

# ASX release

**22 August 2016**

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## **DESANE ANNOUNCES SOLID NPAT OF \$5.1M FOR 30 JUNE 2016**

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The Board of Desane Group Holdings Limited (“Desane” or “the Group”) is pleased to announce a net profit after tax of \$5.1m for the Group’s full financial results for the year ended 30 June 2016.

In accordance with ASX Listing Rule 4.3A, the Appendix 4E – Preliminary Final Report for the Financial Year ended 30 June 2016 is released to the market.

FY16 financial highlights:

- Earnings before interest and tax (“EBIT”) increase of 68% to \$7.9m
- Net profit after tax (“NPAT”) of \$5.1m
- Increase in earnings per share (“EPS”) to 13.7 cents
- Strong balance sheet position with cash of \$16m and a net assets uplift of 14.6% to \$30.6m
- Increase in net tangible asset (“NTA”) per share to \$0.83 (FY15 \$0.74)
- Final dividend of 2.25 cents fully franked, per share, to be paid on 7 October 2016
- 2016 full year dividend total of 4.5 cents fully franked

### **Existing Property Portfolio**

The Group’s existing property portfolio is performing well with 100% occupancy achieved for FY2016.

The Company’s property portfolio valuation increased by \$2.1 million to \$35.2 million following the independent valuation undertaken by JLL Valuation Advisory in June 2016. The valuation uplift represents a 6.4% increase from the previous corresponding period.

Desane continues to be a significant Sydney based property investor and will increase its property holdings as market opportunities arise.

The summary and strategy for each of the properties in the portfolio as at 30 June 2016 is summarised below:

<b>Asset</b>	<b>Area &amp; Type</b>	<b>Strategy</b>
7-9 Orion Road LANE COVE	6,000m <sup>2</sup>  Office and warehouse	The property is 100% leased on a medium term WALE of 3.2 years.
13 Sirius Road LANE COVE	2,200m <sup>2</sup>  Commercial / industrial building	The property is 100% leased on a medium term WALE of 3.0 years.
7 Sirius Road LANE COVE	2,800m <sup>2</sup>  Commercial / industrial building	The property is 100% leased on a long term WALE of 4.4 years.
68-72 Lilyfield Road ROZELLE	5,500m <sup>2</sup>  High tech multimedia centre	Desane has engaged CBRE and JLL to market for lease the 3,900m <sup>2</sup> high grade office and warehouse facilities being vacated by Staging Connections. The leasing program is progressing well with 700m <sup>2</sup> of warehouse being leased on a medium term period.
Easton Rozelle 47-51 Lilyfield Road ROZELLE	Realised development property  32 residential apartments and 3 commercial units	The 32 residential apartments and 2 commercial units were sold and realised in FY2016. One remaining commercial unit is being marketed for sale and expected to be sold in FY2017.

## Capital Management

The Company's balance sheet as at 30 June 2016 is in a strong position with cash of \$16m and the Group's property assets' LVR falling to below 50%.

In June 2016, the Company extended its existing \$16.6 million bank borrowings for a further 3 years to July 2019 at 3.8% pa.

Desane's borrowing costs at 30 June 2016 fell by 17.5% to \$0.6 million on the previous corresponding period.

## Outlook

Desane expects the Australian property market to show significant returns over the short to medium term, particularly with the inflow of new offshore entrants into the market. It is anticipated that there will be a tightening in property yields across the sector as these groups look to inject capital into low risks assets such as well leased real estate properties.

Desane's existing industrial and commercial property portfolio is under continual review, in order that the Group and its shareholders benefit from the strength in the Sydney metropolitan property market. Where appropriate, Desane will seek rezoning, strata subdivision and development approval for some of its strategically well placed properties, in order to take advantage of these market conditions. Desane will continue to closely monitor the Australian industrial, commercial and residential property market, seeking opportunities through property fundamentals such as leasing risk and value add opportunities.

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

Desane's shareholders can look forward to the future performance of the Group with confidence.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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Managing Director & CEO  
Desane Group Holdings Limited  
(02) 9555 9922  
[philmontrone@desane.com.au](mailto:philmontrone@desane.com.au)

Jack Sciara  
Company Secretary  
Desane Group Holdings Limited  
(02) 9555 9922  
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Preliminary Final Report – Appendix 4E of

**Desane Group Holdings Limited  
and Controlled Entities  
ABN 61 003 184 932**

**for the Financial Year Ended 30 June 2016**

This full year final report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period: Financial year ended 30 June 2016

Previous Corresponding Period: Financial year ended 30 June 2015

**Desane Group Holdings Limited**  
**APPENDIX 4E – Preliminary Full Year Final Report**  
**for the financial year ended 30 June 2016**

**Details of the reporting period**

Current Period: 1 July 2015 to 30 June 2016  
 Previous Corresponding Period: 1 July 2014 to 30 June 2015

**Results for announcement to the market**

	<b>June 2016 \$'000</b>	<b>June 2015 \$'000</b>	<b>Change %</b>
Revenue from property investment – rental	2,305	2,201	4.7%
Revenue from property development sales	28,368	-	100.0%
Revenue from property services	66	52	26.9%
Revenue from property and project management	245	524	(53.2%)
Profit/(loss) from ordinary activities after tax	5,067	2,504	102.4%
Net profit/(loss) for the period attributable to members	5,067	2,204	102.4%
	<b>Amount per security</b>	<b>Franked amount per security</b>	
<b>Dividends (distributions)</b>			
Interim Dividend paid 31 March 2016	2.25 cents	100%	
Final Dividend – declared (payable 7 October 2016)	2.25 cents	100%	
Previous Corresponding Period			
- Interim Dividend paid 31 March 2015	2.00 cents	100%	
- Special Dividend paid 30 June 2015	15.00 cents	100%	
- Final Dividend paid 26 November 2015	2.00 cents	100%	

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**Final Dividend Dates:**

Ex-Dividend Date	21 September 2016
Record Date	22 September 2016
Payment Date	7 October 2016

**The Dividend Reinvestment Plan (DRP) will operate in respect of the final dividend and will be available to eligible shareholders with no discount applied. The last day to elect to participate in the DRP will be Monday, 26 September 2016. Please refer to separate announcement regarding the final dividend and the DRP within the next few days.**

**For a brief explanation of any of the figures reported on page 2, please refer to the Directors' Report in the Full Year Financial Report.**

**This information should be read in conjunction with the 30 June 2016 Full Year Financial Report.**

**Earnings per security (EPS)**

	<b>Current Period</b>	<b>Previous Corresponding Period</b>
Basic EPS	13.73 cents	6.91 cents
Diluted EPS	13.73 cents	6.91 cents

**Net tangible assets per security**

	<b>Current Period</b>	<b>Previous Corresponding Period</b>
Net tangible asset backing per Ordinary Share	83 cents	74 cents

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**APPENDIX 4E – Preliminary Full Year Final Report**  
**for the financial year ended 30 June 2016**

**Amount per Security**

	<b>Amount per Security</b>	<b>Franked Amount per Security at 30% Tax</b>	<b>Amount per Security of Foreign Source Dividend</b>
<b>Dividend:</b>			
Ordinary final dividend declared	2.25 cents	100%	NIL
Previous year			
- Special dividend paid 30 June 2015	15.00 cents	100%	NIL
- Final dividend paid 26 November 2016	2.00 cents	100%	NIL
<b>Interim dividend:</b>			
Interim dividend paid 31 March 2016	2.25 cents	100%	NIL
Previous corresponding year	2.00 cents	100%	NIL

**Desane Group Holdings Limited**  
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**Details of aggregate share of profits/(losses) of associates and joint venture entities**

<b>Group's share of associates' and joint venture entities:</b>	<b>Current Period \$A'000</b>	<b>Previous Corresponding Period \$A'000</b>
Profit (loss) from ordinary activities before tax	646	695
Income tax on ordinary activities	(194)	(228)
<b>Profit (loss) from ordinary activities after tax</b>	<b>452</b>	<b>467</b>
Extraordinary items net of tax	-	-
<b>Net profit (loss)</b>	<b>452</b>	<b>467</b>
Adjustments	-	-
<b>Share of net profit (loss) of associates and joint venture entities</b>	<b>452</b>	<b>467</b>



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**for the financial year ended 30 June 2016**

**Material interests in entities which are not controlled entities**

The Group has an interest (that is material to it) in the following entities.

Name of Entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss)	
	Current Period	Previous Corresponding Period	Current Period \$A'000	Previous Corresponding Period - \$A'000
Equity accounted associates and joint venture entities				
Samvoni Pty Ltd / Tuta Properties Pty Ltd	-%	50%	-	154
Lilyfield Road Joint Venture	70%	70%	452	313
<b>Total</b>			452	467

**Desane Group Holdings Limited**  
**APPENDIX 4E – Preliminary Full Year Final Report**  
**for the financial year ended 30 June 2016**

**Annual General Meeting**

Place: 68-72 Lilyfield Road, ROZELLE NSW 2039  
Date: Friday, 4 November 2016  
Time: 10:00am

The 2016 Annual Report will be available approximately 3 October 2016.

**Audit Review**

The accounts were reviewed by the Company's auditors whose report is attached as part of the Full Year Financial Report for the year ended 30 June 2016.

**Attachment**

The Full Year Financial Report for the year ended 30 June 2016 is attached.

**Signed**



**JACK SCIARA**  
Company Secretary

22 August 2016

DESANE GROUP HOLDINGS LIMITED  
ABN 61 003 184 932

FINANCIAL REPORT

30 JUNE 2016

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#### **Directors & Key Personnel**

John Blair Sheehan – Chairman (Non-executive director)  
Phil Montrone OAM – Managing Director  
John William Bartholomew – Director (non-executive) and Company Secretary  
Rick Montrone – Director (appointed 4 November 2015)  
Jack Sciara – Chief Financial Officer

On 11 July 2016, Mr John Bartholomew resigned as Company Secretary and Mr Jack Sciara was appointed as Company Secretary.

#### **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 2975, Melbourne VIC 3001  
Telephone enquiries within Australia: 1300-556-161  
Telephone enquiries outside Australia: 61-3-9415-4000  
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

#### **Solicitors**

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

#### **Bankers**

Commonwealth Bank of Australia

#### **Securities Exchange Listing**

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

#### **Notice of Annual General Meeting**

The Annual General Meeting of Desane Group Holdings Limited will be held at the Theatre Room, 68-72 Lilyfield Road, Rozelle NSW 2039 on Friday, 4 November 2016 commencing at 10.00 am.

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Chairman's Report

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I present to shareholders the 2016 Desane Group Holdings Limited Annual Report.

It is with pleasure that I can report to shareholders that the Group's net profit after tax, for the financial year ending 30 June 2016, **increased 102% to \$5,067,092** and the Group's net assets have **increased by 14% to \$30,550,196**. During this period the rental income from Group properties **increased 5%**. In addition, I am pleased to also report that the Group's finance costs have been **reduced by 17%**. The Group's **net tangible assets (NTA) now stand at 83 cents per security** accounting for additional securities issued through the Dividend Reinvestment Plan in lieu of dividend payments.

It will be recalled the Directors rewarded shareholders by paying an interim dividend of **2.25 cents** per security in March 2016, and the Directors have now resolved to declare a final dividend of **2.25 cents** per security, fully franked, to be paid in October 2016.

