

**Goodman Logistics (HK) Limited**  
**ARBN 155 911 149**  
**and its subsidiaries**  
**Consolidated financial statements for the year ended 30 June 2017**

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**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

The directors have pleasure in submitting their annual financial report together with the audited financial statements of Goodman Logistics (HK) Limited (“the Company”) and its subsidiaries (collectively referred to as the “Consolidated Entity”) for the year ended 30 June 2017.

**Incorporation and principal place of business**

Goodman Logistics (HK) Limited was incorporated in Hong Kong on 18 January 2012 and has its principal place of business at Suite 901, Three Pacific Place, 1 Queen's Road East, Hong Kong.

On 22 August 2012, the Company became a party to the stapling deed with Goodman Limited (“GL”) and Goodman Industrial Trust (“GIT”), and together the three entities and their subsidiaries are known as Goodman Group. Goodman Group is listed on the Australian Securities Exchange (“ASX”).

**Principal activities**

The principal activities of the Consolidated Entity are investment in directly and indirectly held industrial property, fund management, property management services and development management. The principal activities and other particulars of the subsidiaries are set out in note 17 to the consolidated financial statements.

**Financial statements**

The financial performance of the Consolidated Entity for the year ended 30 June 2017 and the Consolidated Entity's financial position at that date are set out in the consolidated financial report on pages 13 to 49.

During FY17, the Company declared and paid a final dividend of 1.0 cent per share amounting to \$17.8 million (2016: \$nil). This dividend was paid from the FY16 profit after tax and there is no current intention for the Company to pay a dividend in respect of the FY17 result.

**Share capital**

Details of the movements in share capital of the Company during the year are set out in note 13 to the financial statements.

**Directors**

The directors during the year and up to the date of this report were:

Philip Yan Hok Fan  
Ian Douglas Ferrier, AM  
Gregory Leith Goodman (resigned as a director on 20 September 2016 and appointed alternate director to Ian Douglas Ferrier on the same date)  
Philip John Pearce (resigned on 12 July 2016)

**Directors of controlled entities**

The names of directors who have served on the boards of the controlled entities of the Company during the year ended 30 June 2017 are set out below:

Godfrey Abel	David Anthony Hinchey	Hong Shen
Philippe Arfi	Henry Kelly	Lien Standaert
Shairah Begum Binti Kadar Bashah	Nick Kurtis	Philippe Van der Beken
Richard Thomas Brooks	Chee Seong Lee	Emmanuel Van der Stichele
Tai Yit Chan	Wai Ho Stephen Lee	Simone Marlene Weyermanns
Edwin Chong Chee Wai	Shiling Li	Jie Yang
Blazej Andrzej Ciesielczak	Bart Manteleers	Xiaoyin Zhang
Kim Cornille	Tan Ai Ning	
John Morton Dakin	Jan Palek	
Karl Dockx	Danny Peeters	
Gregory Leith Goodman	Christof Prange	
Kristoffer Allan Harvey	Dominique Prince	

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

**State of affairs**

There were no significant changes in the Consolidated Entity's state of affairs during the year.

**Business review**

**Goodman Group's strategy**

Goodman Group's vision is to be a global leader in industrial property. This vision is executed through the integrated "own+develop+manage" business model which is supported by five strategic "pillars". These pillars are:

- + **Quality partnerships** – develop and maintain strong relationships with key stakeholders including customers, capital partners, suppliers and employees;
- + **Quality product and service** – deliver high quality product and customer service in key logistics markets globally by actively leveraging Goodman Group's industrial sector expertise, development and management experience and global operating platform;
- + **Culture and brand** – promote Goodman Group's unique and recognisable brand and embed Goodman Group's core values across each operating division to foster a strong and consistent culture;
- + **Operational efficiency** – optimise business resources to ensure effectiveness and drive efficiencies; and
- + **Capital efficiency** – maintain active capital management to facilitate appropriate returns and sustainability of the business.

**Performance review**

The key performance indicators relate to the property investment, development and management activities associated with Goodman Group's integrated business model. These income streams exist within each of Goodman Group's geographical segments, being Australia and New Zealand, Asia, Continental Europe, the United Kingdom and the Americas. The results of the Consolidated Entity include property investment, development and management earnings in Asia, Continental Europe and the United Kingdom.

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Analysis of operating earnings</b>		
Property investment	30.4	30.5
Development	233.9	203.8
Management	98.0	95.1
Operating expenses	(97.4)	(93.2)
Operating earnings before net finance expense and income tax expense ("operating EBIT")	<b>264.9</b>	<b>236.2</b>

Operating earnings comprises profit attributable to Shareholders adjusted for property valuations, impairment losses and other non-cash adjustments or non-recurring items. While operating earnings is not an income measure under Hong Kong Financial Reporting Standards, the directors consider it a useful means through which to examine the underlying performance of the Consolidated Entity.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

**Business review (cont)**

**Performance review (cont)**

**Property investment activities**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Net property income	6.1	8.1
Managed partnerships	24.3	22.4
	<b>30.4</b>	<b>30.5</b>

<b>Key metrics</b>	<b>2017</b>	<b>2016</b>
Weighted average capitalisation rate (%) <sup>1</sup>	6.0	6.3
Weighted average lease expiry (years)	4.4	4.7
Occupancy (%)	97.4	93.0

1. In order to align with current practice, the capitalisation rate for the China portfolios included in the weighted average capitalisation rate for the Consolidated Entity has been presented net of property taxes. In prior periods, the rates were presented gross and the resultant weighted average capitalisation rate for the Consolidated Entity at 30 June 2016 was 7.3%.

Property investment earnings comprise direct property income from investment properties, completed developments held for sale and the Consolidated Entity's share of the results of property investment joint ventures (JVs) (referred to by the Consolidated Entity as "managed partnerships").

Net property income decreased from the prior year due to the disposal of a stabilised investment property in Continental Europe during the second half of FY17. At 30 June 2017, the Consolidated Entity no longer directly owns stabilised investment property although may continue to receive net property income from completed development assets prior to disposal.

An increase in occupancy rates, as well as higher cornerstone investment in partnerships has resulted in a corresponding increase in the share of net results of managed partnerships.

**Development activities**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Net income	196.5	203.8
Managed partnerships	37.4	-
	<b>233.9</b>	<b>203.8</b>

<b>Key metrics</b>	<b>2017</b>	<b>2016</b>
Work in progress (\$ billion)	1.5	1.4
Work in progress (million square metres)	1.6	1.4
Work in progress (number of developments)	42	41
Developments completed during the year (number of developments)	42	40

Development earnings comprise development income (including development management fees) net of expenses, income from sales of properties (primarily inventories but also including disposals of special purpose entities in certain jurisdictions) and the Consolidated Entity's share of the results of property development JVs. The key drivers for maintaining or growing the Consolidated Entity's development earnings are maintaining both the level of development activity and development margins and the continued availability of third party capital to fund development activity.

The Consolidated Entity's development business performed strongly during the year, contributing \$233.9 million of income, an increase of \$30.1 million compared with the prior financial year. The strong development performance experienced by Continental Europe has continued into the current year. In addition, the completion and sale of an asset in a managed partnership in Japan has also been a major contributor to operating EBIT. Structural and cyclical themes have continued to provide positive tailwinds for the Consolidated Entity, with developments positioned to take advantage of the growth of e-commerce, changes in consumer spending and customers seeking efficiencies in their supply chain network. The Consolidated Entity still sees development as the best means of accessing high quality product in the markets it operates in given the strength in asset pricing and capitalisation rates at 30 June 2017.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

**Business review (cont)**

**Performance review (cont)**

**Management activities**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Management income	98.0	95.1
<b>Key metrics</b>		
Number of managed vehicles	8	8
External assets under management ("AUM") (end of period) (\$ billion)	13.6	12.3

Management earnings comprise fund management and property services fees. The key drivers for maintaining or growing management earnings are increasing the level of AUM which can be impacted by property valuations and which are also dependent on the continued availability of third party capital to fund both development activity and acquisitions across Goodman Group's managed partnerships.

Management activities contributed \$98.0 million of income, an increase of \$2.9 million compared with the prior financial year. Management activity levels remained strong, driven by transactional activities and the continued growth in AUM across all the regions the Consolidated Entity operates in.

Goodman Group's managed partnerships remain well supported by its investment partners, endorsing Goodman Group's contemporary investment management approach and independent governance structures. The Consolidated Entity is prudently managing capital on behalf of investment partners to access high quality growth opportunities not typically available in the market.

**Statement of financial position**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Stabilised investment properties	-	25.3
Cornerstone investments in managed partnerships	651.4	629.5
Development holdings	622.4	529.6
Cash	107.9	67.3
Other assets	287.0	242.8
<b>Total assets</b>	<b>1,668.7</b>	<b>1,494.5</b>
Loans from related parties	852.3	842.7
Other liabilities	126.4	153.2
<b>Total liabilities</b>	<b>978.7</b>	<b>995.9</b>
Non-controlling interests	23.6	18.1
<b>Net assets attributable to Shareholders</b>	<b>666.4</b>	<b>480.5</b>

The value of cornerstone investments in managed partnerships has increased by \$21.9 million to \$651.4 million. A reconciliation of the current year movement in cornerstone investments in managed partnerships is detailed in note 6(f) to the consolidated financial statements. Distributions of income and capital from cornerstone investments in the current year amounted to \$94.9 million, principally due to development activity in Japan.

The increase in other development holdings is mainly due to construction contract receivables relating to ongoing development projects in Continental Europe.

Loans from related parties were \$852.3 million compared to \$842.7 million at 30 June 2016, an increase of \$9.6 million. The increase is primarily due to additional loans of \$28.7 million, offset by movement in foreign currencies of \$19.1 million.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

**Business review (cont)**

**Performance review (cont)**

**Cash flow**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Operating cash flows	108.4	358.6
Investing cash flows	(1.7)	(116.2)
Financing cash flows	(64.1)	(271.6)
<b>Net increase/(decrease) in cash held</b>	<b>42.6</b>	<b>(29.2)</b>
Effect of exchange rate fluctuations on cash held	(2.0)	4.2
<b>Cash at the end of the year</b>	<b>107.9</b>	<b>67.3</b>

The decrease in operating cash flows from the prior year is attributable to the timing of completion of development projects. While development activity continued to be strong in the current year, there are a number of projects due for completion in the next financial year at which time the developments will be disposed and cash will be received.

Investing cash flows have decreased compared with the prior year. Payments for equity investments in the current year have been offset by proceeds received from the sale of an investment property in Continental Europe and distributions of capital received from a managed partnership in Japan.

Financing cash flows have decreased from the prior year as less operating cash flows were available to repay related party debt. Included in current year financing cash flows is a dividend of \$17.8 million paid to shareholders in August 2016.

**Outlook**

The focused and consistent execution of Goodman Group's business strategy, has created a strong, globally diversified platform that will sustain earnings growth for future periods and create long-term value for securityholders, customers and investment partners.

The Consolidated Entity continues to see strong ongoing demand for prime industrial space across the portfolio and will maintain its disciplined strategy of investing in the large, wealthy consumer dominated cities around the world, where demand is strongest and scarcity of land will see higher valuation growth and returns over the long term. The quality and location of the portfolios are expected to support future growth in gross property income in the managed partnerships.

Development will continue to be driven by e-commerce and customers seeking high quality, modern facilities to achieve cost efficiencies. A strong development business coupled with the demand from investment partners seeking high quality, well-located industrial assets will support the growth in assets under management. This in turn will increase management income and the consistently strong returns over the past few years are expected to give rise to portfolio performance fee income as partnerships approach renewal dates.

Further information as to other likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report of the directors because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

**Business review (cont)**

**Risks**

Goodman Group identifies operational risks for each of its regions as part of its strategy process. The key risks, an assessment of their likelihood of occurrence and consequences and controls that are in place to mitigate the risks are reported to the Goodman Group board annually.

Goodman Group has established formal systems and processes to manage the risks at each stage of its decision making process. This is facilitated by a Group Investment Committee comprising senior executives, chaired by the Group Chief Executive Officer, which considers all major operational decisions and transactions. The Group Investment Committee meets on a weekly basis.

