



*ABN 59 003 200 664*

## **Annual Report**

**2018**



# London City Equities Limited



## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders of London City Equities Limited will be held at Level 7, 210 George Street, Sydney on Wednesday 24 October 2018 at 10.30am.

### Ordinary Business

1. To receive, consider and discuss the Directors' Report and Accounts for the year ended 30 June 2018 and note the payment of a dividend.
2. To adopt the Remuneration Report for the year ended 30 June 2018 as disclosed in the Directors Report. (Note: The vote on this resolution is advisory only and does not bind the Directors.)
3. To elect a Director. In accordance with the Constitution Mr. P. E. J. Murray retires by rotation, and being eligible, offers himself for re-election. (Details of Mr Murray are shown later.)

### Other

4. To transact such other business as may be brought forward in accordance with the Constitution and the Corporations Act 2001.

By Order of the Board



Louis J. Joseph  
Company Secretary

Sydney,

18 September 2018

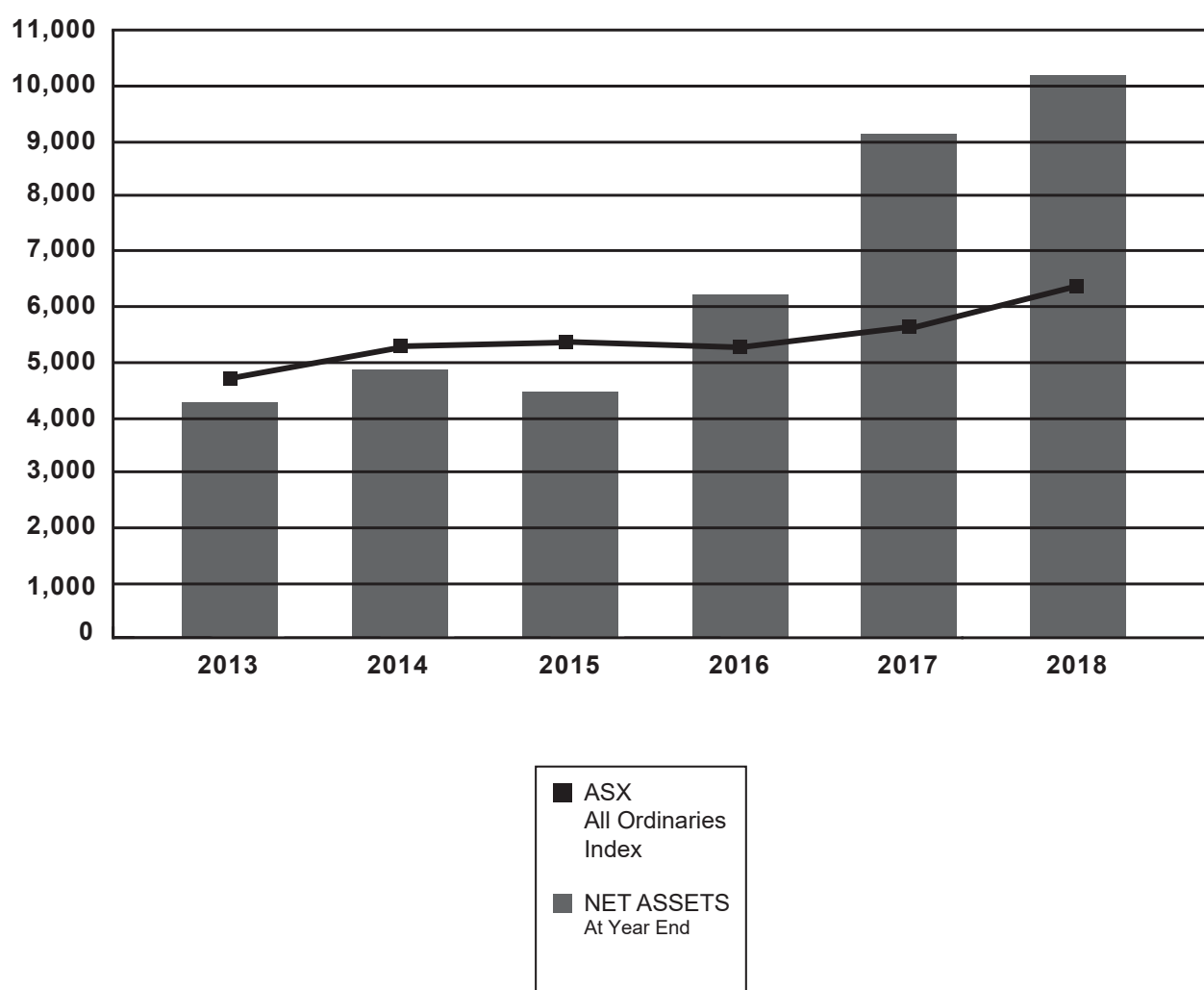
### PROXIES

A member entitled to attend and vote is entitled to appoint no more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the member's voting rights. A proxy need not be a member of the Company. Proxies must be deposited at the registered office of the Company not less than 48 hours before the time of the meeting. A proxy form is enclosed with this notice.

## London City Equities Limited



### Net Asset Changes 2013 -18 (After Payment of dividends)



# London City Equities Limited



## Key Features for 2017-18

- London City Net Worth increased 15% (after Dividend)
- Investment Portfolio appreciates significantly.
- Ownership of Fiducian Group Limited increased to 6.5%.
- Penrice Soda situation now in the Court.

## Corporate Directory

<b>Directors:</b>	P. E. J. Murray B.A., FCA, SA Finsia (Chairman) D.G. Butel MBA, BSc, Dip Bus Std, Dip Ed. D.A. Sutherland BSc
<b>Chief Operating Officer:</b>	P. E. J. Murray B.A., FCA, SA Finsia
<b>Company Secretary:</b>	L. J. Joseph B Comm
<b>Auditors:</b>	Cutcher & Neale, Chartered Accountants 25 Bolton Street, Newcastle, NSW 2300
<b>Bankers:</b>	Westpac Banking Corporation Bank of Western Australia (BankWest)
<b>Corporate and Registered Office:</b>	Level 7, 210 George Loftus Street, Sydney NSW 2000 Postal Address: PO Box R1414, Royal Exchange, NSW 1225 Telephone: (02) 9247-9315
<b>Share Registrar:</b>	Registry Direct Level 6, 2 Russell Street, Melbourne Vic 3000 Telephone: (03) 9020 7934 or 1300 55 66 35
<b>Web-site:</b>	<a href="http://www.londoncity.com.au">www.londoncity.com.au</a>
<b>Stock Exchange:</b> 0	Australian Securities Exchange Limited (Home Exchange – Sydney (Code - “LCE”) 20 Bridge Street, Sydney, NSW 2000

# London City Equities Limited



## Chairman's Review

### **Solid Year - Net Worth rises 15%**

The 15% gain in net worth reflected another quality year and was achieved after the payment of an increased fully franked dividend of 1.375 cents a share. Net Assets at year end moved ahead to \$10.1 million, or 45 cents a share.

Overall, the **Australian stock-market** grew quite strongly in the same period in which interest rates remained virtually static – in contrast to US interest rate increases. The ASX – All Ordinaries Index started the financial year at 5,764, moved upwards to 6,254 in January, sliding to 5,835 in April, then finishing the financial year at 6,290 – up 9% over the year. The banks, in particular, have been hit hard by the adverse Royal Commission news. The “Big Four” are down at least 10% over the year.

**London City's focus** on strategic shareholdings in special companies that offer inherent growth (mainly in the smaller company arena up to \$100 million market cap) has again paid off. Fiducian Group Limited (6.5% owned) saw its market value rise 14% over the year. Mind you it was up 30% in December - before the Royal Commission started.

### **Portfolio Values appreciated significantly**

Driven by **Fiducian Group's** appreciation and our ability to locate some new investments, the portfolio rose in value from \$8.2 million to \$10.0 million at year end. Liquidity is just okay and the Board is presently examining capital management alternatives.

### **Operating Results – retain 2017 higher dividend payout**

Accounting standards have pushed some of our 2018 gains into the Reserves section of our Balance Sheet. And that is why we are now stressing the combined picture of overall Net Worth movements. The net profit on the Income Statement of \$24,000 is not representative of our total performance. But shareholders should consider the increasing dividend revenue we will receive from our major Fiducian shareholding – possibly \$500,000 on 2019. The Board has retained the higher 2017 dividend payout of 1.375 cents a share, fully franked.

### **Net Asset Backing – 45 cents per share at 30 June – virtually unchanged since balance date.**

At 30 June London City's net assets stood at \$10.1 million, or 45 Cents a share after paying the 2017 increased dividend. Since balance date the value of the investment portfolio has not changed markedly.

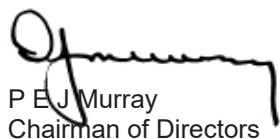
### **The Legal Scene**

Our legal action in the Supreme Court of NSW against Ernst & Young, the auditors of **Penrice Soda** continues. The next material date in the proceedings takes place in late September. At this point, there is insufficient information to provide to shareholders on the extent of future benefit or future costs that may impact on the company.

### **Outlook**

We are comfortable with the present status of the portfolio. Indeed we have opportunities to expand it further and so the Directors are reviewing capital raising alternatives. Yes, the adverse disclosures coming from the Royal Commission are impacting on most companies in the financial services sector, including ours. We trust that the ultimate conclusions and recommendations will weed out the unsavoury operators and enhance those with integrity. The investments of the public must be encouraged and protected.

Yours,



P E J Murray  
Chairman of Directors

17 September 2018

# Statutory Directors' Report for the year ended 30 June 2018

Your Directors present herewith their report on the Company for the financial year ended 30 June 2018.

## Strategic Positioning

London City is a long term strategic holding company investing in entities that have significant and unique market shares and offer inherent growth. London City is risk averse, avoids borrowings and supports quality management in its holdings. It seeks some control over its destiny and is prepared to be assertive when required.

London City seeks to provide shareholders with attractive investment returns over the medium to longer terms by enhancing capital growth and pay dividends that over time grow faster than the rate of inflation.

## Directors and Officers

The Directors and Officers of the Company in office at any time of the year are as follows:

**Peter E.J. Murray** – Chairman of Directors

*Special Responsibility: Chief Operating Officer*

Chartered Accountant, Bachelor of Arts, Senior Associate Financial Services Industry of Australia, Member Turnaround Management Association of Australia.

