DESANE
GROUP HOLDINGS LIMITED

ANNUAL REPORT 2017

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OUR HISTORY

THE START

1987 Desane listed on Australian Securities Exchange

1997 Desane commenced its property accumulation program, acquiring quality properties in the Sydney metropolitan area

2007 Commenced the process of rezoning the 12,000m2 former Tuta Healthcare site in the Sydney suburb of Lane Cove to high density residential

2014 Desane commenced the rezoning process for its mixed use development at 68 72 Lilyfield Road, Rozelle

2015 Completed sale of Lane Cove residential development for $40m which resulted in a 15c fully franked special dividend

2016 Desane developed its mixed use site in the Sydney suburb of Rozelle. "Easton" was a development comprising 32 residential apartments and 3 commercial suites. The development was well received by the market, generating in excess of $31m in gross sales revenue

2017 Desane continues to source value-add property acquisitions which will generate annual profits and reward shareholders with fully franked dividends

AND NOW

DESANE GROUP HOLDINGS LIMITED ANNUAL REPORT 2017

PROFESSOR JOHN SHEEHAN AM
Chairman

I PRESENT TO SHAREHOLDERS THE 2017 DESANE GROUP HOLDINGS LIMITED ANNUAL REPORT.

CHAIRMAN'S REPORT

22 AUGUST 2017

I present to shareholders the 2017 Desane Group Holdings Limited Annual Report.

It is with pleasure that I can report to shareholders that the Group's earnings before interest and tax, for the financial year ending 30 June 2017, is **$7.9m** and the Group's net assets are **$30.5m**. The Group's **net tangible assets (NTA) now stand at 82 cents per security** accounting for this year's proposed dividend payments.

It will be recalled the Directors rewarded shareholders by paying an interim dividend of **2.25 cents** per security in March 2017, and the Directors have now resolved to declare a final dividend of **2.25 cents** per security, fully franked, and a **special dividend** of **10.00 cents** per security, fully franked, both to be paid in October 2017.

Maintenance of the Group's continuing strong financial results was achieved notwithstanding a year of significant global, political, and unfortunately, security uncertainty. As mentioned in my report last year, the Brexit vote in the United Kingdom to leave the European Community (EU) has installed a degree of uncertainty in global trading, which paradoxically has appeared to have not impacted upon Australian equity and property markets. This latter aspect is unsurprising given the continuing interest by overseas investors in both Australian equities and property, reflecting overseas perceptions of Australia as a safe haven for funds on both a short and medium term basis. The continuing economic strength of China still remains a major source of strength for the Australian economy, as evidenced by the continuing appreciation of the Australian currency sometimes contrary to the wishes of the Reserve Bank of Australia. The low levels of volatility of global markets over the past year has also been evident in the Australian share price index (ASX300) which has traded in a quite narrow range. Notwithstanding, the Australian economy continues to outperform many other OECD countries and is viewed as a bellwether of the East Asian economies, notably China whose political structure is arguably less liberal than the Australian governance model.

All of the above, coupled with the maintenance by the Reserve Bank of Australia of official interest rates at a historic low has created a favourable environment for those intending to invest in property in this country. The demand for residential real estate in the inner and middle ring suburbs of Sydney, coupled more recently with increasing demand from overseas investors for quality commercial and industrial real estate, strongly suggests that these markets will continue to be robust and that asset sales will evidence significant increases in value. The low cost of debt and increases in rentals notable in industrial and commercial properties has resulted in a significant strengthening of capitalisation rates, at levels having not been seen for many years. It is generally understood that the pool of suitable commercial and industrial properties available for sale or lease in the Sydney metropolitan area is small, adding further impetus to the demand for such properties.

It is not surprising that equities such as Desane Group Holdings Limited, which hold quality well located commercial, industrial and mixed use residential properties, have demonstrated growth in value and income in line with the robust demand pressures of the property market place. It is this feature which separates this particular class of equity from more volatile investment vehicles such as resource stocks, and also defensive investment vehicles such as cash on deposit which whilst not volatile continues to yield historically low returns.

In such a vibrant market for property, Desane remains well positioned holding an increasingly valuable portfolio of existing industrial and specialised commercial properties, which evidence strong leasing demand, and obviously good value for possible sale at some future opportunity.

In my earlier reports to shareholders over the past couple of years, it will be recalled that concern has been expressed about the need to reform the State land use planning regime. It remains of concern that the pivotal planning legislation, namely the existing *Environmental Planning and Assessment Act 1979* still oversees a tardy process of rezoning when a rezoning is required to meet market and community demands. Our Company continues to watch this process carefully, given that the limited prospects of rezoning remain a significant throttle on the land supply, whether residential, commercial, retail or industrial. I note with pleasure that I can report to shareholders that this annual report is the 30th such report of Desane Group Holdings Limited and notwithstanding a sometimes volatile political and market environment, your Company has continued to prosper due to the quality of its management and the invaluable contribution of its past and present Board.

Your Board remains confident the Group's strategies will continue to result in solid asset growth in the 2017/2018 financial year, as the property market firms. I congratulate both the Group Executive and the employees of Desane Group Holdings Limited for the solid and as always, prudent management of the Group, again evident in this year's strong financial results.

Finally, I would like to welcome those shareholders who have recently joined the Company. The Board looks forward to a rewarding and fruitful association with those new shareholders during the coming years.

PROFESSOR JOHN SHEEHAN AM
Chairman

MANAGEMENT TEAM

INDEPENDENT BOARD

MR PHIL MONTRONE OAM

MANAGING DIRECTOR

Phil has served as Managing Director since the Company's incorporation. He has over thirty years experience in property asset management and the property investment sector, having developed many strong relationships and networks. Phil is currently serving as Advisory Board Member of Multicultural NSW, as a Board Member of the Geographical Names Board of NSW and as Chairman of Multicultural NSW East Sydney Regional Advisory Council.

MR RICK MONTRONE

DIRECTOR - HEAD OF PROPERTY

Rick is an Executive Director and Desane's Head of Property, with more than 15 years' experience in the property services industry.

Rick is responsible for managing all aspects of the Company's property assets, including planning and strategy, debt and equity raising, acquisitions and divestments and due diligence, as well as the operations of the asset portfolio such as leasing, property management and reporting on the investment portfolio.

MR JACK SCIARA

CHIEF FINANCIAL OFFICER & COMPANY SECRETARY

Jack joined Desane in 2001 and has over 20 years' experience in corporate financial reporting, accounting and taxation. Jack was appointed Company Secretary in July 2016.

Jack's role in Desane covers all aspects of financial control and capital management, including developing tax strategies for the Group, investor relations, ASX compliance, corporate governance, reporting financial results to the market and managing debt financing and equity raising for the Group.

PROF JOHN SHEEHAN AM

CHAIRMAN (NON-EXECUTIVE DIRECTOR)

John is a practising Chartered Town Planner and Registered Valuer and specialises in compulsory acquisition compensation advice, assessment and expert evidence. He is currently serving at the University of Technology Sydney, as Deputy Director of the Asia-Pacific Centre for Complex Real Property Rights and Adjunct Professor, Faculty of Design, Architecture & Building. John currently chairs the Australian Property Institute Joint NSW & QLD Carbon Property Rights Committee and the Water Property Rights Committee. He is also the Institute's representative on the Environmental Planning & Development Committee of the Law Society of NSW. John has served as Desane's Chairman since 1992 and as a non-executive Director since 1987.

MR JOHN BARTHOLOMEW

DIRECTOR (NON-EXECUTIVE)

John joined Desane in 1989. In 2010 he was appointed as a non-executive Director. His role since joining Desane has been extremely diverse, incorporating management roles in property development, property management and financial management of the business.

PROPERTY PORTFOLIO

Desane owns well located properties in the Sydney metropolitan area.

7 SIRIUS ROAD, LANE COVE

This **2,800m2 commercial building** is located within the Lane Cove West high tech industrial precinct. On site parking is provided for 38 cars.

The property comprises approximately 460m2 of high tech office and 2,240m2 of high clearance warehouse and is fully leased on a **WALE of 3.4 years** to a large Australian medical supply company.

This property should show rental and capital appreciation growth for Desane's portfolio in future years.

VALUATION SUMMARY	
Ownership Interest	**100%**
Title	Freehold
Current Book Value ($)	6.8M
Capitalisation Rate (%)	6.25

PROPERTY SUMMARY	
Net Lettable Area (m2)	**2,778**
Occupancy (%)	100.0
WALE (yrs)	3.4

13 SIRIUS ROAD, LANE COVE

The Sirius Road property comprises approximately **2,200m2 of commercial building** over two floors and is located approximately 100 metres from the other two Lane Cove West properties owned by Desane in the high tech industrial precinct. On site parking is provided for 52 cars in an underground basement car park.

The property is **fully leased** on a **WALE of 2.0 years** to two large Australian companies.

The property is performing well and is continuing to show rental and capital appreciation growth for the Group.

VALUATION SUMMARY	
Ownership Interest	**100%**
Title	Freehold
Current Book Value ($)	5.3M
Capitalisation Rate (%)	6.25

PROPERTY SUMMARY	
Net Lettable Area (m2)	**2,181**
Occupancy (%)	100.0
WALE (yrs)	2.0

7-9 ORION ROAD, LANE COVE

The property was sold for **$18.2m**, with settlement completed on 31 July 2017. The sale price reflects a 5.5% yield on a fully leased basis. The Group's cash position has been further boosted by $12.3m following the sale of the property and the Group's total debt facility was also reduced by 32% to $11.1m.

68-72

LILYFIELD ROAD, ROZELLE

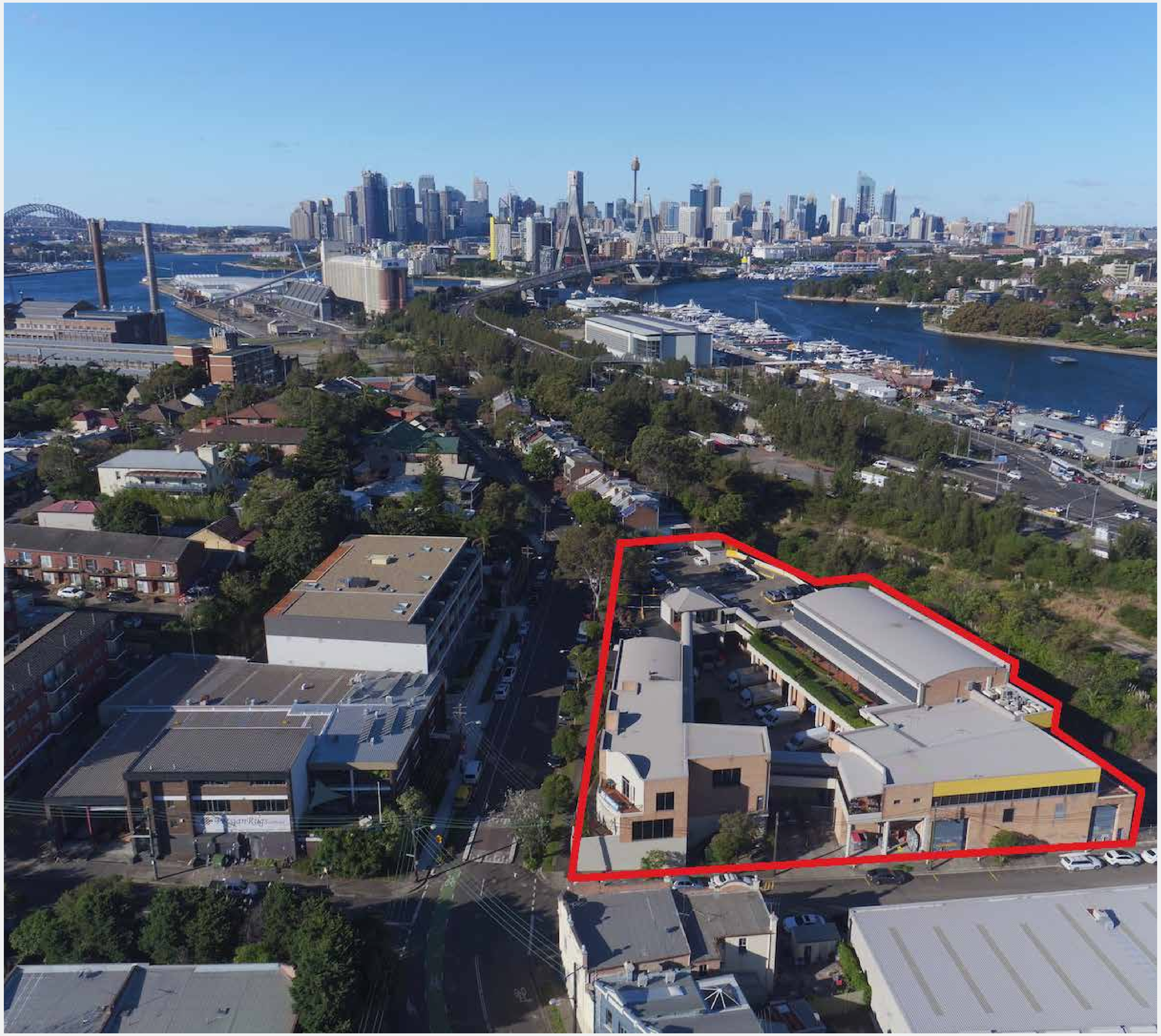
This **5,274m2** mixed use development site is located in the highly sought after inner Sydney suburb of Rozelle.