The board of Goodman Group has separate board committees to review and assess key risks. The Risk and Compliance Committee reviews and monitors material risks in Goodman Group's risk management systems, including market risks, operational risks, sustainability, regulation and compliance and information technology. The Goodman Group Audit Committee reviews and monitors financial risk management and tax policies.

The key risks faced by Goodman Group and the controls that have been established to manage those risks are set out below:

	<b>Risk area</b>	<b>Mitigation</b>
Capital management	Availability of capital from investors and financial institutions supports the sustainability of the business	+ Board approved Financial Risk Management policy + Prudent capital management with cash flow requirements, gearing and available liquidity reviewed monthly and reported to the board + Diversification of debt funding sources and maturities + Diversification of investment partners
Economic environment	Uncertainty regarding global growth and volatility of global financial markets creates a challenging operating environment	+ Global diversification of Goodman Group's property portfolios + Focus on core property portfolios in key gateway locations + Focus on cost management + Prudent capital management with low gearing and significant available liquidity to allow for potential market shocks
Governance, regulation and compliance	Changes to the regulatory environments (including tax) impact Goodman Group's business	+ Embedded compliance culture within Goodman Group focused on best practice + Dedicated compliance officers + Review of transactions by the Group Investment Committee
Development	Overall development risk is higher given development led approach at this stage in the cycle. Risks may arise from location, site complexity, infrastructure, contamination, climate and other environmental factors, along with general contractor capability	+ Review of development projects by the Group Investment Committee + Goodman defined design specifications, which cover environmental, technological, and safety requirements, protecting against short term obsolescence + Internal audit reviews with reporting to the Risk & Compliance Committee + Insurance programme, both Goodman and general contractor + Ongoing monitoring and reporting of work in progress and levels of speculative development, with Board oversight
Asset management and leasing	Leasing risk exposures can reduce returns from Goodman Group's portfolios	+ Diversification of customer base and lease expiry + Review of significant leasing transactions and development projects by the Group Investment Committee
Investment management	Relationships with capital partners underpin Goodman Group's management activities	+ Standardised governance structures for managed partnerships + Independent governance structures for managed partnerships
People	The executive management team supports the sustainability of the business	+ Succession planning for senior executives + Competitive remuneration structures + Performance management and review
Information and data security	Technology is a major component in operations and supports sustainability and growth	+ Ongoing monitoring and reporting of security risks to the Information Technology Security Council + Disaster recovery and business continuity planning and testing

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

**Environmental regulations**

The Consolidated Entity has policies and procedures to identify and appropriately address environmental obligations that might arise in respect of the Consolidated Entity's operations that are subject to significant environmental regulation under the laws of the countries the Consolidated Entity operates in. The directors have determined that the Consolidated Entity has complied with those obligations during the financial year and that there has not been any material breach.

**Disclosure in respect of any indemnification of directors**

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

**Directors' interests in contracts**

No contract of significance in relation to the Consolidated Entity's business to which the Company, its subsidiaries or any of its fellow subsidiaries was a party and in which the directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**Directors' interest in shares**

At the end of the year, the directors (including alternate directors) held the following interests in the stapled securities of Goodman Group, which are listed on the ASX:

<b>Directors</b>	<b>Direct securities</b>	<b>Indirect securities</b>	<b>Total</b>
Mr Philip Yan Hok Fan	93,258	-	93,258
Mr Ian Douglas Ferrier	186,982	-	186,982
Mr Gregory Leith Goodman	6,252	37,976,923	37,983,175
Mr Philip John Pearce <sup>1</sup>	225,000	-	225,000

1. Reflects number of securities at the date Mr Philip John Pearce ceased to be a director.

In addition, Mr Gregory Leith Goodman participates in the Goodman Group Long Term Incentive Plan ("LTIP") under which he holds performance rights. Performance rights entitle participants to receive Goodman Group stapled securities without the payment of consideration, subject to Goodman Group satisfying performance criteria and the participants remaining employees of Goodman Group.

Details of the awards of performance rights under the LTIP granted as compensation to Mr Gregory Leigh Goodman at 30 June 2017 and Mr Philip John Pearce at the date of his resignation are as follows:

	<b>Number of performance rights at the start of the year</b>	<b>Number of performance rights granted during the year</b>	<b>Number of performance rights vested during the year</b>	<b>Number of performance rights forfeited during the year</b>	<b>Number of performance rights at the end of the year</b>	<b>Date performance rights granted</b>	<b>Financial years in which grant vests</b>
Mr Gregory Leith Goodman	-	2,400,000	-	-	2,400,000	30 Sep 16	2020 – 2022
	2,000,000	-	-	-	2,000,000	25 Nov 15	2019 – 2021
	995,476	-	-	-	995,476	20 Nov 14	2018 – 2020
	947,368	-	(298,421)	(52,104)	596,843	22 Nov 13	2017 – 2019
	618,102	-	(309,051)	-	309,051	16 Nov 12	2016 – 2018
	325,033	-	(325,033)	-	-	25 Nov 11	2015 – 2017
Mr Philip John Pearce	450,000	-	-	-	450,000	25 Nov 15	2019 – 2021
	497,738	-	-	-	497,738	20 Nov 14	2018 – 2020
	394,737	-	-	-	394,737	22 Nov 13	2017 – 2019
	198,676	-	-	-	198,676	16 Nov 12	2016 – 2018
	66,333	-	-	-	66,333	30 Sep 11	2015 – 2017

Apart from the above, at no time during the year was the Company, its subsidiaries or any of its fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other related body corporate.



**Goodman Logistics (HK) Limited and its subsidiaries**  
**Report of the directors**  
**for the year ended 30 June 2017**

**Auditors**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

**Subsequent events**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.

**Declaration by the Group Chief Executive Officer and Chief Financial Officer**

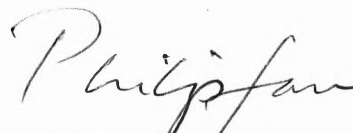
The directors have been given declarations equivalent to those required of listed Australian companies by section 295A of the Corporations Act 2001 from the Group Chief Executive Officer and Chief Financial Officer for the year ended 30 June 2017.

By order of the board of directors



**Ian Douglas Ferrier, AM**  
Independent Chairman

Sydney, 21 August 2017



**Philip Yan Hok Fan**  
Independent Director



**Independent auditor's report to the members of  
Goodman Logistics (HK) Limited**  
*(Incorporated in Hong Kong with limited liability)*

**Opinion**

We have audited the consolidated financial statements of Goodman Logistics (HK) Limited ("the Company") and its subsidiaries ("the Group") set out on pages 13 to 49, which comprise the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

**Basis for opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Information other than the consolidated financial statements and auditor's report thereon**

The directors are responsible for the other information which comprises all the information included in the Company's Report of the directors.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the consolidated financial statements**

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.



**Independent auditor's report to the members of  
Goodman Logistics (HK) Limited (continued)**  
*(Incorporated in Hong Kong with limited liability)*

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



**Independent auditor's report to the members of  
Goodman Logistics (HK) Limited (continued)**  
*(Incorporated in Hong Kong with limited liability)*

**Auditor's responsibilities for the audit of the consolidated financial statements (continued)**

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink, appearing to be 'KPMG' or a similar stylized mark.

KPMG  
Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

21 August 2017

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Consolidated statement of financial position**  
**as at 30 June 2017**

(expressed in Australian dollars)

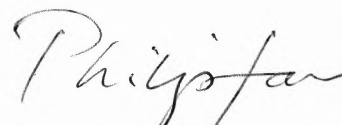
	Note	Consolidated	
		2017 \$M	2016 \$M
<b>Current assets</b>			
Cash	14(a)	107.9	67.3
Inventories	6(b)	127.1	125.9
Receivables	7	515.2	303.3
Current tax receivables	4(c)	0.2	0.2
Other assets		2.0	2.4
<b>Total current assets</b>		<b>752.4</b>	<b>499.1</b>
<b>Non-current assets</b>			
Inventories	6(b)	188.3	261.2
Investment properties	6(b)	22.5	45.2
Investments accounted for using the equity method	6(b)	651.4	629.5
Receivables	7	26.6	26.6
Other financial assets	10	20.5	16.6
Plant and equipment		5.6	7.6
Other assets		1.4	8.7
<b>Total non-current assets</b>		<b>916.3</b>	<b>995.4</b>
<b>Total assets</b>		<b>1,668.7</b>	<b>1,494.5</b>
<b>Current liabilities</b>			
Payables	8	76.0	106.2
Loans from related parties	18(c)	795.8	832.7
Current tax payables	4(c)	15.3	15.3
Employee benefits		20.0	21.6
<b>Total current liabilities</b>		<b>907.1</b>	<b>975.8</b>
<b>Non-current liabilities</b>			
Payables	8	15.0	6.7
Loans from related parties	18(c)	56.5	10.0
Deferred tax liabilities	4(d)	0.1	0.1
Employee benefits		-	0.7
Provisions		-	2.6
<b>Total non-current liabilities</b>		<b>71.6</b>	<b>20.1</b>
<b>Total liabilities</b>		<b>978.7</b>	<b>995.9</b>
<b>Net assets</b>		<b>690.0</b>	<b>498.6</b>
<b>Equity attributable to Shareholders</b>			
Share capital	13(a)	661.1	650.8
Reserves	15	(548.7)	(526.1)
Retained earnings	16	554.0	355.8
<b>Total equity attributable to Shareholders</b>		<b>666.4</b>	<b>480.5</b>
Non-controlling interests		23.6	18.1
<b>Total equity</b>		<b>690.0</b>	<b>498.6</b>

The notes on pages 17 to 49 form part of these consolidated financial statements.

Approved and authorised for issue by the board of directors on 21 August 2017



**Ian Douglas Ferrier, AM**  
Director



**Philip Yan Hok Fan**  
Director

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Consolidated statement of comprehensive income**  
**for the year ended 30 June 2017**

(expressed in Australian dollars)

	Note	Consolidated	
		2017 \$M	2016 \$M
<b>Revenue</b>			
Gross property income		10.3	14.0
Management income		98.0	95.1
Development income	2	856.4	913.0
Dividends from investments		3.7	8.5
		<b>968.4</b>	<b>1,030.6</b>
<b>Property and development expenses</b>			
Property expenses		(4.2)	(5.9)
Development expenses	2	(662.7)	(717.7)
		<b>(666.9)</b>	<b>(723.6)</b>
<b>Other income/(losses)</b>			
Net loss from fair value adjustments on investment properties	6(e)	-	(9.0)
Net loss on disposal of investment properties		(0.9)	-
Share of net results of equity accounted investments	6(f)	86.7	66.2
		<b>85.8</b>	<b>57.2</b>
<b>Other expenses</b>			
Employee expenses		(72.7)	(66.1)
Share based payments expense		(22.7)	(22.2)
Administrative and other expenses		(24.7)	(27.1)
Impairment reversals/(losses)	2	0.2	(16.8)
		<b>(119.9)</b>	<b>(132.2)</b>
<b>Profit before interest and income tax</b>	<b>2</b>	<b>267.4</b>	<b>232.0</b>
<b>Net finance income/(expense)</b>			
Finance income	9	1.0	0.6
Finance expense	9	(33.2)	(26.2)
<b>Net finance expense</b>		<b>(32.2)</b>	<b>(25.6)</b>
<b>Profit before income tax</b>		<b>235.2</b>	<b>206.4</b>
Income tax expense	4	(13.8)	(25.5)
<b>Profit for the year</b>		<b>221.4</b>	<b>180.9</b>
<b>Profit for the year attributable to:</b>			
Shareholders	16	216.0	174.1
Non-controlling interests		5.4	6.8
<b>Profit for the year</b>		<b>221.4</b>	<b>180.9</b>
<b>Other comprehensive income/(loss)</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Increase/(decrease) due to revaluation of other financial assets		5.7	(5.3)
Effect of foreign currency translation		(33.0)	(14.8)
<b>Other comprehensive loss for the year</b>		<b>(27.3)</b>	<b>(20.1)</b>
<b>Total comprehensive income for the year</b>		<b>194.1</b>	<b>160.8</b>
<b>Total comprehensive income for the year attributable to:</b>			
Shareholders		188.6	153.8
Non-controlling interests		5.5	7.0
<b>Total comprehensive income for the year</b>		<b>194.1</b>	<b>160.8</b>

