The value of investments, except quoted +securities of listed entities, is calculated at cost or valuation. Valuation must not exceed the recoverable amount	$64,538,785.59, comprising:
		• Cash: $15,038,279.59
		• Listed investments: $5,812,358.00
		• Unlisted investments in:
		  ○ Bartholomew Roberts Ltd: $14,114,148
		  ○ JB Financial Group Ltd: $29,574,000.

I =	intangible assets	0
L =	total liabilities ranking ahead of, or equally with, claims of that class of securities. In calculating this, total liabilities include each of the following. • Provisions for tax on realised income and gains. • Provisions for tax on estimated unrealised income and gains. Alternatively, the entity may disclose the net tangible asset backing per +security before and after providing for the estimated tax on unrealised income and gains. • Provisions for declared, but unpaid, dividends or distributions if the +securities are still quoted on a basis that includes the dividend or distribution	0

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	on the date on which the net tangible asset backing is reported. • Provisions for unpaid management fees earned	
N =	total number of securities on issue in that class. In calculating this, partly paid securities which are in that class when paid up are taken into account by assuming that the unpaid amount is paid	29,591,832

Total assets of $64,538,785.59 divided 29,591,832 shares on issue = NTA before unrealized tax of $2.181 per share, as set out in the Company's Announcement of 15 May 2017.

2. *Please provide a breakdown of all the Company's unlisted investments, including their original cost and the revalued amount used in the Announcement.*

Investment	Original cost	Revalued amount
Bartholomew Roberts Ltd	$4,300,000	$14,114,148
JB Financial Group Ltd	$6,300,000	$29,574,000

3. *Please describe in detail the process by which the Company estimates the fair value of its unlisted investments, including the factors considered to calculate the estimate. Where fair value is derived from third party investments, please also provide additional details of these capital raisings, including their size.*

The Company's policy is that all valuations must reflect the market value (or if there is no market value, the fair value) of the Company's assets. Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

In assessing the fair value of an unlisted investment, a number of valuation methods are considered, including the following commonly used methodologies:

(a) **Comparable Market Data**: This methodology involves the identification of comparable sale transactions and trading multiples. Comparable company data such as revenue or earnings trading multiples are obtained and used as the basis for valuing the investment. Recent transactional pricing is also used as a common method of comparison.

(b) **Historical Cost or Net Realisation of Assets**: The net assets or cost based approach is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities should equal the value of the investment or entity. This approach is generally not appropriate where assets are employed productively and are earning more than the cost of capital. It is, however, valid for

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new investments if the recent cost of the investment is reflective of its current arm's-length market value. This could be based on the investment cost base of the company itself, or the value at which other third party investors have recently invested in the same asset.

(c) **Capitalisation of Future Maintainable Earnings**: This methodology looks at the value of trading the asset based on the capitalisation of future maintainable earnings. This method is appropriate in valuing an asset when there is a history of earnings, the assets are established and it is assumed the earnings are sufficiently stable to be indicative of ongoing earnings potential.

(d) **Discounted Cash Flow**: This methodology is based on determining the net present value of future cash flows. This method is particularly suited to new investments and situations where cash flows are not stable or where significant cash outflows will be incurred prior to cash inflows being earned.

JB Financial Group Ltd owns a suite of finance and FinTech type businesses, including specialist derivatives broking firms, retail and wholesale cash foreign exchange arms, mercantile agency services, and FinTech services. These businesses are valued as a multiple of revenues where they have a proven established business model, or in the case of new investments, a cost based approach or the value at which other third party investors have recently invested.

The historical cost of acquisitions was considered an inappropriate valuation methodology due to the significant change in the size and scope of the businesses forming part of JB Financial Group. When established, JB Financial Group had one employee and turned over circa $100,000 annually. Currently, JB Financial Group Ltd has a turnover of approximately $96 million and total staff of 428 employees plus 250 contractors.

In determining value with reference to comparable revenue multiples, the Company considers the following sources:

(a) trading multiples of comparable listed companies with publicly available financial data;

(b) multiples at which transactions involving the sale of comparable companies have occurred; and/or

(c) Industry reports that provide trading multiple data by industry.

Issues considered when selecting the most appropriate multiple range to apply to the valuation include:

- The historical financial performance of the investment to-date;
- Revenue growth achieved to-date and forecast growth expected;
- Life cycle stage of the assets employed;
- The industry in which the business operates;
- Potential for the assets employed to achieve growth in market share;
- Geographical locations in which the business trades and opportunities available to

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expand;

- Competitors currently in the market and barriers to entry for new competitors;
- Key management in place to drive growth; and
- The general economic climate in which the business operates.

In addition to considering the above factors, the Company takes into account recent third party investment transactions:

(a) a capital raising in JB Financial Group Ltd on a valuation of $83 million, a partial scrip purchase of AlphaBroking at a valuation of $90 million, and a scrip acquisition of Risk & Security Management Ltd at $93 million;

(b) in respect of Bartholomew Roberts Ltd, the entity has recently undertaken a capital raising of $3 million, based on a valuation of $93 million.

The Company considers all of the above factors to determine the value of its unlisted investments.

4. *Does the Company consult with any external parties, such as its auditor, when estimating the fair value of its unlisted investments?*

The Company consults with various relevant external parties when estimating the fair value of its unlisted investments, including its auditor KPMG, and other specialist advisory firms such as Hall Chadwick which have expertise in advising on acceptable valuation methodologies and techniques for both reporting purposes and to assist in keeping investors informed as to any valuation changes.

