



Enriching People's  
Lives, since 1868

## APPENDIX 4E | For the year ended 31 July 2018



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# GOWING BROS

Investing together for a secure future

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

The reporting period is the year ended 31 July 2018 with the previous corresponding period being the year ended 31 July 2017.

		31 Jul 2018	31 Jul 2017
<b>REVENUE</b>			
Total Revenue (1)	Up 26%	\$58.3 million	\$46.2 million
Other income (2)	Down 80%	\$5.8 million	\$29.3 million
<b>EARNINGS</b>			
Profit after tax (3)	Down 77%	\$5.5 million	\$23.2 million
Earnings per share	Down 77%	10.15c	43.29c
<b>NET ASSETS PER SHARE</b>			
Before provision for tax on unrealised gains (4)	Up 2%	\$4.52	\$4.43
<b>DIVIDENDS</b>			
2018 Final fully franked dividend per share (5)		6 cents	6 cents
2018 Interim fully franked dividend per share		6 cents	6 cents

## COMMENTS

- (1) Total Revenue was up 26% on the prior year, mainly due to the inclusion of revenue from Surf Hardware International for a full 12 months to 31 July 2018, compared to the prior year in which it was only part of the group from 16 December 2016.
- (2) Other income of \$5.8 million was largely attributable to appreciation in the Pacific Coast Shopping Centre Portfolio, which in turn was mainly due to the redevelopment of Coffs Central, the successful opening of Kmart at Coffs Central, and the continued successful leasing campaign at Moonee Marketplace.
- (3) Profit After Tax decreased by 77% on the prior year to \$5.5 million. This was largely attributable to the difference in unrealised gains on investment properties from the prior year. For more detail refer the profit and loss on page 7 of the report.
- (4) Net assets per share before tax on unrealised gains on equities, investment properties, and freehold properties increased to \$4.52 from \$4.43 during the year ended 31 July 2018 after the payment of 12.0c in dividends.
- (5) A final dividend of 6 cents fully franked has been declared. The record date for the final dividend is 18 October 2018, with a payment date of 13 November 2018. The dividend reinvestment plan has been reintroduced.

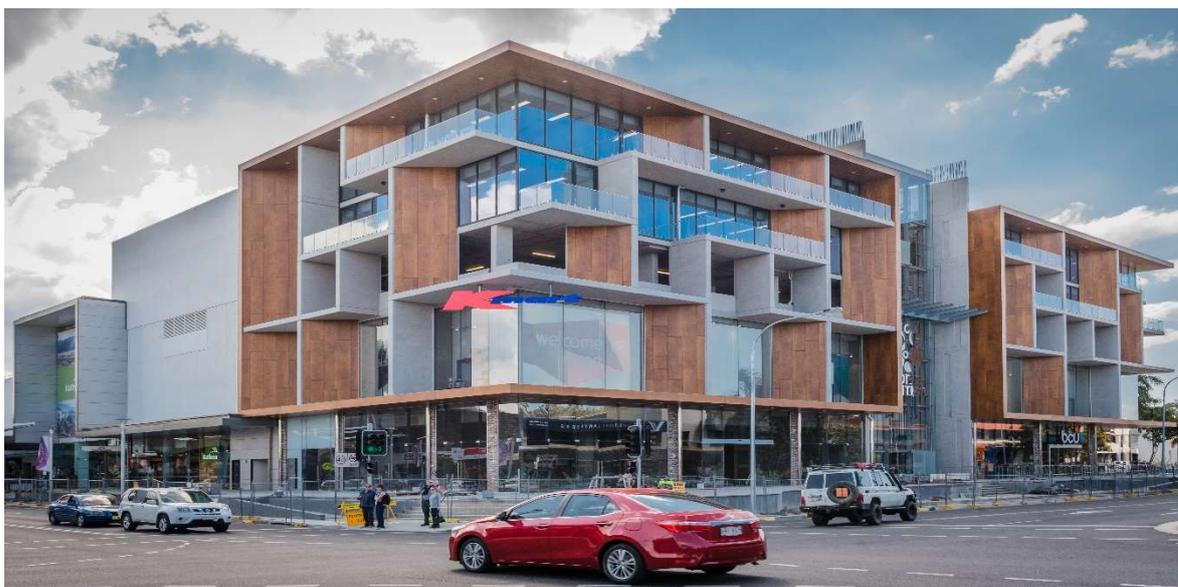
Refer to the Managing Director's review of operations for further details on the results and investments.

This report is based on financial statements which are in the process of being audited.

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

### OPERATIONAL HIGHLIGHTS

- During the period the \$35 million redevelopment works to **Coffs Central** was substantially completed. Coffs Central will now have a similar capacity to Port Central with the addition of office commercial space of 2,000 square metres. Kmart opened for trading on the 22 March 2018 and has had a strong start to trading exceeding our expectations. BCU have also opened a new branch on the ground floor retail and by the end of September 2018 will also occupy 1,500 square metres of the new commercial office space making Coffs Central its head office. The leasing campaign for the remaining new retail and commercial areas is now gaining traction and when the centre is fully leased this should generate an additional \$1.4 - \$1.6 million of annual revenue.



- The upgrade of **Moonee Marketplace** was close to completion by the end of the financial year, and the leasing campaign has seen the centre nearing full occupancy. During the year the centre has welcomed Russell's Prime Meats, Moonee Dental and Facial, La La Land Playcentre, Kinetic Martial Arts, Sugarmill Bar & Restaurant, Lighthouse Health and Education, and Moon Dragon Restaurant. This has resulted in an increase in revenue for the centre which has supported the increase in the underlying carrying value of the centre.



## RESULTS FOR ANNOUNCEMENT TO THE MARKET

### OPERATIONAL HIGHLIGHTS (CONTINUED)

- Approval has been granted and construction of a four screen cinema on top of **Kempsey Central** shopping centre will commence by the end of September 2018. Gowings has entered into a voluntary planning agreement with Kempsey Shire Council, and Majestic Cinemas as the cinema operator.



- During the period a development application was lodged with Port Macquarie Hastings City Council for the property adjoining **Port Central** shopping centre. The application includes the construction of retail, commercial and ancillary parking.
- Gowings has continued to pursue a revised 220 Lot development application for **Sawtell Commons** land sub-division site. We anticipate receiving the construction certificate for stage 1 of the development in the immediate future and sales of the first stage lots will commence in the 2019 financial year.
- During the year **Surf Hardware International** increased its portfolio with the acquisition of the Kanulock brand, a market leader in the premium lockable roof rack tie-down category, and also releasing the new FCS Freedom Leash.
- **Murray Darling Food Company Group** settled on its third property, an 840-acre farm named "Packwood" in Condobolin NSW. A major focus for the year was converting sections of remnant vegetation land into new grazing paddocks on Burrawang West Station and Bombah which played part in increasing the land values by \$1 million. Towards the end of the 2018 financial year management installed four new centre pivot irrigation systems to combat the tough drought conditions.

## MANAGING DIRECTORS REVIEW OF OPERATIONS

Gowing Bros is now in its 150th year. This is a milestone for the company, and I feel privileged to be only the fourth managing director of our small but vibrant company. This year we have made several significant advances, yet there is still lots of work ahead of us to take full advantage of all our opportunities.

During the half we refinanced all our individual property loans with the Commonwealth Bank. We negotiated a new 5-year facility with 70% of the \$86 million underlying loan hedged at a fixed rate. The facility also provides us with a \$30 million rotating working capital facility. This working capital facility will allow us to undertake the proposed development works at Sawtell Commons and Harbour Drive. Another key aspect of the new facility is that it allows us to move all our shopping centres into individual trusts and out of the existing company ownership structure. This will provide more flexibility in the future, in the event of introducing capital partners or undertaking corporate reorganisations, to potentially streamline shopping centre cash flow to shareholders.

During the half, Gowings was granted a wholesale Australian Financial Services License. This License will allow Gowings to leverage our proven track record of managing investments without diluting existing investors. Neil Rogan was appointed during the half to lead this exciting new initiative. We are considering establishing several new wholesale funds, focusing in fields in which we believe we have an established advantage or an opportunity.

A significant amount of work has gone into progressing the planning approvals for our approved residential subdivision adjacent to Lyons Rd Sawtell, "Sawtell Commons". We are hopeful of receiving a construction certificate for the first 8 blocks in the next few weeks. This will allow us to start building display homes to showcase the proposed 220-lot subdivision. Sawtell Commons, is the last greenfield site available for residential blocks east of the Pacific Highway on the southern side of Coffs Harbour. We are planning to start pre-sales for Sawtell Commons in the near future and have already received over 30 expressions of interest from potential buyers. Revenue from these sales, once civil works are complete, and the contracts are finalised, should provide a strong boost to underlying profit over the next 3 years. This is of course subject to regulatory risk and continuing favourable market conditions.

Our investments in the Coffs Harbour region should all be beneficiaries of the \$1.2 billion Coffs harbour bypass project and the \$156 million upgrade of Coffs Harbour Hospital.

At Coffs Harbour the re-development of Coffs Central is nearing completion, Kmart has opened and is trading strongly. BCU has taken a lease over three quarters of the newly built commercial office space for its new head office, and half of the new ground floor retail space. We welcome them to Coffs Central. We are working on leasing up the balance of the new retail space with the optimal mix of new retailers. This leasing campaign which will take 18 to 24 months, should generate an additional \$1.4 - \$1.6 million in speciality annual retail income.

At Moonee Beach the leasing campaign started 2 years ago is drawing to a close with the centre almost fully leased. Moonee is likely to be a major beneficiary of the planned Coffs Harbour bypass as it's the only shopping centre adjacent to the proposed new highway between Sydney and Brisbane.

