





“Desane expects  
the Australian  
commercial and  
industrial property  
market to improve  
significantly over the next three to  
four years, both in tenant occupancy  
requirements and rental returns.”





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## Chairman's Report

### I present to shareholders the 2014 Desane Group Holdings Limited Annual Report.

It is with pleasure that I can report to shareholders that the Group's net profit before tax, for the financial year ending 30 June 2014, **increased 54.1% to \$1.96M** and the Group's total assets have **increased by 10.3% to \$52.1M**.

During this period the total value of Group properties **increased by 6.9%**, while the rental income from properties **increased 4.7%**. In addition, I am pleased to also report that the Group's finance costs have been **reduced by 7%**. The Group's **net tangible assets (NTA) stand at 84 cents per security**.

The financial result was achieved notwithstanding a year of political uncertainty both in Australia, and in particular in New South Wales, which obviously can impact on perceptions of the economy.

The Directors have resolved to reward shareholders by paying, in July 2014, a special dividend of 2 cents per security, fully franked and also by recommending a dividend of 2 cents per security, fully franked, to be paid in November 2014.

The recent reduction by the European Central Bank (ECB) of official deposit interest rates with the ECB to less than zero is a historic low. Australian banks are now clearly accessing deposit funds from both Europe and Japan which also has a very low deposit rate, enabling the current low mortgage rates on offer in Australia to be maintained. This action has fed through the economy in general, and especially the property markets, and hence investment in property remains attractive in view of the major Australian banks' offering low cash deposit returns to investors. Investors' interest in residential, commercial and industrial property as an alternative form of investment has risen significantly, given the previously mentioned low cost of debt for entry, coupled with a general community focus on property rather than the equities market.

The stability of mining equities in particular continues to raise questions as to whether the exporting of minerals, such as iron ore amongst others, will be as robust as first anticipated, and evidences continuing volatility of demand. **Therefore, equities such as Desane Group Holdings Limited, which are based in quality domestic, commercial and industrial property, demonstrate a stability separating this class of equity from more volatile investment vehicles.**

Since my previous report to shareholders, the draft Planning Bill was withdrawn by the NSW Government after rejection

by the Legislative Council, and any reform to the existing Environmental Planning and Assessment Act remains uncertain. However, there still remains a crucial need to free up the zoning and development approval processes, especially given the widely acknowledged shortage of quality industrial, commercial and retail floor space. Rezoning of land identified for any of these uses remains a tortuous journey for any prospective investor which in turn has led to a significant shortfall in availability and remains a brake on the Sydney property market, especially where a rezoning is required.

In such an environment, Desane remains well positioned by having an increasingly valuable portfolio of existing industrial and specialised commercial properties, which are in strong demand for leasing, and obviously for possible sale at some future juncture.

Your Board remains confident the Group's strategies will continue to result in solid asset growth in the 2014/2015 financial year, as the industrial and commercial property market further strengthens. I wish to congratulate both the Group Executive and the employees of Desane Group Holdings Limited for the prudent management of the Group, as evident from this year's excellent financial results.

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

**PROFESSOR JOHN SHEEHAN**  
Chairman





# Corporate Governance Statement

## For the Year Ended 30 June 2014

The objective of the Board of Desane Group Holdings Limited is to create and deliver long-term shareholder value. The Board considers there to be an unambiguous and positive relationship between the creation and delivery of long-term shareholder value and high-quality corporate governance. Accordingly, in pursuing its objective, the Board has committed to corporate governance arrangements that strive to foster the values of integrity, respect, trust and openness among and between board members, management, employees, customers and suppliers.

Desane Group Holdings Limited and its controlled entities operate as a single economic entity with a unified Board and management. As such, the Board's corporate governance arrangements apply to all entities within the economic group.

Desane Group Holdings Limited is listed on the Australian Securities Exchange (ASX). Accordingly, unless stated otherwise in this document, the Board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council as well as current standards of best practice for the entire financial year ended 30 June 2014.

### Board Composition

The Desane Group Holdings Ltd Board of Directors is responsible for the overall Corporate Governance of the economic entity including its strategy, direction and oversight of the Company's operations on behalf of its shareholders. The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

The names of the directors of the company are:

**Prof. John Sheehan (Non Executive Chairman)**

**Mr Phil Montrone OAM (Managing Director/CEO)**

**Mr John Bartholomew (Director)**

When determining whether a non-executive director is independent, the director must not fail any of the following materiality thresholds:

- Less than 10% of company shares are held by the director of any entity or individual directly or indirectly associated with the director;

- No sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- None of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Mr Sheehan and Mr Bartholomew pass all the criteria to be considered independent directors.

Each director has the right to seek independent professional advice in carrying out his duties at Desane's expense. However, written approval of the Chairman must be obtained prior to incurring any expense on behalf of the company.

In view of the small size and stability of the board, it is not considered necessary to have a nomination committee and diversity policy.

The Board also considers that the current board composition reflects an appropriate balance of skills, expertise and experience to achieve its objective of creating and delivering long-term shareholder value.

### Ethical Standards

The Board acknowledges and emphasises the importance of all directors and employees maintaining the highest standards of corporate governance practice and ethical conduct.

A code of conduct has been established requiring directors and employees to:

- Act honestly and in good faith;
- Exercise due care and diligence in fulfilling the functions of office;
- Avoid conflicts and make full disclosure of any possible conflict of interest;
- Comply with the law;
- Encourage the reporting and investigating of unlawful and unethical behaviour; and
- Comply with the share ownership and trading policy outlined in the code of conduct.

Directors are obliged to be independent in judgement and ensure all reasonable steps are taken to ensure due care is taken by the Board in making sound decisions.

# Corporate Governance Statement

## Share Ownership and Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the Board of Directors. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

## Board Committees

To facilitate achieving its objectives, the Board has established four sub-committees comprising board members – the audit committee, remuneration committee, finance and operations committee and the environmental and occupational health and safety committee. Each of these committees has formal terms of reference that outline the committees' roles and responsibilities, and authorities delegated to it by the Board.

### Audit Committee

The role of the audit committee is to assist the Board in monitoring the processes and controls associated with the financial reporting function that ensure the integrity of the company's financial statements. Specifically, the audit committee oversees:

- The appointment, independence, performance and remuneration of the external auditor;
- The integrity of the audit process;
- The effectiveness of the internal controls; and
- Compliance with applicable regulatory requirements.

Information on the Board's procedures for the selection and appointment of the external auditor, and for the rotation of the external audit engagement partners, is available from the company's website.

The audit committee comprises two directors (including the Chair of the Board), all of whom are non-executive/independent directors. Consistent with the ASX's Corporate Governance Principles and recommendations, the Chair of the audit committee is independent and does not hold position of Chair of the Board. In view of the small size and stability of the Board, two directors (including the Chair of the Board) is the maximum number of members to be part of the audit committee.

The names and qualifications of the audit committee members and their attendance at meetings of the committee are included in the directors' report.

### Finance and Operations Committee

The role of the finance and operations committee is to assist the Board in monitoring:

- Performance of the company's various business activities;
- Compliance by management with limits and benchmarks determined by the Board; and
- Compliance by management with the Board's formal policies and procedures regarding ASX listing rule disclosure requirements.

The finance and operations committee comprises the entire Board of directors and key personnel (including the Chair) and the meetings were held each month of the financial year ended 30 June 2014. The names and qualifications of the finance and operations committee members and their attendance at meetings of the committee are included in the directors' report.

### Remuneration Committee

The role of the remuneration committee is to assist the Board in the general application of the remuneration policy. In doing so, the remuneration committee is responsible for:

- Developing remuneration policies for directors and key personnel, with the assistance of independent external consultants;
- Reviewing key personnel remuneration packages annually and based on these reviews, making recommendations to the Board on remuneration levels for key personnel; and
- Assisting the Chair in reviewing key personnel annually and reporting to the Board on key personnel performance.

During the year ended 30 June 2014, the remuneration committee comprised an executive and a non-executive/independent director, who also chaired the committee. In view of the small size and stability of the Board, two directors (including the Chair of the Board) are the maximum number of members to be part of the remuneration committee.

The names and qualifications of the remuneration committee members and their attendance at meetings of the committee are included in the directors' report.

There are no schemes for retirement benefits for directors other than statutory superannuation arrangements for non-executive/independent directors.

### Environmental and Occupational Health and Safety Committee

The role of the environmental and occupational health and

safety committee is to assist the Board in monitoring bi-annually:

- Occupational health and safety issues of the company's various business activities;
- Environmental issues of the company's various business activities; and
- Reporting to the Board any compliance obligations of the company with regards to the Clean Energy ACT 2010 and the recently implemented federal government Carbon Tax.

The environmental and occupational health and safety committee comprises three directors (including the Chair of the Board).

The names and qualifications of the environmental and occupational health and safety committee members and their attendance at meetings of the committee are included in the directors' report.

## Performance Evaluation

The Board has adopted a self-evaluation process to measure its own performance and the performance of its committees. This review is on a continuing basis and the performance of individual directors is assessed by the Chairman, having regard to the broader Board review findings and after feedback received from the directors and management.

Due to the size and composition of the board, a formalised annual evaluation of the board was not deemed necessary. The performance criteria and goals of the board are subject to continual review. The contributions of all directors are considered to be of a high level and adequate to discharge their duties in full.

## Board Roles and Responsibilities

The Board is accountable to the shareholders for creating and delivering shareholder value through governance of the company's business activities. The discharge of these responsibilities is facilitated by the Board delivering to shareholders timely and balance disclosures about the company's performance.

As part of its corporate governance arrangements, the Board has established a strategy for engaging and communicating with shareholders that includes:

- Bi-annually reporting to all shareholders; and
- Actively encouraging shareholders to attend and participate in the company's Annual General Meeting.

The Board is first and foremost accountable to provide value

to its shareholders through delivery of timely and balanced disclosures.

The Board has delegated to the Managing Director, Mr Phil Montrone, all authorities appropriate and necessary to achieve the Board's objective to create and deliver long-term shareholder value.

Notwithstanding these delegations of authority by the Board, the Managing Director remains accountable to the Board for authority delegated to him and for the performance of the company's business activities at all times. As noted above, the Board regularly monitors the decisions and actions of the Managing Director as well as the performance of the company's business activities.

A key plan of the Board's role and responsibility is the requirement for all directors to demonstrate honesty, integrity and preparedness to critically evaluate all aspects of the company's operations. Inherent in all of this is the expectation that directors:

- Commit the necessary time and energy to fulfil their responsibilities as directors; and
- Place the interests of the company before their personal interests.

The Chairman is responsible for ensuring individual directors, the Board as a whole and key personnel comply with both the letter and spirit of the Board's governance arrangements. The Chairman discharges their responsibilities in a number of ways, primarily through:

- Setting agendas in collaboration with other directors and key personnel;
- Encouraging critical evaluation and debate among directors;
- Managing board meetings to ensure that all critical matters are given sufficient attention; and
- Communicating with shareholders as and when required.

Independent directors have the right to seek independent professional advice on any matter connected with the discharge of their responsibilities as directors at the company's expense. Written approval must be obtained from the Chairman prior to incurring any expense on behalf of the company.