Mr Murray has spent over 35 years involved in company management, corporate finance and ASX listed company matters. He has been a senior executive in merchant banking and stockbroking at Director level. Experienced in corporate financial advice, mergers, fund raisings and general management. Chairman of Imperial Pacific Ltd since 1980. Past Chairman of Directors of Camelot Resources NL and CCI Holdings Ltd. Director of Delany Foundation Limited. [Director of London City since 1986].

**David Butel** – Independent Non Executive Director

*Special Responsibility: Member of Audit, Compliance and Risk Management Committee.*

Master of Business Administration, Bachelor of Science, Diploma of Business Std, Diploma of Education.

Mr Butel has had over 30 years of active executive involvement at senior levels in the Australian resources and services sector in the vital fields of Testing, Inspection and Certification. In recent years his participation has been through ACIRL Pty Limited, CCI Holdings Limited and the international Bureau Veritas organisation as Senior Vice President Commodities – Pacific Zone. He is experienced in high level business management, acquisitions and international resource services. [Director of Imperial Pacific and London City since February 2018]

**David A Sutherland** - Non-Executive Independent Director.

*Special Responsibility: Chairman, Remuneration Committee*

Bachelor of Science (Agriculture)

Mr Sutherland has been involved in the securities markets for over thirty years. He has held senior positions in the sector within merchant banks, stockbrokers and investment houses in this period. He held the senior executive position of Investment Manager at HGL Limited for seven years where he had particular experience with corporate equity investments. Presently a Director of Imperial Pacific Limited. [Director of London City since 2012].

**Louis J Joseph** – Company Secretary

Bachelor of Commerce, Member Turnaround Management Association of Australia.

Mr Joseph has been involved directly in businesses in both the commercial sector and in the securities industry. His experience has been developed within Australia and in overseas locations, including Asia. His expertise includes small business management, financial markets and securities analysis. [Company Secretary of Imperial Pacific Limited and London City since 2017.]

## Statutory Directors Report (Cont'd)

### Directors and Officers (Cont'd)

Particulars of Directors Interests in Shares in the Company are:

	<b>Ordinary Shares</b>
PEJ Murray	7,920,324
DG Butel	7,124,219
DA Sutherland	7,033,519
<i>(These include 7,033,519 Ordinary Shares held by Imperial Pacific Limited.)</i>	

In accordance with the Constitution, Mr. P.E.J.Murray retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

During the financial year the following formal meetings were held:

	<b>Board Meetings</b>		<b>Audit, Compliance and Risk Committee</b>		<b>Remuneration Committee</b>	
	<b>Eligible to attend</b>	<b>Number Attended</b>	<b>Eligible to attend</b>	<b>Number Attended</b>	<b>Eligible to attend</b>	<b>Number Attended</b>
P.E.J. Murray	4	4	-	2*	-	2*
D.A. Sutherland	4	4	2	2	2	2
D.G. Butel	4	4	2	2	2	2

\* By invitation

### Remuneration Report

The company does not have any formal employees and operates through its Board and a shareholder approved management agreement with Imperial Pacific Asset Management Pty Limited. The company has a Remuneration Committee which is responsible for remuneration policies and monitors the remuneration of Directors and officeholders with market conditions. Details of the emoluments of the Directors are set out in Note 17 of the financial statements and are also shown below:

	<b>Fees</b>	<b>Super Contributions</b>	<b>Total</b>
Mr P.E.J. Murray	\$25,000	\$3,562	\$28,562
Mr D.A. Sutherland	\$30,000	\$2,850	\$32,850
Mr D.G. Butel	\$30,000	\$2,850	\$32,850

### Activities

The principal activities of the company during the year consisted of investment in Australian equities, predominantly those reflecting some long term strategic advantage, and in deposit funds with the company's bankers.

London City's shareholding in Fiducian Group Limited was increased to 6.5%. The Board and its legal advisors are now undertaking court proceedings in the Supreme Court of NSW in relation to Penrice Soda.

With the appreciation in the company's investment portfolio Directors have started to take account of some of the company's future income tax benefits. These are credited to reserves.

### Results and Dividend Status

London City reports a solid improvement in net worth and a modest net profit for the year of \$35,261 (profit of \$41,712 in 2017). Net asset values at 30 June 2018 closed at \$10.1 million, or 45 cents per share, after the payment of 1.375 cent in a fully franked dividend in October 2017 and taking a conservative stance of future tax benefits. Directors recommend the payment of a fully franked dividend of 1.375 cents a share for 2018. The Dividend Reinvestment Plan (DRP) remains suspended.

## **Statutory Directors Report (Cont'd)**

### **Objectives, Achievements and Review of Operations**

The prime objectives during the year were to protect and enhance London City's long term aspirations as a strategic holding company. Overall, the portfolio increased by \$1.8 million, supported especially by the performance of 6.5% owned Fiducian Group. In addition, London City has taken action in the Supreme Court of NSW against Messrs Ernst & Young, auditors of Penrice Soda Holdings, now in liquidation and it is far too early to estimate the extent of future benefit or future costs that may impact on the company.

### **Significant changes in the state of affairs**

There have been no significant changes in the state of affairs other than those mentioned elsewhere in this Annual Report.

### **Likely developments and expected results of operations**

London City intends to focus on its existing investments and retain good levels of deposit funds in the short term. It will continue to search for equity investments into companies that exhibit high market shares, inherent growth, managements with owner mentality and ones that reflect good value. It favours companies where it may have positive influence. In addition, the Company is involved in active legal proceedings in the Supreme Court of NSW. At this date there is insufficient information to estimate the extent of either or costs that might arise from this action. Otherwise, Directors are not aware of any major development likely to have a significant effect upon the operations of the company.

### **Matters subsequent to the end of the financial year**

Directors propose the payment in October of a fully franked dividend of 1.375 cents per share. This sum has not been provided for in the financial statements.

### **Environmental regulation**

The Company is not subject to material environmental regulations under any Commonwealth, State or Territory Law.

### **Other Information**

The Directors are not aware of any significant change in the state of affairs of the group that occurred during the financial year under review not otherwise disclosed in this report and the accounts. In the opinion of the Directors likely developments in the operations of the company known at the date of this report have been covered generally within the Annual Report.

### **Proceedings in respect of the company**

The Company is involved in active legal proceedings in the Supreme Court of NSW. At this date there is insufficient information to estimate the extent of either benefit or costs that might arise from this action.

### **Risk and Compliance**

The Board of Directors has in place an Audit, Compliance and Risk Management Committee to assist its deliberations in respect of these issues. The ACRM Committee meets regularly and considers, amongst other things, the audit arrangements and internal control processes of the company. Board meetings consider issues raised by the ACRM Committee and formal management reports on the compliance by the company with its key obligations. The Board also notes the regulatory compliance obligations of its portfolio management provider, Imperial Pacific Asset Management Pty Limited.

The Directors have received and considered the Section 295A certification from the senior officeholder responsible for meeting the company's financial, operational and compliance requirements.



## Statutory Directors Report (Cont'd)

### Indemnification of Officers

The company has not, during or since the end of 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 by an officer, including costs and expenses in successfully defending legal proceedings.

London City has paid a premium under a combined policy of insurance for liability of directors and officers of the group as permitted by the Corporations Act 2001. In accordance with normal commercial practice, disclosure of details of the insurance cover and premium is prohibited by the terms of the policy.

### Auditor

The auditor continues in office in accordance with Section 327 of the Corporations Act 2001.

### Non-audit services.

Details of the non-audit services provided by the auditor are set out at Note 18 of the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means the auditor independence was not compromised.

### Auditor's Independence Declaration

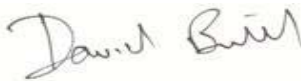
A copy of the auditor's declaration under Section 307C in relation to the audit for the financial year is provided later in this report.

Signed in accordance with a resolution of the Directors. Dated at Sydney this 17th day of September 2018.

On Behalf of the Board,



P. E. J. MURRAY, Director



D. G. BUTEL, Director

# London City Equities Limited



## Corporate Governance Statement – 30 June 2018

London City has noted the “principles and recommendations” of the ASX Corporate Governance Council. The Board of London City believes it carries out the broad thrust of the issues in a proper and pragmatic way for a small company such as London City in the strategic holding company business. In some cases it has not adopted recommendations. The corporate governance policies of the company and the departures from the recommendations are discussed below.

This Corporate Governance Report has been approved by the Board and is current at 5 September 2018.

### ***Principle 1 Lay solid foundations for management and oversight***

London City has a Board Charter which establishes the functions reserved to the Board and to senior management. A copy of the Board Charter is set out in the rear pages of this Annual Report. London City operates its business through its Board of Directors and its Chief Operating Officer in conjunction with its portfolio management arrangements with Imperial Pacific Asset Management Pty Limited, which has managed and administered the portfolio since 1 July 2005. The company secretary is directly accountable to the Board.

London City supports the principle of diversity of skills, background and gender in relation to board membership, management composure and commercial activity. It has incorporated into its Board Charter a policy in this regard. While such diversity is considered when the opportunity arises, the Board recognises that a company of the size of London City, conducting investment activities with three directors and without formal employees, has limited scope for making major changes. The Board considers production of numerical statistics is not meaningful in its case.

The Board sets and monitors strategic business plans and shorter term operating challenges. The Board meets at least once a quarter. London City has a formal policy in relation to Core Business Processes as well as formal policies on investment processes and approvals. Written agreements of appointment are in place with ongoing Directors. The operations of the company and delegation of duties are inherent in a public listed organisation with investments that may impact on other companies.

### ***Principle 2 Structure the Board to add value***

The Board of Directors is structured to add long term value to London City. The Directors hold a variety of professional, securities market and corporate skills, operating in a climate where cost effectiveness is a key issue and shareholding interests encourage active participation. There are three Directors, of whom two are regarded for corporate governance purposes as independent because of their minor shareholdings in the associated group and their professionalism. Directors believe it is not practicable, nor cost-effective presently, for London City as a small strategic holding company to have an “independent” (as defined by the governance principles) Chairman. Indeed the Directors believe it is positive that major shareholdings are held by Directors. London City structure is such that it operates without a Chief Executive Officer. London City’s policy allows Directors, subject to Board approval, to take independent professional advice at its expense.