The Group's pleasing financial result was achieved notwithstanding a year of significant global economic and political uncertainty, and in particular in the Brexit vote in the United Kingdom to leave the European Community (EU) and the continuing terrorist incidents in various parts of mainland Europe. Such matters obviously impact on overseas investor perceptions of Australia vouchsafed increasingly as having not only a well managed stable economy but also a secure country for those seeking personal safety. Further, the economic growth of China albeit lower than previous years still remains a major source of strength for the Australian economy, as evidenced by the markedly robust value of the Australian currency sometimes viewed as a proxy for the Chinese Yuan. Whilst as mentioned in my previous report, the stability of resource equities as an investment avenue continues to raise questions as to robustness, nevertheless Chinese demand for resources such as iron ore remains solid.

In addition, the yet further reduction by the Reserve Bank of Australia of official interest rates to a further historic low has clearly impacted favourably on investment intentions, notably in residential real estate in the inner ring suburbs of Sydney. As a result, the low mortgage rates on offer by Australian banks has fortified investor interest in property of all classes as an alternative to other investment avenues and even deposit cash. Interest in commercial and industrial property as one such form of investment has risen strongly, given the previously mentioned low cost of debt, resulting in significant strengthening of capitalisation rates. Rents have also risen suggesting a lower than anticipated supply of suitable commercial and industrial properties notwithstanding the greater ease of purchase rather than leasing.

**Therefore, equities such as Desane Group Holdings Limited, which are based in quality well located commercial and industrial property, demonstrate growth in value and income coupled with a stability separating this class of equity from more volatile investment vehicles.**

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

Since my previous report to shareholders, some limited reforms to the State land use planning regime have occurred. However the pivotal planning legislation, namely the existing *Environmental Planning and Assessment Act 1979* still requires wholesale reform by the NSW Parliament given there remains a crucial need to free up the rezoning process in particular. Any rezoning whether large or more modest, is a drawn out process with limited prospect throughout that process as to the outcome. Rezoning for any prospective investor remains a significant drag on the Sydney commercial and industrial property market, especially where a rezoning is required.

Your Board remains confident the Group's strategies will continue to result in solid asset growth in the 2016/2017 financial year, as the industrial and commercial property market firms and deepens through increasing direct investment support. I congratulate both the Group Executive and the employees of Desane Group Holdings Limited for the solid and as always, prudent management of the Group, again evident in this year's strong financial results.

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



**PROFESSOR JOHN SHEEHAN**  
Chairman

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities

## Corporate Governance Statement for the year ended 30 June 2016

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Desane Group Holdings Limited (“Desane” and “the Company”) and the Board are committed to achieving and demonstrating high standards of corporate governance. The Board has established an appropriate corporate governance framework, including committees, policies, and charters, to demonstrate its support of and commitment to corporate governance. The framework is reviewed regularly and updated to ensure its relevance in accordance with developments in corporate governance and changes to affairs of the Company. A copy of the Company’s charters and policies are available on the corporate governance page of Desane’s website, [desane.com.au](http://desane.com.au).

As a listed entity on the Australian Securities Exchange (“ASX”), Desane must comply with Australian laws including the Corporations Act 2001 (Cth) (Corporations Act) and the Australian Securities Exchange Listing Rules (ASX Listing Rules), and to report in line with the ASX Corporate Governance Council’s Principles and Recommendations (ASX Principles). In June 2014, the ASX Corporate Governance Council released a third edition of the ASX Principles, which Desane has chosen to adopt.

The Corporate Governance Statement will cover the eight principle categories as per the ASX Corporate Governance Council third edition of the ASX Principles.

### **Principle 1: Lay Solid Foundations for Management and Oversight**

This principle, in summary, requires Desane to establish and disclose the respective roles and responsibilities of the Board, executives and management.

#### *Roles and Responsibilities of the Board and Management*

The Company has established a Board Charter which sets out the Board’s role and responsibilities, and those functions which the Board delegates to management. A copy of the Board Charter can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

The Board operates in accordance with its Board Charter and its responsibilities as stated in the Board Charter are:

- Review, approve and monitor the corporate strategies and objectives of the Company;
- Review, approve and monitor the business plan and financial budget of the Company;
- Establish Board committees to assist the Board in discharging its responsibilities;
- Monitor the operational and financial performance of the Company regularly;
- Review and approve the financial reports and documents;
- Review and approve all shareholder communications and other documents provided to the investment community and for public view;
- Review and approve the declaration and payment of dividends;
- Review and approve capital management strategies, including approval of all share issue offers such as share purchase plans and dividend reinvestment plans;
- Review risk management systems and policies;
- Appoint (and remove) the Managing Director and determine their remuneration, terms and conditions of employment as well as reviewing their performance;
- Review the performance of senior executives and the Board itself;
- Review and approve the remuneration of the senior executives and key personnel;
- Approve the appointment of senior executives;
- Make recommendations regarding the election of directors;
- Ensure all directors undergo appropriate background checks before appointment or re-appointment; and
- Ensure there are written contractual agreements in place for all directors, the Managing Director, senior executives and key personnel, outlining their roles, responsibilities and terms of their appointment.

In addition to the above, the Board delegates to the Managing Director and senior executives, all matters involving the day-to-day affairs and operations of the Company.

## Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Corporate Governance Statement for the year ended 30 June 2016

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The Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. The Board has direct access to the Company Secretary at all times. The Company Secretary is responsible for:

- Advising the Board on corporate governance matters;
- Managing the company secretarial duties and responsibilities;
- Attending all Board and Board Committee meetings; and
- Taking minutes of meetings and communication with the ASX.

A performance review is undertaken annually in relation to the Board and the Board Committees. The Board has established a Remuneration Committee and a Nomination Committee to evaluate the performance of the Board, individual directors, senior executives and key personnel. The Remuneration Committee and the Nomination Committee convenes at least one meeting every 12 months. If required, the Board may convene additional meetings.

Details on Board and management performance evaluations will be contained in the Remuneration Report section of the Directors' Report in the Annual Report each year.

### *Diversity*

Desane and all its controlled entities are committed to workplace diversity. Desane recognises the benefits arising from Board and employee diversity in a competitive labour market, and being able to attract, retain and motivate employees from the widest possible pool of available talent.

Diversity includes but is not limited to, gender, age, disability, ethnicity, marital or family status, religious or cultural background.

Desane, to the extent practicable, will address the recommendations and guidance provided by the ASX Corporate Governance Council.

The objectives and strategies of the Diversity Policy are for Desane to achieve the following:

- When recruiting for positions for the Board, senior executives, key personnel and all employment positions, the Board will recruit from a diverse pool of candidates;
- Review the succession plans, in accordance with the Board Charter and the Nomination Committee, to ensure consideration of diversity;
- A workplace environment that values the contributions of employees with diverse backgrounds, skills, qualifications and experiences;
- Establishing a flexible workplace environment that will assist both male and female employees who may have domestic responsibilities, meet those responsibilities;
- Establish and maintain a workplace environment that promotes awareness in all staff, of their rights and responsibilities with regards to fairness, equity and respect for all aspects of diversity; and
- Establish and maintain a workplace environment in which all employees are treated with fairness and respect, and have equal access to opportunities within the Company.

As part of the Diversity Policy and the Company's Code of Conduct, Desane, its directors and all employees are obligated to not engage in any conduct or activity which is illegal or contrary to any anti-discrimination or equal employment opportunity legislation or laws in any State or Territory of Australia. Discrimination, harassment, vilification and victimisation will not be tolerated in the workplace.

In addition to the above, the Diversity Policy includes a requirement for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them. As of 30 June 2016, the measurable objectives have not yet been developed to a practicable level due to the size and composition of the Company and its Board. The Board, however, will conduct director appointments and employee appointment processes in a manner that promotes diversity as per the Diversity Policy and the Board will disclose measurable objectives, if any, set by the Board in the Annual Report each year.

As part of the process towards achieving gender diversity, the current representation of female employees is outlined on the next page.

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Corporate Governance Statement for the year ended 30 June 2016

Proportion of female employees at Desane as at 30 June 2016:

	Board	Senior Executive	Employees
Female	0%	0%	40%
Male	100%	100%	60%

## Principle 2: Structure the Board to Add Value

The Company Constitution provides for a minimum of three directors. A copy of the Company Constitution can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

The Board has been established so that it has appropriate composition and size to enable it to adequately discharge its responsibilities and duties. The Board has a range of experience, expertise, skills and qualifications relevant to the operations and business of the Company.

To add value to the Board, the Board has established a Nomination Committee and a Nomination Committee Charter. A copy of the Nomination Committee Charter can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

In conjunction with the Board Charter and the Remuneration Committee, the Nomination Committee has been established to assist the Board in:

- Reviewing the Board composition and size and considering any appropriate changes;
- Ensuring the Board and Board Committees consist of individuals who are best able to discharge the responsibilities of those committees;
- Identifying and assessing necessary director skills and competencies that may enhance the Board;
- Ensuring the Board has the required skills, experience and attributes for the Company;
- Ensuring the Board maintains the highest standard of corporate governance;
- The selection, recommendation, and appointment of the Managing Director;
- The selection, recommendation and appointment of the Company Secretary;
- Evaluating the performance of the Board and the Managing Director and making recommendations on whether any directors whose term of office is due to expire, should be nominated for re-election;
- Reviewing the Company's Diversity Policy and making decisions as to any strategies required to address Board diversity;
- Establishing and implementing a succession planning programme for the Board and the Managing Director; and
- Ensuring the appointment of new directors is in accordance with the Board Charter.

The Committee will comprise two independent directors, including the Chairman, and the Managing Director. The Committee will meet at least once annually, unless required to convene additional meetings in the year.

Currently the Board comprises two independent non-executive directors, a managing director and an executive director.

The following individuals currently form the Board of Desane Group Holdings Limited:

Director	Position	Independent	Appointed
Prof John Sheehan	Chairman (non-executive director)	Yes	1987
Phil Montrone	Managing Director	No	1987
John Bartholomew	Non-executive Director	Yes	2010
Rick Montrone	Director	No	2015

Details of the individual skills, capabilities and experiences of all Directors are disclosed in the Annual Report and on the Company's website.

Set out on the following page is a list of the skills, experience and attributes that have been identified as the optimum skills the Company seeks in its Board membership.



Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Corporate Governance Statement for the year ended 30 June 2016**

The Board currently possesses an effective blend of these skills. However, the Board is conscious that recently announced developments will require some dimensions to be supplemented in the near future, should the Company expand its operations and increase the number of Board members.

Skill	Board
<b>Corporate</b> Extensive corporate board experience with an understanding of legal, ethical and fiduciary duties. A commitment to promoting high standards of corporate governance. An ability to review and assess the effectiveness of the Board, senior management and key personnel.	✓
<b>Strategic planning skills and experience</b> Expertise, skills and experience in developing, implementing and monitoring business strategies and objectives, including oversight of senior management and key personnel, effectively delivering those strategies and objectives.	✓
<b>Leadership and communication experience</b> Recognised and successful career at senior level. Extensive communication and corporate relations experience.	✓
<b>Industry experience</b> Extensive experience and expertise in the property real estate industry, in particular: <ul style="list-style-type: none"> <li>• Property transactions, construction and property development;</li> <li>• Property project management;</li> <li>• Property and asset management and property valuations; and</li> <li>• Local and State Government planning controls.</li> </ul>	✓
<b>Financial</b> Senior executive experience in financial accounting and financial reporting, corporate and property finance, internal controls and risk management.	✓
<b>Occupational Health &amp; Safety and Environmental Management</b> Experience related to workplace health and safety, environmental impact and responsibilities and community relations.	✓
<b>Remuneration</b> Senior management level experience in relation to remuneration frameworks and procedures, including remuneration reviews and assessments.	✓

The Board has adopted the following criteria to determine the independence of a non-executive director and all non-executive directors on the Board (including the Chair) satisfy the conditions of being independent:

- Does not own more than 10% of shares in the Company, either as an individual or as a director of any entity that owns shares in the Company;
- Is not a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer of the Company;
- Has no material contractual relationship with the Company other than as a non-executive director of the Company;
- Is free from any interest and any business or other relationship which could, or could reasonably be expected to interfere with the Director's ability to act in the best interest of the Company.