At Kempsey, a builder (O'Donnell Hanlon) has been contracted to build a new four screen Cinema on top of our shopping centre. This development is being supported by Gowings, Kempsey Shire Council, the Federal Government and Majestic Cinemas. On expected completion in September 2019, the cinema should provide a much-needed entertainment and cultural hub for Kempsey residents and the many tourists to the Macleay Valley and beaches.

At Port Macquarie we have lodged a DA to build new shops and 150 carparks on the block of land adjoining our shopping centre. This is to satisfy one of the pre-conditions for exercising our option with Port Macquarie Council over that land. During the half, Target exercised its option to remain in the centre for a further 5 years. We continue to have constructive discussions with Woolworths about joining us in the centre.

**MANAGING DIRECTORS REVIEW OF OPERATIONS (CONTINUED)**

The results for the year were impacted by the development works at Coffs Central, as existing retailers were given rental abatements to compensate them for the disruption during the construction process and capital that had previously been earning income by way of interest and dividends was deployed into: the Coffs redevelopment; Lyons Rd, "Sawtell Commons"; the Harbour Drive mixed-use development site and Surf Hardware International. A material improvement in recurring earnings is expected over the coming few years as these investments begin to generate positive income.

The board has declared a fully franked final dividend of 6 cents per share. We are reintroducing the DRP to help preserve capital. There is more detail on the above and our other investments in the accompanying commentary.



J. E. Gowing  
Director

**PROFIT AND LOSS STATEMENT**

For the year ended	31 Jul 2018 \$'000	31 Jul 2017 \$'000
<b>Net Income from Ordinary Activities</b>		
Interest Income	219	672
Investment Properties	8,119	8,810
Equities	618	1,173
Managed Private Equities	449	173
Surf Hardware International	821	802
<b>Total Net Income from Ordinary Activities</b>	<b>10,226</b>	<b>11,630</b>
<b>Head Office Expenses</b>		
Administration, public company and other	3,686	4,038
<b>Operational Profit</b>	<b>6,540</b>	<b>7,592</b>
<b>Gain/(loss) on sale or revaluation</b>		
Investment properties – unrealised gains	5,600	23,302
Investment properties – realised gains	(11)	-
Equity – realised gains	-	5,696
Equity – unrealised impairment	(1,546)	(518)
Managed private equity	(148)	(318)
Derivatives	(418)	367
<b>SHI Subsidiary</b>		
Acquisition Costs	(55)	(473)
SHI – consolidation acquisition cost of sales adjustment	(512)	(2,578)
<b>Other</b>		
Consulting Costs	(438)	(120)
Borrowings Break Costs	(1,790)	-
Other Costs	(72)	-
Other Income	28	(26)
<b>Profit before tax</b>	<b>7,178</b>	<b>32,924</b>
Income tax expense	(1,725)	(9,684)
<b>Profit after tax</b>	<b>5,453</b>	<b>23,240</b>

**COMMENTARY**

The **Company's focus** is to preserve and grow the value of its underlying financial and real assets and for Net Income from Ordinary Activities to be the principle source of income to pay ordinary dividends.

**Total Net Income from Ordinary Activities** of \$10.2 million was 12% lower than in the prior corresponding period and relates mainly to the reduction in investment property income due to abatements provided during construction and redevelopment of the centres. There was also a reduction in interest and dividend income earned due to lower cash and share portfolio balances.

**Total Head Office Expenses** of \$3.7 million were 9% lower than the prior corresponding period and were largely due to a reduction in employee expenses and travel costs.

**Investment properties – unrealised gains** of \$5.6 million for the current year was substantially lower than the prior year of \$23.3 million. The current year increase related to the revaluation of the Coffs Central shopping centre during the year after the successful redevelopment of the centre and a better than expected start to trading for the new full line Kmart store.

**Equity – unrealised impairment** of \$1.5 million relates to the write down of the investment in TPI Enterprises Limited.

## COMMENTARY (CONTINUED)

**SHI – consolidation acquisition cost of sales adjustment** – GBL acquired Surf Hardware International on 16 December 2016 and as a result of Australian Accounting Standards was required to record SHI inventory at fair value as at the date of acquisition. This represented an uplift of \$3.1 million to the carrying value of inventory compared to cost. Of this \$3.1 million uplift, \$0.5 million has been recorded as cost of sales as at 31 July 2018 compared to the \$2.6 million in the prior year. The uplift amount has now been totally released through cost of sales and will not appear in future periods.

**Borrowings Break Costs** of \$1.8 million were incurred with the consolidation of the groups financing facilities into a single \$116 million facility on the 18 July 2018 and relate to costs incurred in order to exit the previous interest rate swap and financing facilities.

**Other Consulting Costs** of \$0.4 million mainly due to consulting costs associated with the sales campaign for Port Central at the start of the financial year.

**Profit After Tax** was \$5.5 million, compared to \$23.2m on the prior corresponding period.

## KEY METRICS

	31 July 2018	31 July 2017	31 July 2016	31 July 2015	31 July 2014
Net Assets*	\$242.7m	\$237.9m	\$215.9m	\$203.3m	\$180.0m
Net Assets per Share**	\$4.52	\$4.43	\$4.02	\$3.77	\$3.34
Net profit after tax	\$5.5m	\$23.2m	\$22.0m	\$19.1m	\$14.1m
Earnings per Share**	10.15c	43.29c	40.9c	35.5c	26.1c
Dividends per Share**	12.0c	12.0c	12.0c	12.0c	12.0c
Total Shareholder Return	4.7%	13.2%	9.8%	16.30%	15.20%

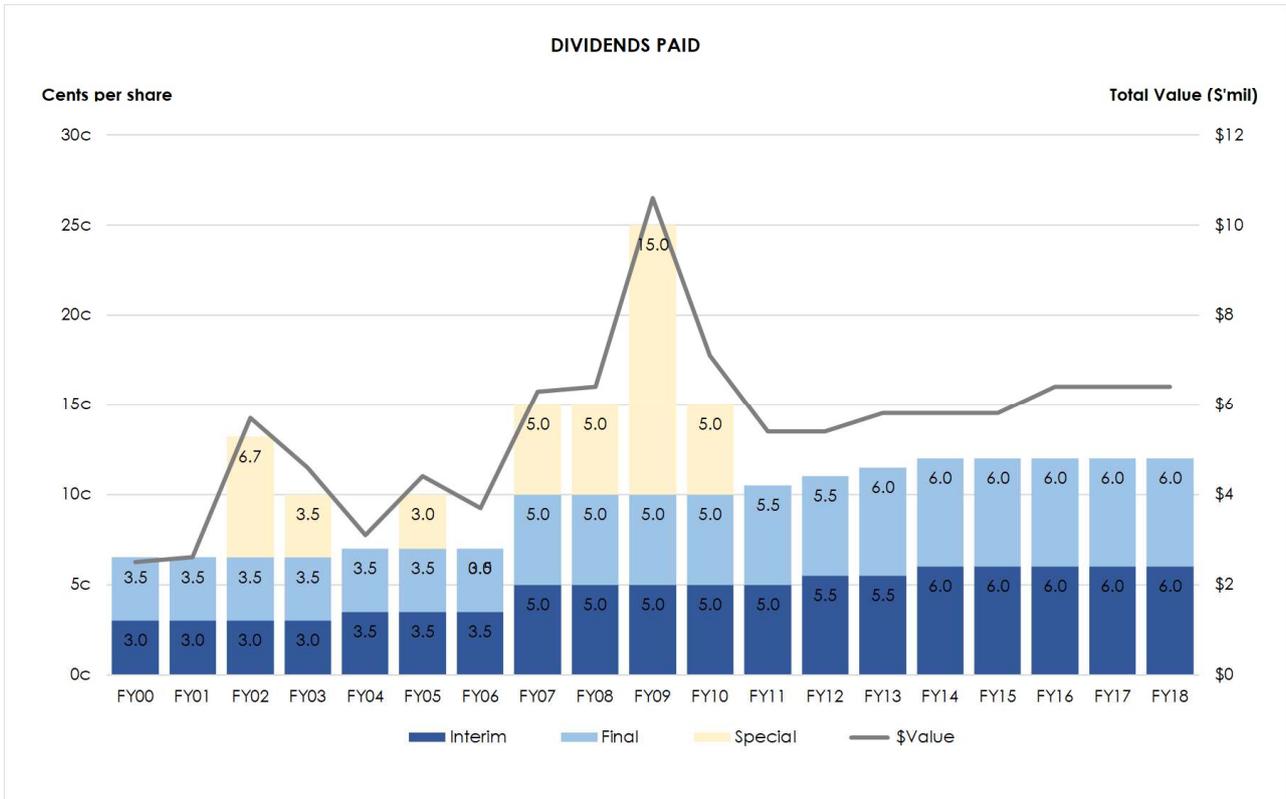
\* Net Assets before tax on unrealised gains on equities, investment properties, and freehold properties.

\*\* Net Assets per share before tax on unrealised gains on equities, investment properties, and freehold properties. Net Assets per share and Earnings per Share as at 31 July 2015 and previous years have been restated for comparative purposes to reflect the 1 for 10 bonus issue during FY16. Dividends per share have not been adjusted.