# Corporate Governance Statement

## Shareholder Rights

Shareholders are entitled to vote on significant matters impacting on the business, which include the election and remuneration of directors, changes to the constitution and receipt of annual and interim financial statements. Shareholders are strongly encouraged to attend and participate in the annual general meeting of Desane Group Holdings Limited, to lodge questions to be responded by the Board and/or the Managing Director, and are able to appoint proxies.

## Risk Management

The Board considers the identification and management of key risks associated with the business as vital to maximise shareholder wealth. A continuing assessment of the business's risk profile is undertaken and reviewed by the Board covering all aspects of the business from the operational level through to strategies level risks. The Managing Director has been delegated the task of implementing internal controls to identify and manage risks for which the Board provides oversight. The effectiveness of these controls is continually being monitored and reviewed. The current economic environment has emphasised the importance of managing and reassessing its key business risks.

## Remuneration Policy

The remuneration policy, which sets the terms and conditions for the chief executive officer and other senior executives, was developed by the remuneration committee, and was approved by the board. All executives receive a base salary, superannuation, fringe benefits and retirement benefits. The remuneration committee reviews executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The amount of remuneration for all directors and the highest paid executive, including all monetary and non-monetary components, are detailed in note 5 to the financial report. All remuneration paid to executives is valued at the cost to the company and expensed.

The board expects that the remuneration structure implemented will result in the company being able to attract and retain the highest calibre executives to run the economic entity. This structure should reward them for performance which results in long term growth and shareholder value.

## Other Information

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's website at [www.desane.com.au](http://www.desane.com.au).





## Directors' Report

The Directors present their report, together with the financial statements of the company and its controlled entities for the financial year ended 30 June 2014.

### Principal Activities

The principal activities of the consolidated group during the financial year were:

- **Property investment**
- **Property project management and resale**
- **Property services**

There were no significant changes in the nature of the consolidated group's principal activities during the financial year.

### Operating Results

	2014	2013
	\$'000	\$'000
The profit of the consolidated group, after providing for income tax amounted to	1,242	1,296

### Dividends Paid or Recommended

Dividends paid or declared for payment are as follows:

	2014	2013
	\$'000	\$'000
Ordinary dividend of \$0.01 unfranked, per share paid on 26 November 2013, recommended in last year's report		302
Ordinary dividend of \$0.04 franked, per share recommended by the directors from retained earnings	1,208	

### Review of Operations

The overall results of the entity for the 2013/2014 year were positive, maintaining a \$1.24 million profit after tax and being able to reward shareholders with a 4 cents fully franked dividend.

The directors report a full financial year profit of \$1,241,680. The operating profit for the year ended 30 June 2013 was \$1,296,074.

A summary of consolidated revenues and results by significant industry segments is set out below:

	Total Revenue		Segment Result	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Property management	191	102	191	102
Property services	206	1,020	206	1,020
Property investment - rental	2,048	1,957	690	507
Property investment - net revaluations	2,240	(830)	2,240	(830)
Interest received	52	-	52	-
Share of net profits and revaluation gains of associate	(348)	1,399	(348)	1,399
	4,389	3,648	3,031	2,198
Less: Unallocated expenses			(1,070)	(925)
Operating profit			1,961	1,273
Income tax (expense)/benefit attributable to operating profit			(719)	23
Operating profit after income tax attributable to members of Desane Group Holdings Limited			1,242	1,296



## Portfolio Overview

### DEVELOPMENTS

#### ROZELLE

##### 47-51 Lilyfield Road

In December 2013, Desane obtained development approval to construct 29 residential apartments, 3 commercial ground floor units and 45 parking spaces. Desane has engaged the services of CBRE Residential Projects to sell the apartments off plan. When completed, this project is expected to generate **sales of up to \$27 million**. Construction for this project has commenced and is expected to be completed by September 2015.

"The project was launched in June 2014. To date, there have been a total of 24 pre-sales which represent 83% of the residential apartments.

Construction is underway and is forecast to be completed in September 2015."

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83%

Pre-sold

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38%

Forecast  
development  
margin

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Aerial view



Proposed living room apartment 206



Proposed living room apartment 308



Proposed bathroom

# Portfolio Overview

## Operations

For the year ended 30 June 2014, the Group's operations achieved an increase in **net profit before tax of 54.1% to \$1.96 million** and revenues of \$2.5 million from ordinary activities. This reflects the quality of the Group's industrial property portfolio, our focused service provided to clients and the strength of our relationships with tenants and clients. Our Company also achieved **100% occupancy** for all properties owned and managed, by signing leases with new long term tenants and concluding a number of lease renewals with existing tenants.

Desane continues to be a significant Sydney based **commercial and industrial property landlord** and will continue to increase its property holdings as market opportunities arise. The Company has increased its direct ownership of properties and other assets by **10.3% to \$52.1 million** and it manages an additional **\$4.5 million** of industrial properties located in the Sydney metropolitan area. The Company has retained the property management rights in the properties it owns in joint venture with other corporations. The property management division is continuing to perform well.

## Portfolio Summary

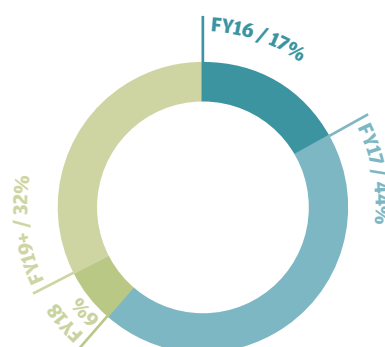
Number of property assets	<b>4</b>
Net lettable area (sqm)	<b>16,219</b>
Net Operating Income (NOI) (\$)	<b>2,772,063</b>
Property Portfolio Valuation (\$) <sup>1 2</sup>	<b>45,195,726</b>
Weighted average capitalisation rate (%)	<b>8.00%</b>
Occupancy rate (by net lettable area) (%)	<b>100%</b>
Occupancy rate (by net income) (%)	<b>100%</b>
WALE (by net lettable area)	<b>2.9 years</b>
WALE (by net income)	<b>2.8 years</b>

1 Valuation includes 100% of 68-72 Lilyfield Road, Rozelle

2 Value for 47-51 Lilyfield Rd, Rozelle as per JLL Valuation plus initial construction costs

## Portfolio Lease Expiry Profile

As a percentage of net lettable area



## Top 10 Tenants

As a percentage of gross income<sup>1</sup>

Tenant	Gross Income (\$)	% of Total Gross Income
Staging Connections	1,147,129	38.7%
Pentel Australia	284,047	9.6%
Signature Orthopaedics	250,305	8.4%
Premier Products	204,876	6.9%
Novis HealthCare	182,845	6.2%
Halley & Mellows	189,148	6.4%
Lizard Learning Centre	182,985	6.2%
Vino Plus	197,713	6.7%
Morpho Australasia	178,994	6.0%
Optimed	149,648	5.0%
<b>TOP 10 TOTAL INCOME</b>	<b>2,967,690</b>	<b>90.0%</b>
<b>TOTAL GROSS INCOME</b>	<b>3,297,917</b>	

1. Gross income (net income plus outgoings). All information is correct as at 17/09/14.





## LANE COVE

### 7-9 Orion Road

The Orion Road complex consists of **6,000m<sup>2</sup> of industrial space** leased to six large Australian and international corporations, all with medium to long term leases.

This property is performing well and is continuing to contribute to the Group's profit result through its increased annual net rental income and 100% long term occupancy.

#### Valuation Summary

Ownership Interest	<b>100%</b>
Title	Freehold
Current Book Value (\$)	11,144,200
Capitalisation Rate (%)	8.0

#### Property Summary

Net Lettable Area (m <sup>2</sup> )	<b>5,766</b>
Occupancy (%)	100.0
WALE (yrs)	3.2
Net Passing Annual Income (\$)	907,550

#### Major Tenant

**Pentel Australia**

#### Lease Expiry Profile

FY16/ <b>23%</b>	FY17/ <b>36%</b>	FY18/ <b>26%</b>	FY19+/ <b>19%</b>
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## LANE COVE

### 13 Sirius Road

This **2,200m<sup>2</sup> high-tech property** comprises a two-level commercial/industrial building with 50 basement security parking spaces and is located within 100 metres of two other commercial industrial properties owned by Desane in the Lane Cove West industrial precinct.

The continuing ownership of this property by Desane will show rental and capital increases for Desane's property asset portfolio in future years.

#### Valuation Summary

Ownership Interest	<b>100%</b>
Title	Freehold
Current Book Value (\$)	3,698,350
Capitalisation Rate (%)	8.0

#### Property Summary

Net Lettable Area (m <sup>2</sup> )	<b>2,181</b>
Occupancy (%)	100.0
WALE (years)	4.7
Net Passing Annual Income (\$)	310,700

#### Major Tenant

**HMA Group**

#### Lease Expiry Profile

FY19+/ <b>100%</b>
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## Portfolio Overview



### LANE COVE

#### 7 Sirius Road

This **2,800m<sup>2</sup> commercial/industrial building** is located within 100 metres of two other commercial industrial properties owned by Desane in the Lane Cove West industrial precinct.

The property comprises approximately 460m<sup>2</sup> of office and 2,240m<sup>2</sup> of high clearance warehouse, with 38 on-site car parking spaces. This property will continue to show rental and capital increases for Desane's portfolio in future years.

#### Valuation Summary

Ownership Interest	<b>100%</b>
Title	Freehold
Current Book Value (\$)	4,625,063
Capitalisation Rate (%)	8.0

#### Property Summary

Net Lettable Area (m <sup>2</sup> )	<b>2,778</b>
Occupancy (%)	100.0
WALE (yrs)	3.1
Net Passing Annual Income (\$)	370,005

#### Major Tenant

**Signature Orthopaedics**

#### Lease Expiry Profile

FY16/45%	FY19+/55%
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### ROZELLE

#### 68-72 Lilyfield Road

This **6,000m<sup>2</sup> commercial and industrial property** is located in the prime Sydney suburb of Rozelle and is 100% leased on a medium term basis. Due to increased demand in the inner-western Sydney suburbs for residential apartments and in view of the close proximity of this property to Sydney's CBD, Desane is in the process of undertaking a master plan in order to obtain approval from the NSW & local planning authorities to rezone the property to high rise residential. Desane has a 70% interest in this property. The property is located in close proximity to the Anzac Bridge and the Sydney Cross City Tunnel, linking the eastern suburbs to the inner western Sydney suburbs.

#### Valuation Summary

Ownership Interest	<b>70%</b>
Title	Freehold
Valuation (\$)	15,345,215
Valuation Based on 70% Ownership (\$)	10,741,651
Capitalisation Rate (%)	8.0

#### Property Summary

Net lettable area (sqm)	<b>5,494</b>
Occupancy (%) by NLA	100.0
WALE (years)	1.8
Net passing income (\$)	1,183,808

#### Major Tenant

**Staging Connections**

#### Lease Expiry Profile

FY16/3%	FY17/93%	FY18/3%
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## Outlook

Desane expects the Australian commercial and industrial property market to improve significantly over the next three to four years, both in tenant occupancy requirements and rental returns. It is anticipated that there will be a tightening of vacancy rates and a shortage of property availability.

Desane's existing industrial and commercial property portfolio is under continual review, in order that the Company and its shareholders benefit from the strengthening residential market conditions prevailing in Sydney. Where appropriate, Desane will seek the rezoning, to residential, for some of its strategically well placed properties, in order to take advantage of the changing market conditions. Desane will continue to closely monitor the Australian industrial, commercial and residential property market, to take advantage of future investment opportunities.