Furthermore, the directors of Henry Morgan Limited are considered leading experts in the area of valuation in their particular fields. Associate Professor Stuart McAuliffe and Adjunct Professor John McAuliffe have taught valuation techniques at post graduate level for many years. Non-executive director, Ross Patane is the Managing Principal of Crowe Horwath's South Queensland office and is very experienced in the area of private equity investment.

5. *Please confirm whether or not the Company's estimate of fair value for its unlisted investments complies with the requirements of variable "A" in ASX's definition of net tangible asset backing, which requires the value of investments (except for quoted securities of listed entities) to be calculated at cost or valuation, with the valuation not to exceed the recoverable amount.*

The Company's estimate of fair value for its unlisted investments complies with the requirements of variable "A" in ASX's definition of net tangible asset backing, which requires the value of investments (except for quoted securities of listed entities) to be calculated at cost or valuation, with the valuation not to exceed the recoverable amount.

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6. *Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.*

   The Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

7. *Please confirm that the Company's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the Company with delegated authority from the board to respond to ASX on disclosure matters.*

   The Company confirms the responses to the questions above have been authorized and approved by an officer of the Company with delegated authority from the board to respond to ASX on disclosure matters.

Yours faithfully

Stuart McAuliffe
Managing Director
Henry Morgan Limited

ASX

23 May 2017

Ms Rachel Weeks
Chief Operating Officer & General Counsel
Henry Morgan Limited
Level 9, Riverside Centre
123 Eagle Street
Brisbane QLD 4000

By email: rachel@johnbridgeman.com.au

Dear Ms Weeks,

Henry Morgan Limited (the "Company"): ASX query

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

A. The Company's announcement titled "Unadjusted net tangible assets" lodged on the ASX Market Announcements Platform on 15 May 2017 (the "Announcement"), disclosing an estimate of the diluted net tangible asset backing after tax ("NTA") of $2.049 per share, an increase of 55.26% since 1 January 2017 (ignoring taxes and other adjustments).

The Announcement describes the Company's valuation policy as follows:

"The Company's policy is that all valuations must reflect the market value (or if there is no market value, the fair value) of the Company's assets. Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date. Fair value is determined by reference to:

- *latest third party investment value;*
- *cost plus accrued interest with revenue multiple cross-checks; or*
- *where there has not been a third party transaction in the preceding 12 months, at valuation consistent with industry valuation techniques and industry benchmarks.*

All values are quoted after allowances for payment of performance and management fees, noting $1,263,000 in performance fees has been waived by the fund manager, John Bridgeman Limited."

B. The Company's interim financial report for the half year ended 31 December 2016, lodged on the ASX Market Announcements Platform on 28 May 2017, disclosing that as at 31 December 2016, the fair value of the Company's unlisted shares was $8,300,106.

C. The definition of "net tangible asset backing" in Chapter 19 of the Listing Rules for the purpose of listing rule 4.12 in relation to a class of securities, which is calculated as:

net tangible asset backing for the purpose of rule 4.12 in relation to a +class of +securities,

$$\frac{(A - I - L)}{N}$$

A = total assets. In calculating this, the value of investments at the end of the month are calculated at "net market value" (that is, the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of the disposal). The value of investments, except quoted +securities of listed entities, is calculated at cost or valuation. Valuation must not exceed the recoverable amount.

Note: The net market value definition is taken from Australian Accounting Standard AASB 1023.

I = intangible assets.

L = total liabilities ranking ahead of, or equally with, claims of that +class of +securities. In calculating this, total liabilities include each of the following.

- Provisions for tax on realised income and gains.
- Provisions for tax on estimated unrealised income and gains. Alternatively, the entity may disclose the net tangible asset backing per +security before and after providing for the estimated tax on unrealised income and gains.
- Provisions for declared, but unpaid, dividends or distributions if the +securities are still quoted on a basis that includes the dividend or distribution on the date on which the net tangible asset backing is reported.
- Provisions for unpaid management fees earned.

Example: Liabilities ranking ahead of, or equally with, fully paid ordinary shares in a parent entity will include all liabilities, preference share entitlements, and outside equity interests.

N = total number of +securities on issue in that +class. In calculating this, partly paid +securities which are in that +class when paid up are taken into account by assuming that the unpaid amount is paid.

Amended 01/07/14

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

1. Using the formula for net tangible asset backing extracted above, please provide a detailed breakdown of how the Company calculated its NTA in the Announcement, including the values used for each of the variables "A", "I", "L" and "N".

2. Please provide a breakdown of all the Company's unlisted investments, including their original cost and the revalued amount used in the Announcement.

3. Please describe in detail the process by which the Company estimates the fair value of its unlisted investments, including the factors considered to calculate the estimate. Where fair value is derived from third party investments, please also provide additional details of these capital raisings, including their size.

4. Does the Company consult with any external parties, such as its auditor, when estimating the fair value of its unlisted investments?

5. Please confirm whether or not the Company's estimate of fair value for its unlisted investments complies with the requirements of variable "A" in ASX's definition of net tangible asset backing, which requires the value of investments (except for quoted securities of listed entities) to be calculated at cost or valuation, with the valuation not to exceed the recoverable amount.

6. Please confirm that the Company is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

7. Please confirm that the Company's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the Company with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by not later than half an hour before the start of trading (ie before 9.30 a.m. AEST on Friday, 26 May 2017. If we do not have your response by then, ASX will have no choice but to consider suspending trading in the Company's securities under Listing Rule 17.3.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Company's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous paragraph.

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

Your response should be sent to me by e-mail at lisa.banh@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to the Company's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*.

It should be noted that the Company's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

If you have any queries or concerns about any of the above, please contact me immediately.

Yours sincerely

[Sent electronically without signature]

Lisa Banh
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