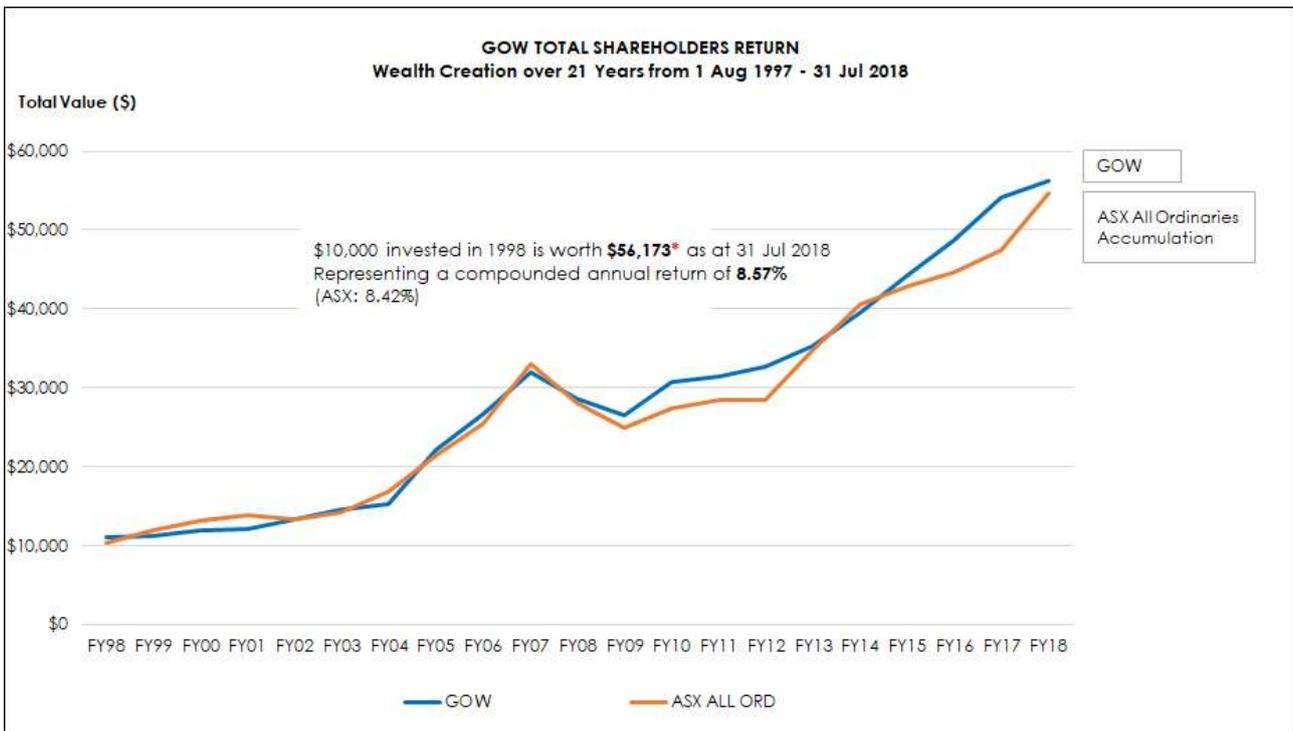
## SHAREHOLDER RETURNS

For the year ended 31 July 2018	Net Assets Before tax on unrealised capital gains	Net Assets After tax on unrealised capital gains	Net Tangible Assets Before tax on unrealised capital gains	Net Tangible Assets After tax on unrealised capital gains
Opening per share 31 Jul 2017	\$4.43	\$3.99	\$4.37	\$3.93
<b>Closing per share 31 Jul 2018</b>	<b>\$4.52</b>	<b>\$4.03</b>	<b>\$4.44</b>	<b>\$3.95</b>
Increase in net assets per share	\$0.09	\$0.04	\$0.07	\$0.02
Ordinary dividend paid	\$0.12	\$0.12	\$0.12	\$0.12
<b>Total return for the 12 month period (c)</b>	<b>\$0.21</b>	<b>\$0.16</b>	<b>\$0.19</b>	<b>\$0.14</b>
<b>Total return for the 12 month period (%)</b>	<b>4.7%</b>	<b>4.0%</b>	<b>4.3%</b>	<b>3.6%</b>

The Company meets the definition of a Listed Investment Company (“LIC”) for taxation purposes. Certain shareholders of the Company, including individuals, trusts, partnerships and complying superannuation entities may benefit from the Company’s LIC status by being able to claim a tax deduction for the part of the dividend that is attributable to LIC capital gains made by the Company. The amount that shareholders can claim as a tax deduction depends on their individual situation. As an example, an individual, trust (except a trust that is a complying superannuation entity) or partnership who is an Australian resident taxpayer at the date a dividend is paid would be entitled to a tax deduction equal to 50% of the amount attributable to LIC capital gains included in the dividend. In the case of a complying superannuation entity, who is an Australian resident taxpayer at the date a dividend is paid, this deduction would be 33.33% of the amount attributable to LIC capital gains included in the dividend.



The directors have declared a final fully franked dividend of 6c per share with a record date of 18 October 2018 and payment date of 13 November 2018.



The chart above shows the total shareholder return over a 20 year period made in Gowings has outperformed the ASX all ordinaries accumulation index.

## GOWINGS AT A GLANCE

	31 July 2018 \$'000	31 July 2017 \$'000
<b>Strategic Equity Investments</b>		
Surf Hardware International (at cost)	16,000	16,000
Boundary Bend Limited	14,834	13,961
Carlton Investments	5,648	5,521
Hydration Pharmaceuticals	2,665	2,003
Murray Darling Food Company	2,319	2,045
DiCE Molecules	2,237	1,230
Event Hospitality Group	1,654	1,578
BBBSA Finance	1,400	-
TPI Enterprises Limited	1,363	2,801
Hexima	749	749
Blackfynn	403	-
EFTsure	333	250
Power Pollen Accelerated Ag Technologies	260	-
Other listed investments	4,318	3,831
<b>Total</b>	<b>54,183</b>	<b>49,969</b>
<b>Private Equity Funds</b>		
Five V Capital	1,242	300
OurCrowd Australia	1,141	1,092
Our Innovation Fund	750	750
Macquarie Wholesale Co Investment Fund	-	884
Other Private Equity Funds	316	275
<b>Total</b>	<b>3,449</b>	<b>3,301</b>
<b>Pacific Coast Shopping Centre Portfolio</b>		
Sub-regional shopping centres	199,861	173,280
Neighbourhood shopping centres	48,800	45,300
Borrowings	(89,745)	(56,023)
<b>Total</b>	<b>158,916</b>	<b>162,557</b>
<b>Other Direct Properties</b>		
Sawtell Commons - residential subdivision	11,500	9,044
Solitary 30 - Coffs Harbour development land	3,200	3,190
Other properties	16,850	16,366
Borrowings	(1,600)	(1,675)
<b>Total</b>	<b>29,950</b>	<b>26,925</b>
<b>Cash and Other</b>		
Cash	4,065	4,435
Investment lending facility	-	3,000
Tax liabilities	(6,200)	(7,067)
Surf Hardware International consolidation impact <sup>1</sup>	(991)	(1,581)
Fair value impact of Sawtell Commons – residential subdivision <sup>2</sup>	(2,118)	-
Other assets & liabilities	1,410	(3,621)
<b>Total</b>	<b>(3,834)</b>	<b>(4,834)</b>
<b>Net assets before tax on unrealised gains on equities and investment properties</b>	<b>242,664</b>	<b>237,918</b>
Provision for tax on unrealised gains on equities, investment and direct properties	(26,699)	(23,942)
<b>Net assets after tax on unrealised gains on equities and investment properties</b>	<b>215,965</b>	<b>213,976</b>

1 Difference between the investment in Surf Hardware International (at cost) and net assets attributable to the group on consolidation.

2 Fair value of property is based on directors' valuation, however the property is recorded at cost in the statement of financial position as required by Australian Accounting Standards.

## INVESTMENT PORTFOLIO

### Strategic Equity Investments

#### Surf Hardware International (\$16 million)

We experienced another strong result from our European region in FY18 who continued their recent growth trajectory. Our Japanese business also grew their sales during the period and we successfully re-organised our USA business, hiring two new senior management staff, along with new sales representatives in the all-important Hawaiian and Californian territories.

Following on from these changes, the USA business performed well in the last quarter of the year and is now well positioned to grow in FY19.

The Australasian business saw improved results in the back half of the year and manufacturing sales to Asia were up on the prior year.

FY18 saw the launch of the FCS Freedom Leash, a new product innovation which drove considerable growth in this important category and created momentum around the FCS brand. Looking ahead to FY19, an extension of the product line and additional manufacturing capacity should support further growth in the FCS leash category.

Our Softech Softboard business also experienced strong growth in FY18 and the brand continues to grow supported by new products, the addition of key brand ambassadors and a shift toward soft surfboards for the beginner and intermediate surf markets.

The advent of wave pools and an increasing number of surf schools targeting the growing number of consumers wanting to try surfing for the first time should support further growth in all our businesses.

SHI's portfolio expanded during the period following the acquisition of the Kanulock brand, a market leader in the premium lockable roof rack tie-down category.

This acquisition is part of a broader strategy to expand the business beyond the current surf specialty channel and into the fast growing Outdoor & Adventure markets.

Opportunities for future growth exist via international expansion, extension of existing product lines and further channel development.

In FY19 we are planning growth across all regions with a specific focus on the USA and Australia.

Key focus areas will include leveraging our new product initiatives, including the new FCS board bag, bag & packs and travel accessory categories, continuing the growth in our softboard business and managing the successful integration of the Kanulock brand into the SHI business.

At 2018 year end we had upgraded our online direct-to-consumer websites to the Shopify platform. This should enhance the online customer experience and allow SHI to build meaningful online sales globally.