The notes on pages 17 to 49 form part of these consolidated financial statements.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Consolidated statement of changes in equity**  
**for the year ended 30 June 2017**

(expressed in Australian dollars)

**Year ended 30 June 2016**

Consolidated	Attributable to Shareholders						Non- controlling interests	Total equity
	Share capital	Reserves	Retained earnings	Total	Total	Total		
	Note	\$M	\$M	\$M	\$M	\$M	\$M	
<b>Balance at 1 July 2015</b>		<b>631.9</b>	<b>(514.8)</b>	<b>186.3</b>	<b>303.4</b>	<b>10.5</b>	<b>313.9</b>	
<b>Total comprehensive income for the year</b>								
Profit for the year	16	-	-	174.1	174.1	6.8	180.9	
Other comprehensive (loss)/income for the year		-	(20.3)	-	(20.3)	0.2	(20.1)	
<b>Total comprehensive (loss)/income for the year, net of income tax</b>		-	<b>(20.3)</b>	<b>174.1</b>	<b>153.8</b>	<b>7.0</b>	<b>160.8</b>	
Transfers		-	4.6	(4.6)	-	-	-	
<b>Contributions by and distributions to owners</b>								
Issue of shares under Goodman Group's distribution reinvestment plan ("DRP")	13(a)	11.5	-	-	11.5	-	11.5	
Issue of shares to employees of Goodman Group	13(a)	7.4	-	-	7.4	-	7.4	
Acquisition of additional equity in non-controlling interests					-	0.6	0.6	
Equity settled share based payment transactions	15(c)	-	4.4	-	4.4	-	4.4	
<b>Balance at 30 June 2016</b>		<b>650.8</b>	<b>(526.1)</b>	<b>355.8</b>	<b>480.5</b>	<b>18.1</b>	<b>498.6</b>	

**Year ended 30 June 2017**

Consolidated	Attributable to Shareholders						Non- controlling interests	Total equity
	Share capital	Reserves	Retained earnings	Total	Total	Total		
	Note	\$M	\$M	\$M	\$M	\$M	\$M	
<b>Balance at 1 July 2016</b>		<b>650.8</b>	<b>(526.1)</b>	<b>355.8</b>	<b>480.5</b>	<b>18.1</b>	<b>498.6</b>	
<b>Total comprehensive income for the year</b>								
Profit for the year	16	-	-	216.0	216.0	5.4	221.4	
Other comprehensive (loss)/income for the year		-	(27.4)	-	(27.4)	0.1	(27.3)	
<b>Total comprehensive (loss)/income for the year, net of income tax</b>		-	<b>(27.4)</b>	<b>216.0</b>	<b>188.6</b>	<b>5.5</b>	<b>194.1</b>	
<b>Contributions by and distributions to owners</b>								
Dividend paid	12	-	-	(17.8)	(17.8)	-	(17.8)	
Issue of shares to employees of Goodman Group	13(a)	10.3	-	-	10.3	-	10.3	
Equity settled share based payment transactions	15(c)	-	4.8	-	4.8	-	4.8	
<b>Balance at 30 June 2017</b>		<b>661.1</b>	<b>(548.7)</b>	<b>554.0</b>	<b>666.4</b>	<b>23.6</b>	<b>690.0</b>	

The notes on pages 17 to 49 form part of these consolidated financial statements.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Consolidated cash flow statement**  
**for the year ended 30 June 2017**

(expressed in Australian dollars)

	Note	Consolidated	
		2017 \$M	2016 \$M
<b>Cash flows from operating activities</b>			
Property income received		11.9	16.3
Cash receipts from development activities		661.3	1,028.9
Other cash receipts from services provided		98.0	97.1
Property expenses paid		(4.5)	(5.0)
Payments for development activities		(610.6)	(694.3)
Other cash payments in the course of operations		(82.3)	(86.2)
Dividends/distributions received		49.8	18.1
Interest received		0.1	-
Finance costs paid		(1.5)	(0.5)
Net income taxes paid		(13.8)	(15.8)
<b>Net cash provided by operating activities</b>	14(b)	<b>108.4</b>	<b>358.6</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investment properties		23.5	-
Payments for investment properties		(2.8)	(0.5)
Capital return from equity investments		48.8	16.9
Payments for equity investments		(71.5)	(129.0)
Payments for plant and equipment		(0.2)	(3.6)
Payments for controlled entities, net of cash acquired		0.5	-
<b>Net cash used in investing activities</b>		<b>(1.7)</b>	<b>(116.2)</b>
<b>Cash flows from financing activities</b>			
Net payment of loans with related parties		(46.3)	(271.6)
Dividend paid		(17.8)	-
<b>Net cash used in financing activities</b>		<b>(64.1)</b>	<b>(271.6)</b>
Net increase/(decrease) in cash held		42.6	(29.2)
Cash at the beginning of the year		67.3	92.3
Effect of exchange rate fluctuations on cash held		(2.0)	4.2
<b>Cash at the end of the year</b>	14(a)	<b>107.9</b>	<b>67.3</b>

The notes on pages 17 to 49 form part of these consolidated financial statements.



**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

(expressed in Australian dollars)

**Basis of preparation**

**1. Basis of preparation**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance.

**(b) Basis of preparation of the consolidated financial statements**

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for investment properties and other financial assets which are stated at fair value.

As at 30 June 2017, the Consolidated Entity had net current liabilities of \$154.7 million. In accordance with the stapling agreement between the Company ("GLHK"), Goodman Limited ("GL") and Goodman Funds Management Limited as responsible entity for Goodman Industrial Trust ("GIT"), on request, each party (and its subsidiaries) must provide financial support to the other party (and its subsidiaries). The financial support to the other party (and its subsidiaries) may include:

- + lending money or providing financial accommodation;
- + guaranteeing any loan or other financing facility including providing any security;
- + entering into any covenant, undertaking, restraint, negative pledge on the obtaining of any financial accommodation or the provision of any guarantee or security in connection with any financial accommodation; and
- + entering into any joint borrowing or joint financial accommodation and providing any guarantee, security, indemnities and undertakings in connection with the relevant joint borrowing or joint financial accommodation.

A party need not do anything under the above arrangements to the extent that the party considers that it is not in the interests of Goodman Group Securityholders as a whole, or would cause a member of the party's group to contravene or breach applicable laws or particular finance arrangements.

On the basis of the above, the consolidated financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(c) Principles of consolidation**

**Subsidiaries**

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Company has power, only substantive rights (held by the Company and other parties) are considered.

An investment in a controlled entity is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. When an entity ceases to be controlled by the Company, it is accounted for as a disposal of the entire interest in the entity, with a resulting gain or loss being recognised in the statement of comprehensive income.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

**Accounting for acquisitions of non-controlling interests**

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no gain or loss and no goodwill is recognised as a result of such transactions.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Basis of preparation (cont)**

**1. Basis of preparation (cont)**

**(c) Principles of consolidation (cont)**

**Joint ventures**

A joint venture (JV) is an arrangement (referred to by the Consolidated Entity as a “managed partnership”) in which the Consolidated Entity has joint control, whereby the Consolidated Entity has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. In the consolidated financial statements, investments in JVs are accounted for using the equity method. Investments in JVs are carried at the lower of the equity accounted amount and recoverable amount. The Consolidated Entity’s share of the JVs’ net profit or loss is recognised in the consolidated statement of comprehensive income from the date joint control commences to the date joint control ceases. Movements in reserves are recognised directly in the consolidated reserves.

**Transactions eliminated on consolidation**

Unrealised gains resulting from transactions with JVs, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the Consolidated Entity’s interest. Unrealised gains relating to JVs are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence an impairment of an asset.

**Combination of entities or businesses under common control**

Where the Consolidated Entity acquires entities or businesses from other members of Goodman Group such that all of the combining entities (businesses) are ultimately controlled by Goodman Group Securityholders both before and after the combination, the Consolidated Entity applies the pooling of interests method.

At the date of the combination of entities under common control, the assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities that would otherwise be done under the acquisition method. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration transferred and the equity “acquired” by the Consolidated Entity is reflected within equity (common control reserve).

Similar to the acquisition method, the results of the “acquired” entity are included only from the date control commenced. Comparatives are not restated to present the consolidated financial statements as if the entities had always been combined.

**(d) Foreign currency translation**

**Functional and presentation currency**

Items included in the consolidated financial statements of each of the Company’s subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company’s functional and presentation currency.

**Transactions**

Foreign currency transactions are translated to each entity’s functional currency at rates approximating the foreign exchange rates ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at the reporting date are translated at the rates of exchange ruling on that date. Resulting exchange differences are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost are translated at rates of exchange applicable at the date of the initial transaction. Non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Translation of controlled foreign operations**

The assets and liabilities of foreign operations are translated into Australian dollars at foreign exchange rates applicable at the reporting date.

Revenue and expenses are translated at weighted average rates for the financial year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal or partial disposal of the operations.

Exchange differences arising on monetary items that form part of the net investment in a foreign operation are recognised in the foreign currency translation reserve on consolidation.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Basis of preparation (cont)**

**1. Basis of preparation (cont)**

**(e) Changes in accounting policies**

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Consolidated Entity. Of these, the following developments are relevant to the Consolidated Entity's financial statements:

- + Annual Improvements to HKFRSs 2012-2014 Cycle
- + Amendments to HKAS 16, *Property, Plant and Equipment*
- + Amendments to HKAS 27, *Separate Financial Statements*
- + Amendments to HKFRS 10, *Consolidated Financial Statements*
- + Amendments to HKFRS 12, *Disclosure of Interests in Other Entities*
- + Amendments to HKAS 28, *Investments in Associates and Joint Ventures*
- + Amendments to HKAS 1, *Presentation of Financial Statements*

The adoption of the above revisions and amendments to existing standards did not have any material impact on the preparation of the consolidated financial statements.

**(f) Accounting standards issued but not yet effective**

Up to the date of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 30 June 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Consolidated Entity:

- + revisions to HKFRS 9 *Financial Instruments* include requirements for the classification and measurement of financial assets and replaces HKAS 39 *Financial Instruments: Recognition and Measurement*. The revised HKFRS 9 Financial Instruments will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. The new standard is not expected to have a material impact on the Consolidated Entity's financial statements. At 30 June 2017, the Consolidated Entity had equity investments classified as held for sale with a fair value of \$20.5 million. On initial application of HKFRS 9, the Consolidated Entity may elect to classify these investments as fair value through other comprehensive income or fair value through the profit or loss. The Consolidated Entity has yet to make a decision on the classification; and
- + HKFRS 15 *Revenue from Contracts with Customers* provides a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The new standard will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. The Consolidated Entity's principal revenue streams have been reviewed and the new standard is not expected to impact gross property income and management income. For development income, based on the Consolidated Entity's current contractual arrangements, there would be no material impact on revenue recognition although additional disclosure might be required in respect of material construction contract activities that are accounted for on a percentage of completion basis; and
- + HKFRS 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. The new standard will become mandatory for the Consolidated Entity's 30 June 2020 financial statements and will result in the gross up of assets and liabilities where the Consolidated Entity leases office buildings, motor vehicles and development land classified as inventories. The financial impact arising from the gross up of office building and motor vehicle leases is not expected to be material. The financial impact from the gross up of development land leased by the Consolidated Entity will depend on the land leases held at the time of implementation of the new standard.

**(g) Critical accounting estimates used in the preparation of the consolidated financial statements**

The preparation of consolidated financial statements requires estimates and assumptions concerning the application of accounting policies and the future to be made by the Consolidated Entity. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year can be found in the following notes:

- + Note 6 – Property assets; and
- + Note 11 – Financial risk management.

The accounting impacts of revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Basis of preparation (cont)**

**1. Basis of preparation (cont)**

**(g) Critical accounting estimates used in the preparation of the consolidated financial statements (cont)**

***Measurement of fair values***

A number of the Consolidated Entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Consolidated Entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy and have been defined as follows:

- + Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- + Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- + Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the following notes:

- + Note 6 – Property assets; and
- + Note 11 – Financial risk management.

**Results for the year**

**2. Profit before interest and tax**

**Gross property income**

Gross property income comprises rental income entitlements under operating leases, net of incentives provided, plus recoverable outgoings.