Furthermore, the Board has adopted a rotation policy, as per the Company Constitution, that at every Annual General Meeting, one third (by number) of the directors, other than the Managing Director, must retire by rotation. Retiring directors may offer themselves for re-election to the Board at the Annual General Meeting, in addition to any new director who is nominated for election.

In line with the Company's Board Charter, the Board's review process involves regularly reviewing the composition of the Board to ensure that directors have an appropriate mix of skills, expertise, experience and background relevant to the management of the Company. Directors and executives who offer themselves for re-election to the Board or are nominated by the Board for election as a director on the Board are viewed as having the relevant expertise, qualification and experience that will benefit the Company. The Board will undertake appropriate background checks before any individual is nominated for election on the Board.

New directors who are elected as either non-executive or executive directors of the Company, undergo a comprehensive induction process in which they are given a detailed briefing on the Company and its operations and systems. This includes meetings with key personnel and management on business segments and operations, tours of the relevant business property assets, an induction package and investor relation information. A formal letter of appointment is also provided.

Directors have the right to obtain independent legal advice, at the Company's expense, on any matters that they consider important. Before exercising this right, they are required to discuss the issue with the Chairman and seek his consent which will not be unreasonably withheld.

In order to achieve continuing improvement in Board performance, all directors are encouraged to undergo continuing professional development in their relevant area of expertise.

### **Principle 3: Promote Ethical and Responsible Decision Making**

The Board expects all of the Company's directors, senior executives and employees to observe high standards of conduct and ethical behaviour. All of the Company's directors, senior executives and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Company. The Board has adopted a Code of Conduct for directors, senior executives and employees and a copy of the Company Code of Conduct document can be viewed via the Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance). The Code of Conduct is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour, professionalism and practices necessary to maintain confidence in the Company's integrity.

The Company's Code of Conduct states that all directors and employees will:

- Act in the best interests of the Company;
- Act honestly and with high standards of personal integrity;
- Comply with the laws and regulations that apply to the Company and its operations;
- Not knowingly participate in any illegal or unethical activity;
- Not enter into any arrangement or participate in any activity that would conflict with the Company's best interests or that would be likely to negatively affect the Company's reputation;
- Not take advantage of the property or information of the Company or its customers for personal gain or to cause detriment to the Company or its customers; and
- Not take advantage of their position or the opportunities arising from their position for personal gain.

In addition to the Company's Code of Conduct, policies are also in place to ensure that confidentiality of information is maintained and that both actual and potential conflicts of interest are identified and managed. All directors and employees of the Company sign Confidentiality Agreements in conjunction with their letter of appointment or written agreements with the Company.

Directors and all employees are made aware of their obligation to comply with the law with regard to trading in the Company's shares, so as not to take advantage of property, information or position, or opportunities from these, for personal gain or to compete with the Company. The Board has established and enforces a share trading policy. A copy of the Company Share Trading Policy can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

#### *Summary of the Share Trading Policy:*

Directors and all employees are prohibited from dealing in the Company's shares:

- 45 days prior to the release of the Company's half-year and annual results to the ASX (except where a prospectus has been issued);
- At any time whilst in possession of price sensitive information;
- All trades must be advised to the Chairman before dealing and confirmed afterwards (except for dividend reinvestment plans, share purchase plans and new issues).

#### Principle 4: Safeguard Integrity in Financial Reporting

The Company recognises the critical importance of accurate and timely reporting of financial information, performance and management of risk.

Independent external auditors are appointed by shareholders and the Board takes steps to ensure that there are no actual or potential conflicts of interest in any additional work they are requested to do. In general, such additional work is confined to advice on taxation matters and providing accounting advice in the normal course of business.

To assist the Board in fulfilling its duties and governance obligations in this area, the Board has established an Audit & Risk Committee and an Audit & Risk Committee Charter. A copy of the Audit & Risk Committee Charter can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance). The Audit & Risk Committee comprises all the independent non-executive directors. The Company currently only has two independent non-executive directors.

Once the Company grows to a size where it has additional board members it will increase the number of members on the Audit & Risk Committee to at least three.

The Chair of the Committee is required to be a different person to the Chair of the Company. The members of the Audit & Risk Committee are appropriately experienced and qualified. Details of the members of the Audit & Risk Committee and meetings held during the year are disclosed in the Annual Report. The Audit & Risk Committee meets at least two times per financial year.

The Audit & Risk Committee carries out its responsibilities in line with the Audit & Risk Committee Charter set out below:

##### *Audit & Risk Committee Charter:*

The responsibilities of the Audit & Risk Committee include –

- Reviewing the financial reports;
- Monitoring compliance with internal management and financial control systems;
- Reviewing the scope of activities, performance and remuneration of the external auditors;
- Ensuring that any deficiencies identified are subject to prompt remedial action by management;
- Monitoring compliance with the Corporations Act, ASX Rules and related reporting requirements;
- Identifying and monitoring the risks inherent in the Company's business activities; and
- Revision of and approach to internal audit procedures to provide transparency and accuracy.

##### *Summary of procedures for the selection, appointment and rotation of external auditor:*

##### Responsibility for Selection and Appointment

The Audit & Risk Committee, reporting to the Board of Desane is responsible for the initial appointment of the independent external auditor and the appointment of a new independent external auditor when any vacancy arises. Any appointment made by the Board of Desane must be approved by shareholders at the next occurring Annual General Meeting of the Company.

##### Selection Criteria

Any candidates eligible for the position of external auditor of Desane must be able to demonstrate complete independence from Desane and also an ability to maintain independence throughout the engagement period.

Desane requires its external auditor to review, test and challenge its present accounting policies, processes and internal control systems to ensure that they meet all applicable Australian and International Accounting standards and practices. In addition, the external auditor is required to make recommendations to the Audit & Risk Committee, if necessary.

Furthermore, the successful candidate must have arrangements in place for the rotation of the audit engagement partner every five successive financial years.

## Review

The Audit & Risk Committee will review the performance and independence of the external auditor and the auditor's remuneration, annually and make any recommendations to the Board, if required.

The Audit & Risk Committee will also ensure that key partners within the appointed audit firm are rotated every five successive financial years, in accordance with the Board's policy, Section 324DA of the Corporations Act, the requirements of the Australian Securities and Investments Commission (ASIC) and the ASX.

The appointed external auditor will always be available and present at the Company's Annual General Meeting to answer any questions shareholders may have in relation to the audited financial reports.

In respect of the current year, the Managing Director and Chief Financial Officer have provided the Board with a statement confirming that Desane's financial reports present a true and fair view of its financial position and are in accordance with the relevant accounting standards and the Corporations Act. They also acknowledge their role in the prevention and detection of fraud and error.

## **Principal 5: Make Timely and Balanced Disclosure**

The Company promotes timely and balanced disclosure of all material matters to ensure a fully informed market. The Company's systems ensure that all such matters are brought to the Board's attention promptly. Where there is legal restraint or where immediate disclosure would compromise the Company's interests, the directors may limit the extent of the disclosure. Where appropriate, the directors seek external advice to ensure that announcements do not omit any material information.

Desane must comply with the continuous disclosure requirements of the ASX Listing Rules and the requirements of the Corporations Act. The Listing Rules can be viewed on the ASX website [www.asx.com.au](http://www.asx.com.au).

The Board has established a Disclosure Policy with the objective of this policy being to ensure that all directors and employees of Desane are fully aware of their responsibilities to ensure the Company meets its obligations.

A copy of the Company's Disclosure Policy can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

In summary, and as per the Company Disclosure Policy:

- Listing Rule 3.1 – immediate notice of material information – requires Desane to inform the ASX immediately it becomes aware of any information that a reasonable person would expect to have a material effect on the Company's share price or value.
- Desane will be considered to be "aware of information" if a director or executive officer has, or ought reasonably to have, come into possession of information in the course of their duties as a director or executive officer of the Company.
- In addition if the ASX considers that there is or is likely to be a false market in Desane's shares, and asks Desane to give information to correct or prevent a false market, Desane must provide the information. (Please refer to ASX Listing Rule 3.1B).
- The ASX Listing Rules also require the Company to comply with periodic reporting requirements such as Desane's half yearly and full year results, annual report and information regarding significant shareholder movements.
- The Company Secretary is responsible for administering this policy and ensuring Desane complies with its obligations. All employees and directors have a responsibility to report any price sensitive information to the Company Secretary immediately they become aware of it. If there is any doubt as to whether information is priced sensitive, the details should be discussed with the Company Secretary. The Company Secretary, together with the Managing Director, will determine if the information should be disclosed to the ASX and if necessary, the Chairman will be consulted.
- The Company may request a trading halt from the ASX to prevent trading in the Company's shares by an uniformed market. All releases to the ASX, except certain periodic reports, must be approved by the Board. However if this is impractical then the release will be referred to the Chairman for approval and the other directors advised.
- Once the ASX has confirmed receipt of the disclosure, the details of the release will be:
  - Circulated to all Directors;
  - Emailed to all shareholders that have subscribed to this service via the Share Registry; and
  - Posted to Desane's website, [desane.com.au](http://desane.com.au).

All information released to the ASX is posted on the Company's website shortly thereafter. Any presentations to shareholders or at any General Meeting are also released to the ASX and available for viewing from the Company website.

#### **Principle 6: Respect the Rights of Shareholders**

The Board is committed to promoting investor confidence and recognises the important rights of shareholders. The Board strives to communicate with shareholders regularly and clearly - both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at the General Meetings and in the election of directors.

The Board has adopted a Communication Policy to facilitate effective two-way communication with shareholders using the following methods:

- Communicating effectively with shareholders through releases to the share market via the ASX, various media outlets, Desane's website [desane.com.au](http://desane.com.au), information mailed to shareholders and the Annual General Meeting;
- Giving shareholders the option to receive communications from and send communications to the Company and its share registry electronically;
- All information disclosed to the ASX is posted on the Desane website when it is disclosed to the ASX. Presentation material used in public presentations and to brief analysts is also released to the ASX and posted on Desane's website;
- Giving shareholders ready access to balanced and understandable information about Desane and corporate proposals;
- The external auditor attending the Annual General Meeting and being available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report; and
- Promote participation of shareholders at the Annual General Meeting, and encourage shareholders to ask questions at the Annual General Meeting.

A copy of the Company's Communication Policy can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

Desane's website contains easily located links and menus for shareholders to locate information about the Company, including the Company Constitution, financial information, investor information, ASX announcements and corporate governance information.

#### **Principle 7: Recognise and Manage Risk**

The Board, in consultation with senior executives, is responsible for identifying relevant risks and regularly reviewing the effectiveness of the Company's risk management process for the identification, monitoring and mitigation of risk.

The Board conducts an internal review of its accounting systems and processes annually.

This review, coupled with the comprehensive nature of the monthly reporting systems, assists in the risk minimisation process.

The Company, within the Audit & Risk Committee, has formulated a formal Risk Management policy. The Risk Management Policy formalises the current culture and processes of the Company, which is focused on the identification and management of risk through regular board reporting and exception reporting in between. A copy of the Company's Risk Management Policy can be viewed via our Company's website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

The Company has established an Audit & Risk Committee which is responsible for considering the effectiveness of the system of risk management and internal controls, financial reporting and other matters at the request of the Board. The Committee comprises at least three members, at least two of which are independent directors. The Chairman of the Audit & Risk Committee will be an independent director. A copy of the Company's Audit & Risk Charter can be viewed via our Company's website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

There are a number of material business risks that could adversely affect the Company and the achievements of the Company's financial performance objectives. The Company manages its exposure to economic, environmental and social sustainability risk through the Audit & Risk Committee that considers these issues and whether they pose any material risks to the Company from time to time.