The property is four kilometres from the Sydney CBD and is a prized site in the inner west area, which rarely sees sites available for housing development. It is also part of the urban renewel Bays Precinct.

In June 2015, Desane lodged a planning proposal with the NSW Department of Planning to allow for a mixed use development. The planning proposal is still a live planning proposal. On 10 March 2017, the Roads and Maritime Services ("RMS") made an offer of $18.4m for the freehold of the property.

On 4 August 2017, Desane lodged a section 39 claim under the *Land Acquisition (Just Terms Compensation) Act 1991* with the RMS. Refer to note 22 for further information.

In August 2017, Desane launched legal action against the State of New South Wales to prevent the acquisition of the property proceeding.



91

THORNTON DR, PENRITH

Desane has engaged the services of leading urban design and planning firm, Architectus and leading planners, Urbis, to prepare a planning proposal for the rezoning of its **1.2ha property** at Thornton Drive in Penrith. The planning proposal will seek to achieve the highest quality outcome for the site.

The property is currently zoned light industrial (IN2) under Penrith City Council Local Environmental Plan.

Desane's 1.2ha property sits in a precinct which will ultimately provide over 1,000 new residential dwellings. It is located 400m from Penrith Railway Station and 600m from Westfield Penrith Plaza and the Penrith commercial business centre.

KEY HIGHLIGHTS

EBIT
$7.9m

TOTAL ASSETS
$58.4m

FY17
FULLY FRANKED DIVIDENDS TOTAL 14.5 CENTS

NET ASSETS
$30.5m

DIRECTORS' REPORT

The Directors of Desane Group Holdings Limited present their report, together with the financial report of the Company and its controlled entities for the financial year ended **30 June 2017.**

DIRECTORS' REPORT

The Directors of Desane Group Holdings Limited ("Desane" and "the Company") present their report, together with the financial report of the Company and its controlled entities for the financial year ended 30 June 2017.

OPERATING AND FINANCIAL REVIEW

"THE DESANE WAY"

Desane is an integrated property company with capabilities and expertise in high quality property investments.

Our investment focus is on both commercial real estate, with value-add potential and high quality development projects, which convert to increasing shareholder value in the medium to long term.

There were no significant changes in the principal activities of the Company during the financial year, which were:

- Property development (residential and mixed use); and
- Property investment.

The Company also intends to acquire properties, funded by existing capital and bank funding within the gearing policy of a loan to value ratio ("LVR") of less than 50%.

OPERATING RESULTS

The Board is pleased with the operational performance for the financial year ended 30 June 2017, resulting in a profit after tax of $5.1m and being able to reward shareholders with continued fully franked dividends.

	2017 $'000	2016 $'000
The profit of the consolidated group, after providing for income tax amounted to	**5,045**	5,067

A summary of consolidated financial results by operational segments is set out below:

	TOTAL REVENUE		SEGMENT RESULT	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Property development sales	**645**	28,368	**645**	28,368
Property development cost base	**–**	–	**(477)**	(23,820)
Property development expenses	**–**	–	**(357)**	–
Revaluation increment – investment property held for resale	**5,139**	–	**5,139**	–
Property investment – rental	**2,112**	2,305	**645**	1,177
Property services	**106**	66	**106**	66
Property management	**138**	162	**138**	162
Property investment – net revaluations	**1,900**	2,032	**1,900**	2,032
Project management	**–**	83	**–**	83
Interest income	**528**	270	**528**	270
	10,568	33,286	**8,267**	8,338
Less: Unallocated expenses			**(1,079)**	(1,078)
Operating profit			**7,188**	7,260
Income tax (expense)/benefit attributable to operating profit			**(2,752)**	(528)
Deferred tax attributable to operating profit			**609**	(1,665)
Operating profit after income tax attributable to members of Desane Group Holdings Limited			**5,045**	5,067

DIVIDENDS PAID OR DECLARED

	2017 $'000	2016 $'000
Dividends paid or declared for payment are as follows:		
Interim dividend of $0.0225 franked, per share, paid on 31 March 2016		823
Ordinary dividend of $0.0225 franked, per share, paid on 7 October 2016		830
Interim dividend of $0.0225 franked, per share, paid on 31 March 2017	**837**	
Ordinary dividend of $0.0225 franked, per share, declared by the directors from retained earnings payable on 6 October 2017	**837**	
Special dividend of $0.10 franked, per share, declared by the directors from retained earnings payable on 6 October 2017	**3,719**	

DIVIDEND REINVESTMENT PLAN (DRP)

The DRP, which was introduced in May 2015, was suspended by the Board on 20 February 2017, until further notice.

CAPITAL MANAGEMENT

The Company's statement of financial position as at 30 June 2017 is strong, with cash of $9.4 million and the Loan to Value Ratio ("LVR") remaining below 40%. The Group's cash position has been further boosted by $12.3m following the sale of 7–9 Orion Road, Lane Cove on 31 July 2017.

Finance costs remain steady at $0.6m for 2017. In July 2017, following the sale of 7–9 Orion Road, Lane Cove, the Company's total debt facility has been reduced by 32% to $11.1m.

EXISTING PROPERTY PORTFOLIO

Desane continues to be active in the Sydney metropolitan property market and will endeavour to increase its property holdings as market opportunities arise, despite a local property market at the peak of historical valuations.

The summary for each of the properties in the portfolio as at 30 June 2017 is summarised below:

Asset	Area & Type	Strategy
68–72 Lilyfield Road ROZELLE	5,274m² Mixed use development property	In June 2015, Desane lodged a planning proposal with the NSW Department of Planning to allow for a mixed use development. The planning proposal is still a live planning proposal. On 10 March 2017, the Roads and Maritime Services ("RMS") made an offer of $18.4m for the freehold of the property. On 26 May 2017, RMS issued a Proposed Acquisition Notice ("PAN") to commence a compulsory acquisition process. Desane, on 4 August 2017, lodged a section 39 claim under the *Land Acquisition (Just Terms Compensation) Act 1991* with the RMS. Refer to note 22 for further information.
91 Thornton Drive PENRITH	1.2ha Development property	Desane has commenced a rezoning proposal for the development of the property with the view of achieving the highest and best outcome for the site.
7 Sirius Road LANE COVE	2,800m² Commercial / industrial building	The property is 100% leased and generating annualised rental growth of approximately 3.5% – 4.0%.
13 Sirius Road LANE COVE	2,200m² Commercial / industrial building	The property is 100% leased and generating annualised rental growth of approximately 3.5% – 4.0%.
7–9 Orion Road LANE COVE	6,000m² Office and warehouse	The property was sold for $18.2m, with settlement completed on 31 July 2017. The sale price reflects a 5.5% yield on a fully leased basis.

DIRECTORS' REPORT

FINANCIAL POSITION

The directors believe the Group is in a strong and stable financial position to expand and grow its current operations. This is largely due to the following key factors as at 30 June 2017:

- Cash and financial assets of $11.6 million;
- Group net tangible assets $30.5 million;
- Earnings before interest and tax (EBIT) of $7.9 million; and
- Net profit after tax (NPAT) of $5.1 million.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There was no significant change in the state of affairs of the Group.

EVENTS SUBSEQUENT TO BALANCE DATE

The sale of 7–9 Orion Road, Lane Cove was completed on 31 July 2017. Following settlement, the Group's cash position has been further boosted by $12.3m and the Company's total debt facility has been reduced by 32% to $11.1m.

Desane announced to the ASX on 11 August 2017, that it has commenced urgent proceedings in the Supreme Court of NSW, seeking relief that the State of New South Wales, the Roads and Maritime Services ("RMS") and Sydney Motorway Corporation ("SMC") be restrained from acting upon or taking any step, in reliance upon the *Proposed Acquisition Notice* ("PAN") issued by RMS to Desane dated 26 May 2017. Desane has sought on a final basis a declaration that the PAN was invalid and that the notice be set aside. The matter is scheduled to be heard in the Supreme Court of NSW on 20 November 2017.

Other than the above, at the date of this report and in the opinion of the directors, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

ENVIRONMENTAL ISSUES

The consolidated group complies with all relevant legislation and regulations in respect to environmental matters. No matters have arisen during the year in connection with Desane's obligations pursuant to Commonwealth and State environmental regulations.

OCCUPATIONAL HEALTH AND SAFETY REGULATIONS

The consolidated group complies with all relevant legislation and regulations in respect to occupational health and safety matters. No matters have arisen during the year in connection with Desane's obligations pursuant to Commonwealth and State occupational health and safety regulations.

DIRECTORS

The names of directors in office at any time during or since the end of the financial year are:

John Blair Sheehan

Phil Montrone

John William Bartholomew

Rick Montrone

The directors have been in office since the start of the financial year to the date of this report, unless otherwise stated.

INFORMATION ON DIRECTORS

PROF. JOHN B SHEEHAN AM

Chairman (Non-executive Director)

Prof. Sheehan, a Life Fellow member of the Australian Property Institute, has over 30 years experience and expertise in property compensation law, town and country planning and environmental law. He has been a board member since the Company's incorporation in 1987 and was appointed as Chairman in 1992, which he currently serves.

In addition to his role as Chairman, Prof. Sheehan is a member of the Risk Management & Audit Committee, member and Chairman of the Remuneration & Nomination Committee, member of the Finance & Operations Committee and member and Chairman of the Environmental, Occupational Health and Safety Committee.

PHIL MONTRONE OAM

Managing Director (Executive)

Mr P Montrone has over 30 years experience and expertise in property investment, acquisitions, development and project management. He has been a significant board member since the Company's incorporation in 1987 and was appointed as Managing Director in 1987, which he currently serves.

Further to his role as Managing Director, Mr P Montrone is a member of the Risk Management & Audit Committee, member of the Finance & Operations Committee and member of the Environmental, Occupational Health & Safety Committee.

JOHN BARTHOLOMEW

Director (Non-executive)

Mr Bartholomew has over 30 years experience and expertise in accounting, taxation, property investment and property management. He has been a board member since his appointment in 2010, which he currently serves.

Mr Bartholomew has served as Company Secretary of Desane Group Holdings Limited from 1989 to 2016.

