HUDSON

PACIFIC GROUP LIMITED

# ANNUAL REPORT

2016

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# CORPORATE DIRECTORY

**Hudson Pacific Group Limited**

ACN 078 712 179
ABN 48 078 712 179

**Registered and Corporate Office**

Level 2
Hudson House
131 Macquarie Street
Sydney NSW 2000

Telephone: +61 2 9251 7177
Fax: +61 2 9251 7500
Website: www.hpgl.com.au

**Auditors**

K.S. Black & Co
Level 5
350 Kent Street
Sydney NSW 2000

Telephone: +61 2 8839 3000

**Lawyers**

Piper Alderman
Level 23, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Telephone: +61 2 9253 9999

**Bankers**

St George Bank Limited
Level 14, 182 George St
Sydney NSW 2000
Telephone: +61 2 9236 2230

Australia & New Zealand Banking Group Limited

**Board of Directors**

John W Farey
Vincent Tan
Alan Beasley

**Joint Company Secretaries**

Henry Kinstlinger
Gananatha Minithantri

This financial report covers the Consolidated Entity consisting of Hudson Pacific Group Limited and its controlled entities.

Hudson Pacific Group Limited is a company limited by shares, incorporated and domiciled in Australia.

# CHAIRMAN'S REPORT AND REVIEW OF OPERATIONS 2016

On behalf of the Board of Directors, I present the Annual Report for Hudson Pacific Group Limited (**the Company**) for the period to 31 December 2016. The Company recorded a consolidated net profit after tax of $1.78 million. The results were partly due to change in fair value of Investment property.

The Company's asset portfolio and operations consists of:

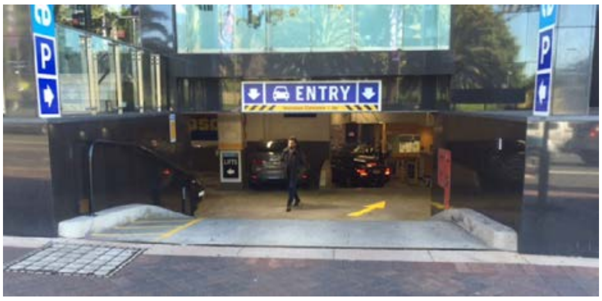
- **Commercial Properties**
    - Owns 53% of the strata for the Carpark at Hudson House 131 Macquarie Street Sydney NSW (**Carpark**)
    - Owns the strata for the 'Hudson House' building naming rights and Hudson rooftop signage

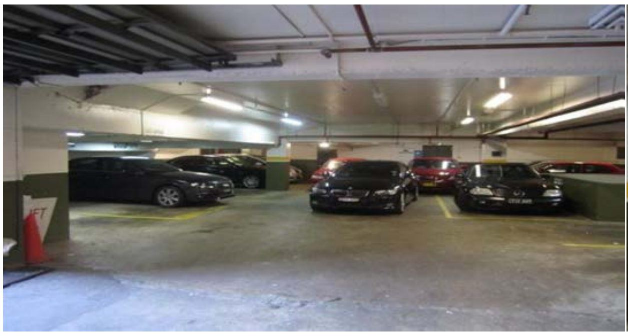
- **Investments**
    - 35% holding in Hudson Resources Limited

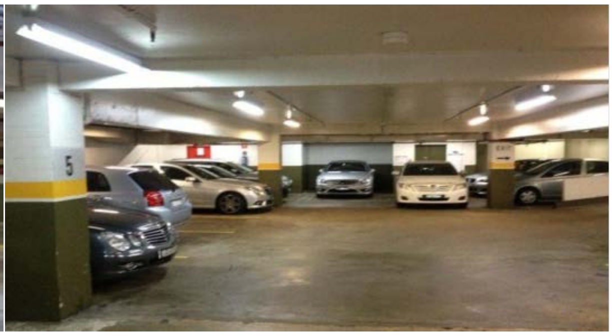
- **Corporate Services**
    - Provision of corporate advisory and support services
    - Investment and financing activities

**Commercial Properties**
**Car Park – Hudson House, 131 Macquarie Street, Sydney 2000**

The Car Park located at Hudson House, 131 Macquarie Street in Sydney's CBD is a prime asset catering for nearby hotels (including the Intercontinental Hotel, Sofitel Wentworth and Sir Stamford), Conservatorium of Music and Medical and Dental Centres. The Car Park is now leased to and managed by Secure Parking Pty Ltd, which generates a consistent income stream for the Company.



**'Hudson House' Naming Rights and Rooftop Signage**

The Company owns the strata for the building naming rights for 'Hudson House' and also the Hudson rooftop signage at the Company's head office at 131 Macquarie Street Sydney NSW Australia.




**Investments**

The Company has a 35% interest in Hudson Resources Limited (**HRS**). HRS is an industrial minerals mining company with mining leases in attapulgite and diatomite in Western Australia.

**Attapulgite mining leases**

- HRS operates the Lake Nerramyne Attapulgite Mine near Geraldton WA which commenced operations in 1978.
- The mine covers Australia's largest known deposit of Attapulgite with premium quality, superior absorption and adsorption capabilities.
- 4 mining leases host an attapulgite clay resource encompassing an area of 2,700 hectares. Current Inferred Resource 23.4 million tonnes JORC was defined from an area of approximately 40% of the total area.
- HRS campaign mines attapulgite. The 2014 mining campaign extracted 35,470 BCM. Next mining campaign is proposed in March 2017.

Project Location

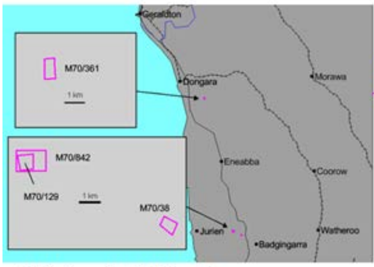

2014 mining campaign


4 Mining Leases


Lump raw ore windrow

**Diatomite mining leases**

- HRS holds 4 mining leases over diatomite deposits located between Perth & Geraldton WA.
- Current inferred resource 1.03Mt and increasing, including principal deposits are Badgingarra (Inferred resource 330,000t) and Dongara (inferred resource 500,000t).
- 20,000 tonnes above ground stockpile at Badgingarra, ready for shipment.
- Badgingarra Diatomite has been used in chemical free insecticide.
- Testing has demonstrated effective use as a slow release agent in fertilizer application.
- A research program is underway to test diatomite suitability in horticulture, agriculture, insecticide, stockfeed supplement and mine rehabilitation application.




4 Diatomite Mining Leases


Badgingarra Stockpile


Raw Ore

**Corporate Services**

The Company provides corporate advisory and corporate support services to a number of listed, unlisted public and private companies.