Directors also point out that they regard a formal Board nomination committee as not being appropriate for a company like London City. This task is undertaken by the Board as a whole as and when circumstances dictate. The criteria set for membership of the Board is to ensure that there exists a sufficient mix of skills and experience for a company of the nature of London City to add value and enhance shareholders’ wealth. These include Financial and Commercial acumen, Executive Leadership, Strategy, Investment, Governance, Tertiary or equiv qualification, Merger and Acquisitions, Taxation, Risk Management and Public Listed Company experience.

The Directors also believe they are very open and transparent in disclosing their plans, aspirations and financial results to the shareholders. They believe the annual shareholder meetings provide a good opportunity for shareholders to evaluate their performance. Directors are subject to re-election every three years. The Board has a policy of operating a tight structure, but appoints external parties experienced in specific sectors from time to time to provide the Board with expert advice or undertake projects.

# London City Equities Limited



## Corporate Governance (Continued)

### **Principle 3 Act ethically and responsibly**

The Board is committed to ensuring that the group's affairs are conducted in a judicious and ethical manner above and beyond legal and regulatory obligations. To meet these objectives London City has in place a formal Code of Conduct Policy. It also has a Securities Trading Policy for dealing in the company's securities in addition to complying with legislative obligations. A copy is on the ASX Announcements Platform – 29 December 2010. This Trading Policy includes the prohibition of officeholders from dealing in London City securities between the end of accounting periods and the release of results without the written consent of the Chair. Investments on the Embargo List are prohibited without the approval of the Board. A summary of terms of the Code of Conduct follows:

London City Equities Limited ("London City") and its shareholders expect that each Director, member of staff and / or related personnel should pursue exemplary conduct in respect of ethics, roles and responsibilities of their office. The Group's directors and employees should conform with high community standards of corporate and individual behaviour, in particular:

#### **PERSONAL BEHAVIOUR AND ACCOUNTABILITY**

- a. Role and statutory responsibilities as an officer of the corporation
- b. Awareness of social responsibilities
- c. Obligations to all corporate stakeholders
- d. Honesty and fairness in dealings
- e. Pursuit of the best interests of the corporation
- f. Adherence to Group policies and practices
- g. Continuing assessment of corporate opportunity and risk
- h. Undertaking training and being informed on current commercial and business matters.

#### **SECURITY AND CONFIDENTIALITY**

- a. Boardroom confidentiality
- b. Security of corporate information
- c. Misuse of corporate information

#### **MANAGEMENT OF PRIVATE INTERESTS**

- a. Declaration of private interests including any interest in Group contracts
- b. Gratuities, gifts, and other benefits related to corporate office
- c. Potential and real conflicts of interest

#### **COSTS TO THE CORPORATION**

- a. Expenses incurred on corporation business
- b. Fringe benefits and allowances including leave and retirement allowances
- c. Sundry claimable expenses

#### **SANCTIONS**

Failure to observe high standards in relation to the foregoing will constitute grounds on which the Board of London City Equities Limited may by resolution of the directors institute such disciplinary or remedial action as it deems appropriate. This may include dismissal and/or reporting to relevant authorities.

### **Principle 4 Safeguard integrity in corporate reporting**

The Board has in place an Audit, Compliance and Risk Management Committee which comprises two non-executive Directors (Mr Butel as Chairman and Mr Sutherland as the other party). Both are regarded as independent persons. With a Board incorporating only three personnel London City believes two members, rather than three, are appropriate for an entity of its nature. London City has further assurances in regard to financial reporting integrity because of the involvement of external auditors and the manager of the company's portfolio, Imperial Pacific Asset Management, which has extensive ASIC obligations. Operating office-holders are professionally qualified in financial reporting matters. The Board has received positive written Section 295A opinions from the Chief Operating Officer and Chief Financial Officer equivalents and confirmation that such has been formed on an effective sound system of risk management and internal control in accord with the company's characteristics. In relation to audit partner rotation of the company's external auditors, the Chief Operating Officer monitors the situation in conjunction with the audit firm. The ACRM Committee has a formal charter. A summary is set out in the rear pages of this Annual Report.

## Corporate Governance (Continued)

### ***Principle 5 Make timely and balanced disclosure***

The Board aims to ensure timely, balanced and continuous disclosure to the market of all material matters concerning London City in accordance with the ASX continuous disclosure regime and appropriate corporate transparency. To carry out this obligation effectively the Board is sensitive to the requirements of an informed market and it has in place a Communications Policy which encompasses a continuous disclosure policy. It seeks to keep its shareholders informed through reports to the Australian Securities Exchange, half and full-year profit disclosures, annual reports and material shareholder information announcements.

While the Board is ultimately responsible for this task, the Chief Operating Officer carries the immediate administrative obligation for meeting communications obligations and shareholder transparency. A summary of the Communications Policy follows:

The Board of London City Equities Limited ("London City") firmly believes in providing quality communications to its shareholders and other stakeholders. This includes meeting the company's obligations to the Australian Securities Exchange ("ASX") in relation to Continuous Disclosure Obligations. London City aspires to over-deliver, rather than under-deliver information to its stakeholders. In view of this approach, London City meets the ASX Corporate Governance Principle No 5. London City seeks to provide to its stakeholders the highest levels of communication standards by adopting the following focus:

- Shareholders are the owners of the company and are entitled to the maximum of information.
- The company will provide all regulatory documentation such as Annual Reports and other letters of advice on a consistent and timely basis
- London City will maintain a web site that provides information on its activities for external consumption.
- Communications will be set out in a clear way, be honest, be factual and endeavour to answer all likely queries that may arise.
- London City will not employ financial "spin doctors" or embellish a story.
- Annual Reports will be explanatory and will be mailed as soon as possible and sent to holders in a hard copy.
- Shareholders are encouraged to telephone management to discuss issues and subject to confidentiality issues, full explanations will be forthcoming.
- London City will announce all important and material items as soon as practicable. Where announcements may impact on other organisations, London City may advise that organisation on a confidential basis beforehand..

The Board of London City is primarily responsible for communicating matters to stakeholders. Management personnel will provide the support for the preparation and distribution of announcements. Mr Peter EJ Murray is the senior executive responsible for London City meeting its Continuous Disclosure obligations to the Australian Securities Exchange and any ASIC required communications.

### ***Principle 6 Respect the rights of security holders***

London City, as reported earlier, has a communications policy in place. This recognises the importance of effective communications with shareholders and other parties. London City has an informative web-site that assists shareholders in making decisions on their rights and contacting the company electronically. Furthermore, the shareholders have other formal and informal rights provided by the company's Constitution, regulatory bodies and proper public company behaviour. These rights include their entitlement to financial statements, attendance at shareholder meetings, participation by voting on the election of directors at the Annual General Meeting and on other important issues. The auditor is invited to attend the Annual General Meeting, however the board notes that auditor is professionally restricted from providing detailed financial information and limited to discussing audit process. Shareholder meetings are conducted in an open forum with wide discussion encouraged by the Chairman.

### ***Principle 7 Recognise and manage risk***

London City has established policies for the recognition, oversight and management of material business risks. It does not consider it has material exposure to economic, environmental and social sustainability issues. Given the volatility of equity markets and economic conditions, especially in recent times, London City regards risk management as a very important issue. It does not have a formal internal audit function but has in place an Audit, Compliance and Risk Management Committee. Risk recognition, oversight and management issues are carried out by senior personnel in conjunction with the Board, the Committee and in some cases, external professionals. The Audit, Compliance and Risk Management Committee's framework was prior to the completion of the Annual Report.

## Corporate Governance (Continued)

While the company's internal policies are considerable, the Board points out that, as a strategic holding company investing in other companies, it can be difficult to monitor the behaviour of those entities, especially when weak regulatory bodies do not examine or enforce corporate law. The Board has received positive written Section 295A assurances from the Chief Operating Officer and Chief Financial Officer equivalents. A summary of London City's policies on risk recognition, oversight and management follows:

The Board of London City Equities Limited ("London City") believes in competent risk recognition, oversight and management. It recognises that as a strategic holding company (where it primarily invests in other organisations) there is some danger where that organisation does not provide proper business or financial reporting disclosures or does not meet competent risk management practices. For these reasons London City must continue to be vigilant in these procedures.

London City seeks, as far as practicable for an organisation in strategic investment in other companies, to undertake competent levels of risk management. These relate to its internal and external matters:

### Internal Matters (Own resources)

- London City seeks to have a comfortable asset base in which it has no formal gearing.
- Investments must be selected carefully and generally monitored for some time before any shares are purchased.
- London City must concentrate on investment opportunities where it can acquire a reasonably significant equity stake (eg 10%-20%) in a company that can be understood, has a leading position in its market, has good management and represents good investment value with attractive IRRs. (The policy of a leading US investor).
- London City must be available to work in with investee companies.
- London City must remain cost conscious.
- Surplus monies must be placed only with its trading bankers,
- Monies on Deposit and investments must take account of external advice when necessary.
- Good internal controls to be maintained, disaster recovery assessed and regulatory compliance pursued.

### Other Matters (External Factors)

- London City must monitor economic, stock-market, industrial sector conditions and maintain close contact with existing investee companies
- London City must have the potential (where events prove unsatisfactory) to become active supporters of the investee company either through direct Board representation or by arms-length support.
- London City must maintain close contacts in various industries of interest.
- London City may seek Board representation with certain investee entities.

The Board of London City is primarily responsible for risk recognition, oversight and management. The Board of London City is assisted in its deliberations by the Audit, Compliance and Risk Management Committee (ACRM). Both the Board and the ACRM Committee are assisted by the management of London City and its portfolio management service provider Imperial Pacific Asset Management Pty Limited. Risk Management issues must be discussed regularly. All Board meetings must be provided with details of current investments, targeted investments and funds on deposit

## ***Principle 8 Remunerate fairly and responsibly***

London City has a Remuneration Committee in place. The Remuneration Committee is responsible for assessing appropriate remuneration and payment for Directors as well as for other office holders and the portfolio management service provider. The Remuneration Committee comprises Mr Sutherland (Chairman) and Mr Butel. Both are regarded as independent under the ASX definition. Details of their attendance at committee meetings are set out elsewhere in this Annual Report. Ultimately shareholders approve director's fees and in 2007 they approved a maximum payout of \$125,000 per annum. Current fees are significantly below this level and reflect the company's nature. Shareholders in London City on 19 November 2004 voted and approved a management agreement in which the portfolio of London City would be managed by Imperial Pacific Asset Management Pty Limited.