Further to his role as non-executive Director, Mr Bartholomew is the Chairman and member of the Risk Management & Audit Committee, member of the Remuneration & Nomination Committee, member of the Finance & Operations Committee and member of the Environmental, Occupational Health & Safety Committee.

RICK MONTRONE

Director – Head of Property (Executive)

Mr R Montrone, who was appointed as Director in 2015, has 15 years experience in property investment, acquisitions, developments, management, leasing, sales and project management. Rick is a licensed real estate agent and an associate member of the Australian Property Institute.

Further to his role as Director, Mr R Montrone is a member of the Risk Management & Audit Committee, member of the Finance & Operations Committee and member of the Environmental, Occupational Health & Safety Committee.

COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Jack Sciara

- Member of the IPA
- Registered tax agent

NUMBER OF SHARES HELD BY DIRECTORS AND SENIOR EXECUTIVES

KEY PERSONNEL	BALANCE 30.06.16	RECEIVED AS COMPENSATION	OPTIONS EXERCISED	NET CHANGE OTHER*	BALANCE 30.06.17
John B. Sheehan	131,559	–	–	3,654	**135,213**
Phil Montrone	12,580,618	–	–	–	**12,580,618**
John Bartholomew	613,885	–	–	16,971	**630,856**
Rick Montrone	52,269	–	–	1,452	**53,721**
Jack Sciara	179,118	–	–	19,480	**198,598**
	13,557,449	–	–	41,557	**13,599,006**

* "Net Change Other" refers to shares purchased or sold during the financial year, including shares received by participating in the Dividend Reinvestment Plan.

DIRECTORS' REPORT

REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Desane Group Holdings Limited, and for the executives receiving the highest remuneration.

REMUNERATION POLICY

The remuneration policy of Desane Group Holdings Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration package. The board of Desane Group Holdings Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated group is as follows:

- The remuneration policy, setting the terms and conditions for the executive directors' and other senior executives, was developed by the Remuneration Committee and approved by the board.
- All executives receive a fixed base salary (which is based on factors such as length of service and experience), superannuation and minor fringe benefits.
- The Remuneration Committee reviews executive packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

At present, there are no performance bonuses or incentive schemes in place. The Board may, however, exercise its discretion in relation to approving incentives and performance bonuses, and can recommend changes to the committee's recommendations. The policy is designed to enable the Board to attract the highest calibre of executives and reward them for performance that results in long term growth and shareholder wealth.

The executive director and executives receive a superannuation guarantee contribution required by the government, which is currently 9.5% (2015/2016 – 9.5%), and do not receive any other retirement benefits. They can, however, choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. Furthermore, should the maximum aggregate total annual remuneration for all non-executive directors exceed $300,000, then the total annual aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in bonus issues.

PERFORMANCE-BASED REMUNERATION

The remuneration policy does not provide for a performance based component of the executive director and executives' remuneration.

DETAILS OF REMUNERATION FOR YEAR ENDED 30 JUNE 2017

The remuneration for each director and the executive officer of the consolidated entity receiving the highest remuneration during the year was as follows:

	SHORT TERM BENEFITS	POST EMPLOYMENT BENEFITS	LONG TERM BENEFIT	
	SALARY, FEES & COMMISSIONS	SUPER-ANNUATION		TOTAL
	$'000	$'000	$'000	$'000
Directors				
John B. Sheehan (non-executive)	66	–	–	**66**
Phil Montrone	258	58	–	**316**
John Bartholomew (non-executive)	12	–	–	**12**
Rick Montrone	250	24	–	**274**
Chief Financial Officer/Company Secretary				
Jack Sciara	162	15	–	**177**
	748	97	–	**845**

There are no equity or share based payments nor termination benefits.

OPTIONS ISSUED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2017

The remuneration policy does not provide for the issue of options to directors and executives as part of their remuneration.

EMPLOYMENT CONTRACTS OF DIRECTORS AND SENIOR EXECUTIVES

The Managing Director and all executives are permanent employees of Desane and are entitled to normal statutory leave benefits only.

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the company during the financial year are:

	DIRECTORS' MEETINGS & FINANCE & OPERATIONS COMMITTEE MEETINGS		RISK MANAGEMENT & AUDIT COMMITTEE MEETINGS	
	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
J B Sheehan	12	12	2	2
P Montrone	12	12	2	2
J Bartholomew	12	12	2	2
R Montrone	12	12	2	2
J Sciara	12	12	2	2

	ENVIRONMENTAL & OCCUPATIONAL HEALTH & SAFETY COMMITTEE MEETINGS		REMUNERATION & NOMINATION COMMITTEE MEETINGS	
	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
J B Sheehan	1	1	1	1
P Montrone	1	1	1	1
J Bartholomew	1	1	1	1
R Montrone	1	1	1*	1
J Sciara	1	1	1*	1

* By invitation

INDEMNIFYING OFFICERS OR AUDITOR

The company or consolidated group has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

The company paid a premium of $11,296 to insure the directors of the company and controlled entities. The policy provides cover for individual directors and officers of the company, in respect of claims made and notified to the insurer during the policy period for losses and expenses incurred in defence of claims for any alleged wrongful acts arising out of their official capacities. It will also reimburse the company for any liability it has to indemnify the directors or officers for such losses.

It is noted that the company's Constitution allows an officer or auditor of the company to be indemnified by the company against any liability incurred by him in his capacity of officer or auditor in defending any proceedings in which judgement is given in his favour.

OPTIONS

No options have been granted over unissued shares during the financial year and there are no outstanding options at 30 June 2017.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the 2017 financial year. Please refer to note "Events Subsequent to Balance Date" for details regarding legal proceedings of the 68–72 Lilyfield Road, Rozelle property.

NON-AUDIT SERVICES

The board of directors, in accordance with the advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2017.

	$'000
Taxation services	3

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's Independence Declaration for the year ended 30 June 2017, has been received and can be found on page 24 of the Annual Report.

ASIC CLASS ORDER 98/100 ROUNDING OF AMOUNTS

The company is an entity to which ASIC Class Order 98/100 applies and accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

CORPORATE GOVERNANCE STATEMENT

Desane is committed to implementing sound standards of corporate governance. The Group has taken into consideration the ASX Corporate Governance Council's Corporate Governance principles and Recommendations (3rd Edition) ("ASX Recommendations"). The Group's corporate governance statement outlines the key principles and practices of the Company. A copy of the Group's Corporate Governance Statement has been placed on the Group's website under the About Us tab in the Corporate Governance Section – http://desane.com.au/about-us/corporate-governance/

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors, at Sydney, this 23rd day of August, 2017.

J B Sheehan	P Montrone
Director	Director

GCC Business & Assurance Pty Ltd

ABN 61 105 044 862

GPO Box 4566, Sydney NSW 2001
Telephone: (02) 9231 6166
Facsimile: (02) 9231 6155

Suite 807, 109 Pitt Street, Sydney NSW 2000

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF DESANE GROUP HOLDINGS LIMITED AND CONTROLLED ENTITIES

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there have been no contraventions of:

(i) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) Any applicable code of professional conduct in relation to the audit.

GCC Business + Assurance Pty Ltd.

GCC BUSINESS & ASSURANCE PTY LTD
(Authorised Audit Company)

GRAEME GREEN
Director

23 August 2017

Liability limited by a scheme approved under Professional Standards Legislation

FINANCIAL STATEMENTS

For the year ending **30 June 2017**

68-72 Lilyfield Road, Rozelle

13 Sirius Road, Lane Cove

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

		CONSOLIDATED GROUP	
	NOTE	2017 $'000	2016 $'000
Continuing Operations			
Revenue	2	**2,356**	2,616
Other income	2a, 2b	**528**	270
Gain/(loss) on revaluation of investment properties	2	**1,900**	2,032
Property development profit	2	**168**	4,548
Revaluation increment – investment property held for resale	2	**5,139**	–
Property development expenses		**(357)**	–
Employee benefits expense		**(935)**	(831)
Depreciation and amortisation expense		**(10)**	(10)
Finance costs		**(667)**	(641)
Other expenses from ordinary activities		**(934)**	(724)
Profit before income tax		**7,188**	7,260
Income tax (expense)/benefit	4	**(2,143)**	(2,193)
Profit from continuing operations		**5,045**	5,067
Other comprehensive income		**–**	–
Net Profit (after income tax) for the year ended 30 June 2017		**5,045**	5,067
Profit attributable to minority equity interest		**–**	–
Profit attributable to members of the parent entity		**5,045**	5,067
Earnings per Share:			
Overall Operations			
Basic earnings per share (cents per share)	8	**13.57**	13.73
Diluted earnings per share (cents per share)	8	**13.57**	13.73
Continuing Operations			
Basic earnings per share (cents per share)		**13.57**	13.73
Diluted earnings per share (cents per share)		**13.57**	13.73

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	NOTE	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Current Assets			
Cash and cash equivalents	9	**9,422**	15,749
Trade and other receivables	10	**54**	685
Other current assets	11	**134**	108
Other financial assets	12	**2,201**	1,451
Development property reclassified as current	13	**12,481**	460
Investment property held for sale	13	**17,825**	–
Total Current Assets		**42,117**	18,453
Non-current Assets			
Investment properties	13	**12,100**	34,750
Development properties	13	**4,154**	–
Property, plant and equipment	14	**33**	40
Other assets	11	4	8
Total Non-current Assets		**16,291**	34,798
Total Assets		**58,408**	53,251
Current Liabilities			
Trade and other payables	15	**413**	466
Borrowings	16	**10,735**	–
Provisions	17	**7,373**	1,388
Total Current Liabilities		**18,521**	1,854
Non-current Liabilities			
Trade and other payables	18	**44**	103
Borrowings	16	**5,855**	16,590
Provisions	19	**27**	18
Deferred tax liability	23	**3,527**	4,136
Total Non-current Liabilities		**9,453**	20,847
Total Liabilities		**27,974**	22,701
Net Assets		**30,434**	30,550
Equity			
Issued capital	20	**17,308**	17,077
Retained earnings	21	**13,126**	13,473
Total Equity		**30,434**	30,550

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

CONSOLIDATED GROUP

	ISSUED CAPITAL	RETAINED EARNINGS	TOTAL
	$'000	$'000	$'000
Balance as at 1 July 2016	**17,077**	**13,473**	**30,550**
Shares issued during the year	**231**	**–**	**231**
Profit attributable to members of the parent entity	**–**	**5,045**	**5,045**
	17,308	**18,518**	**35,826**
Dividends paid or recognised for the year	–	**(5,392)**	**(5,392)**
Balance at 30 June 2017	**17,308**	**13,126**	**30,434**

	Issued Capital	Retained Earnings	Total
	$'000	$'000	$'000
Balance as at 1 July 2015	16,627	10,060	26,687
Shares issued during the year	450	–	450
Profit attributable to members of the parent entity	–	5,067	5,067
	17,077	15,127	32,204
Dividends paid or recognised for the year	–	(1,654)	(1,654)
Balance at 30 June 2016	17,077	13,473	30,550

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	CONSOLIDATED GROUP 2017 INFLOWS (OUTFLOWS) $'000	2016 INFLOWS (OUTFLOWS) $'000
Cash flows from operating activities			
Receipts from customers		**2,887**	3,505
Payments to suppliers and employees		**(2,132)**	(1,554)
Payment of company income tax		**(515)**	–
Proceeds from sale of development property		**1,425**	30,085
Property development expenditure		**(834)**	(8,068)
Interest received		**528**	270
Finance costs		**(667)**	(641)
Net cash provided by (used in) operating activities	30	**692**	23,597
Cash flows from investing activities			
Purchase of property, plant and equipment		**(3)**	(1)
Purchase of development properties		**(4,154)**	–
Purchase of financial assets		**(750)**	(1,451)
Capital costs of investment properties		**(616)**	(58)
Net cash provided by (used in) investing activities		**(5,523)**	(1,510)
Cash flows from financing activities			
Proceeds from issue of shares		**231**	450
Dividends paid by parent entity		**(1,667)**	(1,547)
Proceeds from borrowings		**–**	1,859
Repayments of borrowings		**–**	(11,703)
Retention held		**–**	(213)
Rental bonds repaid		**(78)**	–
Rental bonds received		**18**	78
Net cash provided by (used in) financing activities		**(1,496)**	(11,076)
Net increase/(decrease) in cash held		**(6,327)**	11,011
Cash at beginning of financial year		**15,749**	4,738
Cash at end of financial year	9	**9,422**	15,749

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial report covers the economic entity of Desane Group Holdings Limited and its controlled entities. The separate financial statements of the parent entity, Desane Group Holdings Limited, have not been presented within this financial report, as permitted by the Corporations Act, 2001. Desane Group Holdings Limited is a listed public company, incorporated and domiciled in Australia.