The Board of Directors continue to review the Company's strategies.

**John W Farey**

**Chairman**
**30 March 2017**

# DIRECTORS' REPORT

Your Directors present their report together with the financial statements on the consolidated entity (referred to hereafter as the **Group**) consisting of Hudson Pacific Group Limited (the **Company**) and the entities it controlled at the end of or during the year ended 31 December 2016.

**Principal activities**

The principal activities of the Group during the course of the financial year were as follows:

-Investment in commercial properties in Australia;
-Investment in listed and unlisted shares and businesses; and
-Operation in corporate financial services

**Operating results**

The consolidated net profit after tax for the financial year ended 31 December 2016 was $1.78 million.
Total Shareholders' Funds as at 31 December 2016 are $12.1 million.

**Review of Operations**

Information on the operations of the Group and its business strategies and prospects are disclosed in both the Chairman's Report 2016 and the Review of Operations contained on pages 4 to 6 of this Annual Report.

**Dividends**

The Directors of the Company do not recommend that any amount be paid by way of dividend (2015: nil).

**Meetings of Directors**

The number of Directors' Meetings held, and the number of these meetings attended by each of the directors of the Company during the financial year were:

| | **Directors Meetings** | |
|---|---|---|
| **Director** | **Attended** | **Held Whilst in Office** |
| J. Farey | 7 | 7 |
| Vincent Tan | 7 | 7 |
| A.Beasley | 7 | 7 |

## INFORMATION ON DIRECTORS AND MANAGEMENT

### DIRECTORS

The following persons held office as Directors of the Company at any time during or since the end of the financial year:

| | | |
|---|---|---|
| John W Farey | Non-Executive Chairman | Appointed 20 May 1998 |
| Vincent Tan | Executive Director | Appointed 19 September 2003 |
| Alan P Beasley | Executive Director | Appointed 24 February 2015 |

All Directors have been in office since the commencement of the financial year unless otherwise stated.

**John Farey, B.Com, FAIM, FAICD**
**Non-Executive Chairman - appointed on 20 May 1998**

| | |
|---|---|
| **Experience and Expertise** | John W Farey has over 45 years' experience in financial services including merchant and investment banking. |
| **Other Current Directorships of Listed Companies** | Non-Executive Chairman of Hudson Investment Group Limited (ASX: HGL) |
| **Former Directorships in the Last Three Years of Listed Companies** | None |
| **Special Responsibilities** | Chairman of the Board |
| **Interests in Shares and Options** | Direct interest in 10,000 shares |

**Vincent Tan**
**Executive Director - appointed on 19 September 2003**

| | |
|---|---|
| **Experience and Expertise** | Vincent Tan is a chartered accountant and has over the past 35 years worked in a range of industries, including insurance, securities trading, finance and property.<br>Mr Tan has held senior management positions in a number of public and non-government organisations and has broad experience in corporate structuring. |
| **Other Current Directorships of Listed Companies** | None |
| **Former Directorships in the Last Three Years of Listed Companies** | Raffles Capital Limited (ASX:RAF) |
| **Special Responsibilities** | |
| **Interests in Shares and Options** | Direct interest in 294,362 shares |

**Alan Beasley, B.Ec, CPA, FGIA, FAICD**
**Executive Director - appointed on 24 February 2015**

| | |
|---|---|
| **Experience and Expertise** | Mr Beasley is a Non-Executive Director and former Director of a number of publicly listed and unlisted companies. Mr Beasley was educated at the University of New England (BEc) and Stanford Graduate Business School, USA. |
| **Other Current Directorships of Listed Companies** | Executive Director of Hudson Investment Group Limited (ASX: HGL) |
| **Former Directorships in the Last Three Years of Listed Companies** | Non-Executive Chairman and Director – Admiralty Resources NL |
| **Special Responsibilities** | Managing Director |
| **Interests in Shares and Options** | Nil |

## MANAGEMENT

**Henry Kinstlinger**
**Joint Company Secretary – appointed 12 January 2016**

| | |
|---|---|
| **Experience and Expertise** | Henry Kinstlinger has, for the past thirty years, been actively involved in the financial and corporate management of a number of public companies and non-governmental organisations. He is currently the Company Secretary of Australian Bauxite Limited, Frontier Capital Group Limited and Raffles Capital Limited. He is a corporate consultant with broad experience in investor and community relations and corporate and statutory compliance. |

**Gananatha Minithantri LLB (1st Hons)**
**Joint Company Secretary**

| | |
|---|---|
| **Experience and expertise** | Gananatha Minithantri was appointed to the position of Company Secretary in 7 December 2017. He is also company secretary to other listed, public and private entities including Hudson Investment Group Limited and Hudson Resources Limited. Mr Minithantri has experience working in investment and start-up businesses in the professional development and corporate services sector. Mr Minithantri holds a 1st class Honours Bachelor of Laws degree from the University of Technology, Sydney. |

**Francis Choy MCom MBA FCPA (HK) FCPA CA**
**Chief Financial Officer**

| | |
|---|---|
| **Experience and Expertise** | Francis Choy has held a number of senior positions in corporate financial management roles throughout Australia and South East Asia. He has extensive experience in project finance, compliance, acquisition and investment appraisals.<br>He has been involved in project finance, financial management of property development and telecommunication projects in South East Asia.<br>He held senior financial roles for numerous public listed companies both in Hong Kong and Australia. |

**Julian Rockett**
**Joint Company Secretary - resigned 2 December 2016**

## LIKELY DEVELOPMENTS

Information on likely developments in the operations of the Group, known at the date of this report has been covered generally within the report. In the opinion of the Directors providing further information would prejudice the interests of the Group.

## RISK MANAGEMENT

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders' needs and manage business risk.

- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

**MATTERS SUBSEQUENT TO BALANCE DATE**

At the date of this report there are no other matters or circumstances that have arisen since 31 December 2016 that have significantly affected or may significantly affect:

- The operations, in financial years subsequent to 31 December 2016 of the Group;
- The results of those operations; or
- The state of affairs, in financial years subsequent to 31 December 2016 of the Group.

**ENVIRONMENTAL REGULATIONS**

There has been no breach of environmental regulations during the financial year or in the period subsequent to the end of the financial year and up to the date of this report.

The Company aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are mindful of the regulatory regime in relation to the impact of the Company's activities on the environment.

To the best of the Directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and are not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

**EXECUTIVE SERVICE AGREEMENTS**

There were two service agreements in place formalising the terms of remuneration of Mr Farey and Mr Tan. The agreements have no specific term and may be terminated by either party upon reasonable notice. The Company may terminate the agreement in the event of serious misconduct by either party without any compensatory payment.