Rental income entitlements under operating leases are recognised on a straight-line basis over the term of the lease contract. Where operating lease rental income is recognised relating to fixed increases in rentals in future years, an asset is recognised. This asset is a component of the relevant investment property carrying amount. The cost of lease incentives provided to customers is recognised on a straight-line basis over the life of the lease as a reduction of gross property income.

Recoverable outgoings are recognised as income when the relevant outgoings are recorded as an expense.

**Management income**

Fee income derived from investment management and property services is recognised progressively as the services are provided. Any performance related investment management income is recognised when the services have been performed and the income can be reliably measured.

**Development income**

Development income comprises fee income from development management services, income from fixed price construction contracts and income from disposal of inventories.

Fee income from development management services is recognised progressively as the services are provided in proportion to the stage of completion by reference to costs incurred. Any performance related development management income is recognised on attainment of the performance related conditions.

Certain development management arrangements are assessed as being fixed price construction contracts rather than a rendering of services. Revenue and expenses relating to construction contracts are recognised in the statement of comprehensive income in proportion to the stage of completion of the relevant contracts. The stage of completion is assessed by reference to costs incurred to date as a percentage of estimated total costs for each contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the statement of comprehensive income.

The disposal of inventories is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of inventories is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the statement of comprehensive income in the period of disposal.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Results for the year (cont)**

**2. Profit before interest and tax (cont)**

**Disposal of investment properties**

The disposal of an investment property is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of investment properties is calculated as the difference between the carrying amount of the property at the time of the disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the statement of comprehensive income in the period of disposal.

**Employee benefits**

**Wages, salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits, and annual leave that are expected to be settled within 12 months of the reporting date, represent present obligations resulting from employees' services provided to the reporting date. These are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at the reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

**Defined contribution retirement plans**

Obligations for contributions to defined contribution retirement plans are recognised as an expense as incurred.

	2017	2016
	\$M	\$M
<b>Profit before interest and income tax has been arrived at after crediting/(charging) the following items:</b>		
Income from disposal of inventories	156.0	303.0
Net gain on disposal of special purpose development entities	17.7	15.2
Other development income	682.7	594.8
<b>Development income</b>	<b>856.4</b>	<b>913.0</b>
Inventory cost of sales	(121.0)	(237.4)
Other development expenses	(541.7)	(480.3)
<b>Development expenses</b>	<b>(662.7)</b>	<b>(717.7)</b>
Impairment reversals/(losses) on receivables	0.2	(2.0)
Impairment losses on inventories	-	(14.8)
<b>Impairment reversals/(losses)</b>	<b>0.2</b>	<b>(16.8)</b>
Salaries, wages and other benefits	(72.0)	(65.3)
Contributions to defined contribution retirement plans	(0.7)	(0.8)
Operating lease expense	(7.0)	(7.6)
Depreciation of plant and equipment	(2.4)	(4.0)
Auditor's remuneration	(0.6)	(0.6)

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Results for the year (cont)**

**3. Segment reporting**

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses. The Consolidated Entity reports the results and financial position of its operating segments based on the internal reports regularly reviewed by the Group Chief Executive Officer in order to assess each segment's performance and to allocate resources to them.

Operating segment information is reported on a geographic basis and the Consolidated Entity has determined that its operating segments are Asia (which consists of China, Hong Kong and Japan), Continental Europe and the United Kingdom.

The activities and services undertaken by the operating segments include:

- + property investment, comprising the Consolidated Entity's cornerstone investments in managed partnerships;
- + management activities, both fund and property management; and
- + development activities, including development of directly owned assets (predominantly disclosed as inventories) and management of development activities for the Consolidated Entity's managed partnerships.

The segment results that are reported to the Group Chief Executive Officer are based on profit before net finance expense and income tax expense, and also exclude non-cash items such as fair value adjustments and impairments, corporate expenses and incentive based remuneration. The assets allocated to each operating segment primarily include inventories, and the operating segment's investments in managed partnerships, but exclude receivables from GL, GIT and their controlled entities, income tax receivables and corporate assets. The liabilities allocated to each operating segment primarily relate to trade and other payables associated with the operating activities, but exclude payables to GL, GIT and their controlled entities, provision for dividends to Shareholders, income tax payables and corporate liabilities.

The accounting policies used to report segment information are the same as those used to prepare the consolidated financial statements for the Consolidated Entity.

There are no intersegment transactions.

**Information about reportable segments**

	Asia		Continental Europe		United Kingdom		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Consolidated statement of comprehensive income</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>External revenue</b>								
Gross property income	1.0	2.4	9.3	11.6	-	-	10.3	14.0
Management income	53.7	49.8	44.3	45.3	-	-	98.0	95.1
Development income	43.0	23.7	813.4	889.3	-	-	856.4	913.0
Dividends from investments	3.7	8.5	-	-	-	-	3.7	8.5
<b>Total external revenue</b>	<b>101.4</b>	<b>84.4</b>	<b>867.0</b>	<b>946.2</b>	<b>-</b>	<b>-</b>	<b>968.4</b>	<b>1,030.6</b>
<b>Reportable segment profit/(loss) before income tax</b>	<b>120.6</b>	<b>70.6</b>	<b>167.0</b>	<b>186.2</b>	<b>1.1</b>	<b>(0.4)</b>	<b>288.7</b>	<b>256.4</b>
<b>Other key components of financial performance included in reportable segment profit before income tax</b>								
Share of net results of equity accounted investments (before fair value adjustments)	54.8	16.9	5.8	5.4	1.1	0.1	61.7	22.4
<b>Material non-cash items not included in reportable segment profit before income tax</b>								
Net loss from fair value adjustments on investment properties	-	-	-	(9.0)	-	-	-	(9.0)
Share of fair value adjustments in equity accounted investments	22.8	23.8	0.2	13.9	2.0	6.1	25.0	43.8
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Consolidated statement of financial position</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>	<b>\$M</b>
<b>Reportable segment assets</b>	<b>774.5</b>	<b>752.6</b>	<b>697.4</b>	<b>641.3</b>	<b>89.6</b>	<b>36.3</b>	<b>1,561.5</b>	<b>1,430.2</b>
Investments accounted for using the equity method (included in reportable segment assets)	514.0	507.7	89.2	86.8	48.2	35.0	651.4	629.5
Total non-current assets	642.2	639.5	225.9	320.9	48.2	35.0	916.3	995.4
<b>Reportable segment liabilities</b>	<b>31.2</b>	<b>39.4</b>	<b>66.6</b>	<b>87.4</b>	<b>-</b>	<b>-</b>	<b>97.8</b>	<b>126.8</b>

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Results for the year (cont)**

**3. Segment reporting (cont)**

**Reconciliation of reportable segment revenue, profit or loss, assets and liabilities**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Revenue</b>		
Total revenue for reportable segments	968.4	1,030.6
<b>Consolidated revenue</b>	<b>968.4</b>	<b>1,030.6</b>
<b>Profit or loss</b>		
<b>Total profit before income tax for reportable segments</b>	<b>288.7</b>	<b>256.4</b>
Corporate expenses not allocated to reportable segments	(23.8)	(20.2)
<b>Operating profit before net finance expense and income tax expense</b>	<b>264.9</b>	<b>236.2</b>
Valuation and other adjustments not included in reportable segment profit before income tax:		
- Net loss from fair value adjustments on investment properties	-	(9.0)
- Impairment reversals/(losses)	0.2	(16.8)
- Share of fair value adjustments in equity accounted investments	25.0	43.8
- Share based payments expense	(22.7)	(22.2)
Net finance expense - refer to note 9	(32.2)	(25.6)
<b>Consolidated profit before income tax</b>	<b>235.2</b>	<b>206.4</b>
<b>Assets</b>		
Total assets for reportable segments	1,561.5	1,430.2
Other unallocated amounts <sup>1</sup>	107.2	64.3
<b>Consolidated total assets</b>	<b>1,668.7</b>	<b>1,494.5</b>
<b>Liabilities</b>		
Total liabilities for reportable segments	97.8	126.8
Other unallocated amounts <sup>1</sup>	880.9	869.1
<b>Consolidated total liabilities</b>	<b>978.7</b>	<b>995.9</b>

1. Other unallocated amounts comprise principally receivables from and payables to GL, GIT and their controlled entities.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Results for the year (cont)**

**4. Income tax expense**

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

**(a) Taxation in the consolidated statement of comprehensive income**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Current tax expense - Hong Kong profits tax</b>		
Current year	(2.6)	(3.1)
Adjustment for prior periods	1.0	-
	<b>(1.6)</b>	<b>(3.1)</b>
<b>Current tax expense - overseas</b>		
Current year	(15.6)	(22.8)
Adjustment for prior periods	3.4	0.5
	<b>(12.2)</b>	<b>(22.3)</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	-	(0.1)
	<b>-</b>	<b>(0.1)</b>
<b>Total income tax expense</b>	<b>(13.8)</b>	<b>(25.5)</b>

The provision for Hong Kong profits tax for the 2017 financial year is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

**(b) Reconciliation between income tax expense and accounting profit at applicable tax rates**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Profit before income tax	235.2	206.4
Notional tax on profit before income tax, calculated at the rates applicable to profits in the countries concerned	(64.2)	(59.4)
(Increase)/decrease in income tax due to:		
- Current year losses for which no deferred tax asset was recognised	(8.2)	(12.3)
- Non-assessable income	61.7	61.2
- Non-deductible expense	(10.7)	(20.4)
- Utilisation of previously unrecognised tax losses	3.2	4.9
- Adjustment for prior periods	4.4	0.5
<b>Income tax expense</b>	<b>(13.8)</b>	<b>(25.5)</b>



**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Results for the year (cont)**

**4. Income tax expense (cont)**

**(c) Net income tax payable**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Net balance at the beginning of the year	(15.1)	(5.5)
Decrease/(increase) in current net tax payable due to:		
- Net income taxes paid	13.8	15.8
- Net income tax expense on current year's profit	(18.2)	(25.9)
- Adjustment for prior periods	4.4	0.5
<b>Net balance at the end of the year</b>	<b>(15.1)</b>	<b>(15.1)</b>
Current tax receivables	0.2	0.2
Current tax payables	(15.3)	(15.3)
	<b>(15.1)</b>	<b>(15.1)</b>

**(d) Deferred tax assets and liabilities**

Deferred tax liabilities of \$0.1 million (2016: \$0.1 million) arising from other payables were recognised in the consolidated statement of financial position.

**5. Profit attributable to equity shareholders of the Company**

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$29.1 million (2016: \$42.1 million) which has been dealt with in the financial statements of the Company.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Operating assets and liabilities**

**6. Property assets**

**(a) Types of property assets**

The Consolidated Entity's investment in property assets include both investment properties (held for capital appreciation and gross property income) and inventories (held for development and sale).

The Consolidated Entity holds both investment properties and inventories either directly or through its investments in managed partnerships.

**Inventories**

Inventories relate to land and property developments that are held for sale or development and sale in the normal course of the Consolidated Entity's business. Where property developments are forecast to be completed and sold more than 12 months after the reporting date, then the inventories are classified as non-current.

Work in progress in relation to land subdivision and development projects includes the costs of acquisition, planning, management and development and holding costs such as interest and taxes. Work in progress is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the normal course of business, less the estimated costs of completion and selling expenses.

Inventories are carried at the lower of cost or net realisable value. The calculation of net realisable value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances.

**Investment properties**

Investment properties comprise investment interests in land and buildings held for the purpose of leasing to produce rental income and/or for capital appreciation. Investment properties are carried at their fair value. The calculation of fair value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. Investment properties are not depreciated as they are subject to continual maintenance and regularly revalued on the basis described below.

**Components of investment properties**

Land and buildings (including integral plant and equipment) comprising investment properties are regarded as composite assets and are disclosed as such in the consolidated financial statements.

Investment property carrying values include the costs of acquiring the properties and subsequent costs of development, including costs of all materials used in construction, costs of managing the projects, holding costs and borrowing costs incurred during the development period.

Amounts provided to customers as lease incentives and assets relating to fixed rental income increases in operating lease contracts are included within investment property values. Lease incentives are amortised over the term of the lease on a straight-line basis. The amortisation is applied to reduce gross property income.