The consolidated financial statements are presented in Australian dollars, which is the functional currency for the parent company and its controlled entities.

The financial statements were authorised for issue on 23 August 2017 by the directors of the Company.

The financial statements are a general purpose financial report, that have been prepared in accordance with the Corporations Act, 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board ("AASB") and the International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards, as issued by IASB.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

The accounting policies set out below have been consistently applied to all years presented.

ACCOUNTING POLICIES

a. Principals of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent entity controlled by Desane Group Holdings Limited and all of its controlled entities. Desane Group Holdings Limited controls an entity when it is exposed to 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.

A list of controlled entities is contained in note 31 to the financial statements. All controlled entities have a 30 June financial year end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Non-controlling interests, being the equity in a controlled entity not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of other comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

b. Income Tax

The income tax expense (benefit) for the year comprises current income tax expense and deferred tax expense (benefit).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using the applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amount expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred tax assets and liabilities are ascertained based on the temporary differences arising between the tax base of the assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or a liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Deferred tax assets or liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that the net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

Desane Group Holdings Limited and its wholly owned Australian controlled entities have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the controlled entities are immediately transferred to the head entity. The Group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 1 July 2003. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income.

c. Development Property Held for Sale

Land held for development and sale is measured at the lower of their carrying amount and net realisable value less costs to sell. Cost includes the cost of acquisition, development, borrowing costs and holding costs until the completion of development. Gains and losses are recognised in the statement of comprehensive income on the settlement of a contract of sale when the significant risks and rewards and effective control over the property is passed to the purchaser.

The carrying value includes revaluations applied to the asset during the period the property was classified as an investment property.

d. Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment are measured on a cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of plant and equipment is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

CLASS OF FIXED ASSET	DEPRECIATION RATE
Motor vehicles	15%
Plant and equipment	5%–33%

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the consolidated statement of profit and loss and other comprehensive income.

e. Investment Properties

Investment properties, comprising freehold office and industrial complexes, are held to generate long-term rental yields. All tenant leases are on an arm's length basis. The fair value model is applied to all investment property and each property is reviewed at each reporting date. The fair value is defined as the price at which the property could be exchanged between knowledgeable, willing parties in an arms length transaction. Each property is independently valued every three years by registered valuers who have recognised and appropriate professional qualifications, and recent experience in the location and category of investment property being valued. Changes to fair value are recorded in the statement of profit and loss as revenue from non operating activities.

Investment properties under construction are measured at the lower of fair value and net realisable value. Cost includes the cost of acquisition, development and interest on financing during development. Interest and other holding charges after practical completion are expensed as incurred.

Investment properties are maintained at a high standard and, as permitted by accounting standards, the properties are not depreciated.

Rental revenue from the leasing of investment properties is recognised in the statement of profit and loss and other comprehensive income in the periods in which it is receivable, as this represents the pattern of service rendered through the provision of the properties. All tenant leases are on an arms length basis.

f. Leases

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, as recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the lease term.

g. Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either the purchase or sale of the asset (ie. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

The Group has interests in the following financial assets:

i) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. Interest income is recognised in profit or loss when received. On maturity, the financial asset is derecognised and re-classified as cash at bank.

h. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less cost to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit and loss and other comprehensive income.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

i. Investments in Associates

Associates are companies in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control or joint control of those policies.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate is included in the Group's profit or loss.

j. Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required. Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other party's interest. When the Group makes a purchase from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells the goods and services to a third party.

k. Employee Benefits

Short-term Employee Benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other Long-term Employee Benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

l. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

m. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

n. Revenue and Other Income

Revenue from the rendering of property services is recognised upon delivery of the service to customers.

Investment property revenue is recognised on a straight-line basis over the period of the lease term so as to reflect a constant periodic rate of return on the net investment.

Revenue from sale of properties held for resale and non-current property or other assets is brought to account on the settlement of a contract of sale.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

All revenue is stated net of the amount of goods and services tax (GST).

o. Trade and Other Receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

p. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

q. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

r. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financial activities, which are disclosed as operating cash flows.

s. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in the presentation in the financial year. When the Group retrospectively applies an accounting policy and makes a retrospective restatement or reclassifies items in its financial statement, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statement is presented.

t. Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100. Accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest $1,000.

u. Critical Accounting Estimates and Judgements

The preparation of the financial reports requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial reports. Management bases its judgements and estimates on historical experience and other various factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the results of which form the basis of the carrying value of assets and liabilities. The resulting accounting estimates may differ from actual results under different assumptions and conditions.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Key estimates and assumptions that have a risk of causing adjustment with the next financial year to the carrying amounts of assets and liabilities recognised in these financial reports are:

i) Impairment – property valuations

Critical judgements are made by the Group in respect of the fair values of investment properties. The fair value of these investments are reviewed regularly by management with reference to external independent property valuations and market conditions existing at reporting date, using generally accepted market practices.

Then critical assumptions underlying management's estimates of fair values are those relating to the passing rent, market rent, occupancy, capitalisation rate, terminal yield and discount rate. If there is any change in these assumptions or economic conditions, the fair value of the property investments may differ. Assumptions used in valuation of property investments are disclosed in note 13.

ii) Impairment – general

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

iii) Carrying value of 68–72 Lilyfield Road, Rozelle

As set out in note 22, the above property is subject to a proposal by RMS to acquire the property for the WestConnex project and is subject to dispute and contention. Desane has sought legal advice and independent property, planning and business valuation advice to ensure that all options are pursued and shareholders' interests are protected.

As a consequence, the total amount of compensation ultimately recoverable cannot be reasonably forecast at the time of this report and accordingly, with the exception of capitalised costs, the property has continued to be carried forward in the financial statements at the value determined for last year.

v. New Accounting Standards for Application in Future Periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2018).

  This Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

  The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

  The directors anticipate that the adoption of AASB 9 will have no impact on the Group's financial statements.

- AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods commencing on or after 1 January 2018).

  When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

  The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

  – identify the contract(s) with a customer;
  – identify the performance obligations in the contract(s);
  – determine the transaction price;
  – allocate the transaction price to the performance obligations in the contract(s); and
  – recognise revenue when (or as) the performance obligations are satisfied.

  This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue.

  The directors anticipate that the adoption of AASB 15 will have no impact on the Group's financial statements.

- AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019).

  When effective, this Standard will replace the current accounting requirements applicable to leases in AASB117: *Leases* and related Interpretations, AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

  The main changes introduced by the new Standard include:

– recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
– depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
– variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
– by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
– additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The directors anticipate that the adoption of AASB 16 will have no impact on the Group's financial statements.

- AASB 2014-10: *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-10: Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128).

  This Standard amends AASB 10: *Consolidated Financial Statements* with regards to a parent losing control over a subsidiary which is not a "business" as defined in AASB 3: *Business Combinations* to an associate or joint venture, and requires that:

  – a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture;
  – the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and
  – any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

  The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor's interest.

  The directors anticipate that the adoption of AASB 2014-10 will have no impact on the Group's financial statements.

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NOTE 2: REVENUE AND OTHER INCOME

	NOTE	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Revenue from Continuing Operations			
Property rental income		**2,112**	2,305
Property management fees		**138**	162
Property services		**106**	66
Property project management		**–**	83
Total Revenue from Continuing Operations		**2,356**	2,616
Other Revenue			
a. Dividend revenue from:			
– other corporations		**–**	–
b. Interest revenue from:			
– associated entities		**–**	–
– other related parties		**–**	–
– other persons		**528**	270
Total Other Revenue		**528**	270
Total Revenue		**2,884**	2,886
Other Income			
Property development profit		**168**	4,548
Revaluation increment – investment property held for resale	(i)	**5,139**	–
Property investment – net revaluations		**1,900**	2,032
Total Other Income		**7,207**	6,580

i) The revaluation increment was realised on settlement of the sale of the property on 31 July 2017.

NOTE 3: PROFIT FOR THE YEAR

Profit before income tax from continuing operations includes the following specific expenses:

	NOTE	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Expenses			
Auditors' remuneration	6	**71**	70
Depreciation of plant and equipment		**10**	10
Finance costs:			
– External		**667**	641
– Related entities		**–**	–
Transfer to/(from) provisions for:			
– Employee entitlements		**31**	(3)
Rental expenses relating to operating leases		**63**	64
Direct property expenditure from investment property generating rental income		**379**	166

NOTE 4: INCOME TAX EXPENSE

a. The components of tax expense comprise:

	NOTE	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Current tax		**2,752**	528
Deferred tax	23	**(609)**	1,665
		2,143	2,193

b. The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30% (2016: 30%)			
– consolidated group		**2,157**	2,178
Add:			
Tax effect of:			
– recoupment of prior year losses		**–**	–
– over provision for prior year tax		**–**	–
– other accruals/provisions		**(45)**	(16)
– other non-allowable items		**1**	1
– other items not included in taxable income		**30**	30
Income tax attributable to entity		**2,143**	2,193
The applicable weighted average effective tax rates		**29.8%**	30.0%

The amount of benefits brought to account or which may be realised in the future, is based on the assumption that no adverse change will occur in the income tax legislation, the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and continue to comply with the conditions of deductibility imposed by the law.

NOTE 5: KEY PERSONNEL COMPENSATION

a. Names and position held of economic and parent entity key personnel in office at any time during the financial year are:

KEY PERSONNEL	POSITION
Prof. John B. Sheehan AM	Chairman (non-executive director)
Mr Phil Montrone OAM	Managing Director
Mr John W Bartholomew	Director (non-executive)
Mr Rick Montrone	Director – Head of Property
Mr Jack Sciara	Company Secretary and Chief Financial Officer

b. Compensation Practices

The board's policy for determining the nature and amount of compensation of key personnel for the group is as follows:

The compensation structure for key personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and the overall performance of the company. Employment is on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement key personnel are paid employee benefit entitlements accrued to the date of retirement.

The company may terminate any employee without cause by providing adequate written notice or making payment in lieu of notice based on the individual's annual salary component. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time.

All remuneration packages are set at levels that are intended to attract and retain executives capable of managing the economic entity's operations. Refer note 5c.

c. Key Personnel Compensation

2017

	SHORT TERM BENEFITS	POST EMPLOYMENT BENEFITS	LONG TERM BENEFIT	
	SALARY, FEES & COMMISSIONS	SUPER-ANNUATION	LONG SERVICE	TOTAL
KEY PERSONNEL	$'000	$'000	$'000	$'000
John B. Sheehan	66	–	–	66
John W. Bartholomew	12	–	–	12
Phil Montrone	258	58	–	316
Rick Montrone	250	24	–	274
Jack Sciara	162	15	–	177
	748	97	–	845

2016

	SHORT TERM BENEFITS	POST EMPLOYMENT BENEFITS	LONG TERM BENEFIT	
	SALARY, FEES & COMMISSIONS	SUPER-ANNUATION	LONG SERVICE	TOTAL
KEY PERSONNEL	$'000	$'000	$'000	$'000
John B. Sheehan	64	–	–	64
John W. Bartholomew	46	–	–	46
Phil Montrone	247	63	–	310
Rick Montrone (appointed 04.11.2015)	199	19	–	218
Jack Sciara	163	15	–	178
	719	97	–	816

d. Shareholdings

Number of shares held by parent entity directors and specified executives.