### Boundary Bend (\$14.8 million)

Boundary Bend is both Australia's and one of the world's leading producers of premium extra virgin olive oil and Australia's largest olive farmer. Boundary Bend produces Australia's two top selling home grown extra virgin olive oil brands, Cobram Estate and Red Island, whose sales have grown by 27% over the last 4 years. It owns 2.3 million producing trees on over 6,575 hectares of pristine Australian farmland located in the Murray Valley region of north-west Victoria. The underlying value of this olive producing land has appreciated strongly over the last few years. In addition to growing and pressing olives and producing olive oil, Boundary Bend operates a bottling, storage and laboratory facility near Geelong. Boundary Bend has expanded into the United States of America with groves, an olive mill, bottling facilities, laboratory and administrative offices in Woodland, California.

With a growing demand for high quality agricultural and horticultural produce from the emerging Asian middle class, Gowings believes Boundary Bend is well positioned for strong growth in Australia, Asia and the United States of America.

### Carlton Investments (\$5.6 million) and Event Hospitality Group (\$1.7 million)

Carlton Investments Limited is an investment company listed on the ASX. Incorporated in 1928, Carlton's principal activities are the acquisition and long term holding of shares and units in entities listed on the ASX.

The Group has a significant holding in Event Hospitality & Entertainment (EVT) - a group engaged in cinema exhibition in Australia, New Zealand and Germany, hotel management and ownership (Rydges, Atura and QT), operation of the Thredbo Alpine Resort and investment property ownership. Carlton, through its interest in Event has a significant investment in the Australian and New Zealand tourism sector, a growth sector benefiting from Chinese and international tourists looking for safe destinations.

### Hydration Pharmaceuticals (\$2.7 million)

Hydralyte markets great-tasting clinical hydration products scientifically formulated to contain the correct balance of glucose and electrolytes for rapid rehydration. Hydralyte products have up to 75% less sugar and four times the electrolytes compared to leading sports drinks and are based on the World Health Organization criteria for effective rehydration. Hydralyte products fill a consumer need by providing a solution that is both appealing and clinically effective.

Hydralyte's Canadian business continues to deliver strong year on year growth but uptake in the United States of America has been slower than expected. Hydralyte anticipates that increased investment in healthcare professional education, and a rollout in the regional grocery channel, will lead to a model of success that could be extended to national retailers in the USA. In addition, Hydralyte is driving ecommerce sales in the United States and continues to evaluate other global markets.

### Murray Darling Food Company (\$2.3 million)

FY18 saw Murray Darling Food Company (MDFC) enter its first full year of operations. The year started strongly with the purchase of "Packwood" an 840-acre property in Condobolin NSW. This property complements the existing Burrawang West Station "BWS" (Ootha NSW) and Bombah (Tottenham NSW) properties. Overall MDFC now has 18,268 acres of farmland over its three properties. Packwood is a strategic acquisition as not only does it provide the ability to carry more stock, but it also comes with water licences, access to a good supply of artesian water and also a prime Lucerne growing paddock on the river.

During the first part of the year the team at MDFC were busy clearing remnant vegetation land and fencing to create new grazing paddocks on BWS and Bombah. This development activity helped add \$1.0 million to the carrying value of the land which was supported by external valuations. From a trading perspective the October ram sale was another success setting industry benchmark prices. However, in the second half of the year, like all central NSW farmers, MDFC was impacted by the tough drought conditions. MDFC had to resort to purchasing fodder from external sources which had not been planned at the start of the year. To combat the dry conditions the board of MDFC approved the significant investment into 4 new centre pivot irrigation systems which were installed in July 2018, three deployed to BWS and the remaining one to Packwood. This will mean that even in the dry conditions substantial amounts of fodder will still be able to be produced on the land. Also, during the second half a number of the older commercial ewes were culled to reduce the overall flock size to reduce running costs. At 30 June 2018 MDFC was running 3,290 commercial ewes, with 2,084 stud ewes, and

673 stud rams. Even given the difficult conditions in the second half of the year MDFC was still able to record a profit, a considerable effort considering the drought.

The price for lamb has remained relatively strong due to the low levels of supply but this has been offset by the cost required to breed the lamb. The board of MDFC believes that the installation of the new irrigation pivots will see the company through this difficult period, allowing it to maintain stock levels to capitalise on when conditions improve and the industry returns to normal conditions.

#### DiCE Molecules (\$2.2 million)

DiCE Molecules is a privately held US biotechnology company with a technology platform that brings the power of directed evolution to the field of synthetic chemistry. DiCE's technology platform, which originated at Stanford University, has the potential to revolutionise small molecule drug discovery. DiCE's business model includes the generation of milestone and royalty revenue through drug discovery collaborations, with Sanofi and Genentech. It also looks to monetise its own drug development assets, the most advanced of which is in preclinical studies.

DiCE's technology has been industrialised and is now producing valuable drug development candidates. During the period DiCE triggered its first significant collaboration milestone, and they expect to earn milestone payments in excess of \$US10 million by the end of 2019.

DiCE has recently completed a further financing round at a step up in valuation, led by biotech-focused venture capital investors and we expect these domain-expert investors to bring valuable knowledge and network connections to DiCE's quickly expanding business.

#### BBBSA Finance (\$1.4 Million)

BBBSA Finance (BBBSA) is a specialist financial services lender offering business loans, valuations and M&A advice and execution services, specifically tailored for financial intermediaries. Clients include mortgage brokerage and financial planning firms, wealth management; insurance and finance brokers; residential real estate management and tax & accounting practices. Its advice and product offerings are broad and include a specialisation in SME and small listed companies.

The Group is headquartered in Sydney, Australia. Over the past 7 years BBBSA has launched a diverse range of innovative cash flow backed finance products for the financial service and property industries, particularly for mortgage brokers. This has enabled BBBSA to grow to almost \$10 billion dollars of underlying mortgages, real estate rental contracts and financial planning books that underpin its loan book security and which serve as the source of cashflows that support and service its loan book.

In late FY2018, Gowing's made a strategic investment and assumed a Board seat in BBBSA Finance Pty Ltd – [bbbsa.com.au](http://bbbsa.com.au)

#### TPI Enterprises Limited (\$1.4 million)

TPI Enterprises Limited uses poppy straws to manufacture narcotic raw materials (NRM) used to create drugs such as morphine, thebaine, oripavine, and codeine. TPI converts the raw material into Active Pharmaceutical Ingredients which are then processed into Finished Dosage Formula (tablets) via its recently acquired Norwegian facility. Additionally, TPI sells poppy seed for culinary purposes.

TPI's stock performance has been poor over the last half following an earnings downgrade due to limited imported Poppy Straw supply in 2H 2017, unfavourable foreign exchange rates and softer than expected sales into the UK.

However, 2018 is looking to be a favourable year as TPI expects to generate \$50 million in revenue and come closer to breakeven. The Norwegian acquisition of Vistin was an important strategic step for TPI as it has allowed for vertical integration through the supply chain and the immediate ability to add value to the narcotic raw material produced in Australia into a final tablet form in Norway. By expanding down the supply chain TPI has potential to significantly increase margin and broaden its customer universe from a small number of raw material customers to a wide range of end use customers.

During the period Peter Robinson stepped down as chairman being replaced by Simon Moore, ex-managing director and global partner at The Carlyle Group.

#### Hexima (\$0.7 million)

Hexima is a biotechnology company actively engaged in the research and development of plant-derived proteins and peptides for applications in human therapeutics and for the genetic modification of crops. Hexima conducts most of its research under contract with La Trobe University and has five main areas of interest: plant fungal disease, insect resistance, human antifungal, non-melanoma skin cancer, and multi-gene expression vehicle.

Hexima has been focusing on its flagship research (HXP124) which presents the most likely source of increased shareholder value in the short to medium term. HXP124, is designed to treat fungal nail infections and has secured patents across USA, Japan, China, Mexico and Europe. HXP124 kills nail fungi much better than current treatments and looks to address a market that is expected to grow to US\$4.7b by 2021. During the period, Hexima has obtained Human Research Ethics Committee approval to conduct a clinical trial of HXP124 in patients with fungal nail infections.

#### Blackfynn (\$0.4 Million)

During the period Gowings Bros made an investment in Blackfynn, a Philadelphia based early stage company that is accelerating new treatments for neurological disease. Blackfynn aims to create better therapeutics through data and treat neurological diseases like Epilepsy, Parkinson's disease and Alzheimer's. Their solutions cover closed loop implanted devices for personalised therapy, analysing real-time patient data to improve clinical outcomes, lower cost, and facilitating the discovery of biomarkers and targets for drug development.

#### EFTsure (\$0.3 million)

EFTsure is an Australian owned IT company incorporated to deliver electronic payment authentication services to its customers. EFTsure has developed a real-time authentication software solution which verifies payee name data with BSB and account numbers to prevent fraud and erroneous transactions by cross checking data prior to release of funds and ensuring authentic payments.

We are pleased to see strong expansion of EFTsure over the period, with key updates including the signing of multiple councils (50% of NSW councils expected to sign on by end 2018) and further engagement with major Australian banks.

We have also been pleased to see the further growth in customers, new product features and the corresponding expansion of all aspects of the service.

#### PowerPollen Accelerated Ag Technologies (\$0.3 million)

During the period Gowings made an investment into PowerPollen, an early stage Agricultural Bio Tech company based in Iowa, USA, that is working on an advanced yield enhancement technology that enables higher productivity in seed and grain production. PowerPollen has created a paradigm shift in agriculture by revolutionizing how plants reproduce, providing unprecedented control of pollination that simplifies corn seed production while enabling hybrid production and higher profits in current low profit crops like wheat. This breakthrough may increase farmer profits and global food supplies that are necessary to feed the growing global population.