It is intended that the Group will not only deal directly in properties but will also continue to be involved in joint venture projects with local and overseas corporations and institutions and may acquire equity in established enterprises which are considered to be of sound potential.

The Company has not engaged in any speculative investment and has not engaged in any activities outside its expertise of property investment and property services and continues to develop its skills and systems to meet its long-term objectives.

## Financial Position

The directors believe the group is in a strong and stable financial position to expand and grow its current operations. This is largely due to the following factors:

- Net profit after tax of \$1.24 million;
- an increase of 54.1% on profit before tax on the previous year;
- total assets for the Group of \$52.1 million – an increase of 10.3% on the previous year;
- net tangible assets (NTA) per security maintained at 84 cents;
- an increase of 4.7% in property rental income; and
- a 7% reduction in financing costs on the previous year.

## Significant Changes in State of Affairs

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

## Events after the Reporting Period

During the month of July 2014, Desane has formalised the exchange of contracts for the sale of 15 of the 29 residential apartments being developed by Desane in the Sydney suburb of Rozelle. The value of the contracts exchanged is \$11.5 million. Desane has entered into a building contract with a qualified builder to construct the 5 storey, 29 residential units and 3 commercial units complex, with basement car parking.

In July 2014, Desane announced and paid to all shareholders a 2 cents fully franked special dividend.

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

## Environmental Issues

The consolidated group complies with all relevant legislation and regulations in respect to environmental matters. No matters have arisen during the year in connection with Desane's obligations pursuant to Commonwealth and State environmental regulations. A full report on the effects of the carbon tax on the Group's business operations has been carried out, submitted and reviewed by the Environmental and Occupational Health and Safety Committee. The Board has reviewed the Carbon Tax implication and has assessed that it will have no material effect for Desane.

## Occupational Health and Safety Regulations

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

# Directors' Report

## Directors

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

**Phil Montrone, John Blair Sheehan, John William Bartholomew**

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

## Information on Directors

### John B Sheehan Chairman (Non-executive)

	<b>Qualifications</b>	Diploma of Town and Country Planning (University of Sydney), Diploma of Urban Studies (Macquarie University), Master of Environmental Law (University of Sydney), Registered Valuer, Chartered Town Planner and Chartered Surveyor. LFAP, FRICS, FPIA, MRTPI.
	<b>Experience</b>	Appointed Chairman in 1992. Board member since incorporation in 1987. Currently Chairman of all controlled entities of Desane Group Holdings Limited. Currently serving at the University of Technology Sydney, as Deputy Director, Asia-Pacific Centre for Complex Real Property Rights and also as Adjunct Professor, Faculty of Design, Architecture and Building. Past President and Life Fellow of Australian Property Institute, NSW Division. Director of Sarasan Pty Limited (since incorporation in 1991).
	<b>Interest in Shares and Options</b>	103,040 Ordinary Shares in Desane Group Holdings Limited.
	<b>Special Responsibilities</b>	Mr Sheehan is a Member of the Risk Management and Audit Committee, Chairman of the Remuneration Committee and Chairman of the Environmental, Occupational Health & Safety Committee.
	<b>Directorships held in other listed entities</b>	Nil

### John Bartholomew Director (Non-executive)

	<b>Qualifications</b>	Member of the CPA Australia.
	<b>Experience</b>	Appointed board member on 24 May 2010. Company Secretary of Desane Group Holdings Limited since 1989. Since 1988, Mr Bartholomew has performed various roles for Desane Group Holdings Limited, in the property investment, property management and financial management of the Desane Group of companies.
	<b>Interest in Shares and Options</b>	500,059 Ordinary Shares in Desane Group Holdings Limited.
	<b>Special Responsibilities</b>	Mr Bartholomew is the Chairman of the Risk Management and Audit Committee, Member of the Remuneration Committee and Member of the Environmental, Occupational Health and Safety Committee.
	<b>Directorships held in other listed entities</b>	Nil

### Phil Montrone OAM Managing Director (Executive)

	<b>Experience</b>	Board member since incorporation in 1987. Appointed Managing Director of Desane Group Holdings Limited and its controlled entities in 1987. Deputy Chairperson of the Community Relations Commission for a Multicultural NSW. Chairperson of the Nepean Blacktown Regional Advisory Council. Director of Cupara Pty Ltd. Director of Mansfield Holdings Pty Ltd. Past Director of the Co-operative Federation of NSW Ltd. Served a term as board member of the Sydney Bicentennial Park Authority and served a term as President of the Police Community Youth Clubs Federation of NSW.
	<b>Interest in Shares and Options</b>	11,069,924 Ordinary Shares in Desane Group Holdings Limited.
	<b>Special Responsibilities</b>	Mr Montrone is a Member of the Environmental, Occupational Health and Safety Committee.
	<b>Directorships held in other listed entities</b>	Nil



## Company Secretary

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

**Mr John Bartholomew** - Member of the CPA.

Since 1988, Mr Bartholomew has performed various roles for Desane Group Holdings Limited, in the property investment, property management and financial management of the Desane Group of companies. Mr Bartholomew was appointed Company Secretary on 18 November 1989 for the Desane Group of companies.

## REMUNERATION REPORT

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

### Remuneration Policy

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

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

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

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

The executive director and executives receive a superannuation guarantee contribution required by the government, which is currently 9.5% (for 2013/2014 - 9.25%), and do not receive any other retirement benefits. They can, however, choose to sacrifice part of their salary to increase payments towards superannuation.

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

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

### Performance-based Remuneration

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

## Company Performance, Shareholder Wealth and Director and Executive Remuneration

The company believes the abovementioned remuneration policies have been effective in increasing shareholder wealth over the past 10 years.

The following table shows the gross revenue, profits and dividends for the last five financial years for the listed entity, as well as the share price at the end of the respective financial years. Analysis of the actual figures shows an increase in revenues, as well as maintenance of the dividends paid to shareholders.

Year Ended	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000
Dividends paid/payable	570	302	302	302	1,208
Share price at year end	51 cents	53 cents	40 cents	46 cents	81 cents
Revenue	3,054	2,991	2,875	3,079	2,497
Net profit/(loss)	1,795	(2)	937	1,296	1,242

## Details of Remuneration for year ended 30 June 2014

At present, there are no bonuses or incentive schemes in place for the directors and executives. The remuneration for each director and the executive officer of the consolidated entity receiving the highest remuneration during the year was as follows:

	Short Term Benefits	Post Employment Benefits	Long Term Benefit	
	Salary, Fees & Commissions	Superannuation		Total
Directors	\$'000	\$'000	\$'000	\$'000
John B. Sheehan	50	-	-	50
Phil Montrone	216	20	-	236
John Bartholomew	37	-	-	37
<b>Chief Financial Officer</b>				
Jack Sciara	129	12	-	141
	<b>432</b>	<b>32</b>	<b>-</b>	<b>464</b>

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

## Options Issued as Part of Remuneration for the Year Ended 30 June 2014

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

## Employment Contracts of Directors and Senior Executives

The Managing Director and all executives (with the exception of Mr Bartholomew who is employed under contract) are permanent employees of Desane Group Holdings Limited and are entitled to normal statutory leave benefits only. Mr Bartholomew's contract is for no fixed term and no notice is required to terminate.



## Meetings of Directors

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

Director	Directors' Meetings and Finance & Operations Committee Meetings		Risk Management & Audit Committee Meetings	
	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
J B Sheehan	13	13	2	2
P Montrone	13	13	2	2
J Bartholomew	13	13	2	2
J Sciara (CFO)	13	13	2*	2

Director	Environmental & Occupational Health & Safety Committee Meetings		Remuneration Committee Meetings	
	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
J B Sheehan	2	2	1	1
P Montrone	2	2	1*	1
J Bartholomew	2	2	1	1
J Sciara (CFO)	2	2	1*	1

\*By invitation

## Indemnifying Officers or Auditor

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

The company paid a premium of \$8,394 to insure the directors of the company and controlled entities. The policy provides cover for individual directors and officers of the company, in respect of claims made and notified to the insurer during the policy period for losses and expenses incurred in defence of claims for any alleged wrongful acts arising out of their official capacities. It will also reimburse the company for any liability it has to indemnify the directors or officers for such losses.

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

## Options

No options have been granted over unissued shares during the financial year and there are no outstanding options at 30 June 2014.

## Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

## Directors' Report

### Non-audit Services

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

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

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2014.

	\$'000
Taxation Services	3

### Auditor's Independence Declaration

The lead auditor's Independence Declaration for the year ended 30 June 2014, has been received and can be found on page 21 of the Financial Report.

### ASIC Class Order 98/100 Rounding of Amounts

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

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors, at Sydney, this 22nd day of August, 2014.



**J B Sheehan**  
Director



**P Montrone**  
Director



# Auditor's Independence Declaration

**GCC Business & Assurance Pty Ltd**

ABN 61 105 044 862

GPO Box 4566, Sydney NSW 2001

Telephone: (02) 9231 6166

Facsimile: (02) 9231 6155

Suite 807, 109 Pitt Street, Sydney NSW 2000

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been no contraventions of:

- (i) The auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) Any applicable code of professional conduct in relation to the audit.

*GCC Business & Assurance Pty Ltd.*

**GCC BUSINESS & ASSURANCE PTY LTD**  
*(Authorised Audit Company)*

*Graeme Green*

**GRAEME GREEN**  
Director

22 August 2014





The image is a full-page background photograph. It depicts a calm body of water, likely a harbor or bay, during the 'golden hour' of sunset or sunrise. The sky is filled with soft, glowing clouds in shades of orange, yellow, and pink. In the distance, a city skyline is visible, with several buildings of varying heights. The middle ground shows a dark, silhouetted shoreline with trees and some buildings. In the foreground, several dark, vertical wooden posts or pilings are visible, some connected by horizontal beams, forming a pier or dock structure. A small, lone figure of a person is seen rowing a boat across the water in the middle distance. The overall mood is peaceful and serene.