KEY PERSONNEL	BALANCE 30.06.16	RECEIVED AS COMPENSATION	OPTIONS EXERCISED	NET CHANGE OTHER*	BALANCE 30.06.17
John B. Sheehan	131,559	–	–	3,654	**135,213**
Phil Montrone	12,580,618	–	–	–	**12,580,618**
John Bartholomew	613,885	–	–	16,971	**630,856**
Rick Montrone	52,269	–	–	1,452	**53,721**
Jack Sciara	179,118	–	–	19,480	**198,598**
	13,557,449	–	–	41,557	**13,599,006**

* "Net Change Other" refers to shares purchased or sold during the financial year, including shares received by participating in the Dividend Reinvestment Plan.

NOTE 6: AUDITORS' REMUNERATION

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Remuneration of the auditor for the parent entity:		
Michael Chau & Associates		
– auditing or reviewing the financial report	**7**	7
– taxation services	**–**	–
GCC Business Assurance Pty Ltd		
– auditing or reviewing the financial report	**61**	60
– taxation services	**3**	3
	71	70

NOTE 7: DIVIDENDS

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Dividends paid		
a. Interim dividend of $0.0225 franked, per share, paid on 31 March 2017	**837**	
Ordinary dividend of $0.0225 franked, per share, declared by the directors from retained earnings payable on 6 October 2017	**837**	
Special dividend of $0.10 franked, per share, declared by the directors from retained earnings payable on 6 October 2017	**3,719**	
Interim dividend of $0.0225 franked, per share, paid on 31 March 2016		823
Ordinary final dividend of $0.0225 franked, per share, declared by the Directors from retained earnings paid on 7 October 2016		830

b. The Group has a total $0.6m (2016 – $0.8m) franking credits available before the dividends for 2017 are provided. The payment of the 2017 income tax of $2.7m will provide further available franking credits for the payment of the special dividend and future dividends.

NOTE 8: EARNINGS PER SHARE

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Reconciliation of earnings used in the calculation of earnings per share		
Operating profit after income tax	**5,045**	5,067

Reconciliation of weighted average numbers of ordinary shares used in the calculation of earnings per share

	CONSOLIDATED GROUP	
	2017	2016
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**37,190,900**	36,905,259
Basic earnings per share (cents per share)	**13.57**	13.73
Diluted earnings per share (cents per share)	**13.57**	13.73

Conversion, call, subscription or issue after 30 June 2017

There has been no:

a. conversion to, calls of, or subscription for ordinary shares; or
b. issues of potential ordinary shares;

since the reporting date and before the completion of these accounts.

NOTE 9: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Cash at bank and in hand	**286**	126
Interest bearing short term deposits	**9,136**	15,623
	9,422	15,749

The effective interest rate on cash at bank was nil (2016 – nil).

The effective interest rate on short term bank deposits was an average of 2.9% (2016 – 3.4%). These deposits have a weighted average maturity of 90 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash as above	**9,422**	15,749
Less: Bank overdraft (refer to note 16)	**–**	–
	9,422	15,749

NOTE 10: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Trade receivables	**54**	33
Other receivables		
– Easton Rozelle development – purchaser deposits and settlement funds	**–**	650
– Other	**–**	2
	54	685

NOTE 11: OTHER ASSETS

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
a) Current Assets		
Prepayments and GST receivables	**134**	108
b) Non Current Assets		
Security deposit	**1**	1
Rental incentives	**3**	7
	4	8

NOTE 12: CURRENT ASSETS – OTHER FINANCIAL ASSETS

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Held-to-maturity investments		
Fixed interest securities	**2,201**	1,451

The effective interest rate on fixed interest securities is an average of 7.0% pa.

These securities have a weighted average maturity of 280 days.

NOTE 13: CURRENT ASSETS – DEVELOPMENT PROPERTY RECLASSIFIED AS CURRENT

		CONSOLIDATED GROUP	
	NOTE	2017 $'000	2016 $'000
Easton Rozelle – Commercial Unit 3		**–**	460
68–72 Lilyfield Road, Rozelle	13a	**12,481**	–
		12,481	460

NOTE 13: CURRENT ASSETS – INVESTMENT PROPERTY HELD FOR SALE

		CONSOLIDATED GROUP	
	NOTE	2017 $'000	2016 $'000
7–9 Orion Road, Lane Cove	13b	**17,825**	–

NOTE 13: NON-CURRENT ASSETS – PROPERTIES

		CONSOLIDATED GROUP	
	NOTE	2017 $'000	2016 $'000
Investment properties:			
68–72 Lilyfield Road, Rozelle	13a	**–**	12,250
7–9 Orion Road, Lane Cove	13b	**–**	12,500
13 Sirius Road, Lane Cove	13c	**5,300**	4,400
7 Sirius Road, Lane Cove	13d	**6,800**	5,600
		12,100	34,750

Valuation overview

The basis of the directors' valuation of the investment properties (non-current) is a fair market value as defined in note 1e.

In arriving at their opinion, the directors have reviewed and adopted the following three approaches and methodologies:

1. Capitalisation of current net rental income;
2. Discounted cash flow ("DCF"); and
3. Direct comparison to market sales evidence.

The properties are being valued independently at least every three years. The Group has no restrictions on the realisability of an investment property nor any contractual obligations to construct, develop, perform, repair or enhance an investment property.

a. The directors' valuation, as at 30 June 2017. The Co-ownership Agreement is in place. An independent valuation was undertaken in June 2016 by a certified practicing valuation company, the directors have based the value of the property at its carrying value at that time.

b. The property has been sold, with settlement completed on 31 July 2017.

c. The directors' valuation, as at 30 June 2017. An independent valuation was undertaken in June 2017 by a certified practicing valuation company. The directors have based the value as per the valuation report.

d. The directors' valuation as at 30 June 2017. An independent valuation was undertaken in June 2017 by a certified practicing valuation company. The directors have adopted the value as per the valuation report.

Development property:

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
91 Thornton Drive, Penrith – at cost	**4,154**	–

NOTE 13: NON-CURRENT ASSETS – PROPERTIES CONTINUED

Investment Properties

2017

	ACQUISITION COST	CONSTRUCTION COST	INTEREST CAPITALISED	OTHER CAPITAL COSTS	UNITS SOLD/TO BE SOLD	REVALUATION	CARRYING VALUE 30.06.2017
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
13 Sirius Rd, Lane Cove	2,900	672	–	1,086	–	642	5,300
7 Sirius Rd, Lane Cove	2,950	1,137	–	268	–	2,445	6,800
	5,850	1,809	–	1,354	–	3,087	12,100

2016

	ACQUISITION COST	CONSTRUCTION COST	INTEREST CAPITALISED	OTHER CAPITAL COSTS	UNITS SOLD/TO BE SOLD	REVALUATION	CARRYING VALUE 30.06.2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
68–72 Lilyfield Rd, Rozelle	1,681	5,327	–	425	–	4,817	12,250
7–9 Orion Rd, Lane Cove	8,197	908	–	1,115	–	2,280	12,500
13 Sirius Rd, Lane Cove	2,900	672	–	895	–	(67)	4,400
7 Sirius Rd, Lane Cove	2,950	1,137	–	259	–	1,254	5,600
	15,728	8,044	–	2,694	–	8,284	34,750

Development Properties

2017

	ACQUISITION COST	CONSTRUCTION COST	INTEREST CAPITALISED	OTHER CAPITAL COSTS	UNITS SOLD/TO BE SOLD	REVALUATION	CARRYING VALUE 30.06.2017
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
91 Thornton Dr, Penrith	4,154	–	–	–	–	–	4,154
	4,154	–	–	–	–	–	4,154

NOTE 14: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Office furniture and equipment – at cost	**41**	42
Less: Accumulated depreciation	**(15)**	(14)
	26	28
Motor vehicles – at cost	**29**	89
Less: Accumulated depreciation	**(22)**	(77)
	7	12
Total non-current assets	**33**	40

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	MOTOR VEHICLES, OFFICE FURNITURE AND EQUIPMENT	TOTAL
	$'000	$'000
Consolidated Group		
Balance at the beginning of year	**40**	40
Additions	**3**	3
Disposals	**–**	–
Depreciation expense	**(10)**	(10)
Carrying amount at the end of the year	**33**	33

NOTE 15: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Unsecured liabilities		
Trade payables	**93**	158
Sundry payables and accrued expenses	**320**	308
	413	466

NOTE 16: BORROWINGS

a) Current

	NOTE	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Secured:			
Bank overdraft	a	–	–
Secured Liabilities – Bank Loans			
Finance for property – 68-72 Lilyfield Road, Rozelle	b	**5,250**	–
Finance for property – 7–9 Orion Road, Lane Cove	c	**5,485**	–
		10,735	–

a. Bank overdraft secured over Lane Cove properties (refer to note 30).

b. First mortgage finance secured over 68-72 Lilyfield Road, Rozelle property.

c. First mortgage finance secured over 7–9 Orion Road, Lane Cove property (note 13b). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times. The sale of the property was settled on 31 July 2017, the loan repaid and the mortgage discharged on that day for the property.

d. All covenants imposed on secured loan agreements have been adhered to, at all times within the financial year.

b) Non Current

	NOTE	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Secured Liabilities – Bank Loans			
Finance for property – 68–72 Lilyfield Road, Rozelle	16i	–	5,250
Finance for property – 7–9 Orion Road, Lane Cove	16ii	–	5,485
Finance for property – 13 Sirius Road, Lane Cove	16iii	**2,905**	2,905
Finance for property – 7 Sirius Road, Lane Cove	16iv	**2,950**	2,950
		5,855	16,590

i. First mortgage finance secured over 68-72 Lilyfield Road, Rozelle property (note 13a).

ii. First mortgage finance secured over 7–9 Orion Road, Lane Cove property (note 13b). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.

iii. First mortgage finance secured over 13 Sirius Road, Lane Cove property (note 13c). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.

iv. First mortgage finance secured over 7 Sirius Road, Lane Cove property (note 13d). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.

v. All covenants imposed on secured loan agreements have been met.

Maturity Schedule

	INTEREST RATES (AVERAGE)	CONSOLIDATED GROUP 2017 $'000	2016 $'000
26 July 2019	3.8% pa	**11,340**	11,340
26 July 2019	3.8% pa	**5,250**	5,250
		16,590	16,590

NOTE 17: CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Current company tax	**2,767**	528
Dividends	**4,556**	830
Employee entitlements*	**50**	30
	7,373	1,388

* Movement represents net increase in provision set aside.

	CONSOLIDATED GROUP 2017 NO	2016 NO
Number of employees at year end	**4**	5

NOTE 18: NON CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Security deposits	**44**	103

NOTE 19: NON CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Employee long service leave entitlement*	**27**	18

* Movement represents provision set aside.

The provision for employee entitlements represent amounts accrued for annual leave and long service leave.

The current position for the employee entitlement includes the total amount accrued for annual leave entitlement and long service leave that have been vested due to employees having completed the required period of service.