Since Gowings' recent investment, PowerPollen has negotiated an additional investment from two major partners and users of its technology. This was an up-round, resulting in a 10% increase in Gowings investment over this short period. PowerPollen won the Technology Association of Iowa AgTech company of the year award for 2018.

## Private Equity Funds

### Five V Capital (\$1.2 million)

Five V Capital has been set up and managed by Adrian MacKenzie and Srdjan Dangubic, experienced Australian private equity and venture capital managers with whom Gowings have enjoyed a long relationship. Gowings have committed \$1 million to Five V's Fund II (together with co-investment amounts to date of \$0.6 million) which invests in businesses across Australia and New Zealand. The principals of Five V Capital have committed a substantial amount of their own capital to Fund II, driving alignment of interests between the managers and investors.

Over the year Five V has made significant investments into portfolio companies including RateSetter Australia, Education Perfect and The Probe Group. Five V's recent investment in The Probe Group saw the fund run a simultaneous acquisition and combination of two Customer Management Outsourcing businesses run by a market leading management team. The combination has created a market leading business and enabled the delivery of meaningful synergies.

The portfolio is performing well, with a robust and healthy pipeline to deploy the remaining committed capital. During the period we received a return of \$0.1 million as part of Fund II interest in Five V's initial Fund I.

### OurCrowd Australia (\$1.1 million)

OurCrowd is one of the leading global equity crowdfunding platforms for accredited investors. Managed by a team of seasoned investment professionals, OurCrowd vets and selects opportunities, invests its own capital, and brings companies to its accredited membership of global investors. OurCrowd provides post-investment support to its portfolio companies, assigns industry experts as mentors, and takes board seats.

The OurCrowd community of almost 17,000 investors from over 110 countries has reached \$1 billion in funds under management with over 110 portfolio companies and funds. Gowings has made a \$US0.9 million investment into OurCrowd of which \$US0.68 million has been deployed across 21 companies covering healthcare, tech hardware, software, fintech, and mobility, the remaining capital being available for follow on rounds in successful companies. Our best performers to date are Zoomcar, a self-drive car rental company headquartered in Bangalore, with an unrealised return of 41%, and Wave, a financial and accounting software company, which has an unrealised return of 66% to date.

Gowings takes a diversified approach with the philosophy that out of ten investments, two will fail, six will provide an acceptable return, and two will be top performers that drive the portfolio return. Our connection to OurCrowd keeps us informed as to what is happening globally in the early to mid-stage technology space. We are hoping to leverage this with our new funds management strategy and platform.

### Our Innovation Fund (\$0.8 million)

Our Innovation Fund LP ("OIF") is an early stage venture capital limited partnership (ESVCLP) fund which invests in Australian based early stage, innovative technology businesses with the potential for high growth and attractive returns. The Fund is run by a team with decades of experience investing in and building technology businesses and is capitalising on the Australian government's National Innovation and Science Agenda, seeking to stimulate the Australian innovation ecosystem with various grants and tax concessions.

The Fund makes investments throughout various stages of company development (from seed through to early expansion), with attention given to the experience and mindset of the founders of potential investee companies, potential for the long-term success of business models and the potential investment returns for Limited Partners in the Fund.

OIF has continued to deploy capital over the period with five new investments across the financial year, taking the total portfolio up to nine companies including investments in enterprise software, hardware/devices and financial technology businesses. Performance has been in line with expectations and we are encouraged by the progress the portfolio companies have made.

OIF adds value to portfolio companies helping them to grow and succeed, and the Fund is continuing to look for solid opportunities to deploy further capital. The management of OIF has a close relationship to OurCrowd and also holds an investment in EFT Sure.

## **Pacific Coast Shopping Centre Portfolio**

### Port Central

Port Central continues to be a core asset that performs solidly within the Pacific Coast Shopping Centre portfolio. With the Port Macquarie Hastings region expected to grow 26% by 2036, the centre is well placed and tenanted to capitalise on this forecasted economic growth.

During the period Gowings lodged a DA for a building on the adjoining block of land, currently owned by Port Macquarie Hastings Council. Gowings has a conditional purchase option over this land. One of the conditions is to submit and have a DA for a new building with 150 additional car parks approved. This DA will be considered by council and referred to Joint Regional Planning Authority. We continue to hold constructive discussions with Woolworths about joining us at Port Central.

### Coffs Central

During the period, Gowings completed the \$35 million development of Coffs Central which included the extension of the centre to the adjoining site on the corners of Harbour Drive, Gordon and Vernon Streets. The new extension includes one floor of underground parking, ground and first floor retail, second floor parking and third and fourth floor commercial office space. 75% of the new commercial office space has been leased to BCU as an anchor tenant, which also has 50% of the new ground floor retail space.

The building extension also included a reconfiguration of the first floor for a new full line Kmart which commenced trading in March and an additional 20 specialty stores.

Provision has been made on the new building to allow for an additional DA-approved hotel with 5 floors of rooms and rooftop dining. We continue to evaluate the economics of this development which would be a great addition for Coffs Harbour.

### Kempsey Central

Work has now commenced on the new cinema complex on top of Kempsey Central. The cinema is a public to-private partnership between Gowings, Kempsey Council and the Federal Government with Majestic Cinemas being appointed as the cinema operator. The cinema will be completed in the final quarter of 2019. The centre will continue to operate during the construction phase with as little as possible disruption to our retailers. The cinema will drive increased foot traffic and sales by attracting the local and tourist population into the centre.

### Moonee Marketplace

The multi-million dollar upgrade of Moonee Marketplace continued during the period, including an all-weather roof, establishing a food court area, installing new flooring throughout and upgrading the amenities. The upgrade has meant that Gowings has successfully attracted new tenants and the centre is now effectively leased. New centre retailers include Russell's Prime Meats, Moonee Dental and Facial, La La Land indoor play centre, Kinetic Martial Arts, Sugarmill cafe, Lighthouse Health and Education and Moon Dragon restaurant. Improved centre occupancy has resulted in positive cashflow with an associated significant appreciation in the underlying value of the centre. The newly funded Coffs Harbour bypass means that Moonee Marketplace is well placed to capture increased trade as it will be the first shopping stop available to people travelling North, after bypassing Coffs

Gowings is also exploring development opportunities for the adjoining vacant lot of 9,000sqm including aged care, service station and mixed-use options.

## Other Direct Properties

### Sawtell Commons – Residential Subdivision

Sawtell Commons, 'between the mountains and the sea' is a DA approved residential sub-division located near Sawtell, 8km South of Coffs Harbour.

Development approval has already been secured for 165 lots and a second application for 220 lots has been submitted to Council for approval. Block sizes range from 450m<sup>2</sup> to 850m<sup>2</sup>, all with North-South or East-West orientation with access to cycleways and pathways connecting natural vegetation areas to creek reserves and parklands.

First stage release and pre-sales are expected to commence in the last quarter of 2018.

Due to strong market demand for residential land in Coffs Harbour, the expression of interest campaign that we ran in Coastbeat magazine has already attracted 34 enquiries from prospective EOI purchasers that if converted would result in pre-sales of over \$10 million.

### Solitary – Development Site

Gowings continues to hold and undertake development planning for the 3,000m<sup>2</sup> development site at the prominent Jetty Village in Coffs Harbour.

The site is considered one of the best development sites in Coffs Harbour and its use is currently being evaluated subject to some potential heritage issues for residential, hotel and mixed use.

## New Ventures – Media & Wealth Management

### 1868 Capital Pty Ltd

Gowings, under four generations of the Gowing Family has prospered through 150 years of economic booms and busts, world wars and market crashes. Gowings has been investing for decades and as part of this focus was one of the founding investors in Woolworths. In the 1950's, a significant reallocation of capital was made into listed equities. Since then, the Company's investment portfolio mix has shifted between equities, property, and private equity investments according to the prospective outlook for each one.

'1868 Capital' - Gowings' Australian Financial Services Licensed business - utilises experience in investing for the long term across multiple asset classes and provides these opportunities to investors to co-invest alongside Gowings. 1868 Capital will develop a range of funds for investors based on the following principles:

- The funds are aligned to the core values of Gowings
- Management is experienced in the sector and have invested in the business
- There are barriers to entry in the chosen market
- The business operates in a market niche with defined global growth path
- The operating model of the business is aligned to a number of global trends
- The business is fairly priced
- The Gowings network can add value to the business.

Within each fund, 1868 Capital will be a cornerstone investor and expects to be launching several funds over the next year.

### Coastbeat Pty Ltd

Gowings established Coastbeat in December 2017 due to the significant stake we hold in the North Coast of NSW though the ownership of the Pacific Coast Shopping Centre portfolio and other properties such as Sawtell Commons & Solitary 30.

We have created a digital and print media platform where the Coastbeat community can communicate, share and learn more about the region. Supporting the locals by showcasing their work, creating jobs in the area and care for our environment were also key motives behind its creation. We have successfully secured regional foundation sponsors including Destination Coffs Coast and advertising revenues have a positive outlook.

## DIRECTORS' REPORT

### DIRECTORS

The names of each person serving as a director or executive, either during or since the end of the year, are set out below:

<b>Name</b>	<b>Position</b>
Professor J. West	Non-Executive Chairman
J. E. Gowing	Managing Director
J. G. Parker	Non-Executive Director
S. J. Clancy	Non-Executive Director
N. Rogan	Head of Funds Management
G. J Grundy	General Manager and Company Secretary (Resigned 20 July 2018)
R. Ambrogio	Chief Financial Officer

### REVIEW OF OPERATIONS

Refer to results for announcement to the market.