Except for compulsory legislative obligations London City has no scheme for retirement benefits for non-executive directors. Furthermore, London City has no equity based remuneration scheme and has no requirement for policies in this regard. A summary of the Remuneration Committee Charter is set out in the rear pages of this Annual Report.

# London City Equities Limited

ABN 59 003 200 664



## Income Statement for the year ended 30 June 2018

		<b>2018</b>	<b>2017</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue from ordinary activities</b>	<i>Notes</i> 3	588,754	322,372
Other expenses from ordinary activities			
Management fees	4	(105,346)	(83,100)
Other Operating Expenses	4	(282,584)	(191,684)
		<u>(387,930)</u>	<u>(274,784)</u>
Cost of Trading Investments sold		(177,072)	(12,326)
<b>Profit (Loss) from ordinary activities before tax</b>		23,752	35,262
Income tax	5	-	-
<b>Profit (Loss) for Year</b>		<u><b>23,752</b></u>	<u><b>35,262</b></u>

### Earnings per share:

Earnings per share from profit from continuing operations attributable to the ordinary equity holders of the company.

Basic and Diluted earnings per share (Cents)	26	0.10	0.16
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The accompanying notes form part of these financial statements.

# London City Equities Limited

ABN 59 003 200 664



## Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
<b>Profit (Loss) for Year</b>		<b>23,752</b>	<b>35,262</b>
<b>Other Comprehensive Income (Expense)</b>			
Items that will not be recycled through the Income Statement:			
Net Realised and Unrealised Gain (Loss) for the period on securities in the Investment Portfolio:	14	1,321,007	2,883,449
<b>Total Other Comprehensive Income (Expense)</b>		<b>1,321,007</b>	<b>2,883,449</b>
<b>Total Comprehensive Income (Expense) for the year</b>		<b>1,344,759</b>	<b>2,918,711</b>

The accompanying notes form part of these financial statements.

# London City Equities Limited

ABN 59 003 200 664



## Balance Sheet as at 30 June 2018

	Notes	2018 \$	2017 \$
<b>Current assets</b>			
Cash and cash equivalents	6	342,894	1,166,599
Trade and other receivables	7	29,978	37,480
Total current assets		<b>372,872</b>	<b>1,204,079</b>
<b>Non-current assets</b>			
Investment Portfolio	8	9,965,467	8,190,751
Deferred Tax Assets	9	1,849,000	1,317,000
Total non-current assets		<b>11,814,467</b>	<b>9,507,751</b>
<b>Total assets</b>		<b>12,187,339</b>	<b>10,711,830</b>
<b>Current liabilities</b>			
Trade and other payables	10	202,371	101,824
Total current liabilities		<b>202,371</b>	<b>101,824</b>
<b>Non-current liabilities</b>			
Deferred Tax Liability - Investment Portfolio	11	1,840,000	1,498,000
		<b>1,840,000</b>	<b>1,498,000</b>
<b>Total liabilities</b>		<b>2,042,371</b>	<b>1,599,824</b>
<b>Net assets</b>		<b>10,144,968</b>	<b>9,112,006</b>
<b>Equity</b>			
Share Capital	12	4,507,475	4,507,475
Realised Capital Gains Reserve	14 (a)	(6,739,135)	(6,726,796)
Unrealised Revaluation Reserve	14 (b)	5,874,346	4,541,000
Retained Profits	14 (c)	6,502,282	6,790,327
<b>Total equity</b>		<b>10,144,968</b>	<b>9,112,006</b>

The accompanying notes form part of these financial statements.



# London City Equities Limited

ABN 59 003 200 664



## Statement of Changes in Equity for the Year Ended 30 June 2018

	Notes	2018 \$	2017 \$
<b>Total Equity at the beginning of the year</b>		<b>9,112,007</b>	<b>6,196,591</b>
<b>Transactions with Equity holders in their capacity as equity holders:</b>			
Contributions/(Decrease) in Equity, net of transaction costs:	12	-	266,594
Dividends paid:	15	(311,798)	(269,889)
<b>Total transactions with Equity holders in their capacity as equity holders:</b>		<b>(311,798)</b>	<b>(3,295)</b>
<b>Income and Expense for Year:</b>			
Profit (Loss) for Year:		<b>23,752</b>	<b>35,262</b>
<b>Other Comprehensive Income (Expense) Items:</b>			
Net Unrealised Gain (Loss) for the period for stocks held on 30 June	14	1,333,346	2,883,449
Net Realised Gain (Loss) for the period for stocks held on 30 June	14	(12,339)	-
<b>Total other comprehensive income (including realised and unrealised gains and losses) for the year</b>		<b>1,321,007</b>	<b>2,883,449</b>
<b>Total Equity at the end of the year</b>		<b>10,144,968</b>	<b>9,112,007</b>

The accompanying notes form part of these financial statements.

# London City Equities Limited

ABN 59 003 200 664



## Cash Flow Statement for the year ended 30 June 2018

	Notes	2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of goods and services tax)		(325,745)	(284,762)
Dividends Received		373,962	271,177
Interest Received		11,742	32,801
Purchase of Trading Investments		(33,935)	(1,839)
Proceeds - Sale of Trading Investments		203,050	2,974
<b>Net cash inflow (outflow) from operating activities</b>	25	<b>229,074</b>	<b>20,351</b>
<b>Cash flows from investing activities</b>			
Payments for investments		(1,108,779)	(781,716)
Proceeds from sale of investment		354,797	38,885
<b>Net cash inflow (outflow) from investing activities</b>		<b>(753,982)</b>	<b>(742,831)</b>
<b>Cash flows from financing activities</b>			
Increase in Issued Capital		-	273,500
Related Corporations		13,000	18,406
Dividends paid		(311,797)	(269,889)
<b>Net cash inflow (outflow) from financing activities</b>		<b>(298,797)</b>	<b>22,017</b>
<b>Net increase (decrease) in cash held</b>		<b>(823,705)</b>	<b>(700,463)</b>
Cash at beginning of the financial year		1,166,599	1,867,062
<b>Cash at end of the financial year</b>	6	<b>342,894</b>	<b>1,166,599</b>

The accompanying notes form part of these financial statements.

# London City Equities Limited

## Notes to the financial statements - 30 June 2018



### Note 1: Summary of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards ("AASBs") adopted by the AASB. The financial statements have been prepared in accordance with AIFRS (Australian Equivalents to International Financial Reporting Standards).

The Company has early adopted AASB 9 - Financial Instruments. The Company has voluntarily adopted this standard as it is considered to result in a presentation that better reflects the performance and operations of the Company. A feature of AASB 9 is that unrealised gains or losses to fair value of the investment portfolio are not treated as "impairment" charges in the Income Statement but are reflected in the unrealised reserve account.

The Company has endeavoured to adopt "plain English" where possible to assist in information transparency.

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

#### Basis of Accounting

London City Equities Limited is a listed public company incorporated and domiciled in Australia. It is a free standing company and its accounts are presented as such. The financial statements are prepared using the valuation methods described below for holdings of securities. All other items have been treated in accordance with historical cost convention.

In the application of the Company's accounting policies described above, the Directors are required to evaluate estimates and judgments that may be incorporated into the financial statements. Estimates and associated assumptions are based on historical experience and assume a reasonable expectation of future events. Actual results may differ from these estimates.

There are no estimates or judgments that have a material impact on the Company's financial results for the 30 June 2018. All material financial assets are valued by reference to quoted prices and therefore no significant estimates or judgments are required in respect to their valuation. Revisions to accounting policies are recognised in the period in which the estimate is revised.

#### (a) Income Tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to the unused tax losses. The rate of 30% has been adopted for these statements. A422

Deferred tax assets and liabilities are offset as all current and deferred taxes relate to the Australian Taxation Office and can legally be settled on a net basis. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those differences and losses.

A tax provision is made for the unrealised gain or loss on Trading Portfolio securities valued at market value through the Income Statement. A Tax rate of 30% has been adopted. A418

Where non-current Investment Portfolio assets are adjusted for unrealised gains or losses at balance date in the Unrealised Revaluation Reserve an assessed deferred tax liability or asset is created to reflect the applicable tax, even though there may be no intention to dispose of those holdings. The tax sum is applied to the Unrealised Revaluation Reserve on one hand and the deferred tax liability or asset on the other.

#### (b) Investments

The Company has two discrete types of investments - the Trading Portfolio (Current Assets) and the Investment Portfolio (Non-Current Assets). The Company is a long term investor. All investments are initially recognised at the fair value of the consideration given. After initial recognition, investments (classified as either Trading or Investment) are measured at their fair value. Fair Value of listed securities is determined by reference to the last sale price at the close of business at balance date. Gains or losses on Trading Portfolio investments are recognised in the Income Statement. Gains or losses on Portfolio investments are recognised as a separate component of equity in the Unrealised Revaluation Reserve.

# London City Equities Limited

Notes to the financial statements - 30 June 2018

## Note 1: Summary of significant accounting policies (Cont'd)



### (c) Non-Current Assets

The carrying amounts of all non-current assets other than investments are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower value. In assessing recoverable amounts, the relevant cash flows have been discounted to their present value.

### (d) Derivatives

To a large extent the company may be exposed to fluctuations in interest rates with its activities. It is not the policy of the company to use derivative financial instruments. The company does not hedge its exposure to interest rates or foreign currency fluctuations.

### (e) Financial Risk issues

The economic entity has in place risk management controls supervised by the Board and the Audit, Compliance and Risk Management Committee. Risk issues are explained further in Note 16 of the financial statements.

### (f) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (g) Revenue

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. Revenue from the rendering of a service is recognised upon delivery of the service.

### (h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable where invoiced. The net amount of GST recoverable from, or payable to the ATO is included with other payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are reported as operating cash flows.

### (i) New Standards and interpretations not yet adopted.

The Australian Accounting Standards Board has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The reported results and position of the Company will not change on adoption of these pronouncements as they do not result in any changes to the Company's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Company does not intend to adopt any of these pronouncements before their effective date.

### (j) Financial Statements Approval

The financial statements were authorised for issue by the Board of Directors on 16 August 2018.

# London City Equities Limited

## Notes to the financial statements - 30 June 2018



### Note 2. Segmental information

The economic entity predominantly acted through the year as a strategic investor investing funds in Australia.