**SHARE OPTIONS GRANTED TO DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL**

There were no options granted during or since the end of the financial year to any of the Directors or other Key Management Personnel of the Company and the Group as part of their remuneration. At the date of this report there were no unissued shares under option to Directors or other Key Management Personnel of the Company.

**DIRECTORS' INTEREST**

The relevant interest of each Director in the share capital of the Company as shown in the Register of Directors' Shareholdings as at the date of this report is:

**Particulars of Directors' Interest in the Issued Capital of the Company**

| Ordinary Shares (Number) | Direct Interest | Employee Share Plan | Indirect Interest | Total |
|---|---|---|---|---|
| **Director** | | | | |
| John Farey | 10,000 | - | - | 10,000 |
| Vincent Tan | 294,362 | - | - | 294,362 |
| Alan Beasley | 1,600,000 | - | - | 1,600,000 |

Please refer to Note 27 of the financial statements for details.

**SHARES UNDER OPTION**

No options over issued shares or interests in the Company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

**LOANS TO DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL**

Details of individuals with loans during the year are set out below:

| | Balance at the start of the year | Advance/ (Repayments)/ (Adjustment) | Interest payable for the year | Balance at the end of the year | Highest indebtedness during the year | Additional interest otherwise payable* |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Consolidated** | | | | | | |
| **2016** | **30,949** | **-** | **2,447** | **33,396** | **33,396** | **612** |
| 2015 | - | 30,500 | 449 | 30,949 | 30,949 | 112 |

* Market interest rate 6% (2015: 6%). This represents the difference between interest charged at the latter and interest paid.

**Terms and conditions of loans**

Secured interest bearing full recourse loan of $30,000 has advanced to Mr Alan Beasley. The loan is secured against the shares. Loan is repayable should Mr Beasley leave the Company. Loan has a fixed repayment date. None were written down and written off during the year.

**DIRECTORS' AND OFFICERS' INDEMNITIES AND INSURANCE**

During the financial year the Company paid an insurance premium, insuring the Company's Directors, (as named in this report), Company Secretary, Executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in the insurance contract prohibits disclosure of the amount of the premium and the nature of insured liabilities.

**PROCEEDINGS ON BEHALF OF THE COMPANY**

Other than the matter referred to in the Directors' Report no person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under Section 237 of the *Corporations Act 2001*.

**ROUNDING OF AMOUNTS**

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

**AUDITOR'S INDEPENDENCE DECLARATION**

The Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* has been received and is set out on page 13.

**NON-AUDIT SERVICES**

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor K.S. Black & Co for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

**AUDITOR'S REMUNERATION**

During the year the following fees were paid or payable for services provided by the Auditor of the parent entity, its related practices and non-related audit firms:

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| **Audit services:** | | |
| Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group | | |
| Audit and review services fees | **10,995** | 16,795 |
| **Taxation and other advisory services:** | | |
| Amounts paid or payable to the Auditor for non-audit taxation services for the entity or any entity in the Group for review and lodgement of the income tax return | | |
| Taxation services | **1,460** | 1,295 |
| Advisory services | **-** | - |
| Total | **1,460** | 1,295 |

**AUDITOR**

K.S. Black & Co continues in office in accordance with Section 327 of the *Corporations Act 2001*.

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a Resolution of the Board of Directors.

John Farey

**John W Farey**
**Chairman**

**Alan Beasley**
**Executive Director**

Signed at Sydney
30 March 2017

# AUDITOR'S INDEPENDENCE DECLARATION

Level 6
350 Kent Street
SYDNEY NSW 2000

75 Lyons Road
DRUMMOYNE NSW 2047

K.S. Black & Co.
ABN 48 117 620 556

20 Grose Street
North Parramatta NSW 2151

PO Box 2210
North Parramatta NSW 1750

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF HUDSON PACIFIC GROUP LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2016 there has been:

a. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

The entities is in respect of Hudson Pacific Group Limited and the entities it controlled during the period.

KS Black & Co
Chartered Accountants

Scott Bennison

Scott Bennison
Partner

Dated in Sydney on this 30 day of March 2017

Phone 02 8839 3000
Fax 02 8839 3055

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**FOR THE YEAR ENDED 31 DECEMBER 2016**

| | | Consolidated | |
|---|---|---|---|
| | | **2016** | 2015 |
| | Notes | **$'000** | $'000 |
| Revenue | 4 | **2,730** | 8,148 |
| Cost of sales | | **(247)** | (5,106) |
| Other income and expenses | 5 | **1,055** | 149 |
| Cost of providing services and administration expenses | 6 | **(1,789)** | (4,898) |
| Finance income | 6 | **1,697** | 1,964 |
| Finance expenses | 6 | **(1,658)** | (2,089) |
| **PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE** | | **1,788** | (1,832) |
| Income tax benefit/(expense) | 7 | **-** | - |
| **PROFIT/(LOSS) AFTER TAX FOR THE YEAR** | | **1,788** | (1,832) |
| | | | |
| **Other Comprehensive Income** | | | |
| Other comprehensive income | | **-** | - |
| Income Tax | | **-** | - |
| Other comprehensive income after tax | | **-** | - |
| | | | |
| Total comprehensive income for the year | | **1,788** | (1,832) |
| Profit attributable to non-controlling interests | | **-** | - |
| **TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTABLE TO MEMBERS** | | **1,788** | (1,832) |
| | | | |
| **Earnings/(Loss) per shares** | | **Cents** | Cents |
| Basic earnings/(loss) per share (cents) | 20 | **0.69** | (0.96) |
| Diluted earnings/(loss) per share (cents) | 20 | **0.69** | (0.96) |