Direct expenditure associated with leasing a property is also capitalised within investment property values and amortised over the term of the lease.

**Classification of investment properties**

Investment properties are classified as either properties under development or stabilised properties. Investment properties under development include land, new investment properties in the course of construction and investment properties that are being redeveloped. Stabilised investment properties are all investment properties not classed as being under development and would be completed properties that are leased or are available for lease to the Consolidated Entity's customers.

For an investment property under development, an external valuation is obtained at acquisition. At each subsequent reporting date until completion, the carrying value is reviewed to ensure it reflects the fair value and at completion an external valuation is obtained to determine the fair value.

For a stabilised investment property, an independent valuation is obtained at least every three years to determine the fair value. At each reporting date between obtaining independent valuations, the carrying value is reviewed to ensure it reflects the fair value.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Operating assets and liabilities (cont)**

**6. Property assets (cont)**

**(a) Types of property assets (cont)**

**Deposits for investment properties**

Deposits and other costs associated with acquiring investment properties that are incurred prior to the Consolidated Entity obtaining legal title are recorded at cost and disclosed as other assets in the statement of financial position.

**(b) Summary of the Consolidated Entity's investment in property assets**

	Note	2017 \$M	2016 \$M
<b>Directly held property:</b>			
<b>Inventories</b>			
Current		127.1	125.9
Non-current		188.3	261.2
	6(d)	<b>315.4</b>	<b>387.1</b>
<b>Investment properties</b>			
Stabilised investment properties	6(e)	-	25.3
Investment properties under development	6(e)	22.5	19.9
		<b>22.5</b>	<b>45.2</b>
<b>Property held by managed partnerships:</b>			
Investments accounted for using the equity method - JVs	6(f)	651.4	629.5
		<b>651.4</b>	<b>629.5</b>

**(c) Estimates and assumptions in determining property carrying values**

**Inventories**

Inventories relate to land and property developments that are held for sale or development and sale in the normal course of the Consolidated Entity's business.

External valuations are not performed for inventories but instead valuations are determined using the Consolidated Entity's feasibility studies supporting the land and property developments. The end values of the developments in the feasibility studies are based on assumptions such as capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market. Where the feasibility study calculations indicate that the forecast cost of a completed development will exceed the net realisable value, then inventories are impaired.

**Stabilised investment properties**

Stabilised investment properties refer to investment properties which are not under development. Stabilised investment properties are carried at their fair value. Fair value is based on current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts. The current price is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Operating assets and liabilities (cont)**

**6. Property assets (cont)**

**(c) Estimates and assumptions in determining property carrying values (cont)**

***Approach to determination of fair value***

The approach to determination of fair value of investment properties is applied to both properties held directly on the Consolidated Entity's statement of financial position and properties within partnerships managed by the Consolidated Entity.

Valuations are determined based on assessments and estimates of uncertain future events, including upturns and downturns in property markets and availability of similar properties, vacancy rates, market rents and capitalisation and discount rates. Recent and relevant sales evidence and other market data are taken into account. Valuations are either based on an external, independent valuation or on an internal valuation.

External valuations are undertaken only where market segments were observed to be active. Such a determination is made based on the criteria set out below:

- + function of the asset (distribution/warehouse or suburban office);
- + location of asset (city, suburb or regional area);
- + carrying value of asset (with the asset categorised by likely appeal to private investors (including syndicates), national and institutional investors); and
- + categorisation as primary or secondary based on a combination of location, weighted average lease expiry, quality of tenant covenant (internal assessment based on available market evidence) and age of construction.

Each property asset is assessed and grouped with assets in the same or similar market segments. Information on all relevant recent sales is also analysed using the same criteria to provide a comparative set. Unless three or more sales are observed in an individual market segment (taken together with any comparable market segments as necessary), that market segment is considered inactive.

Where a market segment is observed to be active, then external, independent valuations are performed for stabilised investment properties where there has been more than a 25 basis point movement in capitalisation rates and/or there has been a material change in tenancy profile and/or there has been significant capital expenditure and/or it has been three years since the previous external, independent valuation. For all other stabilised investment properties in an active market segment, an internal valuation is performed based on observable capitalisation rates and referenced to independent market data.

Where a market segment is observed to be inactive, then no external, independent valuations are performed and internal valuations are undertaken based on discounted cash flow (DCF) calculations. The DCF calculations are prepared over a 10 year period. The key inputs considered for each individual calculation are rental growth rates, discount rates, market rental rates and letting up incentives. Discount rates are computed using the 10 year bond rate or equivalent in each jurisdiction plus increments to reflect country risk, tenant credit risk and industry risk. Where possible, the components of the discount rate are benchmarked to available market data.

***Market assessment***

At 30 June 2017, all markets in which the Consolidated Entity operated were observed to be active and no adjustments were made to the carrying value of stabilised investment properties arising from internal valuations using DCF calculations. Overall weighted average capitalisation rates for the divisional portfolios (including managed partnerships) are set out in the table below:

<b>Division</b>	<b>Total portfolio weighted average capitalisation rate</b>	
	<b>2017</b>	<b>2016</b>
	<b>%</b>	<b>%</b>
China <sup>1</sup>	<b>6.3</b>	6.5
Logistics - Continental Europe	<b>5.4</b>	6.0
Logistics - United Kingdom	<b>5.3</b>	5.2

1. In order to align with current practice, the capitalisation rate for the China portfolios has been presented net of property taxes. In prior periods, the rates were presented gross and the gross capitalisation rate for China at 30 June 2016 was 8.1%.

**Investment properties under development**

External valuations are generally not performed for investment properties under development held directly by the Consolidated Entity, but instead valuations are determined using the feasibility studies supporting the developments. The end values of the developments in the feasibility studies are based on assumptions to determine capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market adjusted for a profit and risk factor. This profit and risk factor is dependent on the function, location and size of the development and is generally in a market range of 10.0% to 15.0%.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Operating assets and liabilities (cont)**

**6. Property assets (cont)**

**(c) Estimates and assumptions in determining property carrying values (cont)**

This practice of determining fair value by reference to the development feasibility is generally also applied for the Consolidated Entity's investments in managed partnerships. However, a certain number of entities do obtain independent valuations for investment properties under development each financial year.

**(d) Inventories**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Current</b>		
Land and development properties	127.1	125.9
	<b>127.1</b>	<b>125.9</b>
<b>Non-current</b>		
Land and development properties	188.3	261.2
	<b>188.3</b>	<b>261.2</b>

During the current financial year, an impairment loss of \$nil (2016: \$14.8 million) was recognised on development land.

**(e) Investment properties**

**Reconciliation of carrying amount of directly held investment properties**

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Carrying amount at the beginning of the year	45.2	52.7
Capital expenditure	2.4	-
Carrying value of properties disposed	(24.5)	-
Net loss from fair value adjustments	-	(9.0)
Effect of foreign currency translation	(0.6)	1.5
<b>Carrying amount at the end of the year</b>	<b>22.5</b>	<b>45.2</b>
<b>Analysed as:</b>		
Stabilised investment properties	-	25.3
Investment properties under development	22.5	19.9
	<b>22.5</b>	<b>45.2</b>

At 30 June 2017, all the Consolidated Entity's investment properties are located in Continental Europe.

**Measurement of fair value**

Subsequent to the sale of the stabilised investment property in Continental Europe in the current year, investment properties at 30 June 2017 comprise investment properties under development. The fair value measurement for investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The following table shows the valuation technique used in measuring the fair value of the stabilised investment property in the prior year, as well as the significant unobservable inputs used:

	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>2017</b>	<b>2016</b>
Investment properties - Continental Europe	Income capitalisation approach	Net market rent per square metre per annum Capitalisation rate	- -	€147/sqm 8.0%

The estimated fair value would increase if net market rents were higher and/or if capitalisation rates were lower. The estimated fair value would decrease if the net market rents were lower and/or if the capitalisation rates were higher.

**Goodman Logistics (HK) Limited and its subsidiaries**  
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**Operating assets and liabilities (cont)**

**6. Property assets (cont)**

**(f) Investments accounted for using the equity method**

The Consolidated Entity's principal managed partnerships are set out below:

Name	Country of establishment/ incorporation	Consolidated share of net results recognised		Consolidated ownership interest		Consolidated investment carrying amount	
		2017 \$M	2016 \$M	2017 %	2016 %	2017 \$M	2016 \$M
<b>Property investment</b>							
Goodman China Logistics Partnership ("GCLP")	Cayman Islands	40.2	41.2	20.0	20.0	447.6	414.3
KWASA Goodman Germany ("KGG")	Luxembourg	6.0	18.3	23.8	27.4	89.2	83.2
<b>Property development</b>							
Goodman Japan Development Partnership ("GJDP")	Japan	37.4	(0.4)	46.0	42.5	60.9	90.3
Goodman UK Partnership ("GUKP")	United Kingdom	3.1	6.2	33.3	33.3	48.2	35.0
Other JVs		-	0.9			5.5	6.7
		<b>86.7</b>	<b>66.2</b>			<b>651.4</b>	<b>629.5</b>

The reconciliation of the carrying value at the beginning to the carrying value at the end of the year is set out as follows:

	Consolidated	
	2017 \$M	2016 \$M
<b>Movements in carrying amount of investments in JVs</b>		
Carrying amount at the beginning of the year	629.5	453.4
Share of net results after tax (before revaluations)	61.7	22.4
Share of fair value adjustments	25.0	43.8
Share of net results after tax	86.7	66.2
Share of movements in reserves	(15.4)	(14.1)
Acquisitions	72.8	129.0
Capital return	(48.9)	(16.5)
Disposals	(3.4)	-
Dividends/distributions received and receivable	(46.0)	(9.6)
Effect of foreign currency translation	(23.9)	21.1
<b>Carrying amount at the end of the year</b>	<b>651.4</b>	<b>629.5</b>

**Summary financial information of JVs**

The following table summarises the financial information of the material managed partnerships as included in their own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Consolidated Entity's interest in the JVs.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Operating assets and liabilities (cont)**

**6. Property assets (cont)**

**(f) Investments accounted for using the equity method (cont)**

	GCLP <sup>2</sup>		KGG		GJDP		GUKP	
	2017	2016	2017	2016	2017	2016	2017	2016
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
<b>Summarised statement of financial position</b>								
<b>Current assets</b>								
Cash and cash equivalents	150.4	161.8	29.4	27.1	24.3	48.1	4.0	6.9
Other current assets	26.6	46.3	1.6	0.2	35.7	2.2	1.7	41.2
<b>Total current assets</b>	<b>177.0</b>	<b>208.1</b>	<b>31.0</b>	<b>27.3</b>	<b>60.0</b>	<b>50.3</b>	<b>5.7</b>	<b>48.1</b>
<b>Total non-current assets</b>	<b>2,752.8</b>	<b>2,399.9</b>	<b>692.6</b>	<b>531.6</b>	<b>250.9</b>	<b>412.0</b>	<b>142.7</b>	<b>58.8</b>
<b>Current liabilities</b>								
Other current liabilities	1,863.9	1,780.2	15.3	9.9	0.9	1.4	4.9	3.0
<b>Total current liabilities</b>	<b>1,863.9</b>	<b>1,780.2</b>	<b>15.3</b>	<b>9.9</b>	<b>0.9</b>	<b>1.4</b>	<b>4.9</b>	<b>3.0</b>
<b>Non-current liabilities</b>								
Financial liabilities (excluding trade payables and other provisions)	394.0	306.8	310.0	231.5	178.6	244.7	-	-
Other non-current liabilities	152.7	94.7	23.4	13.5	1.7	4.0	-	-
<b>Total non-current liabilities</b>	<b>546.7</b>	<b>401.5</b>	<b>333.4</b>	<b>245.0</b>	<b>180.3</b>	<b>248.7</b>	<b>-</b>	<b>-</b>
<b>Net assets (100%)</b>	<b>519.2</b>	<b>426.3</b>	<b>374.9</b>	<b>304.0</b>	<b>129.7</b>	<b>212.2</b>	<b>143.5</b>	<b>103.9</b>
Consolidated ownership interest (%)	20.0	20.0	23.8	27.4	46.0	42.5	33.3	33.3
Consolidated share of net assets	103.8	85.3	89.2	83.2	59.7	90.3	47.8	34.6
Shareholder loan <sup>1</sup>	341.4	327.5	-	-	-	-	-	-
Acquisition costs	2.4	1.5	-	-	1.2	-	0.4	0.4
<b>Carrying amount of interest in JV</b>	<b>447.6</b>	<b>414.3</b>	<b>89.2</b>	<b>83.2</b>	<b>60.9</b>	<b>90.3</b>	<b>48.2</b>	<b>35.0</b>
<b>Summarised statement of comprehensive income</b>								
Revenue	109.9	96.3	38.2	28.1	104.3	1.9	5.0	1.2
Depreciation and amortisation	-	-	-	-	-	-	(0.2)	(0.3)
Interest expense	(15.6)	(14.2)	(6.4)	(5.8)	-	(0.2)	-	-
Income tax expense	(9.0)	(15.5)	(4.4)	(9.8)	(13.7)	-	-	-
Profit and total comprehensive income (100%)	201.5	205.7	27.4	61.2	90.0	(1.0)	9.4	18.8
<b>Consolidated share of profit and total comprehensive income</b>	<b>40.2</b>	<b>41.2</b>	<b>6.0</b>	<b>18.3</b>	<b>37.4</b>	<b>(0.4)</b>	<b>3.1</b>	<b>6.2</b>
<b>Dividends and distributions received and receivable by the Consolidated Entity</b>	<b>3.4</b>	<b>4.3</b>	<b>5.2</b>	<b>5.3</b>	<b>37.4</b>	<b>-</b>	<b>-</b>	<b>-</b>

