



Henry Morgan

Announcement

Henry Morgan Limited

ACN 602 041 770

15 August 2017

Corrective disclosure and update as to Final Stop Order and Statement of Reasons

Henry Morgan Limited (ASX: HML) (**Henry Morgan** or **Company**) refers to its announcement of 31 July 2017 referring to:

- the Interim Stop Order and the Final Stop Order issued by the Australian Securities and Investments Commission (**ASIC**) in respect of the Company's prospectus for the issue of Bonus Options dated 2 June 2017 (**Prospectus**); and
- the Statement of Reasons issued by ASIC in respect of the same.

The Company also refers to its previous announcements of 8, 9, 19 and 29 June 2017.

Having considered the Statement of Reasons, the Company wishes to inform the market of ASIC's comments as regards the Company's calculation of its net tangible assets (**NTA**), in addition to making certain corrective disclosure to statements primarily made in three previous announcements, being:

- an announcement on 12 December 2016 titled – *Henry Morgan Limited – Business Update (12 December Announcement)*;
- an announcement on 15 December 2016 titled – *Further Business Update – December 2016 (15 December Announcement)*; and
- an announcement on 26 May 2017 titled – *Response to ASX query (26 May Announcement)*.

For the sake of completeness the Company notes that this announcement is not intended to be a detailed line – by – line reiteration of the Statements of Reasons, but rather a summary of ASIC's findings, in addition to certain comments made by ASIC regarding the NTA. Further, neither ASIC nor any of its officers take any responsibility for any the statements made in this announcement.

NTA calculations

In the Statement of Reasons ASIC states that the Company has demonstrated that it has followed normal valuation practices in valuing the unlisted investments made by the Company.¹ These valuations are reflected in the Company's calculations of its NTA, which are the subject of previous announcements made by the Company for the purposes of ASX Listing Rule 4.12 (**NTA Announcements**).

Of particular focus has been the valuation that the Company has placed upon JB Financial Group Ltd (**JB Financial**). In the Statement of Reasons ASIC notes that while the Company submitted that it is not valuing JB Financial based upon any intention to list JB Financial,² ASIC is concerned that the value of JB Financial will only be discovered in the event of a successful IPO and/or sale to a *bona fide* third-party. ASIC notes that the value, if ever realised, could be very different to that reflected in the NTA Announcements. In this regard the Company notes that as it has previously announced (including on 28 February 2017 and 27 April 2017), that it is the intention of the directors of JB Financial to seek an IPO of JB Financial.

The Company refers to its earlier announcement of 15 August 2017. This announcement relates to the appointment of an independent expert to review the Company's valuation of the Company's unlisted investments to be included in the net tangible asset backing of the Company's quoted securities (**NTA**), prior to it being provided to the ASX for the purposes of Listing Rule 4.12. As noted in that

¹ This statement should not be read as ASIC having endorsed the Company's valuations, or otherwise signing-off on such valuations.

² In the Statement of Reasons, ASIC did not make any statement as to whether or not it accepted these submissions.

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announcement, the Company currently anticipates seeking to have the voluntary suspension of trading in its quoted securities lifted following completion of that exercise.

Corrective disclosure - 12 December Announcement – as regards the profitability of the broking arms

In the 12 December Announcement the Company stated in part that:

Following shareholder approval received at the meeting of Henry Morgan Limited shareholders on 18 October 2016, the Company has taken its first significant stake in an unlisted, pre-IPO vehicle - JB Broking Ltd, an unlisted financial services company with established and profitable broking and foreign exchange arms, which intends to list in the short to medium term.

(Emphasis added)

At the time of the 12 December Announcement JB Financial was registered under the name 'JB Broking Ltd'. Accordingly, the reference in the announcement to "JB Broking Ltd" relates to JB Financial.

Based upon its examination of the relevant financial statements available, ASIC disagreed with the description of JB Financial as having an established and profitable broking arm at the time of the 12 December Announcement. The Company notes that while it submitted to ASIC that it was accurate to describe the operations of JB Financial *as a whole* as profitable and established, it does accept that an inference could be drawn that the broking business *alone* was profitable. In the circumstances ASIC found that this statement regarding the profitability of the broking business was misleading if further qualification was not provided.

The Company states that it did not intend to give such an impression. Accordingly, the Company retracts that statement insofar as it relates to JB Financial's broking arm profitability as at 12 December 2016. The Company also retracts that statement where it appears in any other announcements, including without limitation those made by the Company on 5 January 2017, 23 January 2017 and 23 June 2017.

Corrective disclosure - 15 December Announcement

In the 15 December Announcement the Company stated in part that:

In addition, management has approved an increased roll-out of 42 new retail foreign exchange units, including two in Queensland, 20 in New South Wales, and 20 in Victoria. Directors believe this expansion will positively impact earnings, and may require a review of the 2017-2018 management forecast of net profit for JB Broking Ltd noted in the Business Update released to the market on 12 December 2016, of \$5,579,000.

(Emphasis added)

ASIC found that the Company did not provide documentation to evidence that the Board had considered and specifically approved the 42 store roll-out as described in this announcement, and that this statement gave a misleading impression as to the size and scale of the relevant operations, and was material.

Accordingly the Company retracts this statement.

Corrective disclosure - 26 May Announcement – regarding turnover of JB Financial

In the 26 May Announcement, the Company made the following statement in part of its response to ASX's question 3:

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.