The above Statement should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2016

| | | Consolidated | |
|---|---|---|---|
| | | **2016** | 2015 |
| | Notes | **$'000** | $'000 |
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 8 | **63** | 207 |
| Trade and other receivables | 9 | **1,143** | 2,468 |
| Financial assets | 10 | **1,475** | 2,364 |
| Other current assets | 11 | **12** | 3 |
| **TOTAL CURRENT ASSETS** | | **2,693** | 5,042 |
| | | | |
| **NON-CURRENT ASSETS** | | | |
| Receivables | 9 | **188** | 6,382 |
| Financial assets | 10 | **4,361** | 1,951 |
| Property, plant and equipment | 12 | **913** | 928 |
| Investment properties | 13 | **26,500** | 25,200 |
| **TOTAL NON-CURRENT ASSETS** | | **31,962** | 34,461 |
| **TOTAL ASSETS** | | **34,655** | 39,503 |
| | | | |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 14 | **320** | 686 |
| Financial liabilities | 15 | **50** | 50 |
| Provision | 16 | **241** | 1,744 |
| Other liabilities | 17 | **49** | 49 |
| **TOTAL CURRENT LIABILITIES** | | **660** | 2,529 |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Trade and other payables | 14 | **755** | 10,000 |
| Financial liabilities | 15 | **17,521** | 16,726 |
| Deferred tax liability | 7 | **-** | - |
| Provisions | 16 | **252** | 316 |
| Other liabilities | 17 | **3,311** | 3,360 |
| **TOTAL NON-CURRENT LIABILITIES** | | **21,839** | 30,402 |
| **TOTAL LIABILITIES** | | **22,499** | 32,931 |
| **NET ASSETS/ (DEFICIENCY IN NET ASSETS)** | | **12,156** | 6,572 |
| | | | |
| **EQUITY** | | | |
| Issued Capital | 18 | **20,950** | 20,950 |
| Reserves | | **(14,116)** | (13,217) |
| Retained Profits | | **627** | (1,161) |
| Total equity attributable to equity holders of the parent entity | | **7,461** | 6,572 |
| Non-controlling interest | | **4,695** | - |
| | | | |
| **TOTAL EQUITY** | | **12,156** | 6,572 |

The above Statement should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED 31 DECEMBER 2016**

| Consolidated | Notes | Issued Capital | Reserves | Retained Profits | Non-Controlling Interest | Total Equity |
|---|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 Jan 2016** | 18 | **20,950** | **(13,217)** | **(1,161)** | **-** | **6,572** |
| Share issued | | **-** | **-** | **-** | **-** | **-** |
| Share issuing cost | | **-** | **-** | **-** | **-** | **-** |
| Profit/(Loss) for the year | | **-** | **-** | **1,788** | **-** | **1,788** |
| Business Combination | | **-** | **(899)** | **-** | **4,695** | **3,796** |
| **Balance at 31 Dec 2016** | 18 | **20,950** | **(14,116)** | **627** | **4,695** | **12,156** |
| **Balance at 1 Jan 2015** | 18 | 16,610 | 6,508 | 671 | - | 23,789 |
| Share issued | | 4,366 | - | - | - | 4,366 |
| Share issuing cost | | (26) | - | - | - | (26) |
| Profit/(Loss) for the year | | - | - | (1,832) | - | (1,832) |
| Business Combination | | - | (19,725) | - | - | (19,725) |
| **Balance at 31 Dec 2015** | 18 | 20,950 | (13,217) | (1,161) | - | 6,572 |

The above Statement should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASHFLOWS
**FOR THE YEAR ENDED 31 DECEMBER 2016**

| | Notes | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **4,104** | 8,148 |
| Payments to suppliers and employees | | **(2,262)** | (10,520) |
| Interest received | | **1,568** | 21 |
| Interest paid | | **(1,046)** | (1,006) |
| **Net cash provided by /(used in) operating activities** | | **2,364** | (3,357) |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investments | | **4,191** | - |
| Repayment from/(Advance to) controlled entities | | **6,700** | - |
| Payments for purchases of investments | | **(4,192)** | - |
| Payments for property, plant and equipment | | **(2)** | - |
| **Net cash provided by /(used in)investing activities** | | **6,697** | - |
| **Cash flows from financing activities** | | | |
| Proceeds from share placement | | **-** | 4,366 |
| Share issuing cost | | **-** | (26) |
| Preference share redemption | | **(10,000)** | (3,000) |
| Drawdown from bank borrowings | | **845** | 2,082 |
| Repayment of bank borrowings | | **(50)** | (29) |
| **Net cash (used in)/provided by financing activities** | | **(9,205)** | 3,393 |
| **Net increase/ (decrease) in cash and cash equivalents** | | **(144)** | 36 |
| Cash and cash equivalents at the beginning of the year | | **207** | 171 |
| **Cash and cash equivalents at the end of the year** | 8 | **63** | 207 |

The above Statement should be read in conjunction with the accompanying notes.

# NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2016**

## 1. CORPORATE INFORMATION

The consolidated financial statements and notes of the Company for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors and covers Hudson Pacific Group Limited (the **Company)** as the parent entity as well as the group consisting of Hudson Pacific Group Limited and its subsidiaries as required by the *Corporations Act 2001* (the **Group**).

The consolidated financial statements and notes is presented in Australian currency.

Hudson Pacific Group Limited is a company limited by shares incorporated in Australia.

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncement of the Australian Accountancy Standards Board and the *Corporations Act 2001*.

*Statement of Compliance*

Australian Accounting Standards ('**AASBs**') include Australian equivalents to International Financial Reporting Standards (**AIFRS**). Compliance with AIFRS ensures that the financial report of Hudson Pacific Group Limited also complies with International Financial Reporting Standards.

*Critical accounting estimates and judgements*

Details of critical accounting estimates and assumptions about the future made by management at reporting date are set out below:

– Impairment of assets

  The Company assess impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Calculations performed in assessing recoverable amounts incorporate a number of key estimates.

*Critical judgements*

Management have made the following judgements when applying the Group's accounting policies:

– Recognition of deferred tax assets

  In line with the Group’s accounting policy (Note 2f) and as disclosed in Note 7, deferred tax assets have not been recognised.

– Measurement of financial assets

  If there is an active market for financial assets they have been fair valued in line with market prices, if not they are carried at cost.

*Going Concern*

This financial report has been prepared on a going concern basis, which contemplates the continuity of business activities and the realisation of assets and payments of liabilities in the normal course of business.

The directors believe the Company will be able to pay its debts as and when they fall due and to fund near tem anticipated activities.

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

*Historical cost convention*

These financial statements have been prepared on an accruals basis and are based on the historical cost convention except for where noted in these accounting policies.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

*ASIC Class Order 98/100*

The Company is of a kind referred to in ASIC Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### b. Principles of consolidation

*Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hudson Pacific Group Limited ("**the parent entity**") as at the reporting date and the results of all subsidiaries for the year then ended. Hudson Pacific Group Limited and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The financial performance of those entities is included only for the period of the year that they were controlled.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Hudson Pacific Group Limited.

### c. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. Reporting to management by segments is on this basis

**2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued**

**d. Foreign currency transactions and balances**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is Hudson Pacific Group Limited's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

*(iii) Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- retained earnings are translated at the exchange rates prevailing at the date of transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on sale where applicable.

**e. Revenue recognition**

Revenue is recognised at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of Goods*

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to buyer when goods have been delivered to the customer.

*Interest*

Interest revenue is recognised as it accrues taking into account the effective yield on the financial asset

*Rental Income*

Rental income on investment properties is accounted for on a straight-line basis over the lease term. Contingent rentals are recognised as income in the periods when they are earned.