	Equity Investment	Other	Total
<b>2018</b>			
Revenue	\$	\$	\$
Investment /other revenue	577,010	11,744	588,754
Segment result			
Profit (loss) after tax	152,549	(128,797)	23,752
Segment assets	11,765,388	421,951	12,187,339
Segment liabilities	(1,941,185)	(101,186)	(2,042,371)
Net cash inflow from operating activities	445,354	(216,280)	229,074
<b>2017</b>			
Revenue	\$	\$	\$
Investment /other revenue	289,570	32,802	322,372
Segment result			
Profit (loss) after tax	139,852	(104,591)	35,261
Segment assets	9,447,751	1,264,079	10,711,830
Segment liabilities	(1,548,912)	(50,912)	(1,599,824)
Net cash inflow from operating activities	142,531	(122,180)	20,351

### Note 3. Revenue

	2018	2017
<b>From continuing operations</b>	\$	\$
Interest - Other Corporations	11,744	32,802
Dividends	373,961	273,907
Sales - Trading investments	203,049	15,663
<b>Total Operating Revenue</b>	<b>588,754</b>	<b>322,372</b>

### Note 4. Profit from ordinary activities

Profit from ordinary activities before income tax expense includes the following specific expenses:

<b>Expenses</b>		
Auditors Fees (Note 18)	10,700	21,300
Directors fees (Note 17)	85,000	75,903
Superannuation - Directors (Note 17)	9,262	6,859
Rental expense relating to operating leases	23,506	19,615
Management fees - associated company		
- Basic management fee	105,346	83,100
- Performance Fee	-	-
- Basic management fee (GST lost)	2,633	2,077
Legal and associated Costs	106,849	20,223
Other Operating Expenses	44,634	45,707
<b>Total Operating Expenses</b>	<b>387,930</b>	<b>274,784</b>
Cost of Trading Investments sold	177,072	12,326
<b>Operating Profit before Tax</b>	<b>23,752</b>	<b>35,262</b>
<b>(b) Individually significant items included above</b>		
Management fees - associated company	105,346	83,100
Current Year - Share Disposal gains	25,977	3,337

# London City Equities Limited

Notes to the financial statements - 30 June 2018 (Cont'd)



## Note 5. Income Tax Expense

(a) The components of income tax credit (expense) comprise:

Current Tax  
Deferred Tax

2018 2017

-	-
-	-
-	-

(b) The income tax credit (expense) for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:

Profit from ordinary activities before income tax expense

23,752 35,262

Income tax calculated at 30%

(7,126) (10,579)

Less: Tax Effect of :

- Recoupment of prior year losses  
- Net Dividend Franking Credit re dividends  
- Future income tax benefits arising in prior years not previously brought to account

- -  
7,126 10,579  
- -

**Income tax benefit (expense)**

- -

(c) Amounts recognised directly in equity:

Decrease (Increase) in deferred tax asset relating to

(i) capital gains tax on the increase in unrealised losses in the Investment Portfolio

532,000 655,000

(ii) capital gains tax on realised loss in the Investment Portfolio

- -

Net Movement

532,000 655,000

(d) Deferred tax assets not recognised

No future income tax benefit has been brought to account in the accounts in respect of estimated tax losses of :

Revenue Losses	1,700,000	1,700,000
Capital Losses	800,000	800,000
	2,500,000	2,500,000

These losses have not been confirmed by the tax authorities. The taxation benefits will only be obtained if:-

- (i) Assessable income is derived of a nature and of amount sufficient to enable the benefit of the deductions to be realised;
- (ii) Conditions for deductibility imposed by the law complied with; and
- (iii) No changes in tax legislation adversely affect the realisation of the benefit and of the deductions.

## Note 6. Current assets - Cash and cash equivalents

Cash at Bank and on Hand

342,894 1,166,599

The above figures are the final balances of the statement of cash flows.

## Note 7. Current assets - Trade and other receivables

Other debtors

29,978 37,480  
29,978 37,480

# London City Equities Limited

## Notes to the financial statements - 30 June 2018



### Note 8. Non current assets - Investment Portfolio

#### Listed investments

Listed securities of corporations at market value

2018	2017
9,845,695	7,920,160

#### Unlisted investments

Unlisted securities of corporations at market value

119,772	270,591
<u>9,965,467</u>	<u>8,190,751</u>

### Note 9. Non current assets - Deferred Tax Assets

Recognised deferred tax assets are attributable to the following:

Tax Value of loss carry-forwards recognised:

Unrealised Capital Losses  
Revenue Losses

1,789,000	1,257,000
60,000	60,000
<u>1,849,000</u>	<u>1,317,000</u>

### Note 10. Current liabilities - Trade and Other Payables

Unsecured liabilities

Sundry Creditors

Amounts payable to associated company

137,165	97,637
65,206	4,187
<u>202,371</u>	<u>101,824</u>

### Note 11. Non-current liabilities - Deferred Tax Liability

Deferred Tax Liabilities on Unrealised Gains in the  
Investment Portfolio

1,840,000	1,498,000
<u>1,840,000</u>	<u>1,498,000</u>

### Note 12. Share Capital

#### (a) Issued capital

22,676,099 (2017: 22,676,099) fully  
paid ordinary shares

4,507,475	4,507,475
-----------	-----------

#### (b) Movement in ordinary share capital:

Balance at beginning of accounting period

Movements during year:

Balance at reporting date

4,507,475	4,240,881
-	266,594
<u>4,507,475</u>	<u>4,507,475</u>

#### (c) Movement in ordinary share numbers:

Balance at beginning of accounting period

Movements 2017 - 2018:

Balance at reporting date

Number	Number
22,676,099	21,591,099
-	1,085,000
<u>22,676,099</u>	<u>22,676,099</u>

#### (d) 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 and amounts paid on the shares. 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 is entitled to one vote.

### Note 13. Capital Management

The Company's objective in managing capital is to continue to provide shareholders with attractive investment returns over the medium to longer term through access to a steady stream of fully-franked dividends, minimal gearing and enhancement of capital invested. Its goals include paying dividends that, over time, grow faster than the rate of inflation.

The company recognises that its capital will fluctuate in accordance with market conditions and the performance of its underlying investments. It may adjust the amount of dividends paid, issue new shares from time to time, buy-back its own shares or sell assets to minimise debt. At present there is no share buy-back programme in operation. The company intends to pay dividends according to franked credits available.

# London City Equities Limited

## Notes to the financial statements - 30 June 2018



### Note 14. Reserves and retained profits

#### (a) Realised Capital Gains Reserve

	2018	2017
	\$	\$
Balance - beginning of year	(6,726,796)	(6,726,796)
Gain (Loss) realised during year	(12,339)	-
Balance - year end	(6,739,135)	(6,726,796)

#### (b) Unrealised Revaluation Reserve

Balance - beginning of year	4,541,000	1,657,551
Reverse Unrealised - Prior Year	(4,992,000)	(1,807,551)
Reverse Applicable Tax - Prior Year	1,498,000	542,000
Increase in Unrealised Gains	6,135,346	4,992,000
Provision for Tax on Unrealised Gains	(1,840,000)	(1,498,000)
Less: Unrequired Provision due to past tax losses	532,000	655,000
Balance - year end	5,874,346	4,541,000

#### (c) Retained Profits

Retained Profits at the start of the financial year	6,790,327	7,024,954
Net profit (loss) for the year	23,752	35,262
Dividends paid	(311,797)	(269,889)
Retained Profits at the end of the financial year	6,502,282	6,790,327

#### (d) Nature and purpose of reserves

##### Realised Capital Gains Reserve

The Realised Capital Gains Reserve records realisation gains or losses from the sale of non-current assets. The reserves may be used for the distribution of bonus shares to shareholders and is available for the payment of cash dividends as permitted by law.

##### Unrealised Revaluation Reserve

The Unrealised Revaluation Reserve is used to record increments and decrements on the revaluation of non-current Investment Portfolio assets, as described in the accounting policies and adjusted to reflect the applicable deferred tax liability or asset. It is then reduced according to future tax benefits.

### Note 15. Dividends

#### (a) Status of dividends

Dividend paid - Fully Franked	13 Oct 2017	(311,797)	(269,889)
Total Dividends Paid		(311,797)	(269,889)
Proposed fully franked dividends			
- 1.375 Cents per share (Ordinary Div.)	11 Oct 2018	(311,797)	(311,797)

*Note: The dividend recommended for October 2018 has not been accrued in the above accounts.*

#### (b) Franking credits

Franking credit tax component available for dividends in future years	384,487	242,023
Fully franked dividends possible at tax rate of 30%	897,136	564,720

*Note: The above amounts represent the balance of the franking account as at the end of the financial year adjusted for franking credits and debits arising from payment of tax and receipt of franked dividends.*





**Note 16. Financial instruments and risk**

**A. Financial instruments - fair value of financial assets and liabilities**

Accounting Standards require the disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - Inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

<b>2018 Allocation</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash & cash equivalents	342,894			342,894
Receivables		29,978		29,978
Portfolio Investments	9,965,467			9,965,467
<b>Financial liabilities</b>				
Other creditors	(202,371)			(202,371)
<b>2017 Allocation</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash & cash equivalents	1,166,599			1,166,599
Receivables		37,480		37,480
Portfolio Investments	8,190,751			8,190,751
<b>Financial liabilities</b>				
Other creditors	(101,824)			(101,824)

**B. Main Risk Considerations**

London City's activities expose it to various financial risks, mainly market risk, credit risk and liquidity risk. Risk management is carried out by senior management under policies and strategies approved by the Board and the Audit, Compliance and Risk Management Committee. The company is not directly exposed to currency risk.

**(a) Market Risk**

This is the risk that the fair value of future cash flows of a financial instrument may fluctuate because of changes in market prices that depend on many factors including economic conditions and corporate profitability. London City seeks to reduce market risk by adhering to the prudent investment guidelines of its Board, including guidelines in respect of industry status, investee position in industry, performance outlook, management skills and level of strategic shareholding acquired. Price and Interest Rate risks are shown below.

**(a) (i) Price Risk**

The company is exposed to equities securities price risk. This arises from investments held by the company and classified on the balance sheet as either Trading or Investment. London City is not directly exposed to commodity price risk or derivative securities risk.



**Note 16. Financial instruments and risk (Cont'd)**

**Price Risk Sensitivity Analysis:**

The table below summarises the pre-tax impact of both a general increase and general fall in stock-market prices by 10%. The analysis is based on the assumption that the movements are spread equally over all assets in the Trading and Investment Portfolios.