**Principle 8: Remunerate Fairly and Responsibly**

This principle requires Desane to ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance for the Company is transparent.

The Board has established a Remuneration Committee to assist the Board in performing its duties in remunerating fairly and responsibly. The Remuneration Committee has adopted a Remuneration Committee Charter which contains the functions and responsibilities of the Remuneration Committee. A copy of the Remuneration Committee Charter can be viewed via our Company website, [desane.com.au/about-us/corporate-governance](http://desane.com.au/about-us/corporate-governance).

*Remuneration Committee Charter:*

The functions and responsibilities include –

- Reviewing the performance of the Managing Director, senior executives and key personnel;
- Reviewing and making recommendations to the Board, the remuneration packages of the Managing Director, senior executives and key personnel;
- Recommending the Company's remuneration policy; and
- Reviewing and recommending the non-executive directors' fees.

The Board has established a Remuneration Committee which, consists of all non-executive directors and is chaired by an independent director.

The members of the Remuneration Committee are:

- Prof John Sheehan
- John Bartholomew

Senior executive remuneration and other terms of employment are reviewed annually, having regard to performance goals set at the start of the year, relevant comparative information, independent advice and industry market comparison reports. The Company will disclose, at the end of each reporting period, the number of times that the Remuneration Committee met throughout that period.

Senior executives and key personnel are remunerated on the basis of packages which comprise a fixed base salary, superannuation and fringe benefits. At present, there are no performance bonuses or incentive schemes in place. Salary sacrifice provisions apply within the limits allowed by taxation law. Overall packages are set at levels that are intended to retain and attract senior executives and key personnel who are capable of managing the consolidated entity's operations. Details are disclosed in the Remuneration Report contained in the Directors' Report of the Annual Report.

The Company does not operate its own superannuation fund and contributions are made to complying funds on the instructions of directors and employees and in compliance with the relevant legislation.

Fees for non-executive directors are determined each year by the Board. Details are disclosed in full in the remuneration report contained in the Directors' Report of the Annual Report.

Details of the members of the Remuneration Committee and of meetings held are included in the remuneration report and are included in the Director's Report of the Annual Report.

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities

## Directors' Report

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The Directors of Desane Group Holdings Limited ("Desane" and "the Company") present their report, together with the financial report of the Company and its controlled entities for the financial year ended 30 June 2016.

### Operating and Financial Review

#### "The Desane Way"

Desane is an integrated and internally managed property investment group with capabilities and expertise in property acquisitions, investment, management, leasing, sales and development of industrial, commercial and residential properties.

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

- Property investment;
- Property development (residential, commercial and industrial);
- Property project management and resale; and
- Property services.

The Company has a disciplined "add value" property investment approach and a strategy of purchasing property assets with a "twist", improving the assets through re-leasing and increasing the lease terms, which convert to increased shareholder value in the medium to long term.

#### "Our Strategy"

Desane has two main operating segments, property investment and property development. All property assets are owned and managed by Desane Properties Pty Ltd, a wholly owned subsidiary of Desane Group Holdings Limited.

The Company's strategy is to generate increasing returns for shareholders through revenue and asset growth:

1. By acquiring well positioned properties that offer an opportunity to create value through active asset management, re-leasing, and effective capital improvements;
2. By maximising income and capital growth in the existing property portfolio;
3. By utilising our in-house property management team, and working closely with our tenants, managing potential vacancies and expiries pro-actively, rather than reactively.
4. By creating the highest and best use value for the properties over the long term.

#### "Our Property Portfolio"

Desane is an owner of well positioned industrial and commercial properties diversified by industry, tenant and lease terms. The Company maintains a disciplined "add value" property investment approach having regard to replacement cost, rental growth opportunities and long term capital returns.

Management's objective is to increase rental incomes and achieve capital growth via asset management strategies which include:

- Tenant diversity and re-leasing opportunities;
- Effective CAPEX;
- Diligent cost management of annual property outgoings;
- Revenue initiatives e.g. signage rent, additional car park rental, storage facilities and improved internet capacity;
- Sourcing property acquisitions to cater for expanding tenant business; and
- Rezoning or strata subdivision to "add value" to existing property portfolio.

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

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities

## Directors' Report

### Operating Results

The Board is pleased with the operational performance for the financial year ended 30 June 2016, resulting in a profit after tax of \$5.1 million and being able to reward shareholders with continued fully franked dividends.

	2016 \$'000	2015 \$'000
The profit of the consolidated group, after providing for income tax amounted to	<u>5,067</u>	<u>2,504</u>

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

	Total Revenue		Segment Result	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Property development sales	28,368	-	28,368	-
Property development cost base	-	-	(23,820)	-
Property investment – rental	2,305	2,201	1,177	1,052
Property services	66	52	66	52
Property management	162	185	162	185
Property investment – net revaluations	2,032	3,153	2,032	3,153
Project management	83	339	83	339
Interest income	270	107	270	107
Share of net profits and revaluation gains of associate	-	153	-	154
	<u>33,286</u>	6,190	<u>8,338</u>	<u>5,042</u>
Less: Unallocated expenses			<u>(1,078)</u>	<u>(1,167)</u>
Operating profit			7,260	3,875
Income tax (expense)/benefit attributable to operating profit			(528)	-
Deferred tax attributable to operating profit			<u>(1,665)</u>	<u>(1,371)</u>
Operating profit after income tax attributable to members of Desane Group Holdings Limited			<u>5,067</u>	<u>2,504</u>

### Dividends Paid or Recognised

	2016 \$'000	2015 \$'000
Dividends paid or declared for payment are as follows:		
Interim dividend of \$0.02 franked, per share, paid on 31 March 2015		604
Special dividend of \$0.15 franked, per share, paid on 30 June 2015		4,530
Ordinary dividend of \$0.02 franked, per share, recommended by the Directors from retained earnings, paid on 26 November 2015		725
Interim dividend of \$0.0225 franked, per share, paid on 31 March 2016	823	
Ordinary dividend of \$0.0225 franked, per share, declared by the directors from retained earnings payable on 7 October 2016	830	

### Dividend Reinvestment Plan (DRP)

The DRP, which was introduced in May 2015, will continue to operate in respect of the final dividend declared. Please refer to separate announcement regarding the DRP program.



# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Directors' Report

## Capital Management

The Company's balance sheet as at 30 June 2016 is in a strong position with cash of \$16 million and LVR remaining below 50% since December 2015.

In June 2016, the Company extended its existing \$16.6 million bank borrowings for a further 3 years to July 2019 at 3.8% per annum.

Desane's borrowing costs at 30 June 2016 fell by 17.5% to \$0.6 million on the previous corresponding period.

## Existing Property Portfolio

The Board believes the Group's existing property portfolio is performing well with 100% occupancy achieved for FY2016.

The Company's property portfolio valuation increased by \$2.1 million to \$35.2 million following the independent valuation undertaken by JLL Valuation Advisory in June 2016. The valuation uplift represents a 6.4% increase from the previous corresponding period.

Desane continues to be a significant Sydney based property investor and will increase its property holdings as market opportunities arise.

The summary and strategy for each of the properties in the portfolio as at 30 June 2016 is summarised below:

Asset	Area & Type	Strategy
7-9 Orion Road LANE COVE	6,000m <sup>2</sup> Office and warehouse	The property is 100% leased on a medium term WALE of 3.2 years.
13 Sirius Road LANE COVE	2,200m <sup>2</sup> Commercial / industrial building	The property is 100% leased on a medium term WALE of 3.0 years.
7 Sirius Road LANE COVE	2,800m <sup>2</sup> Commercial / industrial building	The property is 100% leased on a long term WALE of 4.4 years.
68-72 Lilyfield Road ROZELLE	5,500m <sup>2</sup> High tech multimedia centre	Desane has engaged CBRE and JLL to market for lease the 3,900m <sup>2</sup> high grade office and warehouse facilities being vacated by Staging Connections. The leasing program is progressing well with 700m <sup>2</sup> of warehouse being leased on a medium term period.
Easton Rozelle 47-51 Lilyfield Road ROZELLE	Realised development property  32 residential apartments and 3 commercial units	The 32 residential apartments and 2 commercial units were sold and realised in FY2016. One remaining commercial unit is being marketed for sale and expected to be sold in FY2017.

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities

## Directors' Report

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### Outlook

Desane expects the Australian property market to show significant returns over the short to medium term, particularly with the inflow of new offshore entrants into the market. It is anticipated that there will be a tightening in property yields across the sector as these groups look to inject capital into low risks assets such as well leased real estate properties.

Desane's existing industrial and commercial property portfolio is under continual review, in order that the Group and its shareholders benefit from the strength in the Sydney metropolitan property market. Where appropriate, Desane will seek rezoning, strata subdivision and development approval for some of its strategically well placed properties, in order to take advantage of these market conditions. Desane will continue to closely monitor the Australian industrial, commercial and residential property market, seeking opportunities through property fundamentals such as leasing risk and value add opportunities.

Desane has not engaged in any speculative investment or in any activities outside its expertise of property investment and property services. The Group 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 key factors:

- Strong balance sheet position with cash of \$16 million;
- Group net tangible assets increased 15% to \$30.6 million;
- Earnings before interest and tax (EBIT) increased by 68% to \$7.9 million; and
- Net profit after tax (NPAT) increased by 104% to \$5.1 million.

### Significant Changes in State of Affairs

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

### Events Subsequent to Balance Date

On 11 July 2016, Mr John Bartholomew resigned as Company Secretary and Mr Jack Sciara was appointed as Company Secretary.

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.

### Occupational Health and Safety Regulations

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

### Directors

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

John Blair Sheehan  
Phil Montrone  
John William Bartholomew  
Rick Montrone (appointed 4 November 2015)

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

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities

## Directors' Report

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### Information on Directors

#### **Prof. John B Sheehan** **Chairman (Non-executive Director)**

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

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

#### **Phil Montrone OAM** **Managing Director (Executive)**

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

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

#### **John Bartholomew** **Director (Non-executive)**

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

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

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

#### **Rick Montrone** **Director – Head of Property (Executive)**

Mr R Montrone, who was appointed as Director on 4 November 2015, has 13 years experience in property investment, acquisitions, developments, management, leasing, sales and project management. As a licensed real estate agent and certified commercial property manager, Rick is an important addition to the Board.

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

### Company Secretary

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

- Mr John Bartholomew
- Member of the CPA

*(On 11 July 2016, Mr John Bartholomew resigned as Company Secretary and Mr Jack Sciara was appointed as Company Secretary.)*

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Directors' Report

## Number of Shares Held by Directors and Senior Executives

Key Personnel	Balance 30.06.15	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.16
John B. Sheehan	123,648	-	-	7,911	131,559
Phil Montrone	12,434,655	-	-	145,963	12,580,618
John Bartholomew	579,939	-	-	33,946	613,885
Rick Montrone ( <i>appointed 04/11/2015</i> )	49,126	-	-	3,143	52,269
Jack Sciara	133,440	-	-	45,678	179,118
	<b>13,320,808</b>	<b>-</b>	<b>-</b>	<b>236,641</b>	<b>13,557,449</b>

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

## REMUNERATION REPORT

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

### Remuneration Policy

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

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

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

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

The executive director and executives receive a superannuation guarantee contribution required by the government, which is currently 9.5% (2014/2015 - 9.5%), and do not receive any other retirement benefits. They can, however, choose to sacrifice part of their salary to increase payments towards superannuation.