- Shareholder loans have been provided by investors of GCLP in proportion to their ownership interest. The shareholder loans are interest-free, unsecured and have no fixed terms of repayment. The shareholder loans are not expected to be repaid within 12 months from the end of the reporting period and the directors consider the loan to form part of the Consolidated Entity's investment in GCLP.
- The comparative information for GCLP has been restated to conform to the current year's presentation. Shareholder loans have been included under other current liabilities and separately identified in the carrying amount of interest in JV.

**Goodman Logistics (HK) Limited and its subsidiaries**  
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**Operating assets and liabilities (cont)**

**7. Receivables**

**Non-derivative financial assets**

The Consolidated Entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

The Consolidated Entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less allowance for impairment of doubtful debts, except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Loans and receivables comprise trade and other receivables, amounts due from related parties and loans to related parties.

*Construction contract receivables*

Construction contract receivables, which are presented in receivables in the statement of financial position, are stated at cost plus profit recognised to date less an allowance for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred, relating to the Consolidated Entity's construction contract activities based on normal operating activity.

**Impairment**

**Non-financial assets**

The carrying amounts of the Consolidated Entity's assets (except inventories, refer to note 6(d); investment properties, refer to note 6(e); and deferred tax assets, refer to note 4) are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset is written down to the recoverable amount. The impairment is recognised in the statement of comprehensive income in the reporting period in which it occurs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation, with any excess recognised through the profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated to the carrying amount of any identified intangible asset and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

**Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the financial asset is written down to the present value of the estimated future cash flows discounted at the original effective interest rate. The impairment is recognised in profit or loss in the reporting period in which it occurs.

**Calculation of recoverable amount**

The recoverable amount of the Consolidated Entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.



**Goodman Logistics (HK) Limited and its subsidiaries**  
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**Operating assets and liabilities (cont)**

**7. Receivables (cont)**

**Reversals of impairment**

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows are discounted to their present value.

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Current</b>		
Trade receivables	29.2	15.1
Other receivables	49.1	65.1
Amounts due from related parties	41.9	36.2
Loans to related parties	110.5	64.3
Construction contract receivables	284.5	122.6
	<b>515.2</b>	<b>303.3</b>
<b>Non-current</b>		
Loans to related parties	26.6	26.6
	<b>26.6</b>	<b>26.6</b>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. All non-current receivables of the Consolidated Entity are due within five years from the reporting date. There is no material difference between the carrying values and the fair values of receivables.

**Trade receivables**

As at 30 June 2017, trade receivables of \$nil were impaired (2016: \$0.4 million). There are no significant overdue trade receivables at 30 June 2017.

**Other receivables**

At 30 June 2017, none of the other receivables balance was overdue or impaired (2016: \$nil).

**Amounts due from related parties**

At 30 June 2017, none of the amounts due from related parties was overdue or impaired (2016: \$nil). Amounts due from related parties are typically repayable within 30 days. The amounts due from related parties are unsecured.

**Loans to related parties**

Loans to related parties principally relate to loans to fellow subsidiaries of GL and loans to JVs. Refer to note 18(c) for details of loans to related parties. During the year, a reversal of a previously recognised impairment loss of \$0.2 million (2016: impairment loss of \$2.0 million) was recognised on loans to related parties. The loans to related parties are unsecured.

**Construction contract receivables**

At 30 June 2017, the aggregate amount of costs incurred and recognised profits (less recognised losses) to date under construction contracts amounted to \$286.1 million (2016: \$122.6 million).

At 30 June 2017, construction contract receivables included retentions of \$nil million (2016: \$nil million) related to construction contracts in progress.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Operating assets and liabilities (cont)**

**8. Payables**

**Non-derivative financial liabilities**

The Consolidated Entity initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

The Consolidated Entity derecognises a financial liability when the contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

The Consolidated Entity has classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise trade and other payables and loans from related parties (refer to note 18(c)).

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Current</b>		
Trade payables	27.4	43.2
Other payables and accruals	48.6	63.0
	<b>76.0</b>	<b>106.2</b>
<b>Non-current</b>		
Other payables and accruals	15.0	6.7
	<b>15.0</b>	<b>6.7</b>

**Goodman Logistics (HK) Limited and its subsidiaries**  
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**Capital management**

**9. Finance income and expense**

**Finance income**

Interest is recognised on an accruals basis using the effective interest rate method, and, if not received at the reporting date, is reflected in the statement of financial position as a receivable.

**Finance expense**

Expenditure incurred in obtaining debt finance is offset against the principal amount of the interest bearing liability to which it relates, and is recognised as a finance cost on an effective interest rate basis over the life of the facility or until the facility is significantly modified. Where a facility is significantly modified, any unamortised expenditure in relation to that facility and incremental expenditure incurred in modifying the facility are recognised as a finance cost in the financial year in which the significant modification occurs.

Finance costs relating to a qualifying asset are capitalised as part of the cost of that asset using a weighted average cost of debt. Qualifying assets are assets which take a substantial time to get ready for their intended use or sale. All other finance costs are expensed using the effective interest rate method.

	Note	Consolidated	
		2017	2016
		\$M	\$M
<b>Finance income</b>			
Interest income on loans to:			
- Related parties	18(c)	0.8	0.5
- Other parties		0.2	0.1
		<b>1.0</b>	<b>0.6</b>
<b>Finance expense</b>			
Interest expense on loans from related parties	18(c)	(45.4)	(43.4)
Other borrowing costs		(0.3)	(0.5)
Foreign exchange loss		(0.3)	-
Capitalised borrowing costs		12.8	17.7
		<b>(33.2)</b>	<b>(26.2)</b>
<b>Net finance expense</b>		<b>(32.2)</b>	<b>(25.6)</b>

Borrowing costs were capitalised to inventories and investment properties under development during the financial year at rates between 1.2% and 6.6% per annum (2016: 1.7% and 5.5% per annum).

**Goodman Logistics (HK) Limited and its subsidiaries**  
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**Capital management (cont)**

**10. Other financial assets**

**Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised as other comprehensive income and presented in the asset revaluation reserve in equity. When such an asset is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Available for sale financial assets comprise investments in equity securities.

**Impairment**

Available for sale financial assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset is written down to its fair value.

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is transferred to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

**Reversals of impairment**

Impairment losses recognised in profit or loss in for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Available for sale equity securities</b>		
Investment in unlisted securities, at fair value <sup>1</sup>	20.5	16.6
	<b>20.5</b>	<b>16.6</b>

1. Principally relates to the Consolidated Entity's 10% (2016: 10.0%) interest in Goodman Japan Limited. During the current financial year, a fair value gain of \$5.7 million on investment in unlisted securities was recognised in other comprehensive income (2016: loss of \$5.3 million). Refer to note 11(d) for assumptions made in measuring fair value of the unlisted securities.

**11. Financial risk management**

The Consolidated Entity's capital management and financial risk management processes are managed as part of the wider Goodman Group. There are established policies, documented in Goodman Group's financial risk management (FRM) policy document, to ensure both the efficient use of capital and the appropriate management of the exposure to financial risk.

The Goodman Group Investment Committee is the primary forum where strategic capital and financial management requirements are discussed and decisions made in accordance with the FRM policy. The Goodman Group Investment Committee meets at least every week during the financial year.

**Financial risk management**

The Consolidated Entity's key financial risks are market risk (including foreign exchange and interest rate risk), liquidity risk and credit risk.

**Goodman Logistics (HK) Limited and its subsidiaries**  
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**Capital management (cont)**

**11. Financial risk management (cont)**

**(a) Market risk**

**Foreign exchange risk**

The Consolidated Entity is exposed to foreign exchange risk through its investments in Hong Kong, Japan, China, Continental Europe and the United Kingdom. Foreign exchange risk represents the loss that would be recognised from fluctuations in currency prices against the Australian dollar as a result of future commercial transactions, recognised assets and liabilities and, principally, net investments in foreign operations.

Goodman Group manages foreign currency exposure on a consolidated basis. In managing foreign currency risks, Goodman Group aims to reduce the impact of short-term fluctuations on earnings and net assets. However, over the long term, permanent changes in foreign exchange will have an impact on both earnings and net assets.

Goodman Group's capital hedge policy for each overseas region is to hedge between 65% and 90% of foreign currency denominated assets with foreign currency denominated liabilities. This is achieved by borrowing in the same functional currency as the investments to form a natural economic hedge against any foreign currency fluctuations and/or using derivatives such as cross currency interest rate swaps.

**Exposure to currency risk**

The following table details the Consolidated Entity's exposure at the end of the year to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Australian dollars, translated using the spot rate at the year end date.

	Note	2017					2016				
		HKD \$M	USD \$M	EUR \$M	GBP \$M	JPY \$M	HKD \$M	USD \$M	EUR \$M	GBP \$M	JPY \$M
Receivables	7	8.6	46.0	487.0	-	0.2	9.3	39.3	281.3	-	-
Cash	14(a)	16.1	37.8	4.5	41.3	8.2	9.9	53.8	2.3	1.3	-
Payables	8	(3.6)	(19.6)	(55.0)	-	-	(3.5)	(27.9)	(73.8)	-	-
Loans from related parties	18(c)	-	(483.3)	(318.7)	(31.0)	(19.3)	-	(458.2)	(348.3)	(6.7)	(29.5)
		<b>21.1</b>	<b>(419.1)</b>	<b>117.8</b>	<b>10.3</b>	<b>(10.9)</b>	<b>15.7</b>	<b>(393.0)</b>	<b>(138.5)</b>	<b>(5.4)</b>	<b>(29.5)</b>

**Sensitivity analysis**

Throughout the financial year, if the Australian dollar had been 5% (2016: 5%) stronger against all other currencies, with all other variables held constant, the Consolidated Entity's profit attributable to Shareholders would have decreased by \$13.4 million (2016: \$11.2 million). If the Australian dollar had been 5% (2016: 5%) weaker against all other currencies, with all other variables held constant, the Consolidated Entity's profit attributable to Shareholders would have increased by \$13.4 million (2016: \$11.2 million).

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Capital management (cont)**

**11. Financial risk management (cont)**

**(a) Market risk (cont)**

**Interest rate risk**

The Consolidated Entity's interest rate risk primarily arises from variable rate borrowings with related parties.

***Sensitivity analysis***

Based on the Consolidated Entity's interest bearing borrowings at 30 June 2017, if interest rates on borrowings had been 100 basis points per annum (2016: 100 basis points per annum) higher/lower, with all other variables held constant, the Consolidated Entity's profit attributable to Shareholders for the financial year would have been \$7.5 million lower/higher (2016: \$7.8 million lower/higher).