	---- 2018 ----		---- 2017 ----	
	10.0% increase in market prices	10.0% decrease in market prices	10.0% increase in market prices	10.0% decrease in market prices
	\$	\$	\$	\$
Impact on Profit (Pre tax)	(9,965)	9,965	(8,191)	8,191
Impact on Equity (Pre tax)	996,547	(996,547)	819,100	(819,100)

**(a) (ii) Interest Rate Risk**

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At balance date London City had a proportion of its assets held in interest-bearing bank accounts and deposits at call. As such, the company's revenues and assets are subject to interest rate risk to the extent that the cash rate falls over any given period. Given that London City does not have any interest bearing liabilities at balance date, the Board and management do not consider it necessary to hedge the group's exposure to interest rate risk.

**Interest Rate Risk Sensitivity Analysis:**

The table below summarises the pre-tax impact of both a decrease and an increase in interest rates by 100 basis points (1.00%). The analysis is based on the assumption that the change is based on the amounts of cash at bank and cash on hand at year end.

	---- 2018 ----		---- 2017 ----	
	100 bps increase in Interest Rate	100 bps decrease in Interest Rate	100 bps increase in Interest Rate	100 bps decrease in Interest Rate
	\$	\$	\$	\$
Impact on profit (pre-tax)	3,429	(3,429)	11,666	(11,666)

**(b) Credit Risk**

The credit risk on the financial assets of an entity is the risk that one party to a financial instrument may cause a financial loss for the other party by failing to discharge an obligation. This credit risk for London City is minimised by its policy of placing surplus funds with the company's bankers.

**(b) (i) Cash and Cash Equivalents**

The credit risk of London City in relation to cash and cash equivalents is in the carrying amount and any accrued unpaid interest. The average weighted maturity of the cash portfolio at any time is no greater than 90 days. The credit quality of material deposits of cash and cash equivalents can be assessed by reference to external credit ratings.

	2018	2017
Cash at bank and short-term bank deposits:		
AA -	342,894	1,166,599

**(b) (ii) Trade and sundry receivables**

The credit risk of the company in relation to trade and sundry receivables is their carrying amounts. The sums are minor and relate mainly to accrued interest and prepayments. The risk is mitigated by internal monitoring.

**(c) Liquidity Risk**

This risk is that experienced by an entity when it has difficulties meeting its financial obligations. London City has no external borrowings. It manages liquidity carefully, maintaining appropriate maturity balances of short term deposits and marketable securities. London City's Board and management actively review the liquidity position on a regular basis to ensure that the company can always meet its commitments, including investment programmes.

# London City Equities Limited

## Notes to the financial statements - 30 June 2018



### Note 16. Financial instruments and risk (Cont'd)

#### (c) (i) Maturities of financial assets

The following table details London City's maturity periods of its financial assets. This table has been prepared based on the fair values of financial assets as at 30 June and according to the committed deposit maturing dates. Estimates are continually evaluated and are based on historical experience and expectations which are considered reasonable.

Maturity:	2018	2017
Immediate	342,894	10,001
To 30 Days	29,978	1,194,078
30 - 365 days	-	-
Longer Term	9,965,467	8,190,751

#### (c) (ii) Maturities of financial liabilities

The following table details the company's maturity periods of its financial liabilities. This table has been prepared based on the undiscounted cash flows of financial liabilities based on the earliest date on which London City is liable to meet its obligations. The table includes both interest (where applicable) and principal cash flows.

Maturity:	2018	2017
To 30 Days	202,371	101,824

### Note 17. Directors and Executives' Remuneration

The company has no executives. Its portfolio is managed by a Management Agreement with Imperial Pacific Asset Management Pty Limited. The management charge for 2018 was \$105,346 (2017 - \$83,100). A861

#### (a) Names and positions held of directors and specified executives in office at any time during the financial year are:

Mr P E J Murray	- Chair and Chief Operating Officer
Mr DA Sutherland	- Director - Non-Executive
Mr DG Butel	- Director - Non-Executive

#### (b) Directors' Remuneration:

2018	Salary, Fees Commissions	Primary Super Contributions	Post Employment	Other (Equity Options Etc )	Total \$
Mr P E J Murray	25,000	3,562	-	-	28,562
Mr D A Sutherland	30,000	2,850	-	-	32,850
Mr D G Butel	30,000	2,850	-	-	32,850
	85,000	9,262	-	-	94,262

2017	Salary, Fees Commissions	Primary Super Contributions	Post Employment	Other (Equity Options Etc )	Total \$
Mr P E J Murray	25,000	2,375	-	-	27,375
Mr D A Sutherland	25,000	2,374	-	-	27,374
Mr D G Butel	25,000	2,110	-	-	27,110
	75,000	6,859	-	-	81,859

#### (c) Shareholdings

Number of Shares held by Directors and Specified Executives

	Balance 01-Jul-17	Received as Remuneration	Options Exercised	Net change *	Balance 30-Jun-18
Mr P E J Murray	7,718,917	-	-	201,407	7,920,324
Mr D A Sutherland	6,832,112	-	-	201,407	7,033,519
Mr D G Butel	6,912,112	-	-	212,107	7,124,219

\* Net change refers to shares purchased, sold or resulting from relevant interest during the financial year

Note: Each holding includes 7,033,519 shares (2017 - 6,832,112 shares) held by Imperial Pacific Ltd.

# London City Equities Limited

## Notes to the financial statements - 30 June 2018



### Note 17. Directors and Executives' Remuneration (Cont'd)

#### (d) Remuneration Practices

1. The company has no executives.
2. The remuneration arrangements for directors are determined by the shareholders in general meeting. From time to time the Board may submit proposals to increase the fees, which are presently a maximum of \$125,000. The company has scope to remunerate Directors for special duties that may be requested on occasion.
3. There is a formal management agreement in place with Imperial Pacific Asset Management Pty Limited, a subsidiary of Imperial Pacific Limited. This was approved by shareholders on 16 November 2004 and provides for, inter alia, a term of 15 years from 1 July 2005 and fees of 1% of the value of the Portfolio, together with possible performance fees of 15% of any gain achieved above the performance of the S&P ASX 300 Accum Index movement. The total fee payable during 2018 was \$105,346 (2017 \$83,100).
4. Interests of Mr Murray were paid \$124,800 by Imperial Pacific Limited during 2018.
5. The company has a Remuneration Committee in operation.

### Note 18. Auditor's remuneration

Remuneration for audit review of the financial reports of the parent entity or any entity in the consolidated entity.

Cutcher & Neale - Assurance services

2018	2017
\$	\$
10,700	19,000
10,700	19,000

Remuneration for other services

Cutcher & Neale - Other compliance services

2,500	2,300
2,500	2,300
13,200	21,300

Note. London City's Audit, Compliance and Risk Management Committee oversees the relationship with the Auditors, including reviewing the scope of the audit and the proposed fee.

### Note 19. Legal Matter - Ernst & Young

On 17 June 2011 London City was granted judgment in its favour by the Federal Court of Australia to access certain records and documents of Penrice Soda Holdings Limited ("Penrice"). The records have since been returned. The purpose of the legal action was, inter alia, to assess the conduct of parties associated with Penrice and the provision of information to investors. On 31 July 2014 Liquidators were appointed over Penrice and the operations closed. London City incurred substantial direct and indirect losses in relation to the investment in Penrice. During 2017 London City and other parties commenced legal proceedings in the Supreme Court of NSW by lodging a Statement of Claim against Messrs Ernst & Young, the former auditor of Penrice, seeking appropriate recompense. The next material date in the proceedings will take place late September. There is insufficient information at this date to estimate the extent of future benefit or future costs that may arise from this action.

### Note 20. Contingent liabilities

Directors report that the legal action taking place regarding Ernst & Young may carry some contingent liabilities, together with minor bank guarantee arrangements regarding office rentals. Otherwise, the Directors of London City are not aware of any contingent liabilities that may impact on the company.

### Note 21. Capital and Leasing commitments

#### (a) Capital Expenditure Commitments

There are no material capital commitments outstanding at year end.

#### (b) Operating Lease Commitments

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable

Not later than one year

Between 1 & 2 years

Later than 2 years but not later than 5 years

2018	2017
\$	\$
11,790	6,108
-	-
-	-
11,790	6,108

These commitments represent non-cancellable operating leases relating to office premises.



**Note 22. Related parties**

**Directors**

The names of persons who were Directors of London City Equities Limited at any time during the financial year were Mr P.E.J.Murray, Mr D.A.Sutherland and Mr. D.G.Butel. Each of these parties were directors of associated company, Imperial Pacific Limited and its group companies during the same periods, including the subsidiary Imperial Pacific Asset Management Pty Ltd, the manager of London City's portfolio.

**Remuneration**

Information on remuneration of directors is disclosed in Note 17.

**Other related parties**

Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with other related parties, predominantly its associate Imperial Pacific Limited.:

Management fee payable:	2018	2017
Associated Entity - Imperial Pacific Limited Group	105,346	83,100
Amounts payable at balance date to Imperial Pacific Limited Group	65,206	4,187

**Note 23. Economic dependency**

The main trading activity of the company during the year was investment in equities, property and cash deposits. From time to time a significant strategic investment may be made which could influence its economic dependency. London City Equities owns 6.5% of the equity capital of Fiducian Group Limited, a financial services company. Accordingly, London City has some dependency on the financial services sector. With funds on deposit the company's revenue has some dependence on interest rate levels.

**Note 24. Events occurring after balance date**

As reported in Notes 19 and 20 above, London City has commenced proceedings in the Supreme Court of NSW against Messrs Ernst & Young, the former auditors of Penrice Soda (now in liquidation). These proceedings are active. The next material date in the proceedings will take place in late September. London City is also working with Imperial Pacific Fund Managers Pty Limited in a potential complementary action regarding Penrice. Any major decision will be advised to London City shareholders immediately.

An Ordinary Dividend of 1.375 Cents per share has been proposed for payment in October 2018. This has not been provided for in the financial statements.