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

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

### f. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company and its wholly owned entities are part of a tax-consolidated group under Australian taxation law. Hudson Pacific Group Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

The amounts receivable/payable under tax funding arrangements are due upon notification by the entity which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly owned subsidiaries. These amounts are recognised as current inter-company receivables or payables.

### g. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in Statement of Cash Flows on a gross basis except for the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued**

**h. Cash and cash equivalents**

For the purposes of the Statement of Cash Flows, cash includes cash and cash equivalents on hand and at call deposits with banks or financial institutions, investment in money market instruments maturing within less than 3 months, net of bank overdrafts.

**i. Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that entities in the Group will not be able to collect all amounts due according to the original terms of receivables.

**j. Inventories**

Inventories include raw materials, work in progress and finished goods.

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**k. Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

**l. Financial instruments**

*Recognition and initial 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 company commits itself to either the purchase or sale of the asset (i.e. 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*

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

**2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued**

*Amortised cost* is calculated as:

(a) the amount at which the financial asset or financial liability is measured at initial recognition;

(b) less principal repayments;

(c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and

(d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

*(i) Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after reporting date. (All other loans and receivables are classified as non-current assets.)

*(iii) 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. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after reporting date. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

**2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued**

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be disposed of within 12 months after reporting date. (All other financial assets are classified as current assets.)

*(v) Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

**De-recognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**m. Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the Statement of Financial Position date. The quoted market price used for financial assets held by entities in the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Entities in the Group use a variety of methods and make assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to entities in the Group for similar financial instruments.

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

**n. Property, plant and equipment**

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset. All other plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to the asset revaluation reserve in equity. A revaluation surplus is credited to the asset revaluation reserve included within shareholder's equity unless it reverses a revaluation decrease on the same asset previously recognised in the Statement of Profit or Loss and Other Comprehensive Income. A revaluation deficit is recognised in the Statement of Profit or Loss and Other Comprehensive Income unless it directly offsets a previous revaluation surplus on the same asset in the asset revaluation reserve. On disposal, any revaluation reserve relating to sold assets is transferred to retained earnings. Independent valuations are performed regularly to ensure the carrying amounts of land and buildings do not differ materially from the fair value at the Statement of Financial Position date.

Land is not depreciated. Depreciation on other assets is calculated using the straight line, over their estimated useful lives, as follows:

- Plant and equipment 5 – 15 years (depreciation rate 6.7% to 20%)
- Buildings 30 years (depreciation rate 3.4%)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2 (m)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Profit or Loss and Other Comprehensive Income.

**o. Investment property**

Investment property is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. These valuations are reviewed annually. Changes in fair values are recorded in the Statement of Profit or Loss and Other Comprehensive Income as part of other income.

**p. Leases**

*Company as lessee*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership but not the legal ownership are classified as finance leases and capitalised at inception of the lease at the fair value of the leased property, or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Statement of Profit or Loss and Other Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

**2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued**

Capitalised leased assets are depreciated on a straight line basis over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership of the net asset are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

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

*Company as lessor*

Lease income from operating leases is recognised in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying value of the leased asset and recognised as an expense over the lease term on the same bases as the lease income.

**q. Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**r. 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 the outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**s. Other liabilities**

Other liabilities comprise non-current amounts due to related parties that do not bear interest and are repayable within one year of Statement of Financial Position date.

Income received in advance relates to car park income that will be brought to account over the life of the car space contracts.

**t. Employee benefits**

*Wages, Salaries and Annual Leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within one year of Statement of Financial Position date are recognised in other liabilities in respect of employees' services rendered up to Statement of Financial Position date and are measured at amounts expected to be paid when the liabilities are settled.

*Long Service Leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy resting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

## 2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

### u. Issued capital

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

### v. Share-based payments

Ownership-based remuneration is provided to employees via an employee share option plan and employee share plan.

Share-based compensation is recognised as an expense in respect of the services received, measured on a fair value basis.

The fair value of the options at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each Statement of Financial Position date, the Group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

### w. Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for costs of servicing equity (other than dividends), the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### x. New Accounting Standards for Application

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group has decided against early adoption of these standards. We have reviewed these standards and interpretations and there are none having any material effect.

## 3. FINANCIAL RISK MANAGEMENT

### a. General objectives, policies and processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

### 3. FINANCIAL RISK MANAGEMENT continued

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Groups' risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material. The Board receives reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's finance function also review the risk management policies and processes and report their findings to the Audit Committee.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

Further details regarding these policies are set out below.

The Group and the parent entity hold the following financial instruments:

| | **Consolidated** | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| **Financial assets** | | |
| **Current** | | |
| Cash and cash equivalents | **63** | 207 |
| Trade and other receivables | **2,403** | 23,418 |
| Financial assets | **1,475** | 2,364 |
| **Non-current** | | |
| Trade and other receivables | **188** | 6,382 |
| Financial assets | **4,361** | 1,951 |
| | **8,490** | 34,322 |
| **Financial liabilities** | | |
| **Current** | | |
| Trade and other payables | **320** | 686 |
| Financial liabilities | **50** | 50 |
| **Non-current** | | |
| Trade and other payables | **755** | 10,000 |
| Financial liabilities | **17,521** | 16,726 |
| | **18,646** | 27,462 |

## 3. FINANCIAL RISK MANAGEMENT continued

### b. Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group excluding the available for sale financial assets.

The maximum exposure to credit risk at balance date is the carrying amount of the financial assets, excluding the available for sale financial assets, as summarised under note(a) above.

For banks and financial institutions, only independently rated parties are accepted and each deposit account is kept to under $1 million to ensure that it is covered by the Governments bank deposit guarantee scheme.

The maximum exposure to credit risk at balance date by country is as follows:

| | **Consolidated** | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Australia | **-** | 29,800 |
| | **-** | 29,800 |

### c. Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments that is, borrowing repayments. Bank loans are detailed below. The funds were provided by bankers for the Group and the Parent Company. It is the policy of the Board of Directors that treasury reviews and maintains adequate committed credit facilities and the ability to close-out market position.