(Emphasis added)

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ASIC has found that forecast revenues for the businesses of JB Financial were clearly not in the vicinity of \$96 million. Further, ASIC expressed the view that these forecasts implied an historical (or current) turnover rather than forecast turnover. Further, ASIC believes that it was logically a reference to annual turnover.

Accordingly, ASIC was of the view that this statement was misleading, as it gave the impression that JB Financial was much larger than in fact it was at the time.

The Company acknowledges that this reference to a turnover of approximately \$96 million should not have been included in the announcement of 26 May 2017. For clarity, these numbers were derived from the Company's internal projections and assumed acquisitions that were at that point in time not settled.

The Company accordingly retracts this statement. In the following table the Company sets out the annualised revenue, employees and contractors of JB Financial as at 26 May 2017, and by way of comparison those same numbers as at the date of this announcement:

	26 May 2017	14 August 2017**
Annualised Turnover*	\$10,755,979	\$55,223,726
Employees	67	194
Contractors	1	791

*The "Annualised Turnover" (the **Turnover**) is the annual turnover for the entities for the 2016/2017 financial year, that the Company as at 26 May 2017 controlled or anticipated controlling, and then again as at 14 August 2017. The Company notes that the Turnover as at 14 August 2017 includes the Turnover for the entities which the Company as at 26 May 2017 controlled or anticipated controlling, in addition to the Turnover for those entities which were controlled by, or which the Company as at 14 August 2017 anticipated controlling.

The Turnover and the numbers of "Employees" and "Contractors" (the **Headcount), assume the completion of the acquisition of 100% of the issued share capital of Genesis Proprietary Trading Pty Ltd, which was the subject of an announcement by the Company to the market on 23 June and 15 August 2017 (the **Genesis Acquisition**). The Company notes that the agreement for the Genesis Acquisition is unconditional. The parties aim to complete the Genesis Acquisition on or about 7 September 2017. The Company knows of no reason why the Genesis Acquisition will not complete as planned. The Company further notes that it is informed by JB Financial that JB Financial knows of no reason why the Genesis Acquisition will not complete as planned. However, the Company also notes that every transaction is subject to some degree of completion risk. If the Genesis Acquisition does not complete, then the Turnover and/or Headcount will not be achieved and in which case, the Company will update the market accordingly.

Additional clarifications

In addition to the corrective disclosure made above, the Company wishes to take this opportunity to correct or clarify other statements that it has previously made, in respect of which ASIC has made no findings.

These are as follows:

- 12 December Announcement – the timing of the Company's acquisition of its first significant stake in JB Financial (formerly JB Broking Ltd).

As noted above in the 12 December Announcement the Company stated that:

Following shareholder approval received at the meeting of Henry Morgan Limited shareholders on 18 October 2016, the Company has taken its first significant stake in an unlisted, pre-IPO vehicle - JB Broking Ltd, an unlisted financial services company with established and profitable broking and foreign exchange arms, which intends to list in the short to medium term.

(Emphasis added)

The Company notes that in fact, as indicated in the directors' report contained in the Company's Interim Report and Financial Statement for the half year ended 31 December 2016, the Company bought its initial stake in JB Financial on or about 8 August 2016, acquiring 300

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shares for approximately \$50,000. While this investment was made prior to shareholder approval (having been given on 18 October 2016, **Shareholder Approval**) to amend the investment parameters of the Company on the basis of the management services agreement with John Bridgeman Limited dated 12 March 2015 (**Original MSA**), the Company notes that the Original MSA allowed investments in unlisted securities provided that no more than 10% in value of its portfolio was invested in unlisted securities at the time of the investment. The Company notes that the initial investment was comparatively insignificant (less than 10% of its portfolio); the Company acquired a further 235 shares in JB Financial on or about 9 December 2016 for approximately \$6.25 million (the Shareholder Approval obtained on 18 October 2016 removed the "10%" restriction on investments in unlisted securities). The Company wishes to clarify that its statement in the 12 December Announcement quoted above, was intended to indicate that its investment on or about 9 December 2016 was in its view significant, when compared with the investment that it had previously made in JB Financial in August 2016.

- Announcement on 23 January 2017 titled – *Investment in JB Financial Group Ltd (23 January Announcement)*.

In the 23 January Announcement the Company stated that it had *invested approximately \$6.25 million in JB Financial Group Ltd, and holds approximately 12.8% of the fully diluted capital in that company.* (Emphasis added)

The Company notes that this statement may be confusing, and clarifies that the intention was to inform the market that the Company's investment in JB Financial was approximately equal to the value of 12% of the fully diluted capital of Henry Morgan Limited as at 23 January 2017. This percentage (i.e. 12%) assumes that all options over unissued shares in the Company outstanding at that time were exercised, with the market capitalisation of the Company calculated on the closing share price on that day of approximately \$1.53 per share.

- 26 May Announcement – as regards the cost of the Company's investment in Bartholomew Roberts Ltd.

In the table in paragraph 2 of the 26 May Announcement the "Original cost" of the Company's investment in Bartholomew Roberts Ltd is listed as \$4,300,000. In fact, the original cost of the Company's investment in Bartholomew Roberts Ltd at that time was only \$4,100,002. Further, that table should also have listed the Company's investment in K-Ching Holdings Pty Ltd & K-Ching Pty Ltd at \$300,000.

The Company will make further disclosure as regards the expected time of recommencement of trading in its securities and the lodgement of a new prospectus in respect of the issue of bonus options, in due course. For further information, please contact:

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ENDS

Stuart McAuliffe

Managing Director

Henry Morgan Limited

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