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

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

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Directors' Report

## Performance-based Remuneration

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

## Details of Remuneration for year ended 30 June 2016

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	Total
	Salary, Fees & Commissions \$'000	Super- annuation \$'000	\$'000	\$'000
<b>Directors</b>				
John B. Sheehan (non-executive)	64	-	-	64
Phil Montrone	247	63	-	310
John Bartholomew (non-executive)	46	-	-	46
Rick Montrone	199	19	-	218
<b>Chief Financial Officer</b>				
Jack Sciara	163	15	-	178
	<u>719</u>	<u>97</u>	<u>-</u>	<u>816</u>

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

## Options Issued as Part of Remuneration for the Year Ended 30 June 2016

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

## Employment Contracts of Directors and Senior Executives

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

## Changes in Directors, Executives and Key Personnel Subsequent to Year End

On 11 July 2016, Mr John Bartholomew resigned as Company Secretary.

On 11 July 2016, Mr Jack Sciara was appointed as Company Secretary.

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities

## Directors' Report

### Meetings of Directors

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

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	12	12	2	2
P Montrone	12	12	2	2
J Bartholomew	12	12	2	2
R Montrone (appointed 4 November 2015)	12**	12	2	2
J Sciara (CFO)	12	12	2*	2

  

Director	Environmental & Occupational Health & Safety Committee Meetings		Remuneration & Nomination Committee Meetings	
	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
J B Sheehan	1	1	1	1
P Montrone	1	1	-	1
J Bartholomew	1	1	1	1
R Montrone (appointed 4 November 2015)	1	1	-	1
J Sciara (CFO)	1	1	1*	1

\* *By invitation*

\*\* *R Montrone attended eight meetings as a Director, since his appointment on 4 November 2015 and four meetings 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 \$10,043 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 2016.

### 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.

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Directors' Report

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## 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 2016.

	\$'000
Taxation services	<u>3</u>

## Auditor's Independence Declaration

The lead auditor's Independence Declaration for the year ended 30 June 2016, has been received and can be found on page 22 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, 2016.



**J B Sheehan**  
Director



**P Montrone**  
Director

**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 2016 there have been no contraventions of:

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

*GCC Business & Assurance Pty Ltd.*

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



**GRAEME GREEN**  
Director

22 August 2016



Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Consolidated Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 30 June 2016**

	Note	Consolidated Group 2016 \$'000	2015 \$'000
<b>Continuing Operations</b>			
Revenue	2	2,616	2,777
Other revenue	2a, 2b	270	107
Gain/(loss) on revaluation of investment properties	2d	2,032	3,153
Property development sales	2c	28,368	-
Property development cost base	2c	(23,820)	-
Employee benefits expense		(831)	(742)
Depreciation and amortisation expense		(10)	(10)
Finance costs		(641)	(777)
Other expenses from ordinary activities		(724)	(787)
Share of net profits/(losses) and revaluation gains/(losses) of associates	12	-	154
Profit before income tax		7,260	3,875
Income tax (expense)/benefit	4	(2,193)	(1,371)
Profit from continuing operations		5,067	2,504
Other comprehensive income		-	-
<b>Net Profit (after income tax) for the year ended 30 June 2016</b>		<b>5,067</b>	<b>2,504</b>
Profit attributable to minority equity interest		-	-
Profit attributable to members of the parent entity		5,067	2,504
<b>Earnings per Share:</b>			
Overall Operations			
Basic earnings per share (cents per share)	8	13.73	6.91
Diluted earnings per share (cents per share)	8	13.73	6.91
Continuing Operations			
Basic earnings per share (cents per share)		13.73	6.91
Diluted earnings per share (cents per share)		13.73	6.91

*The accompanying notes form part of these financial statements.*

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Consolidated Statement of Financial Position as at 30 June 2016**

	Note	Consolidated Group 2016 \$'000	2015 \$'000
<b>Current Assets</b>			
Cash and cash equivalents	9	15,749	4,738
Trade and other receivables	10	685	2,683
Other current assets	11	108	197
Other financial assets	12	1,451	-
Development property held for sale	13	460	20,688
<b>Total Current Assets</b>		<b>18,453</b>	<b>28,305</b>
<b>Non-current Assets</b>			
Investment properties	13	34,750	32,660
Property, plant and equipment	14	40	49
Other assets	11	8	28
<b>Total Non-current Assets</b>		<b>34,798</b>	<b>32,737</b>
<b>Total Assets</b>		<b>53,251</b>	<b>61,042</b>
<b>Current Liabilities</b>			
Trade and other payables	15	466	2,076
Deferred revenue development property	15	-	2,574
Borrowings	16	-	15,094
Provisions	17	1,388	762
<b>Total Current Liabilities</b>		<b>1,854</b>	<b>20,506</b>
<b>Non-current Liabilities</b>			
Trade and other payables	18	103	25
Borrowings	16	16,590	11,340
Provisions	19	18	13
Deferred tax liability	23	4,136	2,471
<b>Total Non-current Liabilities</b>		<b>20,847</b>	<b>13,849</b>
<b>Total Liabilities</b>		<b>22,701</b>	<b>34,355</b>
<b>Net Assets</b>		<b>30,550</b>	<b>26,687</b>
<b>Equity</b>			
Issued capital	20	17,077	16,627
Retained earnings	21	13,473	10,060
<b>Total Equity</b>		<b>30,550</b>	<b>26,687</b>

*The accompanying notes form part of these financial statements.*

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Consolidated Statement of Changes in Equity for the year ended 30 June 2016**

**Consolidated Group**

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

	Issued Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 1 July 2014	12,097	13,416	25,513
Shares issued during the year	4,530	-	4,530
Profit attributable to members of the parent entity	-	2,504	2,504
	16,627	15,920	32,547
Dividends paid or recognised for the year	-	(5,860)	(5,860)
Balance at 30 June 2015	16,627	10,060	26,687

*The accompanying notes form part of these financial statements.*

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Consolidated Statement of Cash Flows for the year ended 30 June 2016**

	Note	Consolidated Group 2016 Inflows (Outflows) \$'000	2015 Inflows (Outflows) \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		3,505	3,157
Payments to suppliers and employees		(1,554)	(1,123)
Dividend from associate entity		-	8,863
Proceeds from sale of development property		30,085	-
Property development expenditure		(8,068)	-
Interest received		270	107
Finance costs		(641)	(777)
<b>Net cash provided by (used in) operating activities</b>	30	<b>23,597</b>	<b>10,227</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1)	(18)
Proceeds from the sale of plant and equipment		-	-
Proceeds from sale of property investments		-	-
Purchase of property and investments		-	-
Purchase of financial assets		(1,451)	-
Capital costs of investment properties		(58)	(9,603)
<b>Net cash provided by (used in) investing activities</b>		<b>(1,510)</b>	<b>(9,621)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		450	4,530
Dividends paid by parent entity		(1,547)	(5,860)
(Loans to related parties)/repaid		-	-
Loans from related parties /(repaid)		-	(4,147)
Loans from unrelated entities/(repaid)		-	-
Proceeds from borrowings		1,859	6,794
Repayments of borrowings		(11,703)	(22)
Retention held/(repaid)		(213)	425
Rental bonds received/(repaid)		78	-
<b>Net cash provided by (used in) financing activities</b>		<b>(11,076)</b>	<b>1,720</b>
<b>Net increase/(decrease) in cash held</b>		<b>11,011</b>	<b>2,326</b>
Cash at beginning of financial year		4,738	2,412
<b>Cash at end of financial year</b>	9	<b>15,749</b>	<b>4,738</b>

*The accompanying notes form part of these financial statements.*

**Note 1: Summary of Significant Accounting Policies**

**Basis of Preparation**

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

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

The financial statements were authorised for issue on 22 August 2016 by the directors of the Company.

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

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

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

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

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

**Accounting Policies**

**a. Principals of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent entity controlled by Desane Group Holdings Limited and all of the subsidiaries. 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.

**Note 1: Summary of Significant Accounting Policies (continued)**

**b. Income Tax**

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

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

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

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. Development Property Held for Sale**

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

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

**Note 1: Summary of Significant Accounting Policies (continued)**

**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.

**Note 1: Summary of Significant Accounting Policies (continued)**

**f. Leases**

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

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

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

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

**g. Financial Instruments**

*Initial recognition and measurement*

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

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

*Classification and subsequent measurement*

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

The Group has interests in the following financial assets:

(i) *Held-to-maturity investments*

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

**h. Impairment of Assets**

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

**i. Investments in Associates**

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

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

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



**Note 1: Summary of Significant Accounting Policies (continued)**

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

**j. Interests in Joint Arrangements**

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

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

**k. Employee Benefits**

*Short-term Employee Benefits*

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

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

*Other Long-term Employee Benefits*

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

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

**l. Provisions**

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

**m. Cash and Cash Equivalents**

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

**Note 1: Summary of Significant Accounting Policies (continued)**

**n. Revenue and Other Income**

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

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

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

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

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

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

**o. Trade and Other Receivables**

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

**p. Trade and Other Payables**

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

**q. Borrowing Costs**

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

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

**r. Goods and Services Tax (GST)**

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

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

**s. Comparative Figures**

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

**t. Rounding of Amounts**

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

**Note 1: Summary of Significant Accounting Policies (continued)**

**u. 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 13.

(ii) *Impairment – general*

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

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

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

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

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

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

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

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

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

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

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

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

**Note 1: Summary of Significant Accounting Policies (continued)**

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

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

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

The main changes introduced by the new Standard include:

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

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

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

- AASB 2014-3: *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* (applicable to annual reporting periods beginning on or after 1 January 2016).

This Standard amends AASB 11: *Joint Arrangements* to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combination.

The application of AASB 2014-3 will result in a change in accounting policies for the above described transactions, which were previously accounted for as acquisitions of assets rather than applying the acquisition method per AASB 3.

The transitional provisions require that the Standard should be applied prospectively to acquisitions of interests in joint operations occurring on or after 1 January 2016. As at 30 June 2016, the Directors are not aware of the existence of any such arrangements that would impact the Group's financial statements.