NOTE 20: ISSUED CAPITAL

	CONSOLIDATED GROUP 2017 $'000	CONSOLIDATED GROUP 2016 $'000
37,190,900 (2016: 36,905,259) Ordinary Shares fully paid	**17,308**	17,077

	CONSOLIDATED GROUP 2017 SHARES	CONSOLIDATED GROUP 2016 SHARES	CONSOLIDATED GROUP 2017 $'000	CONSOLIDATED GROUP 2016 $'000
Ordinary Shares Fully Paid				
At beginning of the year	**36,905,259**	36,239,331	**17,077**	16,627
Shares Issued During the Year				
Dividend reinvestment plan	**285,641**	665,928	**231**	450
Share purchase plan	**–**	–	**–**	–
Bonus issue	**–**	–	**–**	–
Ordinary Shares fully paid at reporting period	**37,190,900**	36,905,259	**17,308**	17,077

a. Movements in Ordinary Share Capital of the Company

285,641 Ordinary Shares were issued during 2017 (2016: 665,928) from participation in the Dividend Reinvestment Plan.

b. Authorised Capital

500,000,000 Ordinary Shares of no par value.

c. Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no significant changes in the strategy adopted by management to control and manage the capital of the Group since the prior year.

NOTE 21: RETAINED EARNINGS

	CONSOLIDATED GROUP 2017 $'000	CONSOLIDATED GROUP 2016 $'000
Retained earnings at beginning of financial year	**13,473**	10,060
Net profit attributable to members of parent entity	**5,045**	5,067
Dividends provided for or paid	**(5,392)**	(1,654)
Retained earnings at end of financial year	**13,126**	13,473

NOTE 22: INTEREST IN JOINT ARRANGEMENTS

In September 1996, a controlled entity entered into a co-ownership agreement referred to as the Lilyfield Road Joint Venture to purchase a property asset for highest and best use. The controlled entity has a 70% interest in the assets and income of this joint venture. The co-ownership agreement is in place. Voting is by unanimous resolution by all joint venture members. The share of net assets employed in the joint venture is included in the controlled entity's statement of financial position under the following classifications:

	CONSOLIDATED GROUP 2017 $'000	CONSOLIDATED GROUP 2016 $'000
Current Assets		
Cash	**17**	11
Trade and other receivables	**51**	67
Development property reclassified as current	**12,481**	–
Non-current Assets		
Development property	**–**	12,250
Total Assets	**12,549**	12,328
Current Liabilities		
Trade and other payables	**30**	35
Short term borrowings	**5,250**	–
Non-current Liabilities		
Deferred tax liability	**2,395**	2,363
Long-term borrowings	**–**	5,250
Total Liabilities	**7,675**	7,648
Equity	**4,874**	4,680
Output	**444**	847
Net operating profit before income tax	**(54)**	507
Gain/(loss) from the revaluation of development property	**–**	139
Income tax applicable to operating profit	**17**	(194)
Net profit/(loss) after income tax of joint venture	**(37)**	452

Refer note 13a for details of valuation methodology. The joint venture has no contingent liabilities.

NOTE 22: INTEREST IN JOINT ARRANGEMENTS CONTINUED

As disclosed in Desane's ASX announcement dated 4 August 2017, the Group has received a proposed acquisition offer of $18.4m for the property (Desane's 70% share being $12.8m) from the Roads and Maritime Services ("RMS").

The RMS also notified, in its initial correspondence, an offer of $1.1m for business disturbance to cover the costs of legal fees, valuations, disbursements and stamp duty.

Subsequent to the offer, the RMS issued a Proposed Acquisition Notice ('PAN") to Desane in accordance with the *Land Acquisition (Just Terms Compensation) Act, 1991* ("the Act"), confirming the compulsory acquisition of the property would be gazetted on or about 1 September 2017. The legal effect of the PAN, if validly issued, is to extinguish Desane's interest in the property and convert Desane's and its 30% joint venture partner's interest in the property to a claim for compensation.

Desane and its joint venture partner sought independent expert town planning and valuation advice and on the basis of this advice, has lodged a statutory claim for compensation with the RMS in excess of $100m, to preserve its legal rights pursuant to the Act.

Further legal advice from former Federal Court judge, the Hon. Ron Merkel QC, confirmed Desane's filing with the Supreme Court of NSW urgent proceedings, seeking relief that the State of New South Wales, the RMS and Sydney Motorway Corporation ("SMC") be restrained from acting upon or taking any step, in reliance upon the *Proposed Acquisition Notice ("PAN")* issued by RMS to Desane dated 26 May 2017. Desane has also sought on a final basis a declaration that the PAN was invalid and that the notice be set aside. The matter is scheduled to be heard in the Supreme Court of NSW on 20 November 2017.

The Directors intend to pursue all avenues that are deemed necessary to protect the asset and secure the best possible outcome for its shareholders.

At the date of this report the final outcome of proceedings cannot be predicted or forecast. Consequently with the exception of capitalised costs, the property has continued to be valued at the carrying amount determined for last year's financial statements.

NOTE 23: DEFERRED TAXES

	NOTE	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Non-current			
Deferred tax liability comprises:			
Tax allowances relating to property and equipment		**1,065**	1,524
Revaluation of investment properties		**2,372**	2,502
Provisions		**(45)**	(25)
Other		**135**	135
		3,527	4,136
Reconciliation			
Gross Movement			
The overall movement in the deferred tax account is as follows:			
Opening balance		**4,136**	2,471
Charge to statement of profit and loss	4	**(609)**	1,665
Closing balance		**3,527**	4,136

	CONSOLIDATED GROUP 2017 $'000	2016 $'000
Deferred Tax Liability		
Tax allowance relating to property and equipment		
Opening balance	**1,524**	1,415
Adjustment to previous year's provision	–	–
Charged to the statement of profit and loss	**(459)**	109
Closing balance	**1,065**	1,524
Revaluation of investment properties		
Opening balance	**2,502**	2,752
Net revaluation during the current period	**570**	610
Transfers on property sale	**(700)**	(860)
Closing balance	**2,372**	2,502
Deferred Tax Assets		
Tax and capital losses		
Opening balance	–	(1,809)
Tax and capital losses utilised	–	1,809
Closing balance	–	–
Provisions		
Opening balance	**(25)**	(22)
Credited to statement of profit and loss	**(20)**	(3)
Closing balance	**(45)**	(25)
Other		
Opening balance	**135**	135
Charged to statement of profit and loss	–	–
Closing balance	**135**	135

NOTE 24: FINANCIAL INSTRUMENTS

a. Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, mortgage loans with banking institutions, accounts receivable and payable, and loans to and from controlled entities.

Desane's Board of Directors and management are responsible for the monitoring and managing of financial risk exposures on a monthly basis.

The main risks the group is exposed to through its financial instruments are liquidity risk and interest rate risk.

Liquidity Risk

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. Desane manages this risk through the following mechanisms:

- Preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- Monitoring undrawn credit facilities;
- Obtaining funding from a variety of sources; and
- Investing surplus cash with major financial institutions.

Interest Rate Risk

Exposure to interest rate risks arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2017, approximately 100% of the Group's debt is with a floating interest rate and any balance is fixed interest rate debt.

The group entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods are set out in the following table (note 24d). For interest rates applicable to each class of asset or liability, refer to individual notes to the financial statements. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

The contractual maturities of the financial liabilities are set out below. The amounts represent the future undiscounted principal and interest cash flows relating to the amounts drawn at reporting date.

b. Credit Risk Exposure

The credit risk on financial assets of the consolidated entity which has been recognised in the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

The consolidated group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

c. Net Fair Values

On Balance Sheet:

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

Off Balance Sheet:

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in note 31. No material losses are anticipated in respect of any of these contingencies.

d. Carrying Amount and Net Fair Values

There is no material difference between the carrying amounts and the net fair values of financial assets and liabilities.

2017

	NOTE	FLOATING INTEREST RATE	FLOATING INTEREST MATURING WITHIN 1–5 YEARS	FIXED INTEREST MATURING WITHIN 1 YEAR	FIXED INTEREST MATURING WITHIN 1–5 YEARS	NON INTEREST BEARING	TOTAL
		$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash and deposits	9	–	–	9,422	–	–	9,422
Receivables	10, 11, 13	–	–	–		188	188
Other financial assets	12	–	–	2,201	–	–	2,201
		–	–	11,623	–	188	11,811
Weighted average interest rates		–%	–%	3.7%	–%	–%	3.7%
Financial Liabilities							
Trade and other creditors	15, 18	–	–	–	–	456	456
Interest bearing liabilities	16	–	16,590	–	–	–	16,590
		–	16,590	–	–	456	17,046
Weighted average interest rate		–%	3.8%	–%	–%	–%	3.8%
Net financial assets (liabilities)		–	(16,590)	11,623	–	(268)	(5,235)

2016

	NOTE	FLOATING INTEREST RATE	FLOATING INTEREST MATURING WITHIN 1–5 YEARS	FIXED INTEREST MATURING WITHIN 1 YEAR	FIXED INTEREST MATURING WITHIN 1–5 YEARS	NON INTEREST BEARING	TOTAL
		$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash and deposits	9	–	–	15,749	–	–	15,749
Receivables	10, 11, 13	–	–	–	–	1,254	1,254
Other financial assets	12	–	–	1,451	–	–	1,451
		–	–	17,200	–	1,254	18,454
Weighted average interest rates		–	–	3.4%	–	–	3.4%
Financial Liabilities							
Trade and other creditors	15, 18	–	–	–	–	569	569
Interest bearing liabilities	16	–	16,590	–	–	–	16,590
		–	16,590	–	–	569	17,159
Weighted average interest rate		–	3.8%	–	–	–	3.8%
Net financial assets (liabilities)		–	(16,590)	17,200	–	685	1,295

NOTE 24: FINANCIAL INSTRUMENTS CONTINUED

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposure to changes in interest rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by change in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

The net effective variable interest rate borrowings (floating interest rate) expose the Group to interest rate risk which will impact future cash flows and interest charges, are indicated in the above figures. All interest bearing liabilities and their weighted interest rate is shown in note 24(d).

There are no financial liabilities maturing over 5 years.

	CONSOLIDATED GROUP	
	PROFIT $'000	EQUITY $'000
Year ended 30 June 2017	**+/– 222**	**+/– 222**

– interest rate sensitivity calculated at an average of +/– 2%pa.

	CONSOLIDATED GROUP	
	PROFIT $'000	EQUITY $'000
Year ended 30 June 2016	+/– 332	+/– 332

– interest rate sensitivity calculated at an average of +/– 2% pa.

NOTE 25: RELATED PARTY TRANSACTIONS

All transactions are under normal commercial terms and conditions.

The Group's main related parties are as follows:

i. Key management personnel:

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

ii. Joint venture entities accounted for under the proportion method:

The Group has an interest in one venture. The interest in this joint venture is accounted for in the consolidated financial statements of the Group using the proportion method of accounting. For details of the interest held in joint venture entities, refer to note 22.

iii. Other related parties

Other related parties include entities controlled by the parent entity and entities over which key management personnel have control.

Related parties of Desane Group Holdings Limited (parent entity) fall into the following categories:

a. Controlled Entities

Information relating to controlled entities is set out in note 31. Other transactions between related parties consist of:

	CONSOLIDATED GROUP	
	2017 $'000	**2016 $'000**
Desane Properties Pty Ltd: Dividend paid	**500**	–
Desane Contracting Pty Ltd: Dividend paid	**623**	4,546
b. Joint Ventures		
Administration fee received from Lilyfield Road Joint Venture	**12**	12
Interest received from Lilyfield Road Joint Venture	**53**	42
Consulting fee received from Lilyfield Road Joint Venture	**94**	54

c. Directors

The names of the persons who were directors of the parent entity during the financial year are as follows:

- Phil Montrone
- John Blair Sheehan
- John William Bartholomew
- Rick Montrone

Information on the remuneration of directors and executives is set out in note 5.

Trafalgar Contracting Pty Ltd, which is a company owned by Mr Phil Montrone's brother, has sub-let a portion of its rental premises to Desane Group Holdings Ltd at market rental rates.

The Managing Director and all executives are permanent employees of Desane Group Holdings Limited.