### ROUNDING OFF

The company is of a kind referred to in ASIC Corporations (Rounding in the Financial/ Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

Dated this 14th day of September 2018 in accordance with a resolution of the directors.



J. E. Gowing  
Director

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

For the year ended	Notes	31 July 2018 \$'000	31 July 2017 \$'000
<b>Revenue</b>			
Interest income		219	672
Equities		618	1,173
Private equities		449	173
Investment properties	5	19,829	19,672
Revenue from the sale of goods (Surf Hardware International)		37,189	24,546
<b>Total revenue</b>		<b>58,304</b>	<b>46,236</b>
<b>Other income</b>			
Gains / (losses) on disposal or revaluation of:			
Equities		-	5,696
Private equities		(148)	(318)
Investment properties	5	5,589	23,302
Derivatives		(418)	367
Other income		739	299
<b>Total other income</b>		<b>5,762</b>	<b>29,346</b>
<b>Total revenue and other income</b>		<b>64,066</b>	<b>75,582</b>
<b>Expenses</b>			
Investment property	5	8,342	7,876
Finished goods, raw materials and other operating expenses (Surf Hardware International)		37,136	26,313
Administration		1,745	1,532
Borrowing cost		5,230	2,986
Depreciation		603	469
Employee benefits		1,776	1,948
Public company		455	543
Business acquisition costs		55	473
<b>Total expenses</b>		<b>55,342</b>	<b>42,140</b>
<b>Profit from continuing operations before impairment &amp; income tax expense</b>		<b>8,724</b>	<b>33,442</b>
Unrealised impairment - equities		(1,546)	(518)
<b>Profit before income tax expense</b>		<b>7,178</b>	<b>32,924</b>
Income tax expense	4	(1,725)	(9,684)
<b>Profit from continuing operations</b>		<b>5,453</b>	<b>23,240</b>
<i>Profit from continuing operations is attributable to:</i>			
Members of Gowing Bros. Limited		5,453	23,242
Non-controlling interests		-	(2)
<b>Profit from continuing operations</b>		<b>5,453</b>	<b>23,240</b>

The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying Notes.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended	Notes	31 July 2018 \$'000	31 July 2017 \$'000
<b>Profit from continuing operations</b>		<b>5,453</b>	<b>23,240</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified to profit or loss:</b>			
Transfer from unrealised reserves for realised (gains) / losses net of tax		-	(3,528)
Increase in fair value of investments net of tax		2,257	1,984
Exchange rate differences on translating foreign operations net of tax		302	(162)
Gain on revaluation of property, plant and equipment net of tax		554	345
<b>Total comprehensive income</b>		<b>8,566</b>	<b>21,879</b>
<i>Total comprehensive income attributable to:</i>			
Members of Gowing Bros. Limited		8,566	21,881
Non-controlling interests		-	(2)
<b>Total comprehensive income</b>		<b>8,566</b>	<b>21,879</b>
<b>Earnings per share</b>			
Basic earnings per share	10	10.15c	43.29c
Diluted earnings per share	10	10.15c	43.29c

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.*

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	31 July 2018 \$'000	31 July 2017 \$'000
<b>Current assets</b>			
Cash and cash equivalents		5,294	5,886
Development properties		-	297
Loans receivable		-	3,000
Inventories		6,234	6,636
Trade and other receivables		7,789	7,527
Other		1,271	1,220
<b>Total current assets</b>		<b>20,588</b>	<b>24,566</b>
<b>Non-current assets</b>			
Trade and other receivables		567	760
Loans receivable		1,400	-
Equities		36,783	33,969
Private equities		3,449	3,301
Development properties		14,145	13,707
Investment properties	5	256,678	226,661
Property, plant and equipment		8,749	7,828
Intangibles		4,302	3,550
Deferred tax assets		5,070	4,631
Other		2,025	1,839
<b>Total non-current assets</b>		<b>333,168</b>	<b>296,246</b>
<b>Total assets</b>		<b>353,756</b>	<b>320,812</b>
<b>Current liabilities</b>			
Trade and other payables		4,711	9,902
Borrowings		455	9,330
Derivatives		708	733
Current tax liabilities		357	2,085
Provisions		1,222	1,075
<b>Total current liabilities</b>		<b>7,453</b>	<b>23,125</b>
<b>Non-current liabilities</b>			
Trade and other payables		248	275
Borrowings		92,009	49,023
Provisions		469	498
Deferred tax liabilities		37,612	33,915
<b>Total non-current liabilities</b>		<b>130,338</b>	<b>83,711</b>
<b>Total liabilities</b>		<b>137,791</b>	<b>106,836</b>
<b>Net assets</b>		<b>215,965</b>	<b>213,976</b>
<b>Equity</b>			
Contributed equity	7	12,476	12,611
Reserves	9	106,342	103,229
Retained profits	6	97,149	98,138
<b>Contributed equity and reserves attributable to members of Gowings Bros. Limited</b>		<b>215,967</b>	<b>213,978</b>
Non-controlling interests		(2)	(2)
<b>Total equity</b>		<b>215,965</b>	<b>213,976</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed Equity \$'000	Capital Profits Reserve- Pre CGT \$'000	Revaluation Reserves \$'000	Foreign Currency Translation Reserve \$'000	Retained Profits \$'000	Non- Controlling Interests \$'000	Total \$'000
<b>Balance at 31 July 2016</b>	<b>12,652</b>	<b>90,503</b>	<b>14,087</b>	<b>-</b>	<b>81,338</b>	<b>-</b>	<b>198,580</b>
Total comprehensive income for that year	-	-	(1,199)	(162)	23,242	(2)	21,879
<i>Transactions with owners in their capacity as owners:</i>							
Share buy-back	(41)	-	-	-	-	-	(41)
Dividends Paid	-	-	-	-	(6,442)	-	(6,442)
<b>Balance at 31 July 2017</b>	<b>12,611</b>	<b>90,503</b>	<b>12,888</b>	<b>(162)</b>	<b>98,138</b>	<b>(2)</b>	<b>213,976</b>
Total comprehensive income for that year	-	-	2,811	302	5,453	-	8,566
<i>Transactions with owners in their capacity as owners:</i>							
Share buy-back	(135)	-	-	-	-	-	(135)
Dividends Paid	-	-	-	-	(6,442)	-	(6,442)
<b>Balance at 31 July 2018</b>	<b>12,476</b>	<b>90,503</b>	<b>15,699</b>	<b>140</b>	<b>97,149</b>	<b>(2)</b>	<b>215,965</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended	Notes	31 July 2018 \$'000	31 July 2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts in the course of operations (inclusive of GST)		62,010	48,300
Payments to suppliers and employees (inclusive of GST)		(54,079)	(36,687)
Dividends received		618	1,172
Interest received		497	465
Borrowing costs		(3,454)	(2,986)
Income taxes paid		(1,380)	(5,780)
<b>Net cash inflows from operating activities</b>		<b>4,212</b>	<b>4,484</b>
<b>Cash flows from investing activities</b>			
Payments for purchases of properties, plant and equipment		(733)	(297)
Payments for purchases of intangibles		(752)	(117)
Payments for purchases of development properties		(438)	(12,244)
Payments for purchases of investment properties		(29,026)	(12,653)
Payments for purchases of equity investments		(1,975)	(6,198)
Loans made		(1,400)	(997)
Proceeds from repayment of loans made		3,000	-
Proceeds from sale of properties, plant and equipment		-	3
Proceeds from sale of equity investments		543	22,046
Proceeds from sale of investment properties	5	896	1,600
Proceeds from loans on development properties		-	391
Payment for subsidiary, net of cash acquired		-	(14,293)
Proceeds from sale of development properties		-	85
<b>Net cash outflows from investing activities</b>		<b>(29,885)</b>	<b>(22,674)</b>
<b>Cash flows from financing activities</b>			
Payments for share buy-backs	7	(135)	(41)
Proceeds from borrowings		33,764	35,667
Repayment of borrowings		(79)	(26,105)
Payments for derivatives		(2,027)	-
Dividends paid	8	(6,442)	(6,442)
<b>Net cash inflows from financing activities</b>		<b>25,081</b>	<b>3,079</b>
Net decrease in cash held		(592)	(15,111)
Cash and cash equivalents at the beginning of the financial year		5,886	20,997
<b>Cash and cash equivalents at the end of the financial year</b>		<b>5,294</b>	<b>5,886</b>

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.*

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The preliminary final report is presented in Australian dollars and is prepared under the historical cost convention, modified by the revaluation of listed equities and direct unlisted investments (available-for-sale financial assets), private equities (financial assets at fair value through profit or loss), derivatives (financial liabilities at fair value through profit or loss), investment properties and certain classes of property, plant and equipment.

Conforming to Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the Group's accounting policies. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these sources.

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

This report is based on financial statements which are in the process of being audited.