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 2: Revenue and Other Income**

	Note	Consolidated Group	
		2016 \$'000	2015 \$'000
<b>Revenue from Continuing Operations</b>			
Property rental income		2,305	2,201
Property management fees		162	185
Property services		66	52
Property project management		83	339
<b>Total Revenue from Continuing Operations</b>		<b>2,616</b>	<b>2,777</b>
<b>Other Revenue</b>			
a. Dividend revenue from:			
- other corporations		-	-
b. Interest revenue from:			
- associated entities		-	-
- other related parties		-	-
- other persons		270	107
<b>Total Other Revenue</b>		<b>270</b>	<b>107</b>
<b>Total Revenue</b>		<b>2,886</b>	<b>2,884</b>
<b>Other Income</b>			
c. Property development profit			
- property development sales		28,368	-
- property development cost base		(23,820)	-
		<b>4,548</b>	<b>-</b>
d. Property investment – net revaluations		2,032	3,153
<b>Total Other Income</b>		<b>6,580</b>	<b>3,153</b>

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 3: Profit/(loss) for the Year**

Profit/(loss) before income tax from continuing operations includes the following specific expenses:

	Note	Consolidated Group 2016 \$'000	2015 \$'000
<b>Expenses</b>			
Auditors' remuneration	6	70	66
Depreciation of plant and equipment		10	10
Finance costs:			
- External		641	777
Transfer to/(from) provisions for:			
- Employee entitlements		(3)	(18)
Rental expenses relating to operating leases		64	63
Direct property expenditure from investment property generating rental income		166	201

**Note 4: Income Tax Expense**

a. The components of tax expense comprise:

	Note	Consolidated Group 2016 \$'000	2015 \$'000
Current tax		528	-
Deferred tax	23	1,665	1,371
		<u>2,193</u>	<u>1,371</u>

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

	Note	Consolidated Group 2016 \$'000	2015 \$'000
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2015: 30%)			
- consolidated group		2,178	1,162
Add:			
Tax effect of:			
- recoupment of prior year losses		-	250
- other accruals/provisions		(16)	(29)
- other non-allowable items		1	-
- share of net profit of associated entity netted directly		-	(46)
- other items not included in taxable income		30	34
Income tax attributable to entity		<u>2,193</u>	<u>1,371</u>
The applicable weighted average effective tax rates		30%	35%

**The Group has utilised its available tax losses as at 30 June 2016 and has provided for current tax expense payable for financial year ended 30 June 2016. 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:**

<b>Key Personnel</b>	<b>Position</b>
Prof. John B. Sheehan	Chairman (non-executive director)
Mr Phil Montrone OAM	Managing Director
Mr John W Bartholomew	Director (non-executive) and Company Secretary
Mr Rick Montrone	Director – Head of Property (appointed 4 November 2015)
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**

2016

<b>Key Personnel</b>	<b>Short Term Benefits</b>	<b>Post Employment Benefits</b>	<b>Long Term Benefit</b>	<b>Total</b>
	<b>Salary, Fees and Commissions</b>	<b>Superannuation</b>	<b>Long Service Leave</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
John B. Sheehan	64	-	-	64
John W. Bartholomew	46	-	-	46
Phil Montrone	247	63	-	310
Rick Montrone (appointed 04.11.2015)	199	19	-	218
Jack Sciara	163	15	-	178
	<b>719</b>	<b>97</b>	<b>-</b>	<b>816</b>

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
Notes to the Financial Statements for the year ended 30 June 2016

2015

Key Personnel	Short Term Benefits	Post Employment Benefits	Long Term Benefit	Total \$'000
	Salary, Fees and Commissions \$'000	Superannuation \$'000	Long Service Leave \$'000	
John B. Sheehan	55	-	-	55
John W. Bartholomew	40	-	-	40
Phil Montrone	250	24	-	274
Jack Sciarra	150	14	-	164
	495	38	-	533

d. Shareholdings

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

Key Personnel	Balance 30.06.15	Received as Compensation	Options Exercised	Net Change Other*	Balance 30.06.16
John B. Sheehan	123,648	-	-	7,911	131,559
Phil Montrone	12,434,655	-	-	145,963	12,580,618
John Bartholomew	579,939	-	-	33,946	613,885
Rick Montrone (appointed 04/11/2015)	49,126	-	-	3,143	52,269
Jack Sciarra	133,440	-	-	45,678	179,118
	13,320,808	-	-	236,641	13,557,449

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

Note 6: Auditors' Remuneration

	Consolidated Group	
	2016 \$'000	2015 \$'000
Remuneration of the auditor for the parent entity:		
<b>Michael Chau &amp; Associates</b>		
- auditing or reviewing the financial report	7	5
- taxation services	-	-
<b>GCC Business Assurance Pty Ltd</b>		
- auditing or reviewing the financial report	60	58
- taxation services	3	3
	<b>70</b>	<b>66</b>



Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 7: Dividends**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Dividends paid</b>		
a. Interim dividend of \$0.02 franked, per share, paid on 31 March 2015		604
Special dividend of \$0.15 franked, per share, paid on 30 June 2015		4,530
Ordinary final dividend of \$0.02 franked, per share, recommended by the Directors from retained earnings, paid on 26 November 2015		725
Interim dividend of \$0.0225 franked, per share, paid on 31 March 2016	<b>823</b>	
Interim dividend of \$0.0225 franked, per share, declared by the Directors from retained earnings payable on 7 October 2016	<b>830</b>	
b. <b>The group has a total \$820,380 (2015 - \$1,483,761) franking credits available before the dividends for 2016 are provided. The declared ordinary final dividend of \$0.0225 franked, per share, will reduce the Group's available franking credits by \$355,872 to a balance of \$464,508 as at 7 October 2016.</b>		

**Note 8: Earnings per Share**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of earnings used in the calculation of earnings per share		
Operating profit after income tax	<u>5,067</u>	<u>2,504</u>
Reconciliation of weighted average numbers of ordinary shares used in the calculation of earnings per share		
	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>36,905,259</u>	<u>36,239,331</u>
Basic earnings per share (cents per share)	<u>13.73</u>	<u>6.91</u>
Diluted earnings per share (cents per share)	<u>13.73</u>	<u>6.91</u>

**Conversion, call, subscription or issue after 30 June 2016**

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.

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 9: Current Assets – Cash and Cash Equivalents**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and in hand	126	654
Interest bearing short term deposits	15,623	4,084
	<u>15,749</u>	<u>4,738</u>

The effective interest rate on cash at bank was nil (2015 – nil).

**The effective interest rate on short term bank deposits was an average of 3.4% (2015 – 2.65%). These deposits have a weighted average maturity of 90 days.**

**Reconciliation of cash**

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

Cash as above	15,749	4,738
Less: Bank overdraft (refer to note 16)	-	-
	<u>15,749</u>	<u>4,738</u>

**Note 10: Current Assets – Trade and Other Receivables**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	33	108
Other receivables		
- Easton Rozelle development – purchaser deposits and settlement funds	650	2,574
- Other	2	-
	<u>685</u>	<u>2,682</u>

**Note 11: Other Assets**

**(a) Current Assets**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Prepayments	108	197

**(b) Non Current Assets**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Security deposit	1	1
Rental incentives	7	27
	<u>8</u>	<u>28</u>

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 12: Current Assets – Other Financial Assets**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Held-to-maturity investments</b>		
Fixed interest securities	<u>1,451</u>	<u>-</u>

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

These securities have a weighted average maturity of 280 days.

**Note 13: Current Assets – Development Property Held for Sale**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
Easton Rozelle – Commercial Unit 3	13a	<u>460</u>	<u>20,688</u>

**Note 13: Non-current Assets – Investment Properties**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
Investment property – 68-72 Lilyfield Road, Rozelle	13b	12,250	12,110
Investment property – 7-9 Orion Road, Lane Cove	13c	12,500	11,400
Investment property – 13 Sirius Road, Lane Cove	13d	4,400	4,150
Investment property – 7 Sirius Road, Lane Cove	13e	<u>5,600</u>	<u>5,000</u>
		<u>34,750</u>	<u>32,660</u>

**Valuation overview**

The basis of the directors' valuation of land and buildings is a fair market value as defined in note 1e.

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

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

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

- a. Property value is at cost as at 30 June 2016.
- b. The directors' valuation, as at 30 June 2016. The Co-ownership Agreement is in place. An independent valuation was undertaken in June 2016 by a certified practicing valuation company. The directors have based the value as per the valuation report.
- c. The directors' valuation, as at 30 June 2016. An independent valuation was undertaken in June 2016 by a certified practicing valuation company. The directors have based the value as per the valuation report.
- d. The directors' valuation, as at 30 June 2016. An independent valuation was undertaken in June 2016 by a certified practicing valuation company. The directors have based the value as per the valuation report.
- e. The directors' valuation as at 30 June 2016. An independent valuation was undertaken in June 2016 by a certified practicing valuation company. The directors have adopted the value as per the valuation report.

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 13: Non-current Assets – Investment Properties (continued)**

**Investment Properties**

**2016**

	Acquisition Cost \$'000	Construction Cost \$'000	Interest Capitalised \$'000	Other Capital Costs \$'000	Units Sold/to be Sold \$'000	Revaluation \$'000	Carrying Value 30.06.2016 \$'000
Multimedia Centre Joint Venture, Lilyfield Rd, Rozelle	1,681	5,327	-	425	-	4,817	12,250
7-9 Orion Rd, Lane Cove	8,197	908	-	1,115	-	2,280	12,500
13 Sirius Rd, Lane Cove	2,900	672	-	895	-	(67)	4,400
7 Sirius Rd, Lane Cove	2,950	1,137	-	259	-	1,254	5,600
	<b>15,728</b>	<b>8,044</b>	<b>-</b>	<b>2,694</b>	<b>-</b>	<b>8,284</b>	<b>34,750</b>

**2015**

	Acquisition Cost \$'000	Construction Cost \$'000	Interest Capitalised \$'000	Other Capital Costs \$'000	Units Sold/to be Sold \$'000	Revaluation \$'000	Carrying Value 30.06.2015 \$'000
Multimedia Centre Joint Venture, Lilyfield Rd, Rozelle	1,681	5,327	-	423	-	4,679	12,110
7-9 Orion Rd, Lane Cove	8,197	908	-	1,093	-	1,202	11,400
13 Sirius Rd, Lane Cove	2,900	672	-	878	-	(300)	4,150
7 Sirius Rd, Lane Cove	2,950	1,137	-	242	-	671	5,000
	<b>15,728</b>	<b>8,044</b>	<b>-</b>	<b>2,636</b>	<b>-</b>	<b>6,252</b>	<b>32,660</b>

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 14: Non-current Assets – Property, Plant and Equipment**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Office furniture and equipment – at cost	42	84
Less: Accumulated depreciation	<u>(14)</u>	<u>(51)</u>
	<b>28</b>	<b>33</b>
Motor vehicles – at cost	89	89
Less: Accumulated depreciation	<u>(77)</u>	<u>(73)</u>
	<b>12</b>	<b>16</b>
Total non-current assets	<u><b>40</b></u>	<u><b>49</b></u>

***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:

	<b>Leasehold Improvements \$'000</b>	<b>Plant and Equipment \$'000</b>	<b>Total \$'000</b>
<b>Consolidated Group</b>			
Balance at the beginning of year	-	49	49
Additions	-	1	1
Disposals	-	-	-
Depreciation expense	-	<u>(10)</u>	<u>(10)</u>
Carrying amount at the end of the year	<u>-</u>	<u><b>40</b></u>	<u><b>40</b></u>

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

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

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Unsecured liabilities</b>		
Trade payables	158	815
Sundry payables and accrued expenses	308	1,261
Deferred revenue development property (Easton Rozelle)	-	2,574
	<u>466</u>	<u>4,650</u>

**Note 16: Borrowings**

**(a) Current**

	<b>Note</b>	<b>Consolidated Group</b>	
		<b>2016</b>	<b>2015</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Secured:</b>			
Bank overdraft	a	-	-
<b>Secured Liabilities – Bank Loans</b>			
Finance for investment property – Lilyfield Road Joint Venture	b	-	5,250
47-51 Lilyfield Road, Rozelle	c	-	9,844
		<u>-</u>	<u>15,094</u>

- a. Bank overdraft secured over 7-9 Orion Road, Lane Cove property (refer to note 30).
- 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. All covenants imposed on secured loan agreements have been adhered to, at all times within the financial year.

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 16: Borrowings (continued)**

**(b) Non Current**

	Note	Consolidated Group	
		2016 \$'000	2015 \$'000
<b>Secured Liabilities – Bank Loans</b>			
Finance for investment property - 68-72 Lilyfield Road, Rozelle Joint Venture	16i	5,250	-
Finance for investment property 7-9 Orion Road, Lane Cove	16ii	5,485	5,485
Finance for investment property 13 Sirius Road, Lane Cove	16iii	2,905	2,905
Finance for investment property 7 Sirius Road, Lane Cove	16iv	2,950	2,950
		<b>16,590</b>	<b>11,340</b>

- i. First mortgage finance secured over respective joint venture assets (note 13b).
- ii. First mortgage finance secured over 7-9 Orion Road, Lane Cove property (note 13c). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- iii. First mortgage finance secured over 13 Sirius Road, Lane Cove property (note 13d). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- iv. First mortgage finance secured over 7 Sirius Road, Lane Cove property (note 13e). Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times.
- v. All covenants imposed on secured loan agreements have been met.