Other than the above transactions, no director has entered into a material contract since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end. The directors participate in bonus and other share issues under the same terms and conditions as other shareholders. Particulars of directors' interests in ordinary shares and options are disclosed in the Directors' Report.

NOTE 26: COMMITMENTS FOR EXPENDITURE

At 30 June 2017, the Group had not entered into any contractual commitments for the acquisition of property, plant and equipment or any other affairs (2016: Nil).

NOTE 27: SUPERANNUATION COMMITMENTS

In the case of employees of the holding company, the company contributed 9.50% of each member's salary into the fund nominated by each member. Group companies contribute a minimum amount equal to 9.50% of each member's salary, plus the cost of the insurance coverage, if required, to insure the provision of all benefits to the Fund. The benefits provided by the accumulation fund are based on the contributions and income thereon held by the Fund on behalf of the member. The 9.50% contribution made by group companies is legally enforceable.

The company and its controlled entities have a legally enforceable obligation to contribute to the funds.

The directors are not aware of any other changes in circumstances which would have a material impact on the overall financial position of the funds.

Employer contributions to the plans; consolidated $107,072 (2016 – $108,327), parent entity $83,315 (2016 – $89,411).

NOTE 28: CONTINGENT LIABILITIES

a. The parent entity has given a letter of support to each of its two controlled entities, to the effect that it will not require repayment of the loan funds advanced in the coming year (refer note 31(ii)).

The shareholders' funds as at 30 June 2017, in the controlled entities concerned were:

	2017 $'000	2016 $'000
Desane Contracting Pty Limited – net assets	**98**	918
Desane Properties Pty Limited – net assets	**15,559**	9,738

b. 68–72 Lilyfield Road Property

First mortgage security over the property has been provided to finance borrowings of $7,500,000 as at 30 June 2017. In addition, the parent entity, together with the other co-owner, have unconditionally guaranteed, jointly and severally, the secured loan and bank overdraft.

c. 7–9 Orion Road Property

The parent entity has guaranteed the repayment of the first mortgage finance secured over the Orion Road property (note 16). Guarantee was released on sale of the property on 31 July 2017.

d. 7 Sirius Road Property

The parent entity has guaranteed the repayment of the first mortgage finance secured over the 7 Sirius Road property (note 16).

e. 13 Sirius Road Property

The parent entity has guaranteed the repayment of the first mortgage finance secured over the 13 Sirius Road property (note 16).

NOTE 29: OPERATING SEGMENTS – CONSOLIDATED GROUP

Segment Information

Identification of Reportable Segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

Reportable segments disclosed are based on aggregating operating systems where the segments are considered to have similar economic characteristics and are also similar to the operations and or services provided by the segment.

Types of Operations and Services by Segment

Revenue is derived by the industry segments from the following activities:

i. Property Development
 Development projects (residential, commercial or industrial).

ii. Property Investment
 Rental income from prime real estate investments.

iii. Property Project Management and Resale
 Property project management and resale of commercial, industrial and residential properties, principally in Sydney metropolitan areas.

iv. Property Services
 Property and related services.

Accounting Policies Adopted

Unless stated otherwise, all amounts reported to the Board of Directors, with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment Assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment Liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated Items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Net gains on disposal of available for sale investments;
- Impairment of assets and other non recurring items of revenue or expenses;
- Income tax expense;
- Deferred tax assets and liabilities;
- Current tax liabilities;
- Other financial liabilities;
- Retirement benefit obligations; and
- Administration expenses.

Geographical Segments

The consolidated group operates in one geographical segment being New South Wales, Australia.

Inter-segment Transactions

Inter-segment pricing is based on what would be realised in the event the sale was made to an external party at arms-length basis.

2017

	PROPERTY INVEST-MENT	PROPERTY DEVELOP-MENT	PROPERTY PROJECT MANAGE-MENT AND RESALE	PROPERTY SERVICES	PLANT AND EQUIPMENT	OTHER	CONSOLI-DATED GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External sales	2,112	645	–	244	–	528	3,529
Other segments	–	–	–	–	–	–	–
Total revenue	2,112	645	–	244	–	528	3,529
Segment result	8,353	(191)	–	244	–	528	8,934
Unallocated expenses							(1,079)
Finance costs							(667)
Profit/(loss) before income tax							7,188
Income tax							609
Income tax expense							(2,752)
Profit/(loss) after income tax							5,045

NOTE 29: OPERATING SEGMENTS – CONSOLIDATED GROUP CONTINUED

2017

SEGMENT ASSETS	PROPERTY INVEST-MENT	PROPERTY DEVELOP-MENT	PROPERTY PROJECT MANAGE-MENT AND RESALE	PROPERTY SERVICES	PLANT AND EQUIPMENT	OTHER	CONSOLI-DATED GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2016 opening balance	34,750	460	–	–	–	18,041	53,251
Unallocated Assets							
Deferred tax assets							
Segment Asset Increases/ (Decreases) for the Period							
Acquisitions		4,154					4,154
Proceeds from sale/depreciation		(645)					(645)
Revaluations/(devaluations)	1,900						1,900
Capital expenditures	617						617
Development expenditures		18					18
Asset held for sale							
Revaluation increment – investment property held for resale	5,139						5,139
Development profit realised		167					167
Net movement in other segments						(6,193)	(6,193)
	42,406	4,154	–	–	–	11,848	58,408
Unallocated Assets							
Deferred Tax Assets							
Total Group Assets							58,408

2017

SEGMENT LIABILITIES	PROPERTY INVEST-MENT	PROPERTY DEVELOP-MENT	PROPERTY PROJECT MANAGE-MENT AND RESALE	PROPERTY SERVICES	PLANT AND EQUIPMENT	OTHER	CONSOLI-DATED GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2016 opening balance	16,590	–	–	–	–	1,975	18,565
Unallocated Liabilities							
Deferred tax liabilities							4,136
Segment Liabilities Increases/ (Decreases) for the Period							
Repayments							
New borrowings							
Net movement in other segments						5,882	5,882
	16,590					7,857	28,583
Unallocated Liabilities							
Deferred Tax Liabilities							(609)
Total Group Liabilities							27,974

2016

	PROPERTY INVEST-MENT	PROPERTY DEVELOP-MENT	PROPERTY PROJECT MANAGE-MENT AND RESALE	PROPERTY SERVICES	PLANT AND EQUIPMENT	OTHER	CONSOLI-DATED GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External sales	2,305	28,368	83	228	–	270	31,254
Other segments	–	–	–	–	–	–	–
Total revenue	2,305	28,368	83	228	–	270	31,254
Segment result	3,850	4,548	83	228	–	270	8,979
Unallocated expenses							(1,078)
Finance costs							(641)
Profit/(loss) before income tax							7,260
Income tax expense							(2,193)
Profit/(loss) after income tax							5,067

NOTE 29: OPERATING SEGMENTS – CONSOLIDATED GROUP CONTINUED

2016

SEGMENT ASSETS	PROPERTY INVEST-MENT	PROPERTY DEVELOP-MENT	PROPERTY PROJECT MANAGE-MENT AND RESALE	PROPERTY SERVICES	PLANT AND EQUIPMENT	OTHER	CONSOLI-DATED GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2015 opening balance	32,660	20,689	–	–	–	7,693	61,042
Unallocated Assets							
Deferred tax assets							
Segment Asset Increases/ (Decreases) for the Period							
Acquisitions							–
Proceeds from sale/ depreciation		(28,368)					(28,368)
Revaluations/(devaluations)	2,032						2,032
Capital expenditures	58						58
Development expenditures	–	3,591					3,591
Development profit realised		4,548					4,548
Net movement in other segments						10,348	10,348
	34,750	460	–	–	–	18,041	53,251
Unallocated Assets							–
Deferred Tax Assets							–
Total Group Assets							53,251

2016

SEGMENT LIABILITIES	PROPERTY INVEST-MENT	PROPERTY DEVELOP-MENT	PROPERTY PROJECT MANAGE-MENT AND RESALE	PROPERTY SERVICES	PLANT AND EQUIPMENT	OTHER	CONSOLI-DATED GROUP
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2015 opening balance	16,590	9,844	–	–	–	5,450	31,884
Unallocated Liabilities							
Deferred tax liabilities							2,471
Segment Liabilities Increases/ (Decreases) for the Period							
Repayments		(11,703)					(11,703)
New borrowings		1,859					1,859
Net movement in other segments						(3,475)	(3,475)
	16,590	–	–	–	–	1,975	21,036
Unallocated Liabilities							
Deferred Tax Liabilities							1,665
Total Group Liabilities							22,701

DESANE GROUP HOLDINGS LIMITED ANNUAL REPORT 2017

NOTE 30: CASH FLOW INFORMATION

a. Reconciliation of Cash Flow from Operations with Profit After Income Tax

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Profit/(loss) after income tax	**5,045**	5,067
Non-cash flows in profit/(loss)		
Depreciation and amortisation	**10**	10
(Gain)/loss on asset revaluation	**(1,900)**	(2,032)
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	**1,090**	1,997
(Increase)/decrease in other receivables and other assets	**(4,904)**	20,229
(Increase)/decrease in prepayments	**(26)**	108
(Decrease)/increase in trade payments and accruals	**(112)**	(1,611)
(Decrease)/increase in other payables	**–**	(2,575)
(Decrease)/increase in provisions	**2,274**	631
Increase/(decrease) in deferred taxes payable	**(617)**	1,665
Transfer to financing activities	**(168)**	108
Cash flow from operations	**692**	23,597

Credit Standby Arrangements with Banks

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Credit facility	**100**	100
Amount utilised	**–**	–

Bank overdraft facility is arranged with one bank and the general terms and conditions are set and agreed annually. Interest rates are variable and subject to adjustment. Please refer to note 16.

Loan Facilities with Financial Institutions

	CONSOLIDATED GROUP	
	2017 $'000	2016 $'000
Loan facilities	**16,590**	16,590
Amount utilised	**(16,590)**	(16,590)

For more details on the loan facilities, please refer to note 16.

NOTE 31: PARENT ENTITY DISCLOSURES

The following information has been extracted from the books and records of the parent entity and has been prepared in accordance with Accounting Standards.

		PARENT ENTITY	
	NOTE	2017 $'000	2016 $'000
STATEMENT OF COMPREHENSIVE INCOME			
Result of Parent Entity			
Profit for the period		**44**	3,520
Other comprehensive income		**–**	–
Total comprehensive income for the period		**44**	3,520
STATEMENT OF FINANCIAL POSITION			
Current Assets			
Cash		**4**	1
Trade and other receivables		**–**	–
Other assets		**8**	5
Non-current Assets			
Trade and other receivables – loans to controlled entities	ii	**19,406**	20,807
Investment – controlled entities	i	**490**	490
Property, plant and equipment		**33**	40
Total Assets		**19,941**	21,343
Current Liabilities			
Trade and other payables		**65**	95
Short term provisions		**4,593**	851
Non-Current Liabilities			
Trade and other payables		**–**	–
Provisions		**16**	13
Total Liabilities		**4,674**	959
Net Assets		**15,267**	20,384
Total Equity			
Issued capital		**17,308**	17,077
Retained earnings/(accumulated losses)		**(2,041)**	3,307
Total Equity		**15,267**	20,384

NOTE 31: PARENT ENTITY DISCLOSURES CONTINUED

i. Controlled Entities

Investments in controlled entities are unquoted and comprise:

		PARENT ENTITY			
		2017		2016	
Controlled Entities	Class of Shares	Holding	Investment	Holding	Investment
		%	$'000	%	$'000
Desane Properties Pty Ltd	Ordinary	**100**	**490**	100	490
Desane Contracting Pty Ltd	Ordinary	**100**	**–**	100	–
			490		490

All controlled entities are incorporated in Australia. Desane Properties Pty Ltd declared a dividend of $500,000 out of retained profits (2016: $nil). Desane Contracting Pty Ltd declared a dividend of $623,000 (2016: $4,546,136).