# **Financial Statements**

for the year ended 30 June 2014

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2014

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
Revenue	2	2,445	3,079
Other income	2a, 2b	52	-
Gain/(loss) on revaluation of investment properties		2,240	(830)
Employee benefits expense		(623)	(542)
Depreciation and amortisation expense		(10)	(10)
Finance costs		(961)	(1,029)
Other expenses from ordinary activities		(834)	(794)
Share of net profits/(losses) and revaluation gains/(losses) of associates	12	(348)	1,399
Profit before income tax		1,961	1,273
Income tax (expense)/benefit	4	(719)	23
Profit from continuing operations		1,242	1,296
Other comprehensive income		-	-
<b>Total Comprehensive Income</b>		<b>1,242</b>	<b>1,296</b>
Profit attributable to minority equity interest		-	-
Profit attributable to members of the parent entity		1,242	1,296
<b>Earnings per Share</b>			
Overall Operations			
Basic earnings per share (cents per share)	8	4.11	4.29
Diluted earnings per share (cents per share)	8	4.11	4.29
Continuing Operations			
Basic earnings per share (cents per share)		4.11	4.29
Diluted earnings per share (cents per share)		4.11	4.29

The accompanying notes form part of these financial statements

## Consolidated Statement of Financial Position

as at 30 June 2014

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	9	2,412	2
Trade and other receivables	10	115	819
Other assets	11	118	118
Non-current assets classified as held for sale	12	8,709	10,772
<b>Total Current Assets</b>		<b>11,354</b>	11,711
<b>Non-current Assets</b>			
Investment properties	13	40,592	35,368
Property, plant and equipment	14	40	50
Other assets	11	115	111
<b>Total Non-current Assets</b>		<b>40,747</b>	35,529
<b>Total Assets</b>		<b>52,101</b>	47,240
<b>Current Liabilities</b>			
Trade and other payables	15	378	835
Borrowings	16	4,155	11,829
Short term provisions	17	1,248	338
<b>Total Current Liabilities</b>		<b>5,781</b>	13,002
<b>Non-current Liabilities</b>			
Trade and other payables	18	25	22
Borrowings	16	19,653	8,322
Provisions	19	29	34
Deferred tax liability	23	1,100	381
<b>Total Non-current Liabilities</b>		<b>20,807</b>	8,759
<b>Total Liabilities</b>		<b>26,588</b>	21,761
<b>Net Assets</b>		<b>25,513</b>	25,479
<b>Equity</b>			
Issued capital	20	12,097	12,097
Retained earnings	21	13,416	13,382
<b>Total Equity</b>		<b>25,513</b>	25,479

The accompanying notes form part of these financial statements.



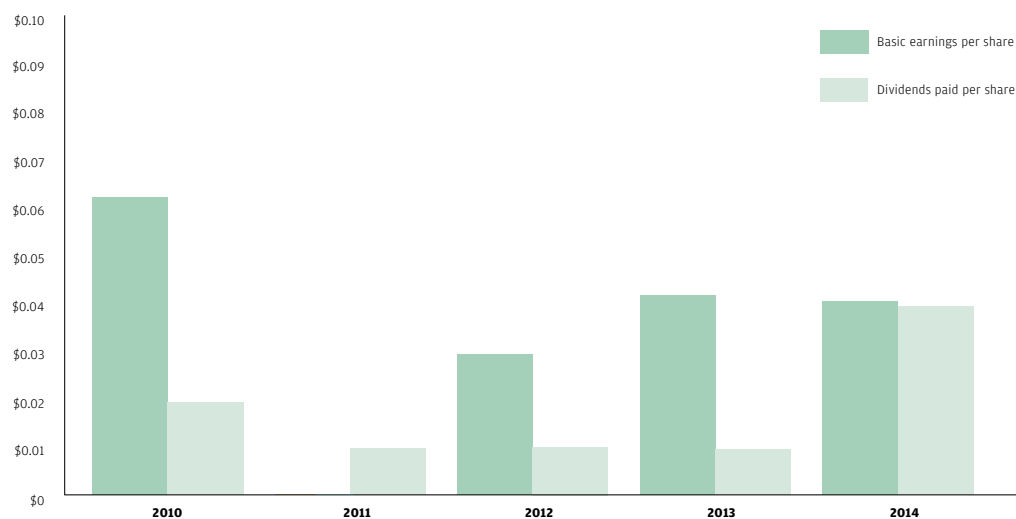
## Consolidated Statement of Changes in Equity

for the year ended 30 June 2014

	Consolidated Group		
	Issued Capital \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance as at 1 July 2013</b>	<b>12,097</b>	<b>13,382</b>	<b>25,479</b>
<b>Shares issued during the year</b>	-	-	-
<b>Profit attributable to members of the parent entity</b>	-	<b>1,242</b>	<b>1,242</b>
	<b>12,097</b>	<b>14,624</b>	<b>26,721</b>
<b>Dividends paid or provided for</b>	-	<b>(1,208)</b>	<b>(1,208)</b>
<b>Balance at 30 June 2014</b>	<b>12,097</b>	<b>13,416</b>	<b>25,513</b>
	Issued Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 1 July 2012	12,097	12,388	24,485
Shares issued during the year	-	-	-
Profit attributable to members of the parent entity	-	1,296	1,296
	12,097	13,684	25,781
Dividends paid or provided for	-	(302)	(302)
Balance at 30 June 2013	12,097	13,382	25,479

The accompanying notes form part of these financial statements.

## Basic Earnings Per Share vs Dividends Paid Per Share



## Consolidated Statement of Cash Flows

for the year ended 30 June 2014

Consolidated Group			
	Note	2014 Inflows (Outflows) \$'000	2013 Inflows (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		2,689	3,057
Payments to suppliers and employees		(1,217)	(2,107)
Dividend from associate entity		1,715	-
Interest received		52	-
Finance costs		(961)	(1,029)
<b>Net cash provided by (used in) operating activities</b>	30	<b>2,278</b>	(79)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		-	(4)
Proceeds from the sale of plant and equipment		-	4
Proceeds from sale of property investments		-	-
Purchase of property and investments		-	-
Capital costs of investment properties		(2,984)	(429)
<b>Net cash provided by (used in) investing activities</b>		<b>(2,984)</b>	(429)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	-
Dividends paid by parent entity		(302)	(302)
(Loans to related parties)/repaid		-	-
Loan from associated entity/(repaid)		3,988	11
Loans from unrelated entities/(repaid)		(80)	(66)
Proceeds from borrowings		-	3,198
Repayments of borrowings		(251)	(2,479)
Rental bonds received		3	-
Repayment of rental bonds		-	(13)
<b>Net cash provided by (used in) financing activities</b>		<b>3,358</b>	349
<b>Net increase/(decrease) in cash held</b>		<b>2,652</b>	(159)
Cash at beginning of financial year		(240)	(81)
<b>Cash at end of financial year</b>	9	<b>2,412</b>	(240)

The accompanying notes form part of these financial statements.

AEX Index (Amsterdam)  
 412.14  
 Day Low 410.62  
 Day High 412.72  
 -1.05 (-0.25%)

52-WK L  
 379.51



## Foreign Exchange Rates

Rates

Bid

AUD/USD

0.9351

0.93

AUD/GBP

0.5638

0.5

AUD/EUR

0.7094

0.7

AUD/JPY

96.9600

97.0

AUD/NZD

1.1176

1.1

AUD/SGD

1.1676

1.1

AUD/CNY

5.7437

USD/JPY

USD/EUR





# Notes to the Financial Statements

## for the year ended 30 June 2014

### Note 1: Summary of Significant Accounting Policies

#### Basis of Preparation

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

The financial statements were authorised for issue on 22 August 2014 by the directors of the Company.

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

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

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

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

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

#### Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### Accounting Policies

##### a. Principals of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Desane Group Holdings Limited. Desane Group Holdings Limited controls an entity when it is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

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

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

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

##### b. Income Tax

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

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

## Notes to the Financial Statements

### for the year ended 30 June 2014

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

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

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

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

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

#### Tax Consolidation

Desane Group Holdings Limited and its wholly owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the Group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The Group notified the Australian Taxation Office that it had formed an income

tax consolidated group to apply from 1 July 2003. The tax consolidated group has entered a tax funding arrangement whereby each company in the Group contributes to the income tax payable by the Group in proportion to their contribution to the Group's taxable income.

#### c. Non-current Assets Classified as Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell.

#### d. Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Plant and equipment are measured on a cost basis.

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

#### Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Motor vehicles	15%
Plant and equipment	5%-33%

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

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

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

## **e. Investment Properties**

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

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

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

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

## **f. Leases**

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

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

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

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

## **g. Impairment of Assets**

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

## **h. Investments in Associates**

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

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

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

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate company. In addition, the Group's share of the profit or loss of the associate is included in the Group's profit or loss. Details of the consolidated group's interest are shown at note 12.

## **i. Interests in Joint Ventures**

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



## Notes to the Financial Statements

### for the year ended 30 June 2014

#### **j. Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liabilities are settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

#### **k. Provisions**

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

#### **l. Cash and Cash Equivalents**

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

#### **m. Revenue and Other Income**

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

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

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

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

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

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

#### **n. Trade and Other Receivables**

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

classified as non-current assets.

#### **o. Trade and Other Payables**

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

#### **p. Borrowing Costs**

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

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

#### **q. Goods and Services Tax (GST)**

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

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

#### **r. Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in the presentation in the financial year.

#### **s. Rounding of Amounts**

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

#### **t. Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

(i) Impairment – property valuations

The directors' valuations and judgements pertaining to investment properties are set out in note 13a.

(ii) Impairment – general

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

(iii) Impairment – carbon price

There is presently uncertainty in relation to the impacts of the carbon pricing mechanism recently introduced by the Australian Government. This carbon pricing system could potentially affect the assumptions underlying value-in-use calculations used for asset impairment testing purposes. The consolidated entity has not incorporated the effect of any carbon price implementation in its impairment testing at 30 June 2014.

## u. New and Amended Accounting Policies Adopted by the Group

### Consolidated financial statements

The Group adopted the following Australian Accounting Standards, together with the relevant consequential amendments arising from related Amending Standards, from the mandatory application date of 1 January 2013:

- AASB 10: Consolidated Financial Statements

AASB 10 provides a revised definition of “control” and may result in an entity having to consolidate an investee that was not previously consolidated and/or deconsolidate an investee that was consolidated under the previous accounting pronouncements.

The first-time application of AASB 10 resulted in no changes to the Group's financial statements.

## v. New Accounting Standards for Application in Future Periods

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

- AASB 9: Financial Instruments and associated Amending Standards (applicable for annual reporting periods

commencing on or after 1 January 2017).

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

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

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedge activity, it is impractical at this stage to provide a reasonable estimate of such impact.

- AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (applicable for financial periods commencing on or after 1 January 2014).

This Standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Group's financial statements.

- Interpretation 21: Levies (applicable for annual reporting periods commencing on or after 1 January 2014).

Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. This interpretation is not expected to significantly impact the Group's financial statements.

- AASB 2013-3: Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASB 136: Impairment of Assets pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Group's financial statements.

## Notes to the Financial Statements

### for the year ended 30 June 2014

- AASB 2013-4: Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-4 makes amendments to AASB 139: Financial Instruments: Recognition and Measurement to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2013-5: Amendments to Australian Accounting

Standards - Investment Entities (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-5 amends AASB 10: Consolidated Financial Statements to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to significantly impact the Group's financial statements.