**Maturity Schedule**

	Interest Rates (average)	Consolidated Group	
		2016 \$'000	2015 \$'000
26 July 2019	3.8% pa	11,340	11,340
26 July 2019	3.8% pa	5,250	5,250
		-	9,844
		<b>16,590</b>	<b>26,434</b>

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 17: Current Liabilities – Provisions**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Current company tax	<b>528</b>	-
Dividends	<b>830</b>	725
Employee entitlements*	<b>30</b>	37
	<b>1,388</b>	762

\* Movement represents net increase in provision set aside.

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>No</b>	<b>No</b>
Number of employees at year end	<b>5</b>	5

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

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Security deposits	<b>103</b>	25

**Note 19: Non Current Liabilities – Provisions**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee long service leave entitlement*	<b>18</b>	<b>13</b>

\* Movement represents provision set aside.

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

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

The non-current portion represents long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.



Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 20: Issued Capital**

			<b>Consolidated Group</b>	
			<b>2016</b>	<b>2015</b>
			<b>\$'000</b>	<b>\$'000</b>
36,905,259 (2015: 36,239,331) Ordinary Shares fully paid			<b>17,077</b>	<b>16,627</b>
	<b>Consolidated Group</b>		<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Ordinary Shares Fully Paid</b>				
At beginning of the year	<b>36,239,331</b>	30,199,465	<b>16,627</b>	12,097
<b>Shares Issued During the Year</b>				
Dividend reinvestment plan	<b>665,928</b>	6,039,866	<b>450</b>	4,530
Share purchase plan	-	-	-	-
Bonus issue	-	-	-	-
Ordinary Shares fully paid at reporting period	<b>36,905,259</b>	36,239,331	<b>17,077</b>	16,627

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

665,928 Ordinary Shares were issued during 2016 (2015: 6,039,866) from participation in the Dividend Reinvestment Plan.

**b. Authorised Capital**

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

**c. Capital Management**

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

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

There are no externally imposed capital requirements.

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

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

**Note 21: Retained Earnings**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Retained earnings at beginning of financial year	<b>10,060</b>	13,416
Net profit attributable to members of parent entity	<b>5,067</b>	2,504
Dividends provided for or paid	<b>(1,654)</b>	(5,860)
Retained earnings at end of financial year	<b>13,473</b>	10,060

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**Note 22: Interest in Joint Arrangements**

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

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current Assets</b>		
Cash	11	10
Trade and other receivables	67	62
<b>Non-current Assets</b>		
Investment property	12,250	12,110
<b>Total Assets</b>	<b>12,328</b>	<b>12,182</b>
<b>Current Liabilities</b>		
Trade and other payables	35	94
<b>Non-current Liabilities</b>		
Deferred tax liability	2,363	2,289
Long-term borrowings	5,250	5,250
<b>Total Liabilities</b>	<b>7,648</b>	<b>7,633</b>
Equity	4,680	4,549
Output	847	825
Net operating profit before income tax	507	447
Gain/(loss) from the revaluation of investment property	139	-
Income tax applicable to operating profit	(194)	(134)
Net profit/(loss) after income tax of joint venture	<b>452</b>	<b>313</b>

Refer note 13b for details of valuation methodology. The joint venture has no contingent liabilities or capital commitments at the date of this financial report.

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**Note 23: Deferred Taxes**

	Note	Consolidated Group	
		2016 \$'000	2015 \$'000
<b>Non-current</b>			
Deferred tax liability comprises:			
Tax allowances relating to property and equipment		1,524	1,415
Revaluation of investment properties		2,502	2,752
Deferred tax asset attributable to tax and capital losses		-	(1,809)
Provisions		(25)	(22)
Other		135	135
		<b>4,136</b>	<b>2,471</b>

**Reconciliation**

**Gross Movement**

The overall movement in the deferred tax account is as follows:

Opening balance		2,471	1,100
Charge to statement of profit and loss	4	1,665	1,371
Closing balance		<b>4,136</b>	<b>2,471</b>

**Deferred Tax Liability**

*Tax allowance relating to property and equipment*

Opening balance		1,415	1,308
Adjustment to previous year's provision		-	-
Charged to the statement of profit and loss		109	107
Closing balance		<b>1,524</b>	<b>1,415</b>

*Revaluation of investment properties*

Opening balance		2,752	1,806
Net revaluation during the current period		610	946
Transfers on property sale		(860)	-
Closing balance		<b>2,502</b>	<b>2,752</b>

**Deferred Tax Assets**

*Tax and capital losses*

Opening balance		(1,809)	(2,144)
Tax and capital losses utilised		1,809	335
Closing balance		-	(1,809)

*Provisions*

Opening balance		(22)	(5)
Credited to statement of profit and loss		(3)	(17)
Closing balance		<b>(25)</b>	<b>(22)</b>

*Other*

Opening balance		135	135
Charged to statement of profit and loss		-	-
Closing balance		<b>135</b>	<b>135</b>

**Note 24: Financial Instruments**

**a. Financial Risk Management**

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

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

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

**Liquidity Risk**

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

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

**Interest Rate Risk**

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

Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2016, approximately 100% of the Group's debt is with a floating interest rate and any balance is fixed interest rate debt.

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

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

**b. Credit Risk Exposure**

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

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

**c. Net Fair Values**

**On Balance Sheet:**

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

**Off Balance Sheet:**

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

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**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 24: Financial Instruments (continued)**

**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.

2016							
	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>							
Cash and deposits	9	-	-	15,749	-	-	15,749
Receivables	10, 11, 13	-	-	-	-	1,254	1,254
Other financial assets	12	-	-	1,451	-	-	1,451
		-	-	17,200	-	1,254	18,454
Weighted average interest rates							
		-	-	3.4%	-	-	3.4%
<b>Financial Liabilities</b>							
Trade and other creditors	15, 18	-	-	-	-	569	569
Interest bearing liabilities	16	-	16,590	-	-	-	16,590
		-	16,590	-	-	569	17,159
Weighted average interest rate							
		-	3.8%	-	-	-	3.8%
<b>Net financial assets (liabilities)</b>							
		-	(16,590)	17,200	-	685	1,295
2015							
	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>							
Cash and deposits	9	-	-	4,084	-	654	4,738
Receivables	10, 11, 13	-	-	2,574	-	332	2,906
		-	-	6,658	-	986	7,644
Weighted average interest rates							
		-	-	2.65%	-	-	2.65%
<b>Financial Liabilities</b>							
Trade and other creditors	15, 18	-	-	-	-	4,674	4,674
Interest bearing liabilities	16	-	26,434	-	-	-	26,434
		-	26,434	-	-	4,674	31,108
Weighted average interest rate							
		-	4.50%	-	-	-	4.50%
<b>Net financial assets (liabilities)</b>							
		-	(26,434)	6,658	-	(3,688)	(23,464)

**Note 24: Financial Instruments (continued)**

Sensitivity Analysis

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

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

There are no financial liabilities maturing over 5 years.

	<b>Consolidated Group Profit \$'000</b>	<b>Equity \$'000</b>
Year ended 30 June 2016	+/- 332	+/- 332

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

	<b>Consolidated Group Profit \$'000</b>	<b>Equity \$'000</b>
Year ended 30 June 2015	+/- 528	+/- 528

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

**Note 25: Related Party Transactions**

All transactions are under normal commercial terms and conditions.

The Group's main related parties are as follows:

i. *Key management personnel:*

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

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

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

iii. *Other related parties*

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

Desane Group Holdings Limited **ABN 61 003 184 932 and Controlled Entities**  
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**Note 25: Related Party Transactions (continued)**

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:

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Desane Properties Pty Ltd: Dividend paid	-	8,863
Desane Contracting Pty Ltd: Dividend paid	<b>4,546</b>	-

**b. Associated Companies**

Administration fee received from Samvoni Pty Ltd	-	15
Consulting fees received from Tuta Properties Pty Ltd	-	24

**c. Joint Ventures**

Administration fee received from Lilyfield Road Joint Venture	<b>12</b>	12
Interest received from Lilyfield Road Joint Venture	<b>42</b>	35
Consulting fee received from Lilyfield Road Joint Venture	<b>54</b>	-

**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
- Rick Montrone (appointed 4 November 2015)

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

Trafalgar Contracting Pty Ltd, which is a company owned by Mr Phil Montrone's brother, has sub-let a portion of its rental premises to Desane Group Holdings Ltd at market rental rates. Cupara Pty Ltd, a company in which Phil Montrone has a significant interest, purchased an apartment in the Easton Rozelle development, under normal commercial terms and conditions.

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

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

**Note 26: Commitments for Expenditure**

**Capital Expenditure**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Not later than one year	-	1,375
Later than one year but not more than two years	-	-
	<b>-</b>	<b>1,375</b>

**Note 27: Superannuation Commitments**

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

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

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

Employer contributions to the plans; consolidated \$108,327 (2015 - \$99,987), parent entity \$89,411 (2015 - \$93,208).

**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.

The shareholders' funds as at 30 June 2016, in the controlled entities concerned were:

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Desane Contracting Pty Limited – net assets	<b>918</b>	921
Desane Properties Pty Limited – net assets	<b>9,738</b>	8,188

**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 2016. 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 systems where the segments are considered to have similar economic characteristics and are also similar to the operations and or services provided by the segment.

#### Types of Operations and Services by Segment

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

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

#### Accounting Policies Adopted

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

#### Segment Assets

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

#### Segment Liabilities

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

#### Unallocated Items

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

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

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

*Major Customers*

The group has one major customer from whom it receives significant property rental income. This customer makes up approximately 30% 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.

**2016**

	Property Investment \$'000	Property Development \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
External sales	2,305	28,368	83	228	-	270	31,254
Other segments	-	-	-	-	-	-	-
Total revenue	<u>2,305</u>	<u>28,368</u>	<u>83</u>	<u>228</u>	<u>-</u>	<u>270</u>	<u>31,254</u>
Segment result	<u>3,850</u>	<u>4,548</u>	<u>83</u>	<u>228</u>	<u>-</u>	<u>270</u>	<u>8,979</u>
Unallocated expenses							(1,078)
Finance costs							(641)
Share of net profits of associates							-
Profit/(loss) before income tax							<u>7,260</u>
Income tax expense							<u>(2,193)</u>
Profit/(loss) after income tax							<u>5,067</u>

**2016**

<b>Segment Assets</b>	Property Investment \$'000	Property Development \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
2015 opening balance	32,660	20,689	-	-	-	7,693	61,042
<b>Unallocated Assets</b>							
Deferred tax assets							
<b>Segment Asset Increases/(Decreases) for the Period</b>							
Acquisitions							-
Proceeds from sale/depreciation		(28,368)					(28,368)
Revaluations/(devaluations)	2,032						2,032
Capital expenditures	58						58
Development expenditures		3,591					3,591
Asset held for sale							-
Development profit realised		4,548					4,548
Net movement in other segments						10,348	10,348
	<u>34,750</u>	<u>460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,041</u>	<u>53,251</u>
<b>Unallocated Assets</b>							-
<b>Deferred Tax Assets</b>							-
<b>Total Group Assets</b>							<u>53,251</u>
Equity accounted associates included in asset held for sale	-						-