### 2. SEGMENT INFORMATION

The Group comprises of the following business segments, based on the Group's management reporting systems:

- Cash and fixed interest
- Equities
- Private equities
- Investment properties
- Development properties
- Surf Hardware International business
- Other

For the year ended	31 July 2018 \$'000	31 July 2017 \$'000
<b>Segment revenue</b>		
Cash and fixed interest – interest received	219	672
Equities – dividends and option income	618	1,173
Private equities – distributions received	449	173
Investment properties – rent received	19,829	19,672
Surf Hardware International business – sale of goods	37,189	24,546
	<b>58,304</b>	<b>46,236</b>
<b>Segment other income</b>		
Equities – realised gains on disposal	-	5,696
Private equities – unrealised fair value gains/(losses)	(148)	(318)
Investment properties – unrealised fair value gains	5,589	23,302
Other	321	666
	<b>5,762</b>	<b>29,346</b>
<b>Total segment revenue and other income</b>	<b>64,066</b>	<b>75,582</b>

## 2. SEGMENT INFORMATION (CONTINUED)

For the year ended	31 July 2018 \$'000	31 July 2017 \$'000
<b>Segment result</b>		
Cash and fixed interest	219	672
Equities	(928)	6,351
Private equities	301	(145)
Investment properties	11,846	32,112
Surf Hardware International business	308	(1,776)
Other	(4,568)	(4,290)
<b>Total segment result</b>	<b>7,178</b>	<b>32,924</b>
Income tax (expense)	(1,725)	(9,684)
<b>Net profit after tax</b>	<b>5,453</b>	<b>23,240</b>

As at	31 July 2018 \$'000	31 July 2017 \$'000
<b>Segment assets</b>		
Cash and fixed interest	5,294	5,886
Equities	36,783	33,969
Private equities	3,449	3,301
Investment properties	256,678	226,661
Development properties	14,145	14,004
Surf Hardware International business	15,691	14,841
Unallocated assets	21,716	22,150
<b>Total assets</b>	<b>353,756</b>	<b>320,812</b>
<b>Segment liabilities</b>		
Investment properties	91,345	57,698
Surf Hardware International business	4,193	3,383
Unallocated liabilities	42,253	45,755
<b>Total liabilities</b>	<b>137,791</b>	<b>106,836</b>

## 2. SEGMENT INFORMATION (CONTINUED)

For the year ended	31 July 2018 \$'000	31 July 2017 \$'000
Payments for the acquisition of:		
- Investment properties	29,026	12,653
- Development properties	438	12,244
- Equities	1,975	6,198
- Surf Hardware International business, net of cash acquired	-	14,293
Gains / (losses) on disposal or revaluation of:		
- Investment properties	5,589	23,302
- Equities	-	5,696
- Private equities	(148)	(318)
- Impairment – equities	(1,546)	(518)
Unallocated:		
- Payments for the acquisition of property, plant and equipment	733	297

### Accounting policies

Segment information is prepared in conformity with the accounting policies of the Group.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to a segment on a reasonable basis.

#### *All segments other than Surf Hardware International business segment*

Segment assets include all assets used by a segment and consist primarily of operating cash, investments, investment properties, development properties and plant and equipment, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist of borrowings. Segment assets and liabilities do not include income taxes. Tax assets and liabilities, trade and other creditors and employee entitlements and goodwill are represented as unallocated amounts.

#### *Surf Hardware International business segment*

Segment assets include all assets (excluding operating cash of \$1.23 million [2017: \$1.45 million] which is included in the cash segment) used by the Surf Hardware International business segment and consist primarily of trade and other receivables, inventories, plant and equipment and intangibles, net of related provisions. Segment liabilities consist of borrowings, trade and other payables and employee entitlements. Segment assets and liabilities do not include income taxes. Tax assets and liabilities are represented as unallocated amounts.

### Segment cash flows

Segment information is not prepared for cash flows as management consider it not relevant to users in understanding the financial position and liquidity of the Group.

## 3. OPERATING PROFIT

For the year ended	31 July 2018 \$'000	31 July 2017 \$'000
Profit from continuing operations before income tax expense includes the following specific items:		
<b>Gains</b>		
Private equity investment distributions	449	173
<b>Expenses</b>		
Interest and other borrowing costs	5,230	2,986
Employee benefits	11,166	7,908
Cost of sales	21,926	16,795

**4. INCOME TAX EXPENSE**

For the year ended	31 July 2018 \$'000	31 July 2017 \$'000
Current tax	39	2,421
Deferred tax	1,835	7,658
(Over) / under provided in prior years	(149)	(395)
	<b>1,725</b>	<b>9,684</b>
Income tax attributable to:		
Profit from continuing operations	1,725	9,684
Aggregate income tax expense on profit	1,725	9,684
<b>Reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	7,178	32,924
Tax at the Australian tax rate of 30% (2017: 30%)	2,153	9,877
Deferred tax assets not recognised	-	409
Deferred tax assets recorded not previously recognised	(321)	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-assessable income / Non-deductible expenses	144	49
Franked dividends	(102)	(256)
(Over) / under provision in prior year	(149)	(395)
<b>Income tax expense</b>	<b>1,725</b>	<b>9,684</b>
<b>Amounts recognised directly in equity</b>		
Aggregated current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or (credited) to equity	1,204	(503)

**5. NON-CURRENT INVESTMENT PROPERTIES**

For the year ended	31 July 2018 \$'000	31 July 2017 \$'000
<b>At fair value</b>		
Balance at beginning of year	226,661	192,716
Additions	26,276	15,041
Disposal proceeds	(896)	(1,600)
Net loss on disposal	(11)	-
Transfers in / (out)	297	(1,582)
Amortisation on incentives	(1,249)	(1,216)
Net gain from fair value adjustment	5,600	23,302
<b>Balance at end of year</b>	<b>256,678</b>	<b>226,661</b>
<b>Amounts recognised in profit of loss for investment properties</b>		
Rental revenue	19,829	19,672
Direct operating expenses from rental generating properties	(8,342)	(7,876)
Net loss on disposal	(11)	-
Gain on revaluation	5,600	23,302
	<b>17,076</b>	<b>35,098</b>

## 5. NON-CURRENT INVESTMENT PROPERTIES (CONTINUED)

Change in fair values of investment properties are recorded in other income

	Valuation Method	Weighted average cap rate 2018	Weighted average cap rate 2017	31 July 2018 \$'000	31 July 2017 \$'000
Sub-regional shopping centres (Coffs Central & Port Central)	(a)	6.25%	6.47%	199,861	173,280
Neighbourhood shopping centres (Kempsey Central & Moonee Marketplace)	(a)	7.25%	7.38%	48,800	45,300
Other properties	(b)	n/a	n/a	8,017	8,081
				<b>256,678</b>	<b>226,661</b>

- (a) Fair value is based on capitalisation rates, which reflect vacancy rates, tenant profile, lease expiry, developing potential and the underlying physical condition of the centre. The higher the capitalisation rate, the lower the fair value. Capitalisation rates used at 31 July 2018 were based on management prepared valuations and externally prepared valuations.

Where a property is under development, the investment property fair value is based on the fair value of the property "as if complete" less the estimated costs to complete. Development risks (such as construction and letting risks) are taken into consideration when determining the fair value of investment property.

- (b) Current prices in an active market for properties of similar nature or recent prices of different nature in less active markets.

## 6. RETAINED PROFITS

As at	31 July 2018 \$'000	31 July 2017 \$'000
Retained profits at the beginning of the financial year	98,138	81,338
Net profit attributable to members of Gowing Bros. Limited	5,453	23,242
Dividends provided for or paid	(6,442)	(6,442)
	<b>97,149</b>	<b>98,138</b>

## 7. CONTRIBUTED EQUITY AND ISSUED SECURITIES

	Number of shares 31 July 2018	Number of shares 31 July 2017	31 July 2018 \$'000	31 July 2017 \$'000
<b>Share capital</b>				
Ordinary shares fully paid	53,632,915	53,680,259	12,476	12,611

### Movements in ordinary share capital

Date	Details	Number of shares	Issue price per share	\$'000
31/07/2017	Balance	53,680,259		12,611
27/06/2018	Share buy back	(47,344)	2.85	(135)
<b>31/07/2018</b>	<b>Balance</b>	<b>53,632,915</b>		<b>12,476</b>

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

### Dividend Reinvestment Plan

The Dividend Reinvestment Plan may be offered to shareholders by Directors and allows shareholders to reinvest dividends into shares in the Company. The Dividend Reinvestment Plan is in place for the final dividend declared on 14 September 2018. The last date for the receipt of an election for participation in the Dividend Reinvestment Plan is 2 November 2018.

## 7. CONTRIBUTED EQUITY AND ISSUED SECURITIES (CONTINUED)

### Deferred Employee Share Plan

The Deferred Employee Share Plan may be used as part of any incentive payments for all employees. For transaction cost reasons, where possible shares bought back as part of the Company's ongoing capital reduction program are recognised for this purpose rather than cancelled.

### Options

There were no options on issue at the time of this report.

### On-market share buy back

47,344 shares were bought back during the year (2017: 11,940).

## 8. DIVIDENDS

	Cents per share	Total amount \$	Date of payment
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The following dividends were declared and paid by the Group during the year ended 31 July 2018:

Final fully franked dividend	6.0 cents	3,220,816	26 October 2017
Interim fully franked dividend	6.0 cents	3,220,816	26 April 2018

Dividends paid during the year were fully franked at the tax rate of 30%.

Since the end of the year ended 31 July 2018, the directors declared the following dividend:

Final fully franked dividend	6.0 cents	3,217,975	13 November 2018
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The dividend declared since the year end will be fully franked at the tax rate of 30%.