**Maturity analysis of financial assets**

| **Consolidated 2016** | **Carrying Amount $'000** | **Contractual Cash flows $'000** | **< 6 mths $'000** | **6- 12 mths $'000** | **1-3 years $'000** | **> 3 years $'000** |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Cash and cash equivalent | **63** | **63** | **63** | **-** | **-** | **-** |
| Trade and other receivables | **2,403** | **2,403** | **116** | **2,287** | **-** | **-** |
| Financial assets | **1,475** | **-** | **-** | **-** | **-** | **-** |
| **Non-current** | | | | | | |
| Other receivables | **188** | **188** | **-** | **-** | **188** | **-** |
| Financial assets | **4,361** | **-** | **-** | **-** | **-** | **-** |
| Total financial assets | **8,490** | **2,654** | **179** | **2,287** | **188** | **-** |
| | | | | | | |
| **Consolidated 2015** | | | | | | |
| **Current** | | | | | | |
| Cash and cash equivalent | 207 | 207 | 207 | - | - | - |
| Trade and other receivables | 23,418 | 23,418 | 63 | - | 23,355 | - |
| **Non-current** | | | | | | |
| Other receivables | 6,382 | 6,382 | - | - | 6,382 | - |
| Financial assets | 1,951 | - | - | - | - | - |
| Total financial assets | 34,322 | 30,007 | 270 | - | 29,737 | - |

## 3. FINANCIAL RISK MANAGEMENT continued

### Maturity Analysis of financial liabilities

| | Carrying Amount | Contractual Cash flows | < 6 mths | 6- 12 mths | 1-3 years | > 3 years |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Consolidated 2016** | | | | | | |
| **Current** | | | | | | |
| Trade and other payables | **320** | **320** | **305** | **15** | **-** | **-** |
| Financial Liabilities | **50** | **50** | **25** | **25** | **-** | **-** |
| **Non-current** | | | | | | |
| Trade and other payables | **755** | **755** | **-** | **-** | **755** | **-** |
| Financial Liabilities | **17,521** | **17,521** | **-** | **-** | **17,375** | **146** |
| Total financial liabilities at amortised cost | **18,646** | **18,646** | **330** | **40** | **18,130** | **146** |
| **Consolidated 2015** | | | | | | |
| **Current** | | | | | | |
| Trade and other payables | 686 | 686 | 686 | - | - | - |
| Financial Liabilities | 50 | 50 | 25 | 25 | - | - |
| **Non-current** | | | | | | |
| Trade and other payables | 10,000 | - | - | - | - | - |
| Financial Liabilities | 16,726 | 16,726 | - | - | 16,530 | 196 |
| Total financial liabilities at amortised cost | 27,462 | 17,462 | 711 | 25 | 16,530 | 196 |

## 3. FINANCIAL RISK MANAGEMENT continued

### d. Market risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

– *Interest rate risk*

The Group does not apply hedge accounting.

The Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk.

For further details of exposure to interest rate risk refer Note 16 Financial Liabilities.

**Sensitivity Analysis**

The following tables demonstrate the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

| | | **+1%** | **-1%** |
|---|---|---|---|
| **Consolidated** | **Carrying Amount $'000** | **Interest Rate $'000** | **Interest Rate $'000** |
| **2016** | | | |
| Financial Liabilities | **17,571** | **(176)** | **176** |
| Tax charge of 30% | **-** | **53** | **(53)** |
| After tax increase/(decrease) | **17,571** | **(123)** | **123** |
| **Consolidated** | | | |
| **2015** | | | |
| Financial Liabilities | 16,776 | (168) | 168 |
| Tax charge of 30% | - | 50 | (50) |
| After tax increase/(decrease) | 16,776 | (118) | 118 |

– *Currency risk*

The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (AUD) with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

In order to monitor the continuing effectiveness of this policy, the Group receives forecast, analysed by the major currencies held by the Group, of liabilities due for settlement and expected cash reserve.

There is no foreign currency loan as at reporting date (2015: Nil).

– *Other price risk*

The Group takes advice from professional advisers as to when to sell shares quoted at market value.

## 3. FINANCIAL RISK MANAGEMENT continued

| | Carrying Amount $'000 | +10% Profit & Loss $'000 | -10% Profit & Loss $'000 |
|---|---|---|---|
| **Consolidated** | | | |
| **2016** | | | |
| Shares at fair value | **5,836** | **584** | **(584)** |
| Tax charge (30%) | **-** | **(175)** | **175** |
| After tax increase/(decrease) | **5,836** | **409** | **(409)** |
| **Consolidated** | | | |
| **2015** | | | |
| Shares at fair value | 4,315 | 432 | (432) |
| Tax charge (30%) | - | (130) | 130 |
| After tax increase/(decrease) | 4,315 | 302 | (302) |

There is no concentration of risk.

### e. Capital risk management

In managing its capital, the Group’s primary objectives are to pay dividends and maintain liquidity. These objectives dictate any adjustments to capital structure. Rather than set policies, advice is taken from professional advisors as to how to achieve these objectives. There has been no change in either these objectives, or what is considered capital in the year.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group and the parent entity monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'Financial liabilities' and 'trade and other payables' as shown in the Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the Statement of Financial Position (including minority interest) plus net debt.

It is the Group’s policy to maintain its gearing ratio at a healthy and manageable level. The Group’s gearing ratio at the Statement of Financial Position date is as follows:

| **Gearing ratios** | **Consolidated** | |
|---|---|---|
| | **2016** **$'000** | 2015 $'000 |
| Total borrowings | **17,571** | 16,776 |
| Less: cash and cash equivalents | **(63)** | (207) |
| Net debt | **17,508** | 16,569 |
| Total equity | **12,156** | 6,572 |
| Total capital | **29,664** | 23,141 |
| Gearing Ratio | **59.0%** | 71.6% |

There have been no other significant changes to the Group’s capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.

## 4. REVENUE

| | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|
| Sale of goods | **-** | 4,314 |
| Rendering of services | **1,501** | 2,217 |
| Rental Income | **156** | 241 |
| Corporate services fee Income | **1,073** | 1,376 |
| | **2,730** | 8,148 |

## 5. OTHER INCOME AND EXPENSES

| | 2016 $'000 | 2015 $'000 |
|---|---|---|
| Gain/(loss) on disposal of investments | **1,628** | (6,507) |
| Change in fair value of financial assets | **(2,290)** | 2,355 |
| Change in fair value of investment property | **1,300** | 3,200 |
| Dividend | **-** | 850 |
| Others | **417** | 251 |
| | **1,055** | 149 |

## 6. EXPENSES

The profit/(loss) before income tax is arrived
after (charging)/crediting the following specific amounts:

| | | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|---|
| **a.** | **Cost of providing services and administration expenses** | | |
| | Consulting and professional expenses | **(399)** | (487) |
| | Superannuation contribution expenses | **(151)** | (244) |
| | Director and Employee expenses and on costs | **(991)** | (1,826) |
| | Lease payment | **(11)** | (11) |
| | Legal expenses | **293** | (1,654) |
| | Others | **(530)** | (676) |
| | | **(1,789)** | (4,898) |
| **b.** | **Finance income** | | |
| | Interest received | **1,697** | 1,964 |
| **c.** | **Finance expenses** | | |
| | Interest paid | **(1,047)** | (1,006) |
| | Depreciation and amortisation | **(17)** | (286) |
| | Doubtful debt provision | **(551)** | (718) |
| | Others | **(43)** | (79) |
| | | **(1,658)** | (2,089) |