## Note 2: Revenue and Other Income

### Consolidated Group

	Note	2014 \$'000	2013 \$'000
<b>Revenue</b>			
Property services		206	1,020
Property project management		-	-
Property rental income		2,048	1,957
Property management fees		191	102
<b>Total Revenue</b>		<b>2,445</b>	3,079
<b>Other Income</b>			
a. Dividend revenue from:			
- wholly owned subsidiaries		-	-
- associated entities		-	-
- other corporations		-	-
b. Interest revenue from:			
- associated entities		-	-
- other related parties		-	-
- other persons		52	-
<b>Total Other Income</b>		<b>52</b>	-
<b>Total Revenue</b>		<b>2,497</b>	3,079



## Note 3: Profit for the Year

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

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
<b>a. Expenses</b>			
Auditors' remuneration	6	78	53
Depreciation of plant and equipment		10	10
Finance costs:			
- External		851	1,006
- Related entities		110	23
Transfer to/(from) provisions for:			
- Employee entitlements		8	22
Rental expenses relating to operating leases		62	51
Direct property expenditure from investment property generating rental income		202	231
<b>b. Significant Revenue and Expenses</b>			
The following significant revenue and expense items are relevant in explaining the financial performance:			
Consideration on sale of property		-	-
Carrying amount of net assets sold		-	-
Net gain on the sale of plant and equipment		-	-

## Note 4: Income Tax Expense

### a. The components of tax expense comprise:

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
Current tax		-	-
Deferred tax	23	719	(23)
Recoupment of prior year tax losses		-	-
		719	(23)

## Notes to the Financial Statements

### for the year ended 30 June 2014

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

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2013: 30%)			
- consolidated group		588	382
Add:			
Tax effect of:			
- other accruals/provisions		(13)	11
- other non-allowable items		-	1
- share of net profit of associated entity netted directly		104	(420)
- other items not included in taxable income		40	3
Income tax attributable to entity		719	(23)
The applicable weighted average effective tax rates		(37%)	(2%)

**The Group has available income tax losses of \$2,272,365 (2013: \$2,073,629) and capital gains losses of \$4,873,817 (2013: \$4,873,817) as at 30 June 2014. The amount of benefits brought to account or which may be realised in the future, is based on the assumption that no adverse change will occur in the income tax legislation, the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and continue to comply with the conditions of deductibility imposed by the law.**

## Note 5: Key Personnel Compensation

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

Key Personnel	Position
Prof. John B. Sheehan	Chairman - non-executive
Mr Phil Montrone	Managing Director - executive
Mr John W Bartholomew	Director - non-executive and Company Secretary
Mr Jack Sciara	Chief Financial Officer

#### b. Compensation Practices

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

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

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

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

## c. Key Personnel Compensation

2014

	Short Term Benefits	Post Employment Benefits	Long Term Benefit	
Key Personnel	Salary, Fees and Commissions \$'000	Superannuation \$'000	Long service leave \$'000	Total \$'000
John B. Sheehan	50	-	-	50
John W. Bartholomew	37	-	-	37
Phil Montrone	216	20	-	236
Jack Sciara	129	12	-	141
	432	32	-	464

2013

	Short Term Benefits	Post Employment Benefits	Long Term Benefit	
Key Personnel	Salary, Fees and Commissions \$'000	Superannuation \$'000	Long service leave \$'000	Total \$'000
John B. Sheehan	50	-	-	50
John W. Bartholomew	37	-	-	37
Phil Montrone	213	19	-	232
Jack Sciara	108	10	-	118
	408	29	-	437

## d. Shareholdings

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

Key Personnel	Balance 30.06.13	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.14
John B. Sheehan	103,040	-	-	-	103,040
Phil Montrone	11,069,924	-	-	-	11,069,924
John Bartholomew	500,059	-	-	-	500,059
Jack Sciara	107,000	-	-	(57,000)	50,000
	11,780,023	-	-	(57,000)	11,723,023

\* Net Change Other refers to shares purchased or sold during the financial year.



## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 6: Auditors' Remuneration

	Consolidated Group	
	2014 \$'000	2013 \$'000
Remuneration of the auditor for the parent entity:		
<b>Michael Chau &amp; Associates:</b> (2013: DFK - Richard Hill Pty Ltd)		
- auditing or reviewing the financial report	5	3
- taxation services	-	-
<b>GCC Business Assurance Pty Ltd:</b>		
- auditing or reviewing the financial report	70	47
- taxation services	3	3
	<b>78</b>	53

### Note 7: Dividends

	Consolidated Group	
	2014 \$'000	2013 \$'000
Distributions paid		
Ordinary dividend paid of 4 cents per share fully franked (2013: 1 cent unfranked)	<b>1,208</b>	302
a. Proposed ordinary dividend of 4 cents per share fully franked (2013: 1 cent unfranked)	<b>1,208</b>	302
b. The group has a total \$735,000 (2013 - \$nil) franking credits available before the dividends for 2014 are provided.		

## Note 8: Earnings per Share

	Consolidated Group	
	2014 \$'000	2013 \$'000
Reconciliation of earnings used in the calculation of earnings per share		
Operating profit after income tax	1,242	1,296
Reconciliation of weighted average numbers of ordinary shares used in the calculation of earnings per share		
	Consolidated Group	
	2014	2013
Weighted average number of ordinary shares used in the calculation of basic earnings per share	30,199,465	30,199,465
Basic earnings per share (cents per share)	4.11	4.29
Diluted earnings per share (cents per share)	4.11	4.29

### Conversion, call, subscription or issue after 30 June 2014

There has been no:

- a. conversion to, calls of, or subscription for ordinary shares; or
  - b. issues of potential ordinary shares;
- since the reporting date and before the completion of these accounts.

## Note 9: Current Assets – Cash

	Consolidated Group	
	2014 \$'000	2013 \$'000
Cash at bank and in hand	330	2
Short term bank deposits	2,082	-
	2,412	2

The effective interest rate on cash at bank was nil (2013 - nil).

The effective interest rate on short term bank deposits was an average of 2.95% (2013 - nil).

### Reconciliation of cash

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

Cash as above	2,412	2
Less: Bank overdraft (refer to note 16)	-	(242)
	2,412	(240)

## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 10: Current Assets

#### – Trade and Other Receivables

	Consolidated Group	
	2014 \$'000	2013 \$'000
Trade receivables	115	707
Other receivables		
– Loan to associated entity	-	112
	115	819

### Note 11: Other Assets

#### (a) Current Assets

	Consolidated Group	
	2014 \$'000	2013 \$'000
Prepayments	118	118
Security deposit	-	-
	118	118

#### (b) Non Current Assets

	Consolidated Group	
	2014 \$'000	2013 \$'000
Prepayments	-	5
Security deposit	2	2
Lease incentives	113	104
	115	111



## Note 12: Current Assets

### - Non-current assets classified as held for sale

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
Shares in unlisted associated companies - equity accounted	12a	8,709	10,772
		8,709	10,772

a. This represents the carrying value of the investment in the associated company. The associated company's principal asset was an investment property at Lane Cove. The sale of the investment property was completed on 24 January 2014 at the agreed sale price of \$36 million. In addition to the sale price, in July 2013, the purchaser paid a non-refundable Call Option fee of \$4 million.

i. Interests are held in the following unlisted associated company:

Name	Principal Activity	Shares	Ownership Interest Consolidated		Carrying Amount of Investment Consolidated	
			2014	2013	2014 \$'000	2013 \$'000
Samvoni Pty Ltd	Former owner of investment property at Lane Cove	Ord	50%	50%	8,709	10,772

A controlled entity acquired a 50% ownership and voting interest in Samvoni Pty Ltd.

ii. Movements during the year in equity accounted investment in associated company:

Consolidated Group		
	2014 \$'000	2013 \$'000
Balance at the beginning of the financial year	10,772	9,373
Share of associated companies operating results after income tax	(348)	1,399
Dividend paid	(1,715)	-
Balance at the end of the year	8,709	10,772

iii. Equity attributable to associates:

Consolidated Group		
	2014 \$'000	2013 \$'000
Issued capital	-	-
Retained earnings	8,709	(4,785)
Asset revaluation reserve	-	15,557

iv. Summarised presentation of share of aggregate assets, liabilities and performance of associates:

## Notes to the Financial Statements

for the year ended 30 June 2014

	Consolidated Group	
	2014 \$'000	2013 \$'000
Current assets	12,093	21,761
Non current assets	-	-
Total assets	12,093	21,761
Current liabilities	3,384	10,989
Non current liabilities	-	-
Total liabilities	3,384	10,989
Net equity	8,709	10,772
Operating profit/(loss) before income tax and revaluations	(509)	(41)
Gain from the revaluation of investment property	-	2,039
Operating result before income tax profit/(loss)	(509)	1,998
Income tax (expense)/tax benefit	161	(599)
Operating profit/(loss) after income tax	(348)	1,399

### Capital Commitment

There are no capital commitments to be noted.

### Events after the reporting period

There are no events after the reporting period to be noted.

## Note 13: Non-Current Assets – Investment Properties

### a. The investment properties included in the accounts comprise:

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
Investment property – Rozelle Bay Commercial Centre	13ab	10,383	6,230
Investment property – Multimedia Centre Lilyfield Road	13aa	10,742	10,638
Investment property – Orion Road	13ad	11,144	10,100
Investment property – 13 Sirius Road	13ac	3,698	4,100
Investment property – 7 Sirius Road	13ae	4,625	4,300
		<b>40,592</b>	35,368

### Valuation of Investment Properties

The basis of the director's valuation of land and buildings is a fair market value as defined in note 1e. The directors' methodology includes capitalisation of current rental income streams and comparison to market transactions in the surrounding locality. The properties are being independently valued at least every three years. The group has no restrictions on the realisability of an investment property nor, with the exception of the Rozelle Bay Commercial Centre (note 26), any contractual obligations to construct, develop, perform repairs or enhance an investment property.

- The directors' valuation, as at 30 June 2014. The Co-ownership Agreement is in place. An independent valuation was undertaken in August 2012 by a certified practicing valuation company. The directors have based the value as per the valuation report.
- The directors' valuation, as at 30 June 2014. An independent valuation was undertaken in June 2014 by a certified practicing valuation company. The directors have based the value as per the valuation report.
- Directors' valuation, as at 30 June 2014. An independent valuation was undertaken in June 2013 by a certified practicing valuation company. The directors have based the value as per the valuation report.
- The directors' valuation, as at 30 June 2014. An independent valuation was undertaken in June 2013 by a certified practicing valuation company. The directors have based the value as per the valuation report.
- The directors' valuation as at 30 June 2014. An independent valuation was undertaken in June 2013 by a certified practicing valuation company. The directors have adopted the value as per the valuation report.