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

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

<b>2016</b>							
<b>Segment Liabilities</b>	<b>Property Investment \$'000</b>	<b>Property Development \$'000</b>	<b>Property Project Management and Resale \$'000</b>	<b>Property Services \$'000</b>	<b>Plant and Equipment \$'000</b>	<b>Other \$'000</b>	<b>Consolidated Group \$'000</b>
2015 opening balance	16,590	9,844	-	-	-	5,450	31,884
<b>Unallocated Liabilities</b>							
Deferred tax liabilities							2,471
<b>Segment Liabilities Increases/(Decreases) for the Period</b>							
Repayments		(11,703)					(11,703)
New borrowings		1,859					1,859
Interest capitalised of loans with associated company							-
Repayment of loans with associated company							-
Net movement in other segments						(3,475)	(3,475)
	<b>16,590</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,975</b>	<b>21,036</b>
<b>Unallocated Liabilities</b>							
Deferred Tax Liabilities							1,665
<b>Total Group Liabilities</b>							<b>22,701</b>
Equity accounted associates included in segment liabilities	-						
<b>2015</b>							
	<b>Property Investment \$'000</b>	<b>Property Development \$'000</b>	<b>Property Project Management and Resale \$'000</b>	<b>Property Services \$'000</b>	<b>Plant and Equipment \$'000</b>	<b>Other \$'000</b>	<b>Consolidated Group \$'000</b>
External sales	2,201	-	524	52	-	107	2,884
Other segments	-	-	-	-	-	-	-
Total revenue	<b>2,201</b>	<b>-</b>	<b>524</b>	<b>52</b>	<b>-</b>	<b>107</b>	<b>2,884</b>
Segment result	<b>4,982</b>	<b>-</b>	<b>524</b>	<b>52</b>	<b>-</b>	<b>107</b>	<b>5,665</b>
Unallocated expenses							(1,167)
Finance costs							(777)
Share of net profits of associates							154
Profit/(loss) before income tax							3,875
Income tax expense							(1,371)
Profit/(loss) after income tax							2,504

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**Notes to the Financial Statements for the year ended 30 June 2016**

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

2015	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>						
2014 opening balance	49,302	-	-	-	2,799	52,101
Unallocated Assets						
Deferred tax assets						
Segment Asset Increases/(Decreases) for the Period						
Acquisitions	-	-	-	-	-	-
Proceeds from sale/depreciation	-	-	-	-	-	-
Revaluations/(devaluations)	3,153	-	-	-	-	3,153
Capital expenditures	9,603	-	-	-	-	9,603
Asset held for sale	(8,709)	-	-	-	-	(8,709)
Net movement in other segments	-	-	-	-	4,894	4,894
	53,349	-	-	-	7,693	61,042
Unallocated Assets						
Deferred Tax Assets						
Total Group Assets						<u>61,042</u>
Equity accounted associates included in asset held for sale	<u>(8,709)</u>					
<b>2015</b>						
<b>Segment Liabilities</b>						
2014 opening balance	23,810	-	-	-	1,678	25,488
Unallocated Liabilities						
Deferred tax liabilities						1,100
Segment Liabilities Increases/(Decreases) for the Period						
Repayments	(22)	-	-	-	-	(22)
New borrowings	6,794	-	-	-	-	6,794
Loan from associated company	(4,146)	-	-	-	-	(4,146)
Net movement in other segments	-	-	-	-	3,770	3,770
	26,436	-	-	-	5,448	32,984
Unallocated Liabilities						
Deferred Tax Liabilities						1,371
Total Group Liabilities						<u>34,355</u>
Equity accounted associates included in segment liabilities	<u>(4,146)</u>					

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**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 30: Cash Flow Information**

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

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax	<b>5,067</b>	2,504
<b>Non-cash flows in profit/(loss)</b>		
Depreciation and amortisation	<b>10</b>	10
(Gain)/loss on asset revaluation	<b>(2,032)</b>	(3,153)
Share of associated companies net (profit)/loss after income tax and dividends	-	(154)
(Profit)/loss on sale of plant and equipment	-	-
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade receivables	<b>1,997</b>	7
(Increase)/decrease in other receivables and other assets	<b>20,229</b>	8,863
(Increase)/decrease in prepayments	<b>108</b>	9
(Decrease)/increase in trade payments and accruals	<b>(1,611)</b>	549
(Decrease)/increase in other payables	<b>(2,575)</b>	665
(Decrease)/increase in provisions	<b>631</b>	(19)
Increase/(decrease) in deferred taxes payable	<b>1,665</b>	1,371
Transfer to financing activities	<b>108</b>	(425)
Cash flow from operations	<b>23,597</b>	10,227

**Credit Standby Arrangements with Banks**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Credit facility	<b>100</b>	100
Amount utilised	-	-

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

**Loan Facilities with Financial Institutions**

	<b>Consolidated Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Loan facilities	<b>16,590</b>	29,640
Amount utilised	<b>(16,590)</b>	(26,434)

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

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**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.

	Note	Parent Entity	
		2016 \$'000	2015 \$'000
<b>STATEMENT OF COMPREHENSIVE INCOME</b>			
<b>Result of Parent Entity</b>			
Profit for the period		3,520	7,994
Other comprehensive income		-	-
Total comprehensive income for the period		<u>3,520</u>	<u>7,994</u>
<b>STATEMENT OF FINANCIAL POSITION</b>			
<b>Current Assets</b>			
Cash		1	582
Trade and other receivables		-	36
Other assets		5	5
<b>Non-current Assets</b>			
Trade and other receivables – loans to controlled entities	ii	20,807	18,490
Investment – controlled entities	i	490	490
Property, plant and equipment		40	49
<b>Total Assets</b>		<u>21,343</u>	<u>19,652</u>
<b>Current Liabilities</b>			
Trade and other payables		95	817
Short term provisions		851	756
<b>Non-Current Liabilities</b>			
Trade and other payables		-	-
Provisions		13	11
<b>Total Liabilities</b>		<u>959</u>	<u>1,584</u>
<b>Net Assets</b>		<u>20,384</u>	<u>18,068</u>
<b>Total Equity</b>			
Issued capital		17,077	16,627
Retained earnings/(accumulated losses)		3,307	1,441
<b>Total Equity</b>		<u>20,384</u>	<u>18,068</u>

Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities  
**Notes to the Financial Statements for the year ended 30 June 2016**

**Note 31: Parent Entity Disclosures (continued)**

**i. Controlled Entities**

Investments in controlled entities are unquoted and comprise:

Controlled Entities	Class of Shares	Parent Entity			
		2016	2015	2016	2015
		Holding %	Investment \$'000	Holding %	Investment \$'000
Desane Properties Pty Ltd	Ordinary	100	490	100	490
Desane Contracting Pty Ltd	Ordinary	100	-	100	-
			<u>490</u>		<u>490</u>

All controlled entities are incorporated in Australia. Desane Properties Pty Ltd declared a dividend of \$nil out of retained profits (2015: \$8,862,898). Desane Contracting Pty Ltd declared a dividend of \$4,546,136 (2015: \$nil).

Contribution to profit/(loss) after tax:

	2016 \$'000	2015 \$'000
Desane Group Holdings Limited	(1,026)	(1,167)
Desane Properties Pty Limited	1,550	2,724
Desane Contracting Pty Limited	4,543	947
	<u>5,067</u>	<u>2,504</u>

**ii. Loans to Controlled Entities**

	2016 \$'000	2015 \$'000
Desane Properties Pty Limited	20,807	18,490
Desane Contracting Pty Limited	-	-
	<u>20,807</u>	<u>18,490</u>

**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 2016, Desane Group Holdings Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment or any other affairs (2015: Nil).

**Note 32: Events after the Reporting Date**

On 11 July 2016, John Bartholomew resigned as Company Secretary and Jack Sciara was appointed as Company Secretary.

The principal tenant in the Group's multimedia centre property at Lilyfield Road, Rozelle (note 13), has given notice that they will not be renewing their lease beyond 1 September 2016. The tenant contributed rental income in the order of \$672,000 to the Group during the year ended 30 June 2016. Approximately 20% of the vacant space has been leased to new tenants and a marketing campaign is underway to fill the remaining vacancy.

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

**Note 33: Economic Dependency**

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



## Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Directors' Declaration

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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 22 to 61 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 2016 and of the performance for the year ended on that date of the consolidated group;
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. The directors have been given the declarations required by a 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer.

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



**J B Sheehan**  
Director



**P Montrone**  
Director

Sydney  
22 August 2016

## 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 2016, the consolidated statement of profit of loss and 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.

#### *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 2016 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.

**Report on the Remuneration Report**

We have audited the remuneration report included on pages 17 to 18 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

*GCC Business & Assurance Pty Ltd.*

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



**GRAEME GREEN**  
Director

**Sydney**  
**22 August 2016**

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities

## Shareholder Information

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The shareholder information set out below was applicable as at 1 August 2016. Shareholder information should be read in conjunction with the 2016 financial report.

### 1. SHAREHOLDING

- a. Distribution of shareholders:

Category (size of holding)		Ordinary
1 -	1,000	37,525
1,001 -	5,000	367,142
5,001 -	10,000	480,956
10,001 -	100,000	6,444,591
100,001 -	and over	<u>29,575,045</u>
		<u>36,905,259</u>

- b. There were 59 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	10,246,252
JP Morgan Nominees Australia Limited	4,089,004
Horrie Pty Ltd	2,060,000
Montevans Pty Ltd <M & M Super Fund A/C>	2,048,762
PFPT Management Pty Ltd <Pellarini Super Fund A/C>	836,816

- 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.

# Desane Group Holdings Limited ABN 61 003 184 932 and Controlled Entities Shareholder Information

## 2. TWENTY LARGEST SHAREHOLDERS

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

		Ordinary Shares	% Held to Issued Capital
1.	Cupara Pty Ltd	10,246,252	27.76
2.	JP Morgan Nominees Australia Limited	4,089,004	11.08
3.	Horrie Pty Ltd	2,060,000	5.58
4.	Montevans Pty Ltd <M & M Super A/C>	2,048,762	5.55
5.	PFPT Management Pty Ltd <Pellarini Super Fund A/C>	836,816	2.27
6.	TMB Nominees Pty Limited	737,356	2.00
7.	Cordato Partners (Superannuation) Pty Ltd <Cordato Partners S/F A/C>	608,204	1.65
8.	Dr Susan Jane Winspear + Mr Timothy Charles Winspear <James S/F A/C>	550,000	1.49
9.	John & Judith Pty Ltd <Joju Superannuationfund A/C>	534,237	1.45
10.	National Nominees Limited	471,203	1.28
11.	Keiser Investments Pty Ltd <Gann Family Retirement A/C>	458,081	1.24
12.	Hillmorton Custodians Pty Ltd <The Lennox Unit A/C>	404,794	1.10
13.	Mr David Cooper + Ms Adrienne Witteman <Private Super Fund A/C>	355,008	0.96
14.	Dotnric Pty Ltd <Famiglia di Riccardo S/F A/C>	303,279	0.82
15.	Oakmount Nominees Pty Ltd	300,000	0.81
16.	Mrs Rosemary Marion Marfatia	282,617	0.77
17.	Whimplecreek Pty Ltd <Stawell Family A/C>	280,000	0.76
18.	Joe Scardino + Felicia Scardino	273,555	0.74
19.	Mocorb Pty Ltd <BMC Superannuation Fund A/C>	258,395	0.70
20.	Mr Peter Howells	251,377	0.68
		<b>25,348,940</b>	<b>68.69</b>

## 3. SUBSTANTIAL SHAREHOLDERS

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

	Ordinary	
	Number	%
Cupara Pty Ltd	10,246,252	27.76
JP Morgan Nominees Australia Limited	4,089,004	11.08
Horrie Pty Ltd	2,060,000	5.58
Montevans Pty Ltd <M & M Super A/C>	2,048,762	5.55