**Price risk**

The Consolidated Entity is not exposed to price risk.

**(b) Liquidity risk**

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's objective is to maintain sufficient liquidity resources for working capital, meet its financial obligations and liabilities, pay distributions and provide funds for capital expenditure and investment opportunities. Management seeks to achieve these objectives through the preparation of regular forecast cash flows to understand the application and use of funds and through the identification of future funding, primarily through loans from related parties in Goodman Group.

**Goodman Logistics (HK) Limited and its subsidiaries**  
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**Capital management (cont)**

**11. Financial risk management (cont)**

**(b) Liquidity risk (cont)**

The contractual maturities of financial liabilities are set out below:

	Carrying amount \$M	Contractual cash flows \$M	Up to 12 months \$M	1 - 2 year(s) \$M	2 - 3 years \$M	3 - 4 years \$M	4 - 5 years \$M	More than 5 years \$M
<b>As at 30 June 2017</b>								
Trade and other payables	91.0	91.0	76.0	15.0	-	-	-	-
Loans from related parties	852.3	871.8	798.0	2.3	2.4	2.5	2.6	64.0
<b>Total</b>	<b>943.3</b>	<b>962.8</b>	<b>874.0</b>	<b>17.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>64.0</b>
<b>As at 30 June 2016</b>								
Trade and other payables	112.9	112.9	106.2	6.7	-	-	-	-
Loans from related parties	842.7	851.4	833.4	0.7	0.8	0.8	0.9	14.8
<b>Total</b>	<b>955.6</b>	<b>964.3</b>	<b>939.6</b>	<b>7.4</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>14.8</b>

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Capital management (cont)**

**11. Financial risk management (cont)**

**(c) Credit risk**

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The maximum exposure to credit risk on financial assets, excluding investments, of the Consolidated Entity which have been recognised in the consolidated statement of financial position, is the carrying amount (refer to note 7).

The Consolidated Entity has a policy of assessing the creditworthiness of all potential customers and is not materially exposed to any one customer. The Consolidated Entity evaluates all customers' perceived credit risk.

In relation to material bank deposits, the Consolidated Entity minimises credit risk by dealing with major financial institutions. The counterparty must have a stable, long-term credit rating that is a minimum of an "A" category (or equivalent) from a major rating agency. The amounts and other terms associated with bank deposits are formally reviewed monthly.

From time to time, the Consolidated Entity also makes loans to JVs, typically to fund development projects. In making its investment decisions, the Consolidated Entity will undertake a detailed assessment of the development feasibility and credit risks associated with the relevant counterparties.

**(d) Fair values of financial instruments**

Except for investments in unlisted securities which are carried at fair value, the Consolidated Entity's financial instruments are carried at cost or amortised cost. The carrying amounts of the Consolidated Entity's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2017 and 2016.

**(i) Valuation techniques and significant unobservable inputs**

The fair value measurement for available for sale equity securities has been categorised as a Level 3 fair value. The following table shows the valuation technique used in measuring fair value as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Equity securities - Goodman Japan Limited	Discounted cash flows: The valuation model was determined by discounting the future cash flows expected to be generated from continuing operations. The future cash flows were based on fund and development forecasts and then estimating a year five terminal value using a terminal growth rate and an appropriate discount rate	<ul style="list-style-type: none"> <li>• Assets under management of \$3.3 billion in year five</li> <li>• Average annual development of 116,000 sqm</li> <li>• Five year terminal value growth rate of 1.28%</li> <li>• Risk adjusted discount rate of 7.26% per annum</li> </ul>	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> <li>• the level of development activity, assets under management and terminal value growth rate were higher/(lower)</li> <li>• the risk adjusted discount rate were lower/(higher)</li> </ul>



**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Capital management (cont)**

**11. Financial risk management (cont)**

**(d) Fair values of financial instruments (cont)**

**(ii) Reconciliation of Level 3 fair values**

	Consolidated	
	2017	2016
	\$M	\$M
Carrying amount at the beginning of the year	16.6	18.3
Capital return	-	(0.4)
Net change in fair value - included in other comprehensive income	5.7	(5.3)
Effect of foreign currency translation	(1.8)	4.0
<b>Carrying amount at the end of the year</b>	<b>20.5</b>	<b>16.6</b>

**12. Dividends**

Provisions for dividends payable are recognised in the reporting period in which the dividends are declared. During FY17, the Company declared and paid a final dividend of 1.0 cent per share amounting to \$17.8 million (2016: \$nil). This dividend was paid from the FY16 profit after tax and there is no current intention for the Company to pay a dividend in respect of the FY17 result.

**13. Share capital**

**(a) Ordinary shares**

Ordinary shares of the Company are classified as equity. Incremental costs directly attributable to issues of ordinary shares and options are recognised as a deduction from equity, net of any tax effects.

	2017	2016	2017	2016
	Number of shares		\$M	\$M
Share capital	1,789,121,143	1,778,318,630	661.7	651.4
Accumulated issue costs			(0.6)	(0.6)
<b>Total issued capital</b>			<b>661.1</b>	<b>650.8</b>

Details	Share capital	
	Number of shares	\$M
<b>Ordinary shares, issued and fully paid</b>		
Balance at 1 July 2015	1,753,035,922	632.5
Shares issued under Goodman Group's DRP <sup>1</sup>	15,416,659	11.5
Shares issued to employees of Goodman Group <sup>2</sup>	9,866,049	7.4
<b>Balance at 30 June 2016</b>	<b>1,778,318,630</b>	<b>651.4</b>
Shares issued to employees of Goodman Group <sup>2</sup>	10,802,513	10.3
<b>Balance at 30 June 2017</b>	<b>1,789,121,143</b>	<b>661.7</b>

- Goodman Group's DRP was not active during the year. For the year ended 30 June 2016, \$95.5 million of the distribution paid by Goodman Group was issued in the form of stapled securities in Goodman Group. The Consolidated Entity's share of the equity raised amounted to \$11.5 million.
- During the year, the Company issued 10,802,513 (2016: 9,866,049) shares to employees of Goodman Group under the Goodman Group Long Term Incentive Plan ("LTIP") and Goodman Group Tax Exempt Plan.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Capital management (cont)**

**13. Share capital (cont)**

**(b) Equity settled share based payment transactions**

***Share based payment transactions***

Goodman Group provides equity based remuneration through the issue of stapled securities under the LTIP. The fair value of rights and options over stapled securities, granted to employees of the Consolidated Entity by Goodman Group at the grant date is recognised as a share based payment expense in the results of the Consolidated Entity with a corresponding increase in equity. The share based payment expense is calculated over the period to the vesting date and is adjusted to reflect the actual number of rights or options for which the related service and non-market vesting conditions are expected to be met. The fair values of rights and options are measured at the grant date using a combination of Monte Carlo simulations and Black Scholes pricing models.

Details of the LTIP are set out below.

**LTIP**

The LTIP provides for the issue of performance rights to employees. Each performance right issued under the LTIP entitles an employee to acquire a Goodman Group stapled security for nil consideration subject to the vesting conditions having been satisfied.

Under the terms of the LTIP and decisions made by the directors of Goodman Group in accordance with the plan, the issues of performance rights on 30 September 2016 to employees and directors respectively were subject to the following broad terms:

- + the exercise of 25% of the total performance rights will be conditional on Goodman Group achieving a total securityholder return (TSR) in excess of that achieved by 50% of listed entities in the S&P/ASX 100 index and the exercise of 75% of the total performance rights will be conditional on Goodman Group achieving an operating earnings per share (EPS) outcome at least at the target level notified to the market over a three year 'testing period' which ends on 30 June 2019 and continued employment (subject to special circumstances e.g. death, total and permanent disability, redundancy or retirement). To the extent that Goodman Group achieves the aggregate target operating EPS, 100% of the tranche will vest; to the extent Goodman Group exceeds the 51<sup>st</sup> percentile in TSR, there are proportionate increases in vesting of performance rights up to 100% at the 76<sup>th</sup> percentile under the grants made pursuant to the rules and disclosed to the market;
- + performance rights lapse on the earlier of approximately five years from the offer or the termination of the employee's employment (unless such termination is due to special circumstances); and
- + performance rights issued during the year vest in three equal tranches on 1 September 2019, 1 September 2020 and 1 September 2021.

Share based payment expense included in profit or loss was as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Share based payment expense:		
- Equity settled	13.7	16.8
- Cash settled	9.0	5.4
	<b>22.7</b>	<b>22.2</b>

At 30 June 2017, a liability of \$11.8 million (2016: \$6.7 million) was recognised in relation to cash settled performance rights.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
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**Capital management (cont)**

**13. Share capital (cont)**

**(b) Equity settled share based payment transactions (cont)**

**LTIP (cont)**

The movement in the number of equity settled and cash settled Goodman Group performance rights is as follows:

	<b>Number of rights</b>	
	<b>2017</b>	<b>2016</b>
Outstanding at the beginning of the year	14,719,311	11,833,471
Issued	6,615,850	5,352,396
Transferred from other Goodman entities	1,862,098	-
Vested	(2,702,106)	(2,008,074)
Forfeited	(1,528,048)	(458,482)
<b>Outstanding at the end of the year</b>	<b>18,967,105</b>	<b>14,719,311</b>
<b>Exercisable at the end of the year</b>	<b>-</b>	<b>-</b>

The model inputs for Goodman Group performance rights awarded during the current financial year included the following:

	<b>Rights issued on 30 Sep 2016</b>
Fair value at measurement date (\$)	5.64
Security price (\$)	7.28
Exercise price (\$)	-
Expected volatility (%)	15.94
Rights' expected weighted average life (years)	3.9
Dividend/distribution yield per annum (%)	3.95
Average risk free rate of interest per annum (%)	1.80

The fair value of services received in return for performance rights granted under Goodman Group's LTIP is measured by reference to the fair value of the performance rights granted. The fair value of the performance rights was measured as follows:

- + relative TSR tranche: these rights have been valued using a Monte Carlo model which simulated total returns for each of the S&P/ASX 100 stocks and discounted the future value of any potential future vesting performance rights to arrive at a present value. The model uses statistical analysis to forecast total returns, based on expected parameters of variance and co-variance; and
- + operating EPS tranche: these rights have been valued as a granted call option, using the standard Black Scholes model with a continuous dividend yield.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Other items**

**14. Notes to the consolidated cash flow statement**

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

**(a) Reconciliation of cash**

Cash as at the end of the year as shown in the consolidated cash flow statement is reconciled to the related items in the consolidated statement of financial position as follows:

	2017	2016
	\$M	\$M
<b>Cash assets</b>	<b>107.9</b>	<b>67.3</b>

**(b) Reconciliation of profit for the year to net cash provided by operating activities**

	2017	2016
	\$M	\$M
Profit for the year	221.4	180.9
<b>Items classified as investing activities</b>		
Net loss on disposal of investment properties	0.9	-
<b>Non-cash items</b>		
Depreciation of plant and equipment	2.4	4.0
Share based payment expense	22.7	22.2
Net loss from fair value adjustments on investment properties	-	9.0
Impairment (reversals)/losses	(0.2)	16.8
Share of net results of equity accounted investments	(86.7)	(66.2)
Net finance expense	32.2	25.6
Income tax expense	13.8	25.5
	<b>206.5</b>	<b>217.8</b>
Changes in assets and liabilities during the year:		
- Increase in receivables	(150.4)	(135.5)
- Decrease in inventories	46.3	240.7
- Increase in other assets	(6.0)	(16.3)
- (Decrease)/increase in payables	(16.2)	58.6
- Decrease in provisions (including employee benefits)	(2.6)	-
	<b>77.6</b>	<b>365.3</b>
Dividends/distributions received from equity accounted investments	46.0	9.6
Net finance costs paid	(1.4)	(0.5)
Net income taxes paid	(13.8)	(15.8)
<b>Net cash provided by operating activities</b>	<b>108.4</b>	<b>358.6</b>

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Other items (cont)**

**15. Reserves**

	Note	Consolidated		Company	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
Asset revaluation reserve	15(a)	11.2	5.5	11.2	5.5
Foreign currency translation reserve	15(b)	(37.7)	(4.6)	-	-
Employee compensation reserve	15(c)	15.9	11.1	15.9	11.1
Common control reserve <sup>1</sup>	15(d)	(538.1)	(538.1)	-	-
<b>Total reserves</b>		<b>(548.7)</b>	<b>(526.1)</b>	<b>27.1</b>	<b>16.6</b>

1. The common control reserve arises from the acquisition of entities from other members of Goodman Group under the pooling of interest method. The amount in the common control reserve reflects the difference between the consideration paid and the carrying values of the assets and liabilities of the "acquired" entity at the date of acquisition.