## Notes to the Financial Statements

for the year ended 30 June 2014

### Investment Properties

#### 2014

	Acquisition Cost \$'000	Construction Cost \$'000	Interest Capitalised \$'000	Other Capital Costs \$'000	Units Sold/ to be Sold \$'000	Revaluation \$'000	Carrying Value 30.06.2014 \$'000
<b>Multimedia Centre Joint Venture, Lilyfield Rd, Rozelle</b>	<b>1,681</b>	<b>5,327</b>	<b>-</b>	<b>283</b>	<b>-</b>	<b>3,451</b>	<b>10,742</b>
<b>7-9 Orion Rd, Lane Cove</b>	<b>8,197</b>	<b>908</b>	<b>-</b>	<b>1,055</b>	<b>-</b>	<b>984</b>	<b>11,144</b>
<b>13 Sirius Rd, Lane Cove</b>	<b>2,900</b>	<b>672</b>	<b>-</b>	<b>871</b>	<b>-</b>	<b>(745)</b>	<b>3,698</b>
<b>7 Sirius Rd, Lane Cove</b>	<b>2,950</b>	<b>1,137</b>	<b>-</b>	<b>179</b>	<b>-</b>	<b>359</b>	<b>4,625</b>
<b>Rozelle Bay Commercial Centre</b>	<b>4,049</b>	<b>2,870</b>	<b>1,493</b>	<b>-</b>	<b>-</b>	<b>1,971</b>	<b>10,383</b>
	<b>19,777</b>	<b>10,914</b>	<b>1,493</b>	<b>2,388</b>	<b>-</b>	<b>6,020</b>	<b>40,592</b>

#### 2013

	Acquisition Cost \$'000	Construction Cost \$'000	Interest Capitalised \$'000	Other Capital Costs \$'000	Units Sold/ to be Sold \$'000	Revaluation \$'000	Carrying Value 30.06.2013 \$'000
Multimedia Centre Joint Venture, Lilyfield Rd, Rozelle	1,681	5,327	-	180	-	3,450	10,638
7-9 Orion Rd, Lane Cove	8,197	908	-	1,012	-	(17)	10,100
13 Sirius Rd, Lane Cove	2,900	672	-	585	-	(57)	4,100
7 Sirius Rd, Lane Cove	2,950	767	-	179	-	404	4,300
Rozelle Bay Commercial Centre	4,049	868	1,339	(26)	-	-	6,230
	19,777	8,542	1,339	1,930	-	3,780	35,368

## Note 14: Non-Current Assets Property, Plant and Equipment

	Consolidated Group	
	2014 \$'000	2013 \$'000
Office furniture and equipment – at cost	65	65
Less: Accumulated depreciation	(45)	(40)
	20	25
Motor vehicles – at cost	89	89
Less: Accumulated depreciation	(69)	(64)
	20	25
Total property plant and equipment	40	50

### Movements in Carrying Amounts

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

	Motor Vehicles \$'000	Plant and Equipment \$'000	Total \$'000
<b>Consolidated Group</b>			
Balance at the beginning of year	25%	25	50
Additions	-	-	-
Disposals	-	-	-
Depreciation expense	(5)	(5)	(10)
Carrying amount at the end of the year	20	20	40

## Note 15: Current Liabilities – Trade and Other Payables

	Consolidated Group	
	2014 \$'000	2013 \$'000
<b>Unsecured liabilities</b>		
Trade payables	266	549
Sundry payables and accrued expenses	112	286
	378	835

## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 16: Borrowings

#### (a) Current

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
<b>Unsecured:</b>			
Loan from associated entity Burns Bay Road, Lane Cove	a	4,146	159
Loan from other parties		-	79
<b>Secured:</b>			
Bank overdraft	d	-	242
Motor vehicle hire purchase liability	e	9	9
<b>Secured Liabilities – Bank Loans</b>			
Finance for investment property - Lilyfield Road Joint Venture	b	-	-
47-51 Lilyfield Road, Rozelle	c	-	-
Finance for investment property 7-9 Orion Road, Lane Cove	f	-	5,485
Finance for investment property 13 Sirius Road, Lane Cove	g	-	2,905
Finance for investment property 7 Sirius Road, Lane Cove	h	-	2,950
		<b>4,155</b>	11,829

- a. This loan will be repaid from the settlement funds from the sale of the property and interest is charged as per Division 7A of the Income Tax Act.
- b. First mortgage finance secured over respective joint venture asset.
- c. First mortgage finance secured over 47-51 Lilyfield Road, Rozelle property. Covenants imposed by mortgagor require total debt not to exceed 65% of the property value.
- d. Bank overdraft secured over 7-9 Orion Road, Lane Cove property.
- e. Motor vehicle finance secured over motor vehicle.
- f. First mortgage finance secured over Orion Road, Lane Cove property (note 13ad). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- g. First mortgagor finance secured over 13 Sirius Road, Lane Cove property (note 13ac). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- h. First mortgage finance secured over 7 Sirius Road, Lane Cove property (note 13ae). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- i. All covenants imposed on secured loan agreements have been met.



**(b) Non Current**

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
<b>Secured:</b>			
Motor vehicle hire purchase liability	16vi	13	22
<b>Secured Liabilities – Bank Loans:</b>			
Finance for investment property – Lilyfield Road Joint Venture	16i	5,250	5,250
47-51 Lilyfield Road, Rozelle	16ii	3,050	3,050
Finance for investment property 7-9 Orion Road, Lane Cove	16iii	5,485	-
Finance for investment property 13 Sirius Road, Lane Cove	16iv	2,905	-
Finance for investment property 7 Sirius Road, Lane Cove	16v	2,950	-
		<b>19,653</b>	8,322

- i. First mortgage finance secured over respective joint venture assets (note 13aa).
- ii. First mortgage finance secured over 47-51 Lilyfield Road, Rozelle property. Covenants imposed by the mortgagor require total debt not to exceed 65% of the property value.
- iii. First mortgage finance secured over Orion Road, Lane Cove property (note 13ad). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- iv. First mortgage finance secured over 13 Sirius Road, Lane Cove property (note 13ac). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- v. First mortgage finance secured over 7 Sirius Road, Lane Cove property (note 13ae). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- vi. Motor vehicle finance secured over motor vehicle.
- vii. All covenant requirements on secured loan agreements have been met.

**Maturity Schedule**

Consolidated Group			
	Interest Rates (average)	2014 \$'000	2013 \$'000
16 December 2016	4.95% pa	11,340	11,340
30 September 2015	4.95% pa	5,250	5,250
30 September 2015	4.95% pa	3,050	3,050
		<b>19,640</b>	19,640

## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 17: Current Liabilities – Provisions

	Consolidated Group	
	2014 \$'000	2013 \$'000
Dividends	1,208	302
Employee entitlements*	40	36
	1,248	338

\* Movement represents net increase in provision set aside.

	Consolidated Group	
	2014 No	2013 No
Number of employees at year end	5	5

### Note 18: Non Current Liabilities – Trade and Other Payables

	Consolidated Group	
	2014 \$'000	2013 \$'000
Security deposits	25	22

### Note 19: Non Current Liabilities – Provisions

	Consolidated Group	
	2014 \$'000	2013 \$'000
Employee long service leave entitlement*	29	34

\* Movement represents provision set aside.

### Note 20: Issued Capital

	Consolidated Group	
	2014 \$'000	2013 \$'000
30,199,465 (2013: 30,199,465) Ordinary Shares fully paid	12,097	12,097

	Consolidated Group		Consolidated Group	
Note	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
Ordinary Shares – fully paid	30,199,465	30,199,465	12,097	12,097
Share purchase plan	-	-	-	-
Bonus issue	-	-	-	-
	30,199,465	30,199,465	12,097	12,097

### a. Movements in Ordinary Share Capital of the Company

No shares were issued during 2014 (2013: nil).

### b. Authorised Capital

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

### c. Capital Management

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

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

There are no externally imposed capital requirements.

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

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

## Note 21: Retained Earnings

	Consolidated Group	
	2014 \$'000	2013 \$'000
Retained earnings at beginning of financial year	13,382	12,388
Net profit attributable to members of parent entity	1,242	1,296
Dividends provided for or paid	(1,208)	(302)
Retained earnings at end of financial year	13,416	13,382

## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 22: Interest in Joint Venture

In September 1996, a controlled entity entered into a co-ownership agreement called the Lilyfield Road Joint Venture to purchase and develop a property for industrial use. The controlled entity has a 70% interest in the property assets and a 70% interest in the output (being commercial rentals) of this joint venture. The co-ownership agreement is in place. Voting is by unanimous resolution by all joint venture members. The share of net assets employed in the joint venture is included in the controlled entity's statement of financial position under the following classifications:

	Consolidated Group	
	2014 \$'000	2013 \$'000
<b>Current Assets</b>		
Cash	13	1
Trade and other receivables	84	80
<b>Non-current Assets</b>		
Investment property	10,742	10,638
<b>Total Assets</b>	<b>10,839</b>	10,719
<b>Current Liabilities</b>		
Trade and other payables	26	50
Short-term borrowings	-	-
<b>Non-current Liabilities</b>		
Deferred tax liability	1,889	1,857
Long-term borrowings	5,250	5,250
<b>Total Liabilities</b>	<b>7,165</b>	7,157
Equity	3,674	3,562
Output	788	737
Net operating profit before income tax	427	253
Gain/(loss) from the revaluation of investment property	-	-
Income tax applicable to operating profit	(128)	(76)
Net profit/(loss) after income tax of joint venture	299	177

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



## Note 23: Deferred Taxes

		Consolidated Group	
	Note	2014 \$'000	2013 \$'000
<b>Non-current</b>			
Deferred tax liability comprises:			
Tax allowances relating to property and equipment		1,308	1,205
Revaluation of investment properties		1,806	1,134
Deferred tax asset attributable to tax and capital losses		(2,144)	(2,087)
Provisions		(5)	(6)
Other		135	135
		1,100	381
<b>Reconciliation</b>			
<b>Gross Movement</b>			
The overall movement in the deferred tax account is as follows:			
Opening balance		381	404
Charge to statement of profit and loss	4	719	(23)
Closing balance		1,100	381
<b>Deferred Tax Liability</b>			
Tax allowance relating to property and equipment			
Opening balance		1,205	1,103
Adjustment to previous year's provision		-	-
Charged to the statement of profit and loss		103	102
Closing balance		1,308	1,205
Revaluation of investment properties			
Opening balance		1,134	1,383
Net revaluation during the current period		672	(249)
Transfers on property sale		-	-
Closing balance		1,806	1,134
<b>Deferred Tax Assets</b>			
Tax and capital losses			
Opening balance		(2,087)	(2,193)
Tax and capital losses utilised		(57)	106
Tax and capital losses recognised		-	-
Closing balance		(2,144)	(2,087)
Provisions			
Opening balance		(6)	(24)
Credited to statement of profit and loss		1	18
Closing balance		(5)	(6)
Other			
Opening balance		135	135
Charged to statement of profit and loss		-	-
Closing balance		135	135

## Notes to the Financial Statements

### for the year ended 30 June 2014

## Note 24: Financial Instruments

### a. Financial Risk Management

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

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

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

#### Liquidity Risk

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

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

#### Interest Rate Risk

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

Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2014, approximately 100% of the Group's debt is with a floating interest rate and the balance is fixed interest rate debt.

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

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

An associated entity which is equity accounted has financed an investment property at an average interest rate of 4.95%.