## 7. INCOME TAX

### a. Income tax expense

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| **Income tax expense** | | |
| Current tax expense | **-** | - |
| Deferred tax expense | **-** | - |
| Total income tax expense/(benefit) | **-** | - |
| **Deferred tax expense** | | |
| Increase in deferred tax expense/(benefit) | **-** | - |

### b. Numerical reconciliation of income tax to prima facie tax payable

| | | |
|---|---|---|
| Profit/(loss) from continuing operations before income tax expense | **1,788** | (1,832) |
| Income tax expense (benefit) calculated @ 30% (2015:30%) | **536** | (550) |
| Deferred tax expenses relating to partly owned subsidiaries outside of the tax consolidated group | **-** | - |
| Temporary differences not brought to account | **(1,201)** | - |
| Tax losses not brought to account | **665** | 550 |
| Recoupment of prior year tax losses not previously brought to account | **-** | - |
| Income tax expense/(benefit) at effective tax rate of 30% (2015: 30%) | **-** | - |

### c. Amounts recognised directly in equity

| | | |
|---|---|---|
| Aggregate current and deferred tax arising during the reporting period and not recognised in profit and loss but directly debited or credited to equity: | - | - |
| *Current income tax* | | |
| Current income tax on transaction costs of issuing equity instruments | **-** | - |

## 7. INCOME TAX continued

### d. Unrecognised deferred tax assets and liabilities

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$’000** | $’000 |
| The unrecognised deferred tax assets of the Group includes $9,792,452 (2015: $7,577,054) in relation to carried forward tax losses and $Nil (2015: $Nil) in relation to carried forward capital losses. | **-** | - |
| Deferred tax assets and liabilities have not been recognised in the statement of financial position for the following items: | | |
| Prior year unrecognised tax losses now ineligible due to change in tax consolidation group | **-** | - |
| Other deductible temporary differences and tax losses | **(4,003)** | 7,577 |
| | **(4,003)** | 7,577 |
| Potential benefit/(expense) at 30% (2015: 30%) | **(1,201)** | 2,273 |

### e. Deferred tax assets

| | | |
|---|---|---|
| Deferred tax assets comprise temporary differences attributable to: | | |
| Amounts recognised in profit and loss | - | - |
| Tax losses | - | - |
| Amounts recognised directly in equity | - | - |
| Share issue expenses | - | - |
| | - | - |

### f. Deferred tax liabilities

| | | |
|---|---|---|
| Deferred tax liabilities comprise temporary differences attributable to: | | |
| Amounts recognised directly in equity | **-** | - |
| Revaluations of land and buildings | **-** | - |
| Amounts recognised in profit and loss | **-** | - |
| Capitalised exploration costs | **-** | - |
| | **-** | - |

## 8. CASH & CASH EQUIVALENTS

| | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|
| Cash at bank and on hand | **(13)** | 131 |
| Cash held in trust accounts | **76** | 76 |
| | **63** | 207 |

## 9. TRADE AND OTHER RECEIVABLES

| | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables (note a) | **815** | 1,233 |
| Less: Provision for doubtful debts | **(793)** | (1,110) |
| | **22** | 123 |
| Advances to other entities (note b) | **1,555** | 22,242 |
| Less: Provision for doubtful debts | **(467)** | (19,840) |
| Other receivables (note c) | **33** | (57) |
| | **1,143** | 2,468 |
| **Non-Current** | | |
| Advances to other entities (note b) | **188** | 6,382 |
| Less: Provision for doubtful debts | **-** | - |
| | **188** | 6,382 |

### a. Trade receivables past due but not impaired

| | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|
| Up to 3 months | **9** | 33 |
| 3 to 6 months | **806** | 1,200 |
| | **815** | 1,233 |

### b. Advances to other entities and parties

*Current*

An interest bearing full recourse loan of $Nil million (2015:$16.22 million) was advanced to one entity. The loan is secured against shares and has a fixed repayment term. A provision of $Nil million (2015:$15.82 million) was made as at reporting date. A Deed of Settlement was agreed in transferring $.004 million worth of marketable securities back to the Company in full settlement of the loan. $16.73 million was written off during the year.

Three interest bearing full recourse loans of $Nil million (2015:$1.55 million) were advanced to a consultant. The loans are secured against shares and have a fixed repayment term. A provision of $Nil million (2015:$0.94 million) was made as at reporting date. A Deed of Settlement was agreed in transferring $0.85 million worth of marketable securities back to the Company in full settlement of the loans. $1.65 million was written off during the year.

Four non-interest bearing loans of $Nil million (2015:$0.905 million) were advanced to four parties. A provision of $0.905 million (2015:$0.905 million) was made before being written off. $0.905 million was written down during the year.

**9. TRADE & OTHER RECEIVABLES continued**

One interest bearing full recourse loan of $0.18 million (2015:$0.40 million) was advanced to one entity. Provision of $0.18 million (2015:$0.40 million) was made as at reporting date. The second loan was settled by receiving share portfolio, $0.04 million was written off during the year.

Total provision for $0.4 million (2015:$19.84 million) was made at reporting date.

*Non- Current*

Two interest bearing loans of $0.18 million were advanced to two related entities, Hudson Marketing Pty Limited and RafflesCo Limited. The loans have no security and have no repayment terms. None were written down during the year.

Please refer to note 27 for details.

**c. Other receivables**

These amounts relate to receivables for GST paid, deposits paid and balances of tenement disposal proceed.

**d. Advances to controlled entities**

There are no advances to controlled entities that are past due but not impaired as measurement is tied to recoverability. The advances are non-interest bearing and with no securities.

**e. Fair value and credit risk**

*Current trade and other receivables*

Due to the short term nature of these receivables their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

*Non-current receivables*

All non-current receivables from other entities are interest bearing, and are repayable on demand. The fair value is approximately equivalent to the carrying value.

## 10. FINANCIAL ASSETS

| | Consolidated 2016 $'000 | Consolidated 2015 $'000 |
|---|---|---|
| **Current** | | |
| Investment equity securities | **4,602** | 3,834 |
| Provision for diminution in value* | **(3,127)** | (1,470) |
| | **1,475** | 2,364 |
| **Non-Current** | | |
| Investment equity securities | **10,268** | 7,225 |
| Provision for diminution in value* | **(5,907)** | (5,274) |
| | **4,361** | 1,951 |

*Financial assets are recorded by marking to market value. The fair value is approximately equivalent to market value.