**London City Equities Limited**  
**Notes to the financial statements - 30 June 2018**



**Note 25. Cash Flow Information**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Reconciliation of operating profit after income tax to net cash inflow from operating activities:		
Operating Profit (Loss) after Income Tax	23,752	35,262
Prior Year Investments sold as trading	143,136	-
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Other Debtors, prepayments	12,704	(11,201)
Increase (Decrease) in Other Creditors	49,482	(3,709)
Net Cash inflow from Operating Activities	<u>229,074</u>	<u>20,352</u>

**Cash Balances at year end:**

Money at Bank and on Hand	342,894	1,166,599
	<u>342,894</u>	<u>1,166,599</u>

**Note 26. Earnings per share**

	Cents	Cents
Basic and Diluted earnings per share	0.10	0.16
(Note: No dilution as no options in existence).		

Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	22,676,099	22,224,016
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# London City Equities Limited

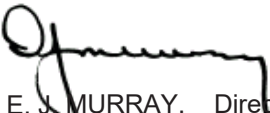



## Directors' Declaration

In the opinion of the Directors of London City Equities Limited ("the company"):

- (a) the financial statements and notes as set out on pages 12 to 28 are in accordance with the Corporations Act 2001 including
  - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
  - b. complying with International Accounting Standards as indicated in Note 1; and
  - c. giving a true and fair view of the Company's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year on that date; and
- (b) 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
- (c) the audited remuneration disclosures set out in the financial report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001; and
- (d) The Directors have been given the declarations by the effective chief executive officer and the effective chief financial officer required by Section 295A of the Corporations Act 2001.

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

  
P. E. J. MURRAY, Director

  
D. G. BUTEL, Director

Sydney

Dated: 17 September 2018

**Auditors Independence Declaration under Section 307C of the Corporations Act 2001**

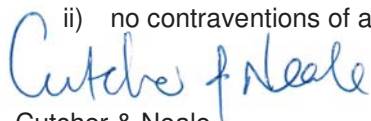
**To the Directors of**

**LONDON CITY EQUITIES LIMITED**

**ABN 59 003 200 664**

I declare that to the best of my knowledge and belief, during the year ended 30 June 2018 there have been:

- i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Cutcher & Neale  
Chartered Accountants



M. J. O'Connor  
Partner

NEWCASTLE

17 September 2018



**Independent Audit Report to the Members of****LONDON CITY EQUITIES LIMITED****ABN 59 003 200 664****Report on the Financial Report***Opinion*

We have audited the financial report of London City Equities Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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, the accompanying financial report of London City Equities Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

*Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Company 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.

## Independent Audit Report to the Members (cont'd)

### *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 current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our opinion on the accompanying financial report.

### *Investment Valuation*

The Company's primary activity is investment in other companies and its main asset is an investment portfolio consisting primarily of listed equities and cash deposits. As at 30 June 2018, the value of listed securities (refer to note 8 to the financial statements) amounted to \$9.846M representing 81% of total assets held by the Company.

The Company's accounting policy (refer to note 1(b) to the financial statements) describes the distinction between the "Trading Portfolio" and the "Investment Portfolio" with both asset classes recoded at fair value in accordance with Accounting Standard AASB 9 Financial Instruments.

The distinction between "Trading" and "Investment" portfolio assets can have a significant impact on the financial report as changes in market value of the former are recorded in the Income Statement and the latter within a separate reserve within equity. The classification and valuation of investments within the Investment Portfolio, and the tax effect of unrealised gains or losses, (refer to note 14(b) to the financial statements) is considered a key area of focus.

### *How our audit addressed this key audit matter*

In obtaining sufficient audit evidence we:

- (a) Assessed the classification of each investment as either Trading or Investment Portfolio assets in accordance with the Company's accounting policy
- (b) Confirmed investment holdings to external confirmations
- (c) Confirmed the valuation of all listed investments had been recorded to reflect the appropriate market value of the securities at balance date
- (d) Evaluated the Company's assessment of fair value for possible impairment
- (e) Evaluated the Company's recognition of deferred tax assets, in respect of tax losses, to reduce the tax payable in respect of the unrealised gains on the Investment Portfolio

### *Contingencies – Legal Claims*

During the financial year the Company lodged a Statement of Claim in the Supreme Court seeking recompense from the former auditor of Penrice Soda Holdings Limited. The Company has disclosed information in respect of the legal proceedings in Notes 19 and 20 to the financial statements.

## **Independent Audit Report to the Members (cont'd)**

The accounting for, and disclosure of, contingencies is complex and is a matter of most significance in our audit because of the judgements required to determine the level of certainty in the matter.

How our audit addressed this key audit matter

In response to this matter, our audit procedures included:

- a) Consideration of the relevant Accounting Standards
- b) Discussions with Management as to the status of the matter, instructions to legal advisers and related correspondence
- c) Review of board briefing papers assessing the possible outcomes of the matter
- d) Discussions with Management as to the status of the matter, instructions to legal advisers and related correspondence
- e) Discussions with the independent legal advisers engaged by the Company in order to validate management representations on the matter

Based on the evidence we obtained, we accepted management's assessment that:

- a) There are sufficient uncertainties such that no asset or liability has been recorded in the financial statements
- b) The disclosures in the notes to the financial statements are sufficient to provide information to shareholders and other users of the financial report on the nature of the matter and are consistent with information that has been disclosed to the market.

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report other than the financial report and the auditor's report thereon. We obtained the Chairman's Review and Directors Report that are to be included in the Annual Report prior to the date of this auditor's report.

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 on the other information obtained prior to the date of this auditor's report, 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 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.

## Independent Audit Report to the Members (cont'd)

### *Auditor's Responsibilities for the Audit of the Financial Report*

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

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 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 reasonably be expected to influence the economic decisions of users taken on the basis of the 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 Company'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 Company'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 Company 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.

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.

## **Independent Audit Report to the Members (cont'd)**

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 Audit of the Remuneration Report**

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of London City Equities Limited for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

#### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 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.



Cutcher & Neale  
Chartered Accountants



M. J. O'Connor  
Partner

NEWCASTLE  
18 September 2018

# London City Equities Limited



## Corporate Governance Charters - 2018

### *A – The Board Charter of London City Equities Limited*

The Board of London City Equities Limited ("London City") recognises that formal and informal responsibilities and tasks are established in the company's Constitution, in legislation and in regulatory requirements. The purpose of this Charter is to provide a structural framework to give the Board direction and authority over non contractual, legislative or regulatory responsibilities and duties.

#### **Terms of Reference**

Complementary to contractual, legislative or regulatory responsibilities, the Board's responsibilities shall include the following:

- Recognising that London City is foremost a business entity.
- Considering and approving corporate strategies and policies, reviewing and approving business plans and major items of expenditure and reviewing and approving financial statements and their presentation to shareholders
- Monitoring and utilising bodies such as the Audit, Compliance and Risk Management Committee and the Remuneration Committee, ensuring that the company has in place a reporting system which enables it to address the compliance and risk management responsibilities of the business carried out by London City.
- Assessing management, including the appointment of executives to the organisation, including the Company Secretary and examining corporate and executive performance.
- Considering Board appointments
- Reviewing from time to time the compliance undertaken by the company's portfolio manager, Imperial Pacific Asset Management Pty Limited.

#### **Membership**

The membership of the Board is determined by the Constitution and "shall be not less than 3 or more than 7". One-third of (non-executive) Directors must retire from office each year. They may seek re-election. From time to time the Board may consider it appropriate to appoint a new member (or members) to the Board. Personnel considered for selection shall be chosen in the first place on the basis of their requisite business, financial and communications skills. Assessments will then be made as to their suitability for the role in the light of other characteristics including diversity of skills and background, diversity of gender, potential conflicts of interest, personality, costs, availability and the ability to conform to a small company operation such as that of London City. Independence (as defined by ASX Corporate Governance statements) is not considered an important characteristic for London City. Induction of new Board members is to incorporate detailed explanations of operational matters and assurances as to meeting competent business practices.

London City supports the principle of diversity of skills, background and gender in relation to board membership, management composure and commercial activity. Directors should pursue relevant research and investment presentations to enhance professional development. London City will adopt as far as practicable for a company of the size and business activity of London City such a policy in these matters.

#### **Meetings**

The Board proposes to meet a minimum of four times each year. Additional meetings may be initiated by a Director or through requests from senior management.

#### **External Reporting**

The Board recognises its legislative and regulatory obligations to report financial and other events to its owners, the shareholders, on a continuous disclosure basis and to comply with other regulatory obligations such as those of ASIC and ATO and to undertake scrutiny and re-election at Shareholder Meetings.

#### **Other Duties and Responsibilities**

In addition to its formal legislative and regulatory obligations, the Board's responsibilities include the following:

##### **Planning and Decision making**

- Considering and approving corporate strategies and policies;
- Reviewing and approving business plans and major items of expenditure
- Assessing and deciding upon Investment opportunities.
- Assessing and deciding upon capital adequacy, gearing ratios and conservative placement of surplus monies on deposit.

## **Board Charter (Cont'd)**

### **Monitoring**

- Meeting regularly, formally and informally monitoring the company's performance and its capital and funding adequacy.
- Creating, monitoring and utilising the Audit, Compliance and Risk Management Committee;
- Ensuring that the company has in place a reporting system which enables it to address the reporting, compliance and risk management responsibilities of the business carried out by London City.
- Reviewing from time to time the compliance undertaken by the company's portfolio manager, Imperial Pacific Asset Management Pty Limited.

### **Reporting**

- Ensuring that the company has in place a reporting system which enables it to produce effective, accurate and responsible financial reporting to the shareholders and other parties, including ASIC, ASX and ATO.
- Assessing Section 295A declarations by the CEO and the CFO.
- Reviewing and approving final financial statements and their presentation to shareholders.
- Maintaining open dialogue with all shareholders, especially at the Shareholder Meetings.

### **Management**

- Assessing the need for additional or amended management personnel.
- Evaluating corporate and executive performance.
- Selecting and appointing executives to the organisation.
- Delegating the task of managing the corporation to executive management, namely:
  - Creating structure of command and responsibilities
  - Day-to-day management of resources
  - Payments of accounts and receipt of monies
  - Recording of transactions
  - Preparation and presentation of investment proposals, updates on existing and potential investments to the Board in conjunction with Imperial Pacific Asset Management Pty Limited
  - Preparation and presentation of various Board reports, agenda and minutes.
- Creating, monitoring and utilising the Remuneration Committee;

### **Liaison with Management**

- The Board is ultimately responsible for the success of the entity and although it undertakes top level strategic planning and decision making for the entity, any Director is entitled to examine and if necessary, audit, any aspect of the company's operations or its management.