## 9. RESERVES

As at	31 July 2018 \$'000	31 July 2017 \$'000
<b>Capital profits reserve<sup>1</sup></b>		
Opening balance	90,503	90,503
Transfer from retained profits	-	-
<b>Closing balance</b>	<b>90,503</b>	<b>90,503</b>
<b>Long term investment revaluation reserve<sup>2</sup></b>		
Opening balance	11,851	13,395
Fair value adjustments on available for sale assets		
- Equities	3,224	(2,195)
- Deferred tax applicable to fair value adjustments	(967)	651
<b>Closing balance</b>	<b>14,108</b>	<b>11,851</b>
<b>Asset revaluation reserve<sup>3</sup></b>		
Opening balance	1,037	692
Fair value adjustments on property, plant and equipment		
- Property, plant and equipment	791	493
- Deferred tax applicable to fair value adjustments	(237)	(148)
<b>Closing balance</b>	<b>1,591</b>	<b>1,037</b>
<b>Foreign currency translation reserve<sup>4</sup></b>		
Opening balance	(162)	-
Exchange differences on translation of foreign operations	302	(162)
<b>Closing balance</b>	<b>140</b>	<b>(162)</b>
<b>Total reserves</b>	<b>106,342</b>	<b>103,229</b>

## 9. RESERVES (CONTINUED)

<sup>1</sup> The capital profits reserve is used to record pre-CGT profits.

<sup>2</sup> The long term investment revaluation reserve is used to record increments and decrements on equities recognised in other comprehensive income. Amounts are reclassified to profit or loss when the equities are sold. Impaired amounts are recognised in profit or loss.

<sup>3</sup> The asset revaluation reserve is used to record increases and decreases in the fair value of property, plant and equipment recognised in other comprehensive income.

<sup>4</sup> The foreign currency translation reserve records exchange rate differences arising on translation differences on foreign controlled subsidiaries.

## 10. EARNINGS PER SHARE

For the year ended	31 July 2018	31 July 2017
Basic earnings per share (cents)	10.15c	43.29c
Diluted earnings per share (cents)	10.15c	43.29c
Weight average number of ordinary shares on issue (basic and diluted)	53,675,837	53,683,040
<b>Net profit after tax</b>	<b>\$5,453,000</b>	<b>\$23,240,000</b>

## 11. NET TANGIBLE ASSET BACKING

As at	31 July 2018	31 July 2017
NTA per ordinary security before tax on unrealised gains	\$4.44	\$4.37
NTA per ordinary security after tax on unrealised gains	\$3.95	\$3.93

The company is a long term investor and does not intend to dispose of its investment portfolio.

## 12. INTERESTS IN JOINT VENTURES

The Group has entered into a joint venture operation known as Regional Retail Properties, a long term investment in a small regional retail centre. The Group has a 50% participating interest in this joint venture and is entitled to 50% of its output.

The Group's interests in the assets employed in the joint ventures are included in the consolidated statement of financial position, under the following classifications:

**12. INTERESTS IN JOINT VENTURES (CONTINUED)**

	31 July 2018 \$'000	31 July 2017 \$'000
<b>Current assets</b>		
Cash	70	35
Trade and other receivables	8	40
<b>Total current assets</b>	<b>78</b>	<b>75</b>
<b>Non-current assets</b>		
Investment properties	3,000	3,000
<b>Total non-current assets</b>	<b>3,000</b>	<b>3,000</b>
<b>Current share of assets employed in joint venture</b>	<b>3,078</b>	<b>3,075</b>
<b>Current liabilities</b>		
Trade and other payables	17	5
Borrowings	-	1,675
<b>Total current liabilities</b>	<b>17</b>	<b>1,680</b>
<b>Non-current liabilities</b>		
Borrowings	1,600	-
<b>Total non-current liabilities</b>	<b>1,600</b>	<b>-</b>
<b>Current share of liabilities employed in joint venture</b>	<b>1,617</b>	<b>1,680</b>
<b>Net assets employed in joint venture</b>	<b>1,461</b>	<b>1,395</b>

**13. INTERESTS IN OTHER ENTITIES (EXCLUDING JOINT VENTURES)**

The Group's principal subsidiaries and other interests are set out below:

Unless otherwise stated, subsidiaries and other interests listed below have share capital comprising of ordinary shares or ordinary units which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group.

**13. INTERESTS IN OTHER ENTITIES (EXCLUDING JOINT VENTURES) (CONTINUED)**

Entity Name	Country of Incorporation	Ownership Interest	Ownership Interest
		% 2018	% 2017
Pacific Coast Developments 357 Pty Ltd	Australia	100	100
Pacific Coast Developments 357 Fund	Australia	99.9	99.9
1868 Capital Pty Ltd	Australia	100	100
Pacific Coast Developments 112 Fund	Australia	99.9	99.9
Gowings SHI Pty Ltd	Australia	99.9	99.9
SHI Holdings Pty Ltd*	Australia	99.9	99.9
Fin Control Systems Pty Ltd*	Australia	99.9	99.9
Surfing Hardware International Holdings Pty Ltd*	Australia	99.9	99.9
Surf Hardware International Asia Pty Ltd*	Australia	99.9	99.9
Surf Hardware International Europe SARL*	Australia	99.9	99.9
Surf Hardware International UK*	Australia	99.9	99.9
OZ4U Holdings Pty Ltd*	Australia	99.9	99.9
Sunbum Technologies Pty Ltd*	Australia	99.9	99.9
Surfing Hardware International USA Inc.*	United States of America	99.9	99.9
Surf Hardware International USA Inc.*	United States of America	99.9	99.9
Surf Hardware International Hawaii Inc.*	United States of America	99.9	99.9
Surf Hardware International Japan KK*	Japan	99.9	99.9
Surf Hardware International Pty Ltd*	France	99.9	99.9
Surf Hardware International Brazil Com. De Mat. Esportivos LTDA*	Brazil	99.9	99.9
Gowings Master Trust	Australia	100	-
1868 High Yield Trust	Australia	100	-
Gowings Life Sciences Trust	Australia	100	-
Gowing Bros Management Services Pty Ltd	Australia	100	-
Coastbeat Pty Ltd	Australia	100	-

\* SHI Holdings Pty Limited and controlled entities acquired by Gowings SHI Pty Ltd during the prior year (note 14).

No other interests in subsidiaries or other entities (excluding joint ventures) were held by the Group in the 31 July 2018 financial year.

Non-controlling interests in subsidiaries and other interests of the Group are not material to the Group.

## 14. BUSINESS ACQUISITION

### Acquisition of SHI Holdings Pty Limited

On 16 December 2016, a subsidiary of the Group, Gowings SHI Pty Ltd, acquired 100% of the issued shares in SHI Holdings Pty Limited and its controlled entities ("Surf Hardware International") for total consideration of \$16,000,000. Surf Hardware International is a manufacturer and global supplier of surf related hardware products. The acquisition is aligned with the Group's continued focus of investing in selected direct private equity investments in its investment portfolio.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

#### Purchase consideration

The acquisition-date fair value of the total purchase consideration was \$16,000,000. The purchase consideration is split into two tranches as follows:

	\$'000
Purchase consideration (first tranche) – cash paid on acquisition date	10,000
Purchase consideration (second tranche) – cash paid on 30 June 2017	6,000
<b>Total fair value of the total purchase consideration</b>	<b>16,000</b>

Purchase consideration was payable in two tranches, the first tranche was paid on the acquisition date in cash and the second tranche was paid in cash on 30 June 2017. At 31 July 2018 no purchase consideration remains outstanding in relation to this acquisition.

#### Fair value of identifiable assets and liabilities recognised as a result of the acquisition

Fair value of identifiable assets recognised as a result of the acquisition are as follows:

	\$'000
Cash and cash equivalents	1,707
Trade and other receivables	4,655
Inventories	10,392
Other assets	324
Property, plant and equipment	887
Intangibles	1,050
Deferred tax assets	258
<b>Total fair value of identifiable assets acquired</b>	<b>19,273</b>

Fair value of identifiable liabilities recognised as a result of the acquisition are as follows:

	\$'000
Trade and other payables	1,726
Employee provisions	989
Other provisions	334
Lease liability	17
Income tax payable	729
Deferred tax liabilities	1,861
<b>Total fair value of identifiable liabilities acquired</b>	<b>5,656</b>

The fair value of assets and liabilities acquired were previously recorded on a provisional basis. The Group has retrospectively adjusted the fair value of certain identifiable assets and liabilities recorded in prior periods based on new information obtained since the date of acquisition about the facts and circumstances that existed at the date of acquisition. Comparative information relating to prior periods has been revised for the effect of retrospective adjustments. The fair value of identifiable assets and liabilities acquired are no longer recorded on a provisional basis.

#### 14. BUSINESS ACQUISITION (CONTINUED)

##### Goodwill

The Group has measured the fair value of identifiable assets and liabilities acquired at acquisition date with the remainder of the purchase price being attributed to goodwill.

Goodwill recorded in relation to the acquisition of Surf Hardware International is as follows:

	\$'000
Purchase price	16,000
Less: net fair value of identifiable assets and liabilities acquired	(13,617)
<b>Goodwill recorded on acquisition</b>	<b>2,383</b>

The goodwill is attributed to Surf Hardware's strong position in the global surf related hardware market and future growth potential.

Goodwill is not deductible for tax purposes.

##### Revenue and profit contribution

During the year ended 31 July 2018, Surf Hardware International contributed sales revenue of \$37,188,969 (period ended 31 July 2017: \$24,546,236) and a profit before tax of \$253,137 (period ended 31 July 2017: loss before tax of \$2,080,601) to the Group's results. This profit includes an amount of \$512,347 (period ended 31 July 2017: \$2,577,653) relating to fair value adjustments made to Surf Hardware International's inventory on acquisition.

##### Acquisition costs

Acquisition costs of \$nil (2017: \$473,143) have been expensed in the consolidated statement of profit or loss in relation to the acquisition of Surf Hardware International.

##### Acquired receivables

On acquisition the gross contractual amount for trade receivables due was \$4,729,720, of which \$74,601 was expected to be uncollectible.

#### 15. SUBSEQUENT EVENTS

The Group has announced a dividend since the end of the year which has been included in Note 8.

No other matters or circumstances have arisen which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.