### b. Credit Risk Exposure

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

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

### c. Net Fair Values

On Balance Sheet:

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

Off Balance Sheet:

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

## d. Carrying Amount and Net Fair Values

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

### 2014

	Note	Floating Interest Rate \$'000	Floating Interest Maturing within 1-5 years \$'000	Fixed Interest Maturing within 1 year \$'000	Fixed Interest Maturing within 1-5 years \$'000	Non Interest Bearing \$'000	Total \$'000
<b>Financial Assets</b>		-	-	-	-	-	-
<b>Cash and deposits</b>	<b>9</b>	-	-	<b>2,082</b>	-	<b>330</b>	<b>2,412</b>
<b>Receivables</b>	<b>10, 11</b>	-	-	-	-	<b>348</b>	<b>348</b>
		-	-	<b>2,082</b>	-	<b>678</b>	<b>2,760</b>
<b>Weighted average interest rates</b>		-%	-%	-%	-%	-%	
<b>Financial Liabilities</b>		-	-	-	-	<b>403</b>	<b>403</b>
<b>Trade and other creditors</b>	<b>15, 18</b>	-	-	-	-	<b>403</b>	<b>403</b>
<b>Interest bearing liabilities</b>	<b>16</b>	-	<b>19,640</b>	<b>4,155</b>	<b>13</b>	-	<b>23,808</b>
		-	<b>19,640</b>	<b>4,155</b>	<b>13</b>	<b>403</b>	<b>24,211</b>
<b>Weighted average interest rate</b>		-	<b>4.95%</b>	<b>6.21%</b>	<b>10.9%</b>	-	-
<b>Net financial assets (liabilities)</b>		-	<b>(19,640)</b>	<b>(2,073)</b>	<b>(13)</b>	<b>275</b>	<b>(21,451)</b>

### 2013

	Note	Floating Interest Rate \$'000	Floating Interest Maturing within 1-5 years \$'000	Fixed Interest Maturing within 1 year \$'000	Fixed Interest Maturing within 1-5 years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets		-	-	-	-	-	-
Cash and deposits	9	-	-	-	-	2	2
Receivables	10, 11	-	-	-	-	1,048	1,048
		-	-	-	-	1,050	1,050
Weighted average interest rates		-%	-%	-%	-%	-%	
Financial Liabilities		-	-	-	-	857	857
Trade and other creditors	15, 18	-	-	-	-	857	857
Interest bearing liabilities	16	11,582	8,300	247	22	-	20,151
		11,582	8,300	247	22	857	21,008
Weighted average interest rate		6.00%	5.80%	7.78%	10.90%	-	-
Net financial assets (liabilities)		(11,582)	(8,300)	(247)	(22)	193	(19,958)

## Notes to the Financial Statements

### for the year ended 30 June 2014

#### Sensitivity Analysis

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

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

There are no financial liabilities maturing over 5 years.

Consolidated Group		
	Profit \$'000	Equity \$'000
Year ended 30 June 2014	+/- 392	+/- 392

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

Consolidated Group		
	Profit \$'000	Equity \$'000
Year ended 30 June 2013	+/- 397	+/- 397

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

## Note 25: Related Party Transactions

All transactions are under normal commercial terms and conditions.

The Group's main related parties are as follows:

i. Key management personnel:

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

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

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

iii. Investment in associated companies accounted for under the equity method:

The Group has an interest in one associated company. The interest in this associated company is accounted for in the consolidated financial statements of the Group using the equity method of accounting. For details of the interest held in associated entities, refer to note 12.

iv. Other related parties

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



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

#### a. Controlled Entities

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

	Consolidated Group	
	2014 \$'000	2013 \$'000
Desane Properties Pty Ltd: Dividend paid	1,715	1,050
Desane Contracting Pty Ltd: Dividend paid	-	-

#### b. Associated Companies

Loan from Samvoni Pty Ltd (associated company)	4,146	-
Loan from Tuta Properties Pty Ltd (associated company)	-	159
Administration fee received from Samvoni Pty Ltd	15	15
Interest paid to Tuta Properties Pty Ltd	6	11
Consulting fees received from Tuta Properties Pty Ltd	129	875
Interest paid to Samvoni Pty Ltd	103	-

#### c. Joint Ventures

Administration fee received from Lilyfield Road Joint Venture	12	12
Interest received from Lilyfield Road Joint Venture	24	9
Consulting fee received from Lilyfield Road Joint Venture	50	-

#### d. Directors

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

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

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

Rick Montrone, who is Mr Phil Montrone's son, is employed as the Group's Property Asset Manager under a commercial remuneration package. During the year, Trafalgar Contracting Pty Ltd/Trafalgar Hire Pty Ltd, which are companies owned by Mr Phil Montrone's brother, provided building services to the value of \$541,813. These transactions were conducted under normal commercial terms and conditions. Trafalgar Contracting Pty Ltd has sub-let a portion of its rental premises to Desane Group Holdings Ltd at market rental rates.

The Managing Director and all executives (with the exception of Mr Bartholomew who is employed under contract) are permanent employees of Desane Group Holdings Limited.

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

## Notes to the Financial Statements

for the year ended 30 June 2014

### e. Summary of Movements with Associated Companies, Joint Ventures and Related Parties

	Consolidated Group	
	2014 \$'000	2013 \$'000
<b>Associated Companies</b>		
Opening balance	159	148
Interest	6	11
Repayment	(165)	-
Closing balance	-	159

	Consolidated Group	
	2014 \$'000	2013 \$'000
<b>Associated Companies</b>		
Opening balance	-	-
Loan from Samvoni	4,043	-
Interest	103	-
Repayment	-	-
Closing balance	4,146	-

	Consolidated Group	
	2014 \$'000	2013 \$'000
<b>Related Parties</b>		
Opening balance	79	145
Interest charged	1	12
Interest paid	(1)	(12)
Repayment	(79)	(66)
Closing balance	-	79

## Note 26: Commitments for Expenditure

	Consolidated Group	
	2014 \$'000	2013 \$'000
<b>Capital Expenditure</b>		
Not later than one year*	7,500	160
Later than one year but not more than two years	1,000	-
	<b>8,500</b>	160

\* Value of building construction contract entered into to construct 47-51 Lilyfield Road, Rozelle project on 30 July 2014.

	Consolidated Group	
	2014 \$'000	2013 \$'000
<b>Hire Purchase Commitment</b>		
Payable of minimum hire purchase payments:		
Not later than one year	9	9
Between one year and five years	13	22
Later than five years	-	-
	<b>22</b>	31

## Note 27: Superannuation Commitments

In the case of employees of the holding company, the company contributed 9.25% of each member's salary into the fund nominated by each member. Group companies contribute a minimum amount equal to 9.25% of each member's salary, plus the cost of the insurance coverage, if required, to insure the provision of all benefits to the Fund. The benefits provided by the accumulation fund are based on the contributions and income thereon held by the Fund on behalf of the member. The 9.25% contribution made by group companies is legally enforceable.

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

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

Employer contributions to the plans; consolidated \$75,433 (2013 - \$44,597), parent entity \$75,433 (2013 - \$44,597).

## Notes to the Financial Statements

### for the year ended 30 June 2014

## Note 28: Contingent Liabilities

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

The shareholders' funds as at 30 June 2014, in the controlled entities concerned were:

	2014 \$'000	2013 \$'000
Desane Contracting Pty Limited - net assets	(26)	(23)
Desane Properties Pty Limited - net assets	14,625	14,024

### **b. Lilyfield Road Joint Venture**

First mortgage security over the property of the joint venture has been provided to finance borrowings of \$7,500,000 as at 30 June 2014. In addition, the parent entity, together with the other joint venturer, have unconditionally guaranteed, jointly and severally, the secured loan and bank overdraft.

### **c. 7-9 Orion Road Property**

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

### **d. 7 Sirius Road Property**

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

### **e. 13 Sirius Road Property**

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

## Note 29: Operating Segments – Consolidated Group

### Segment Information

#### Identification of Reportable Segments

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

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

#### Types of Operations & Services by Segment

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

- i. Property Project Management and Resale  
Property project management and resale of commercial, industrial and residential properties, principally in Sydney.
- ii. Property Services  
Property and related services.
- iii. Property Investment  
Rental income from prime real estate investments.



## Accounting Policies Adopted

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

## Segment Assets

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

## Segment Liabilities

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

## Unallocated Items

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

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

## Major Customers

The group has one major customer from whom it receives significant property rental income. This customer makes up approximately 31% of the total property rental income.

## Geographical Segments

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

## Inter-segment Transactions

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

## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 29: Operating Segments – Consolidated Group (continued)

2014

	Property Investment \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
External sales	2,048	191	206	-	52	2,497
Other segments	-	-	-	-	-	-
Total revenue	2,048	191	206	-	52	2,497
Segment result	3,891	191	206	-	52	4,340
Unallocated expenses						(1,070)
Finance costs						(961)
Share of net profits of associates						(348)
Profit/(loss) before income tax						1,961
Income tax expense						(719)
Profit/(loss) after income tax						1,242

2014

	Property Investment \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
<b>Segment Assets</b>						
2013 opening balance	46,141	-	-	-	1,099	47,240
<b>Unallocated Assets</b>						-
Deferred tax assets						-
<b>Segment Asset Increases/ (Decreases) for the Period</b>						
Acquisitions	-					-
Proceeds from sale/depreciation	-					-
Revaluations/(devaluations)	2,240					2,240
Capital expenditures	2,984					2,984
Asset held for sale	(2,063)					(2,063)
Net movement in other segments	-				1,700	1,700
	49,302	-	-	-	2,799	52,101
<b>Unallocated Assets</b>						-
<b>Deferred Tax Assets</b>						-
<b>Total Group Assets</b>						52,101
Equity accounted associates included in asset held for sale	(2,063)					

## 2014

	Property Investment \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
<b>Segment Liabilities</b>						
2013 opening balance	20,152	-	-	-	1,227	21,379
<b>Unallocated Liabilities</b>						-
Deferred tax liabilities						381
<b>Segment Liabilities Increases/ (Decreases) for the Period</b>						
Repayments	(330)					(330)
New borrowings	-					-
Loan from associated company	3,988					3,988
Net movement in other segments	-				451	451
	23,810	-	-	-	1,678	25,869
<b>Unallocated Liabilities</b>						-
<b>Deferred Tax Liabilities</b>						719
<b>Total Group Liabilities</b>						26,588
Equity accounted associates included in segment liabilities	3,988					

## 2013

	Property Investment \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
External sales	1,957	102	1,020	-	-	3,079
Other segments	-	-	-	-	-	-
Total revenue	1,957	102	1,020	-	-	3,079
Segment result	706	102	1,020			1,828
Unallocated expenses						(925)
Finance costs						(1,029)
Share of net profits of associates						1,399
Profit/(loss) before income tax						1,273
Income tax expense						23
Profit/(loss) after income tax						1,296

## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 29: Operating Segments – Consolidated Group (continued)

2013

	Property Investment \$'000	Property Project Management & Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
Segment Assets						
2012 opening balance	45,143	-	-	-	506	45,649
Unallocated Assets						-
Deferred tax assets						-
Segment Asset Increases/(Decreases) for the Period						
Acquisitions	-					-
Proceeds from sale/depreciation	-					-
Revaluations/(devaluations)	(830)					(830)
Capital expenditures	429					429
Asset held for sale	1,399					1,399
Net movement in other segments	-				593	593
	46,141	-	-	-	1,099	47,240
Unallocated Assets						-
Deferred Tax Assets						-
Total Group Assets						47,240
Equity accounted associates included in asset held for sale	1,399					

2013

	Property Investment \$'000	Property Project Management & Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
Segment Liabilities						
2012 opening balance	19,487	-	-	-	1,272	20,759
Unallocated Liabilities						
Deferred tax liabilities						405
Segment Liabilities Increases/ (Decreases) for the Period						
Repayments	(2,544)					(2,544)
New borrowings	3,198					3,198
Loan from associated company	11					11
Net movement in other segments	-				(45)	(45)
	20,152				1,227	21,784
Unallocated Liabilities						-
Deferred Tax Liabilities						(23)
Total Group Liabilities						21,761
Equity accounted associates included in segment liabilities	11					