### **Codes of Conduct, Securities Dealings**

- Considering and establishing codes of conduct about Director and personnel behaviour.
- Considering and establishing principles in relation to dealing in securities by Directors and company personnel, including Embargo Lists

### **Other**

Any Director has the right, with Board approval, to seek independent professional advice where this is reasonably required for fulfilment of the responsibilities set out in this Charter.

## **B – The Audit, Compliance and Risk Management Committee Charter (Summary)**

The Audit, Compliance and Risk Management ("ACRM") Committee's activities are directed towards satisfaction of Principles 4 and 7 of the ASX Corporate Governance Principles of the time.

### **Terms of Reference**

The primary function of the ACRM Committee is to assist the Board of London City Equities Limited ("London City") in fulfilling its governance responsibilities in the following areas of Audit, Compliance and Risk Management:

#### **A. Audit**

- a. Articulation of the guiding principles to be adopted by the external auditors;
- b. Consideration of operating functions that will ensure adequate internal controls and financial reporting systems are in place.

#### **B. Compliance**

- c. Consideration of operating functions that will provide adequate compliance with all relevant statutory and regulatory requirements and community obligations.

#### **C. Risk Management**

- d. Appropriate consideration of operating functions that will provide adequate protection of the company's tangible and intangible assets by acceptable management of risk.



## **ACRM Charter (Summary) (Cont'd)**

### **Membership**

The membership of the ACRM Committee will be determined from time to time by the Board and comprises at least two non-executive members of the Board appointed by the Board on the basis of requisite business, financial and communications skills. The Board appoints the Chairman of the Committee. The Chairman presides over the meetings of the Committee and reports, as necessary, its actions and recommendations to the Board. The company's Chief Operating Officer and other personnel may be invited to attend meetings. The Chairman may call special meetings of the Committee in addition to those regularly scheduled and may request the attendance of staff and / or external auditors. A Secretary of the Committee may be appointed to facilitate administrative functions including the preparation and circulation of notices of meetings and agendas, and the recording of minutes.

### **Meetings**

The ACRM Committee shall meet a minimum of two times during each year. Additional meetings are held at the discretion of the Committee Chairman or by direction of the Board. Agendas and minutes shall be prepared in relation to the meetings.

### **Reporting to the Board**

The outcomes of the Committee's deliberations are to be reported to the Board as soon as possible after each meeting of the Committee. The minutes of these meetings are to be circulated to the Board.

### **Specific Duties and Responsibilities**

The Committee is given responsibility for considering and advising Board on the following six areas:

#### **One - Internal Controls and Procedures**

- Ensuring through regular reviews that adequate procedures are in place to safeguard the company's assets provide informative financial statements and reports.
- Reviewing internal audit reports.
- Seeking to ensure that a system is in place to monitor legislative changes and current developments in accounting standards that might impact on the company.
- Assessing Section 295A declarations by the CEO and the CFO equivalents.

#### **Two - External Audit**

- Discussing with the external auditors the scope and extent of the half yearly and full year financial audits
- Reviewing and discussing findings of the external auditors and advising the Board of any issues of concern.

#### **Three - Published Financial Statements**

- Ensuring that systems are in place to allow the annual report statements to reflect properly the financial condition of the company and comply with ASX listing and other regulatory requirements

#### **Four - Compliance**

- Ensuring that the company has in place a reporting system which advises the Board periodically and addresses the compliance obligations of a public listed company such as London City.
- Reviewing from time to time the appropriateness of, and compliance action taken, by the company in maximising compliance obligations.
- Reviewing from time to time the compliance undertaken by the company's portfolio manager, Imperial Pacific Asset Management Pty Limited.

#### **Five - Risk Management**

- Ensuring that the company has in place a system which addresses risk recognition, oversight and management and reports as appropriate to the Board.
- Reviewing from time to time the appropriateness of, and risk management action taken by the company in maximising risk management protection.

#### **Six - Special Assignments**

- Subject to Board approval, doing such other things as are necessary or prudent to fulfil the responsibilities of the Committee.
- Undertaking other related activities referred to the ACRM Committee by the Board.

### **General**

The ACRM Committee has the right at all times to obtain from all levels of management such information as is necessary to fulfil the responsibilities set out in this Charter. The Committee has the right, with Board approval, to seek independent professional advice where this is reasonably required for fulfilment of the responsibilities set out in this Charter.



## **C – The Remuneration Committee Charter (Summary)**

The Remuneration Committee's activities are directed towards satisfaction of Principle 1 of the ASX Corporate Governance Principles. The primary function of the Remuneration Committee is to assist the Board of London City Equities Limited ("London City") in fulfilling its governance responsibilities in the following area:

*Establishing the guiding principles and the actual approval process to be adopted in the payment of sums of remuneration (or applicable financial arrangements) for any Director, or employee of the organisation or related party such as a portfolio management service provider.*

The membership of the Remuneration Committee will be determined from time to time by the Board and comprise two non-executive members of the Board appointed by the Board on the basis of requisite business, financial and communications skills. The Board appoints the Chairman of the Committee. The Chairman presides over the meetings of the Committee and reports, as necessary, its actions and recommendations to the Board. The company's Chief Operating Officer and other personnel may be invited to attend meetings. The Chairman may call special meetings of the Committee in addition to those regularly scheduled and may request the attendance of staff. A Secretary of the Committee may be appointed to facilitate administrative functions including the preparation and circulation of notices of meetings and agendas, and the recording of minutes.

The Remuneration Committee shall meet as required, expected to be not less than twice per year. Additional meetings are held at the discretion of the Committee Chairman or by direction of the Board. Agendas and minutes shall be prepared in relation to the meetings. The outcomes of the Committee's deliberations are to be reported to the Board as soon as possible after each meeting of the Committee. The minutes of these meetings are to be circulated to the Board.

The Committee is given responsibility for considering and advising Board on the following three areas:

**One - The Board** - Establishing the guiding principles and the actual approval process to be adopted in the payment of sums of remuneration (or applicable financial arrangements) for members of the Board, predominantly directors fees, examining comparative sums payable in the marketplace for similar services and ensuring proper compliance is undertaken for shareholder approval.

**Two – Management** - Establishing the guiding principles and the actual approval process to be adopted in the payment of sums of remuneration (or applicable financial arrangements) for executive management and examining comparative sums payable in the marketplace for similar services.

**Three - Service Provider** – Assessing and monitoring the payment of portfolio management fees to service provider, Imperial Pacific Asset Management Pty Limited.

The Remuneration Committee has the right at all times to obtain from management such information as is necessary to fulfil the responsibilities set out in this Charter

# London City Equities Limited

## Additional Information for Australian Securities Exchange Limited



### Distribution of Equity Securities as at 17 September 2018

212 Shareholders held Ordinary Shares	
Number of Ordinary Shares	Number of Shareholders
1 - 1,000	75
1,001 - 5,000	20
5,001 - 10,000	49
10,001 - 100,000	56
100,001 and over	12
	<u>212</u>

Note: There were 89 shareholders with non-marketable parcels of shares.

### Substantial Shareholders as at 17 September 2018

	Shares in which a relevant interest could be held
J.C.Plummer	10,600,618
Imperial Pacific Limited	7,033,519

### Twenty Largest Shareholders as at 17 September 2018

The names of the 20 largest shareholders are:-

<i>Name</i>	<i>Number</i>
J.C. Plummer	10,600,618
Imperial Pacific Limited	7,033,519
Capel Court Corporation Pty Limited	808,805
Ellaville Holdings Pty Limited	717,933
D.J. and B.L. LeCornu	275,000
Clapsy Pty Limited	218,650
REZ Investments Pty Ltd	136,223
Boulderstone Nominees Pty Limited	135,000
Forwest Investments Pty Limited	130,755
Wildrose Pty Limited	120,000
Minton Consulting Pty Limited	102,395
J.K.Murray	91,053
Bond Street Custodians Pty Limited	90,700
Oakey Creek Pastoral Co Pty Limited	90,163
D. Michaelis	75,500
S.J.McKenzie	75,000
A.Rooney	74,033
B.G.Symon	70,000
R..I.W.Macleod	69,497
F. Herd	68,363
	<u>20,983,207</u>
	92.53%

Percentage of the issued capital held by top twenty:

### Voting Rights

Voting Rights are one vote per share held

### Service Agreements

There is no contingent liability for this company for the termination of benefits under service agreements at the date of this report.





**LOGO:** The emblem of London City Equities Limited represents the London Plane Tree. This plant, initially recorded in 1670, has become a long term survivor of the English seasons and population growth. Its resilience comes from its hardwood strength and its ability to shed bark, thereby renewing and protecting itself from risk of disease. Its shiny leaves are easily washed and reinvigorated by the rain. There are many examples still growing vigorously in London Squares that are estimated to be over 200 years old.

## Proxy Form

**To: The Company Secretary  
London City Equities Limited  
Level 7, 210 George Street  
SYDNEY NSW 2000 or Email [bet@iprimus.com.au](mailto:bet@iprimus.com.au)**

I/We..... of ..... hereby appoint ..... as ..... of ..... or in the event that no person is nominated above, the Chairman of the Meeting, as my/our proxy to vote for me/us at the Annual General Meeting of the company to be held at Level 7, 210 George Street, Sydney, NSW 2000 on Wednesday 24 October 2018 at 10.30 am and at any adjournment thereof in accordance with the respective instructions.

This proxy is to represent (proportion) ..... of my/our voting rights. (Please complete if more than one proxy is being appointed, otherwise only one proxy will be accepted).

This proxy is to be used to vote in respect of the resolutions and, unless instructed, the proxyholder may vote as the person thinks fit. [Please mark as required.]

### Ordinary Business

**For                      Against                      Abstain**

To adopt the Remuneration Report.

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To re-elect Mr. P. E. J. Murray a Director of the Company

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**NB. IF YOU HAVE NOT DIRECTED YOUR PROXY HOW TO VOTE.** If the Chairman of the meeting is your nominated proxy, or may be appointed by default, and you have not directed your proxy how to vote, the Chairman intends to vote "FOR" the Resolutions.

Signed by the said

.....  
(Name of Member)

.....  
(Signature of Member)

Dated this ..... day of ..... , 2018

### Please Note:

1. If you mark "Abstain" you are directing your proxyholder not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority.
2. Where the member is a natural person this proxy must be signed by the member personally or by a duly appointed attorney. Where the member is a corporation this proxy must be executed under the common seal of the corporation or signed by an attorney duly appointed under the common seal of the corporation.