Contribution to profit/(loss) after tax:

	2017 $'000	2016 $'000
Desane Group Holdings Limited	**(1,079)**	(1,026)
Desane Properties Pty Limited	**6,321**	1,550
Desane Contracting Pty Limited	**(197)**	4,543
	5,045	5,067

ii. Loans to Controlled Entities

	2017 $'000	2016 $'000
Desane Properties Pty Limited	**19,406**	20,807
Desane Contracting Pty Limited	**–**	–
	19,406	20,807

Guarantees

Desane Group Holdings Limited has not entered into any guarantees, in the current or previous financial year, in relation to the above debts of its controlled entities.

Capital Commitments

There are no capital commitments to note.

Contractual Commitments

At 30 June 2017, Desane Group Holdings Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment or any other affairs (2016: Nil).

NOTE 32: EVENTS AFTER THE REPORTING DATE

The sale of 7–9 Orion Road, Lane Cove was completed on 31 July 2017. Following settlement, the Group's cash position has been further boosted by $12.3m and the Company's total debt facility has been reduced by 32% to $11.1m.

As per the ASX announcement dated 11 August 2017, Desane commenced urgent proceedings in the Supreme Court of NSW, seeking relief that the State of New South Wales, the Roads and Maritime Services ("RMS") and Sydney Motorway Corporation ("SMC") be restrained from acting upon or taking any step, in reliance upon the *Proposed Acquisition Notice* ("*PAN*") issued by RMS to Desane dated 26 May 2017. Desane has sought on a final basis a declaration that the PAN was invalid and that the notice be set aside.

Other than the above, at the date of this report and in the opinion of the directors, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

NOTE 33: ECONOMIC DEPENDENCY

A significant portion of all the Group's investment properties are under financial loans.

7-9 Orion Road, Lane Cove

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Desane Group Holdings Limited, the directors of the company declare that:

1. The financial statements and notes, as set out on pages 29 to 69 are in accordance with the *Corporations Act 2001* and;
   a. Comply with Australian Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
   b. Give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the consolidated group;
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. The directors have been given the declarations required by a 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer.

This declaration is made in accordance with a resolution of the Board of Directors.

J B Sheehan
Director

P Montrone
Director

Sydney
23 August 2017

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DESANE GROUP HOLDINGS LIMITED

REPORT ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Report on the Financial Report

Opinion

We have audited the financial report of Desane Group Holdings Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

a. the accompanying financial report of Desane Group Holdings Limited and Controlled Entities is in accordance with the *Corporations Act 2001*; including:
   (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
b. the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further disclosed in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the year ended 30 June 2017. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Liability limited by a scheme approved under Professional Standards Legislation

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Description of Key Audit Matter	How Our Audit Addressed the Key Audit Matter
1. Valuation of Investment Properties – non current refer note 1(e) and note 13 to the consolidated financial statements. **$,000** 7 Sirius Road, Lane Cove 6,800 13 Sirius Road, Lane Cove 5,300 The properties were valued by the directors based on independent valuations undertaken by a firm of licensed valuers. Commercial property valuations are sensitive to the key assumptions applied in valuations. In particular, rates of capitalisation of net rental income, the inputs to determine discounted cash flow outcomes and in appropriately assessing market sales evidence in the property sector and location under review.	Our procedures included, but were not limited to the following: 1. We confirmed that the independent valuations were undertaken in accordance with both International Financial Reporting Standards (IFRS) 13 and the Australian Property Institute Standards to determine the fair value of the properties. 2. We verified the qualifications of the valuers and their experience in the Sydney industrial and commercial property market. 3. We considered the valuation methods used in the valuers' reports to ensure their approach and methodologies accorded with the industry norm for valuations of this nature and that all commonly accepted valuation methods had been considered. 4. We checked the reliability of the underlying assumptions used in the valuations to supporting lease agreements and other documents. 5. We compared the inputs in the valuations, including capitalisation rates, discount rates and rental yields to historical data and available industry data. The relative sensitivity of the inputs were discussed with the valuers. 6. We considered the adequacy of the disclosures in the financial statements. We confirmed that the valuers are members of recognised professional bodies for valuers and the valuations were in accordance with generally acceptable market valuations with the key assumptions being within the range of current market data. We found the disclosures in the financial statements to be adequate.

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Description of Key Audit Matter	How Our Audit Addressed the Key Audit Matter
2. Valuation of Development Property – current refer notes 1u(iii), 22 and 32 for details. **$,000** 68-72 Lilyfield Road, Rozelle 12,481 The property is subject to a Proposed Acquisition Notice (PAN) issued by the Roads and Maritime Services (RMS) for the WestConnex project. Desane have not accepted the offer of compensation made under the PAN for either the property or for the business disruption compensation as being adequate. Desane has initiated legal action in response.	Our procedures included, but were not limited to the following: 1. We reviewed relevant legal and other documentation, corresponded with the solicitors retained by Desane regarding the PAN and interviewed each of the directors. We discussed the operation of the Legislation and the prescribed procedures to be followed with the solicitors and the directors. 2. We confirmed the lodgement of the statutory claim for compensation with the RMS as outlined in note 22 and the claim lodged with the Supreme Court of NSW as outlined in note 32. 3. We considered alternative methods of disclosure for the asset. 4. We assessed the fairness and acceptability of the directors' decision that the property should continue to be carried forward in the financial statements at the value determined for the last year (with the exception of capitalised costs) on the grounds that the total amount of compensation ultimately recoverable cannot be reasonably forecast at the date of this report. 5. We reviewed the disclosure in the financial statements to assess whether it was factual and current at the date of this report. We found the directors' treatment of the value of the property in the financial statements to be fair in all the circumstances and the accounts disclosures to be factual and current.
3. Valuation of Investment Property held for Sale (refer note 13) **$,000** 7-9 Orion Road, Lane Cove 17,825 The property was subject to a contract of sale at 30 June 2017. The property was valued at the net amount recoverable from the sale. The date of settlement was 31 July 2017.	Our procedures included, but were not limited to the following: 1. We verified the settlement of the sale of the property on 31 July 2017 to the sales contract, solicitor's settlement statement, title certificates and other documentation. 2. The net proceeds of sale were agreed to Desane's banking records. 3. We verified the repayment of the associated loan, to supporting legal documentation and the discharge of the mortgage and guarantee held over the property. The value as disclosed in the financial statements was fully recovered.

GCC Business & Assurance Pty Ltd

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon as set out on pages 26 to 75. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters relating 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.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards 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 be reasonably expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, 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 financial report 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 financial report, including the disclosures, and whether the financial report represents 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 financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration

We have audited the remuneration report included in pages 20 to 21 of the directors' report for the year ended 30 June 2017. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the remuneration report of Desane Group Holdings Limited, for the year ended 30 June 2017, complies with s 300A of the *Corporations Act 2001*.

GCC Business + Assurance Pty Ltd.

GCC BUSINESS & ASSURANCE PTY LTD
(Authorised Audit Company)

GRAEME GREEN
Director

Sydney
23 August 2017

Liability limited by a scheme approved under Professional Standards Legislation

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 11 August 2017.

1. SHAREHOLDING

Distribution of equitable securities:

CATEGORY (SIZE OF HOLDING)	NUMBER OF ORDINARY SHARES	NUMBER OF HOLDERS OF ORDINARY SHARES	% OF ISSUED CAPITAL
1 – 1,000	30,591	113	0.08
1,001 – 5,000	344,623	128	0.93
5,001 – 10,000	393,208	51	1.06
10,001 – 100,000	5,541,908	140	14.90
100,001 – and over	30,880,570	53	83.03
	37,190,900	**485**	**100.00**

There were 59 holders of less than a marketable parcel of ordinary shares.

2. TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

The names of the 20 largest security holders are listed below:

NAME	ORDINARY SHARES	% HELD TO ISSUED CAPITAL
1. Cupara Pty Ltd	10,246,252	27.55
2. JP Morgan Nominees Australia Limited	4,353,058	11.70
3. Horrie Pty Ltd	2,323,186	6.25
4. Montevans Pty Ltd <M & M Super A/C>	2,048,762	5.51
5 Glencairn Pty Limited	949,902	2.55
6 PFPT Management Pty Ltd <Pellarini Super Fund A/C>	853,482	2.29
7. Cordato Partners (Superannuation) Pty Ltd <Cordato Partners S/F A/C>	673,099	1.81
8. Hillmorton Custodians Pty Ltd <The Lennox Unit A/C>	626,622	1.68
9. John & Judith Pty Ltd <Joju Superannuationfund A/C>	549,077	1.48
10. National Nominees Limited	471,203	1.27
11. Keiser Investments Pty Ltd <Gann Family Retirement A/C>	458,081	1.23
12. Mr David Cooper + Ms Adrienne Witteman <Private Super Fund A/C>	346,104	0.93
13. Dotnric Pty Ltd <Famiglia di Riccardo S/F A/C>	311,703	0.84
14. Oakmount Nominees Pty Ltd <Narromine Super Fund A/C>	300,000	0.81
15. Joe Scardino + Felicia Scardino	273,555	0.74
16. Mocorb Pty Ltd <BMC Superannuation Fund A/C>	265,573	0.71
17. Mr Peter Howells	258,359	0.69
18. Kelpador Pty Ltd <Superannuation Fund A/C>	257,972	0.69
19. Whimplecreek Pty Ltd <Stawell Family A/C>	250,000	0.67
20. Evans Trading Co Pty Ltd	222,874	0.60
	26,038,864	**70.01**

3. SUBSTANTIAL SHAREHOLDERS

Substantial holders in the Company are set out below:

	ORDINARY	
	NUMBER	%
Cupara Pty Ltd	10,246,252	27.55
Greig & Harrison Pty Ltd	5,480,418	14.74
Phoenix Portfolios Pty Ltd	4,824,261	12.97
Montevans Pty Ltd <M & M Super A/C>	2,048,762	5.51

4. VOTING RIGHTS

The voting rights attaching to each class of shares are set out below:

ORDINARY SHARES

No restrictions. On a show of hands, every member present or by proxy shall have one vote and upon a poll, each share shall have one vote.

There are no other classes of equity securities.

COMPANY PARTICULARS

DIRECTORS & KEY PERSONNEL

John Blair Sheehan AM
Chairman (Non-executive director)

Phil Montrone OAM
Managing Director

John William Bartholomew
Director (non-executive)

Rick Montrone
Director - Head of Property

Jack Sciara
Company Secretary and Chief Financial Officer

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

68–72 Lilyfield Road, Rozelle NSW 2039

OTHER COMPANY DETAILS

Postal address:	PO Box 331, Leichhardt NSW 2040
Telephone:	(02) 9555-9922
Facsimile:	(02) 9555-9944
E-mail:	info@desane.com.au
Website:	www.desane.com.au

SHARE REGISTER

Shareholders with questions about their shareholdings should contact Desane's external share registrar:

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide SA 5000
Postal Address: GPO Box 2975, Melbourne VIC 3001

Telephone enquiries within Australia
1300-556-161

Telephone enquiries outside Australia
61-3-9415-4000

Website: www.computershare.com

Please advise the share registrar if you have a new postal address.

AUDITOR

GCC Business & Assurance Pty Ltd
Suite 807, 109 Pitt Street, Sydney NSW 2000

SOLICITORS

Cordato Partners
Level 5, 49 York Street, Sydney NSW 2000

BANKERS

Commonwealth Bank of Australia

SECURITIES EXCHANGE LISTING

Desane Group Holdings Limited shares are listed on the Australian Securities Exchange. The ASX code is **DGH**.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Desane Group Holdings Limited will be held at 68–72 Lilyfield Road, Rozelle NSW 2039 on Friday, 3 November 2017 commencing at 10.00 am.


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