The movements in reserves of the Consolidated Entity and the Company are analysed below:

	Consolidated		Company	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
<b>(a) Asset revaluation reserve</b>				
Balance at the beginning of the year	5.5	6.2	5.5	10.8
Increase/(decrease) due to revaluation of other financial assets	5.7	(5.3)	5.7	(5.3)
Transfers to retained earnings	-	4.6	-	-
<b>Balance at the end of the year</b>	<b>11.2</b>	<b>5.5</b>	<b>11.2</b>	<b>5.5</b>
<b>(b) Foreign currency translation reserve</b>				
Balance at the beginning of the year	(4.6)	10.4	-	-
Net exchange differences on conversion of foreign operations	(33.1)	(15.0)	-	-
<b>Balance at the end of the year</b>	<b>(37.7)</b>	<b>(4.6)</b>	<b>-</b>	<b>-</b>
<b>(c) Employee compensation reserve</b>				
Balance at the beginning of the year	11.1	6.7	11.1	6.7
Equity settled share based payment transactions	4.8	4.4	4.8	4.4
<b>Balance at the end of the year</b>	<b>15.9</b>	<b>11.1</b>	<b>15.9</b>	<b>11.1</b>
<b>(d) Common control reserve</b>				
Balance at the beginning of the year	(538.1)	(538.1)	-	-
<b>Balance at the end of the year</b>	<b>(538.1)</b>	<b>(538.1)</b>	<b>-</b>	<b>-</b>

**16. Retained earnings**

	Note	Consolidated		Company	
		2017 \$M	2016 \$M	2017 \$M	2016 \$M
Balance at the beginning of the year		355.8	186.3	86.3	44.2
Profit for the year		216.0	174.1	29.1	42.1
Transfers from asset revaluation reserve		-	(4.6)	-	-
Dividend paid	12	(17.8)	-	(17.8)	-
<b>Balance at the end of the year</b>		<b>554.0</b>	<b>355.8</b>	<b>97.6</b>	<b>86.3</b>

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Other items (cont)**

**17. Investments in subsidiaries**

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Consolidated Entity. The class of shares held is ordinary unless otherwise stated.

<b>Significant controlled companies</b>	<b>Principal activities</b>	<b>Country of incorporation</b>	<b>Interest held</b>	
			<b>2017</b>	<b>2016</b>
			<b>%</b>	<b>%</b>
Goodman Asia Limited	Investment and property management Property management and development	Hong Kong	100.0	100.0
Goodman China Limited	management consultancy services	Hong Kong	100.0	100.0
Goodman Developments Asia	Investment and property development	Cayman Islands	100.0	100.0
Goodman China Asset Management Limited	Investment management	Cayman Islands	100.0	100.0
GELF Management (Lux) Sàrl	Investment management	Luxembourg	100.0	100.0
Goodman Management Holdings (Lux) Sàrl	Intermediate holding company	Luxembourg	100.0	100.0
GPO Advisory (Lux) Sàrl	Property management services	Luxembourg	100.0	100.0
Goodman Midnight Logistics (Lux) Sàrl	Investment holding company	Luxembourg	100.0	100.0
Goodman Property Opportunities (Lux) Sàrl SICAR	Property investment and development	Luxembourg	94.0	94.0
Goodman UK Holdings (HK) Limited	Intermediate holding company	United Kingdom	100.0	-

**18. Related party transactions**

**Related parties**

- (i) A person, or a close member of that person's family, is related to the Company if that person:
- (1) has control or joint control over the Company;
  - (2) has significant influence over the Company; or
  - (3) is a member of the key management personnel of the Company or the Company's parent.
- (ii) An entity is related to the Company if any of the following conditions applies:
- (1) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (2) one entity is an associate or JV of the other entity (or an associate or JV of a member of a group of which the other entity is a member);
  - (3) both entities are JVs of the same third party;
  - (4) one entity is a JV of a third entity and the other entity is an associate of the third entity;
  - (5) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - (6) the entity is controlled or jointly controlled by a person identified in (i);
  - (7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(a) Directors' remuneration**

Directors' remuneration (including alternate directors) disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
Directors' fees	0.8	0.8
Salaries, allowances and benefits in kind	1.5	2.1
Discretionary bonuses	-	1.1
Share based payments	7.5	6.4
	<b>9.8</b>	<b>10.4</b>

On 12 July 2016, Mr Philip Pearce resigned as a director of Goodman Logistics (HK) Limited.

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Other items (cont)**

**18. Related party transactions (cont)**

**(b) Transactions and amounts due from related parties**

	Management and development activities		Amounts due from related parties	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M
<b>JVs</b>				
GCLP	75.2	51.0	-	-
KGG	237.9	174.5	-	-
	<b>313.1</b>	<b>225.5</b>	<b>-</b>	<b>-</b>
<b>Related parties of GL and GIT</b>				
Goodman Hong Kong Logistics Partnership	28.6	28.9	7.0	7.4
Goodman Australia Partnership	-	3.5	-	-
Goodman European Partnership	488.8	528.7	32.2	20.3
Goodman Princeton Partnership (Lux) Sàrl	-	2.3	-	-
Other related parties	0.1	0.3	2.7	8.5
	<b>517.5</b>	<b>563.7</b>	<b>41.9</b>	<b>36.2</b>

During the year, the Consolidated Entity acquired an additional 3.5% equity interest in GJDP from a controlled entity of GL for consideration of \$2.1 million.

**(c) Financing arrangements with related parties**

	Loans to related parties <sup>1</sup>		Loans from related parties <sup>1</sup>		Interest income/(expense) charged on loans to/from related parties	
	2017 \$M	2016 \$M	2017 \$M	2016 \$M	2017 \$M	2016 \$M
JVs	13.0	9.7	-	-	0.2	-
GL, GIT and their controlled entities	107.2	64.3	(852.3)	(842.7)	(45.4)	(43.4)
<b>Related parties of GL and GIT</b>						
Goodman European Partnership	16.9	16.9	-	-	0.6	0.5
Related parties of GL and GIT	<b>16.9</b>	<b>16.9</b>	<b>-</b>	<b>-</b>	<b>0.6</b>	<b>0.5</b>

1. Loans by the Consolidated Entity to/from JVs and other related parties have generally been provided on an arm's length basis. At 30 June 2017, details in respect of the principal loan balances are set out below:

- + a shareholder loan of \$16.9 million (2016: \$16.9 million) was provided to Goodman Pyrite Logistics (Lux) Sàrl, a controlled entity of Goodman European Partnership, and incurred interest at 6.9% per annum;
- + loans from GL, GIT and their controlled entities are interest bearing and amount to \$852.3 million (2016: \$842.7 million). \$795.8 million of the loans is repayable on demand and \$56.5 million is repayable greater than one year from the reporting date. The interest bearing loans incur floating interest at rates ranging from 1.7% to 6.8% per annum (2016: 1.6% to 6.8%); and
- + loans to GIT and its subsidiaries amounting to \$107.2 million (2016: \$64.3 million) are interest bearing and repayable on demand. The interest bearing loans incur interest at rates ranging from 1.0% to 1.7% per annum (2016: 1.6% to 2.4%).

**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Other items (cont)**

**19. Commitments**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Non-cancellable operating lease commitments</b>		
Future operating lease commitments not provided for in the financial statements and payable:		
- Within one year	8.0	8.8
- One year or later and no later than five years	15.8	20.5
- Later than five years	-	2.7
	<b>23.8</b>	<b>32.0</b>

At 30 June 2017, the Consolidated Entity was also committed to \$253.5 million (2016: \$273.5 million) expenditure in respect of inventories and other development activities.

**Non-cancellable operating lease receivable from investment property customers**

	<b>2017</b>	<b>2016</b>
	<b>\$M</b>	<b>\$M</b>
<b>Non-cancellable operating lease commitments receivable:</b>		
- Within one year	-	3.0
- One year or later and no later than five years	-	4.0
	-	<b>7.0</b>

**20. Contingencies**

***Capitalisation Deed Poll***

GLHK, GL, GIT and certain of their wholly-owned controlled entities are "investors" under a Capitalisation Deed Poll (CDP) dated 23 May 2007. Under the CDP, each investor undertakes to pay to the relevant controlled entity borrower (borrower) any amounts owing under finance documents for the purpose of the CDP when the borrower fails to make a payment. Any payments by an investor to a borrower will be by way of loan to, or proceeds for the subscription of equity in, the borrower by the investor.

***Euro medium-term note programme***

Under the Euro medium-term note programme, Goodman Australia Finance Pty Limited, a controlled entity of GIT, issued £250 million notes, repayable on 16 July 2018, at a fixed coupon of 9.75% per annum. Goodman Funds Management Limited, as responsible entity of GIT, and GLHK and GL have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of these Euro medium-term notes.

***United States senior notes***

Under the issue of notes in the United States 144A/Reg S bond market, controlled entities of GIT had on issue US\$325.0 million of notes repayable on 12 November 2020, US\$499.9 million repayable on 15 April 2021 and US\$499.9 million repayable on 22 March 2022. GL, Goodman Funds Management Limited, as responsible entity of GIT, and GLHK have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of each of the notes.

***Goodman PLUS Trust hybrid securities guarantee***

Goodman PLUS Trust, a controlled entity of GIT, has 3,269,665 hybrid securities on issue at a face value of \$100 each. The hybrid securities are preferred, perpetual non-call securities which are listed on the ASX. Goodman Funds Management Limited, as responsible entity of GIT, and GLHK and GL have unconditionally and irrevocably guaranteed on a joint and several basis the payment of the moneys owing under the terms of issue to the holders of Goodman PLUS.

On 12 July 2017, Goodman Group announced its intention to repurchase all of the hybrid securities immediately following the payment of the coupon due on 30 September 2017.



**Goodman Logistics (HK) Limited and its subsidiaries**  
**Notes to the consolidated financial statements**  
**for the year ended 30 June 2017**

**Other items (cont)**

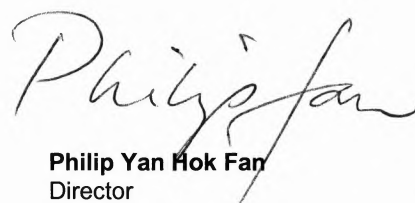
**21. Company level statement of financial position**

	Note	2017 \$M	2016 \$M
<b>Current assets</b>			
Cash		53.7	1.9
Receivables		85.6	66.1
<b>Total current assets</b>		<b>139.3</b>	<b>68.0</b>
<b>Non-current assets</b>			
Investments in subsidiaries		661.1	635.7
Other financial assets		42.4	89.9
<b>Total non-current assets</b>		<b>703.5</b>	<b>725.6</b>
<b>Total assets</b>		<b>842.8</b>	<b>793.6</b>
<b>Current liabilities</b>			
Payables		19.8	29.9
<b>Total current liabilities</b>		<b>19.8</b>	<b>29.9</b>
<b>Non-current liabilities</b>			
Payables		37.2	10.0
<b>Total non-current liabilities</b>		<b>37.2</b>	<b>10.0</b>
<b>Total liabilities</b>		<b>57.0</b>	<b>39.9</b>
<b>Net assets</b>		<b>785.8</b>	<b>753.7</b>
<b>Equity attributable to Shareholders</b>			
Share capital		661.1	650.8
Reserves	15	27.1	16.6
Retained earnings	16	97.6	86.3
<b>Total equity attributable to Shareholders</b>		<b>785.8</b>	<b>753.7</b>

The company level statement of financial position was approved and authorised for issue by the board of directors on 21 August 2017.



**Ian Douglas Ferrier, AM**  
Director



**Philip Yan Hok Fan**  
Director

**22. Subsequent events**

There has not arisen in the interval between the end of the financial year and the date of this financial report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity, in future financial years.