## Note 30: Cash Flow Information

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

	Consolidated Group	
	2014 \$'000	2013 \$'000
Profit after income tax	1,242	1,296
<b>Non-cash flows in profit/(loss)</b>		
Depreciation and amortisation	10	10
(Gain)/loss on asset revaluation	(2,240)	830
Share of associated companies net (profit)/loss after income tax and dividends	348	(1,399)
Share of joint venture entity net profit before income tax	-	-
(Profit)/loss on sale of plant and equipment	-	-
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade receivables	593	(730)
(Increase)/decrease in other receivables and other assets	1,163	(19)
(Increase)/decrease in prepayments	(5)	(15)
(Decrease)/increase in trade payments and accruals	(282)	(2)
(Decrease)/increase in other payables	(175)	-
(Decrease)/increase in provisions	905	(27)
Increase/(decrease) in deferred taxes payable	719	(23)
Cash flow from operations	2,278	(79)

### Credit Standby Arrangements with Banks

	Consolidated Group	
	2014 \$'000	2013 \$'000
Credit facility	100	250
Amount utilised	-	(242)

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

### Loan Facilities with Financial Institutions

	Consolidated Group	
	2014 \$'000	2013 \$'000
Loan facilities	19,640	19,640
Amount utilised	(19,640)	(19,640)

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

## Notes to the Financial Statements

for the year ended 30 June 2014

### Note 31: Parent Entity Disclosures

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

		Parent Entity	
	Note	2014 \$'000	2013 \$'000
<b>STATEMENT OF COMPREHENSIVE INCOME</b>			
<b>Result of Parent Entity</b>			
Profit for the period		645	125
Other comprehensive income		-	-
Total comprehensive income for the period		645	125
<b>STATEMENT OF FINANCIAL POSITION</b>			
<b>Current Assets</b>			
Cash		2	-
Trade and other receivables		-	-
Other assets		10	11
<b>Non-current Assets</b>			
Trade and other receivables – loans to controlled entities	ii	12,251	12,117
Investment – controlled entities	i	490	490
Property, plant and equipment		40	50
<b>Total Assets</b>		<b>12,793</b>	12,668
<b>Current Liabilities</b>			
Trade and other payables		100	300
Short term provisions		1,248	346
<b>Non-Current Liabilities</b>			
Trade and other payables		13	22
Provisions		29	34
<b>Total Liabilities</b>		<b>1,390</b>	702
<b>Net Assets</b>		<b>11,403</b>	11,966
<b>Total Equity</b>			
Issued capital		12,097	12,097
Retained earnings/(accumulated losses)		(694)	(131)
<b>Total Equity</b>		<b>11,403</b>	11,966

## i. Controlled Entities

Investments in controlled entities are unquoted and comprise:

			Parent Entity		
			2014	2013	
Controlled Entities	Class of Shares	Holding %	Investment \$'000	Holding %	Investment \$'000
Desane Properties Pty Ltd	Ordinary	100	490	100	490
Desane Contracting Pty Ltd	Ordinary	100	-	100	-
			490	490	

All controlled entities are incorporated in Australia. Desane Properties Pty Ltd declared a dividend of \$1,715,052 out of retained profits (2013: \$1,050,000). Desane Contracting Pty Ltd did not declare a dividend (2013: \$nil).

Contribution to profit/(loss) after tax:

	2014 \$'000	2013 \$'000
Desane Group Holdings Limited	(1,070)	(925)
Desane Properties Pty Limited	2,315	2,220
Desane Contracting Pty Limited	(3)	(3)
Desane Hire Services Pty Limited	-	4
	1,242	1,296

## ii. Loans to Controlled Entities

	2014 \$'000	2013 \$'000
Desane Properties Pty Limited	12,227	12,097
Desane Contracting Pty Limited	24	20
	12,251	12,117

### Guarantees

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

### Capital Commitments

There are no capital commitments to note.

### Contractual Commitments

At 30 June 2014, Desane Group Holdings Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment or any other affairs (2013: Nil). Please refer to note 26 for contractual commitments entered into after 30 June 2014.

## Notes to the Financial Statements

### for the year ended 30 June 2014

## Note 32: Events after the Reporting Date

During the month of July 2014, Desane has formalised the exchange of contracts for the sale of 15 of the 29 residential apartments being developed by Desane in the Sydney suburb of Rozelle. The value of the contracts exchanged is \$11.5 million. Desane has entered into a building contract with a qualified builder to construct the 5 storey, 29 residential units and 3 commercial units complex, with basement car parking.

In July 2014, Desane announced and paid to all shareholders a 2 cents fully franked special dividend.

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

## Note 33: Company Details

### Directors & Key Personnel

John Blair Sheehan - Chairman

Phil Montrone - Managing Director and Chief Executive Officer

John William Bartholomew - Director and Company Secretary

Jack Sciara - Chief Financial Officer

### Principal Registered Office in Australia

68-72 Lilyfield Road, Rozelle NSW 2039

### Other Company Details

Postal address: PO Box 331, Leichhardt NSW 2040

Telephone: (02) 9555-9922

Facsimile: (02) 9555-9944

E-mail Address: [info@desane.com.au](mailto:info@desane.com.au)

Website: [www.desane.com.au](http://www.desane.com.au)

### Share Register

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

Computershare Investor Services Pty Limited

Level 5, 115 Grenfell Street, Adelaide SA 5000

Postal Address: GPO Box 1903, Adelaide SA 5001

Telephone enquiries within Australia: 1300-556-161

Telephone enquiries outside Australia: 61-3-9615-4000

Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

Website: [www.computershare.com](http://www.computershare.com)

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

### Auditor

GCC Business & Assurance Pty Ltd

Suite 807, 109 Pitt Street, Sydney NSW 2000

### Securities Exchange Listing

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

## Note 34: Economic Dependency

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

## Directors' Declaration

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

1. The financial statements and notes, as set out on pages 24 to 66 are in accordance with the Corporations Act 2001 and;
  - a. Comply with Australian Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - b. Give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the consolidated group;
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. The directors have been given the declarations required by a 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer.

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



**JB Sheehan**  
**Director**



**P Montrone**  
**Director**

Sydney  
22 August 2014



# Independent Audit Report to the Members

## GCC Business & Assurance Pty Ltd

ABN 61 105 044 862

GPO Box 4566, Sydney NSW 2001

Telephone: (02) 9231 6166

Facsimile: (02) 9231 6155

Suite 807, 109 Pitt Street, Sydney NSW 2000

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

#### Report on the Financial Report

We have audited the accompanying financial report of Desane Group Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Desane Group Holdings Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

#### *Auditor's Opinion*

In our opinion:

- a. The financial report of Desane Group Holdings Limited is in accordance with the *Corporations Act 2001*, including;
  - i. Giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. The financial report also complies with International Financial Reporting Standards as disclosed in note 1.

# Independent Audit Report to the Members

## GCC Business & Assurance Pty Ltd

ABN 61 105 044 862

GPO Box 4566, Sydney NSW 2001

Telephone: (02) 9231 6166

Facsimile: (02) 9231 6155

Suite 807, 109 Pitt Street, Sydney NSW 2000

### Report on the Remuneration Report

We have audited the remuneration report included on page 11 of the directors' report for the year ended 30 June 2014. 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.

#### Auditor's Opinion

In our opinion the remuneration report of Desane Group Holdings Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

*GCC Business & Assurance Pty Ltd.*

**GCC BUSINESS & ASSURANCE PTY LTD**  
(Authorised Audit Company)

*Graeme Green*

**GRAEME GREEN**  
Director

Sydney  
22 August 2014

## Shareholder Information

The shareholder information set out below was applicable as at 14 August 2014. Shareholder information should be read in conjunction with the 2014 financial report.

### 1. SHAREHOLDING

#### a. Distribution of shareholders:

Category (size of holding)	Ordinary
1 - 1,000	26,187
1,001 - 5,000	244,736
5,001 - 10,000	358,553
10,001 - 100,000	5,352,200
100,001 - and over	24,217,789
	30,199,465

#### b. There were 44 holders of less than a marketable parcel of ordinary shares.

#### c. The names of the major shareholders listed in the holding company's register are:

Shareholder:	Ordinary Shares
Cupara Pty Ltd	9,246,252
Mandel Pty Ltd <Mandel Super Fund A/C>	1,500,000
Montevans Pty Ltd <M & M Super Fund A/C>	1,412,562
Pebadore Pty Ltd <Weller Family S/Fund A/C>	1,250,000
Clapsy Pty Ltd <Baron Super Fund A/C>	1,100,000

#### d. Voting Rights

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

##### i. Ordinary Shares

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

## Shareholder Information

### 2. TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest holders of each class of shares are listed below:

Name	Ordinary Shares	% Held to Issued Capital
1. Cupara Pty Ltd	9,246,252	30.62
2. Mandel Pty Ltd <Mandel Super Fund A/C>	1,500,000	4.97
3. Montevans Pty Ltd <M & M Super Fund A/C>	1,412,562	4.68
4. Pebadore Pty Ltd <Weller Family S/Fund A/C>	1,250,000	4.14
5. Clapsy Pty Ltd <Baron Super Fund A/C>	1,100,000	3.64
6. Horrie Pty Ltd	862,000	2.85
7. TMB Nominees Pty Limited	715,002	2.37
8. PFPT Management Pty Ltd <Pellarini Super Fund A/C>	679,020	2.25
9. Cordato Partners (Superannuation) Pty Ltd <Cordato Partners S/F A/C>	476,359	1.58
10. Mr Yee Teck Teo	390,000	1.29
11. Hishenk Pty Ltd	350,000	1.16
12. Mr David Cooper & Ms Adrienne Witteman <Private Super Fund A/C>	295,840	0.98
13. Mrs Rosemary Marion Marfatia	282,617	0.94
14. Joe Scardino & Felicia Scardino	267,178	0.88
15. Dr Susan Jane Winspear & Mr Timothy Charles Winspear <James S/F A/C>	257,000	0.85
16. Mr Roderick Talbot Agar <R Agar Superfund A/C>	250,000	0.83
17. Oakmount Nominees Pty Ltd <Narromine Super Fund A/C>	250,000	0.83
18. Dotnric Pty Ltd <Famiglia di Riccardo S/F A/C>	237,535	0.79
19. John & Judith Pty Limited <Joju Super Fund A/C>	231,600	0.77
20. Homewood Rise Pty Limited	225,000	0.75
	<b>20,277,965</b>	<b>67.17</b>

### 3. SUBSTANTIAL SHAREHOLDERS

An extract of the Company's Register of Substantial Shareholders is set out below:

	Ordinary	
	Number	%
Cupara Pty Ltd	9,246,252	30.62

## Company Particulars

### Directors & Key Personnel

<b>John Blair Sheehan</b>	Chairman
<b>Phil Montrone</b>	Managing Director & CEO
<b>John W Bartholomew</b>	Director and Company Secretary
<b>Jack Sciara</b>	Chief Financial Officer

### Principal Registered Office in Australia

68-72 Lilyfield Road, Rozelle NSW 2039

### Other Company Details

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

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

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Postal Address: GPO Box 1903, Adelaide SA 5001

Telephone enquiries within Australia: 1300-556-161  
Telephone enquiries outside Australia: 61-3-9615-4000

Email: web.queries@computershare.com.au  
Website: www.computershare.com

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

### Auditor

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

### Solicitors

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

### Bankers

Commonwealth Bank of Australia

### Stock Exchange Listing

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

### Notice of Annual General Meeting

The Annual General Meeting of Desane Group Holdings Limited will be held at the Staging Connections Theatre Room, 68-72 Lilyfield Road, Rozelle NSW 2039 on Friday, 7 November 2014 commencing at 10.00 am.