## 11. OTHER CURRENT ASSETS

| | 2016 | 2015 |
|---|---|---|
| Prepayments | **12** | 3 |
| Others | **-** | - |
| | **12** | 3 |

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated 2016 $'000 | Consolidated 2015 $'000 |
|---|---|---|
| Building naming rights | | |
| At fair value (a) | **900** | 900 |
| Plant and equipment | | |
| At cost | **211** | 208 |
| Accumulated depreciation | **(198)** | (180) |
| | **13** | 28 |
| Total property, plant and equipment | **913** | 928 |

## 12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

**a.** The valuation basis of building naming rights is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The revaluation was based on an independent assessment by a member of the Australian Property Institute.

**b. Security**

Refer to Note 15 for information on non-current assets pledged as security.

**c. Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant & equipment at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Building naming rights | Plant & equipment | Total |
|---|---|---|---|
| **2016** | **$'000** | **$'000** | **$'000** |
| Carrying amount at 1 Jan 2016 | **900** | **28** | **928** |
| Additions/Acquired | **-** | **2** | **2** |
| Depreciation | **-** | **(17)** | **(17)** |
| Carrying amount at 31 Dec 2016 | **900** | **13** | **913** |
| 2015 | $'000 | $'000 | $'000 |
| Carrying amount at 1 Jan 2015 | - | - | - |
| Additions/Acquired | 900 | 51 | 951 |
| Depreciation | - | (23) | (23) |
| Carrying amount at 31 Dec 2015 | 900 | 28 | 928 |

## 13. INVESTMENT PROPERTIES

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| **Non-current** | | |
| Investment properties at fair value | **26,500** | 25,200 |
| | **26,500** | 25,200 |

**a. Valuation basis**

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The revaluations were based on a combination of independent assessments made by a member of the Australian Property Institute and directors' valuations.

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Investment properties at fair value | | |
| Independent valuation | **26,500** | 25,200 |
| | **26,500** | 25,200 |

**b. Reconciliation**

A reconciliation of the carrying amount of investment properties at the beginning and end of the current financial year is set out below:

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| **At fair value** | | |
| Balance at beginning of year | **25,200** | 32,489 |
| Capital Works | **-** | - |
| Change in fair value | **1,300** | 3,200 |
| Disposal | **-** | (10,489) |
| Carrying amount at end of the year | **26,500** | 25,200 |

**c. Amounts recognised in profit and loss for investment properties**

The following amounts have been recognised in the Statement of Profit or Loss and Other Comprehensive Income

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Rental and services income | **1,657** | 2,458 |
| Property running expenses | **186** | 359 |

**d. Non-current assets pledged as security**

Refer to Note 15 for information on non-current assets pledged as security by the parent entity or its controlled entities.

## 14. TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| **Current** | **$'000** | $'000 |
| **Unsecured** | | |
| Trade and other creditors | **121** | 686 |
| Other payables | **199** | - |
| | **320** | 686 |
| **Non-Current** | | |
| **Unsecured** | | |
| Payable to related entities – preference share | **-** | 10,000 |
| Payable to related entities | **755** | - |
| | **755** | 10,000 |

## 15. FINANCIAL LIABILITIES

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| **Current** | | |
| **Secured** | | |
| Lease and hire purchase liabilities | **-** | - |
| Bank loans | **50** | 50 |
| **Total current** | **50** | 50 |
| | | |
| **Non-Current** | | |
| **Secured** | | |
| Lease and hire purchase liabilities | **-** | - |
| Bank loans | **17,521** | 16,726 |
| **Total non-current** | **17,521** | 16,726 |

**Security for borrowings**

Bank loans are secured by fixed and floating charges, registered first mortgages and by cross guarantees by and between the parent entity and certain of its controlled entities.

Bank loans are secured by first mortgages over the Group's investment properties and fixed and floating charges over assets of the Group. The loans are repayable in years ranging from 2018 to 2020. The rate of interest paid is a variable rate of 4.63% (2015:5.83%).

The facilities are subject to an annual review and compliance of financial covenants.

**Assets pledged as security**

The carrying amounts of non-current assets pledged as security are:

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| Investment Property | **26,500** | 25,200 |
| Land and buildings | **900** | 900 |
| Plant and equipment | **13** | 28 |
| | **27,413** | 26,128 |

The fair value of borrowings is equivalent to the carrying amounts of loans and lease and hire purchase liabilities.

**Risk exposure**

Information about the Group's exposure to interest rate changes is provided in Note 3.

## 16. PROVISION

| | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Employee leave entitlements | **241** | 294 |
| Provision for legal settlement cost | **-** | 1,450 |
| | **241** | 1,744 |

| | Consolidated 2016 | 2015 |
|---|---|---|
| **Non-Current** | **$'000** | $'000 |
| Restoration provision | **50** | 50 |
| Employee leave entitlements | **202** | 266 |
| | **252** | 316 |

## 17. OTHER LIABILITIES

| | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Current** | | |
| Income received in advance | **49** | 49 |
| | **49** | 49 |
| **Non-Current** | | |
| Income received in advance | **3,311** | 3,360 |
| | **3,311** | 3,360 |

Income received in advance represents income received up front for the user using the car park. Income is allocated to the Statement of Profit or Loss and Other Comprehensive Income on equal apportionment basis over the term of the agreements.

## 18. ISSUED CAPITAL

| | Consolidated and Parent Entity | | Consolidated and Parent Entity | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **Shares Number** | Shares Number | **$'000** | $'000 |
| **Share capital** | | | | |
| Ordinary shares | **258,546,022** | 258,546,022 | **20,950** | 20,950 |

### a. Movement during the period

| | 2016 Shares Number | 2015 Shares Number | 2016 $'000 | 2015 $'000 |
|---|---|---|---|---|
| Opening Balance | **258,546,022** | 96,578,151 | **20,950** | 16,610 |
| Share issued | **-** | 161,967,871 | **-** | 4,366 |
| Share issuing cost | **-** | - | **-** | (26) |
| Closing Balance | **258,546,022** | 258,546,022 | **20,950** | 20,950 |

## 18 ISSUED CAPITAL CONTINUED

### b. Terms and conditions

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

### c. Options

There are no unissued ordinary shares of the Company under option at the date of this report.

### d. Performance Options

No options were granted and issued during this year.

## 19 EARNINGS / (LOSS) PER SHARE

| | **2016** | 2015 |
|---|---|---|
| | **Cents** | Cents |
| Basic earnings/(loss) per share | **0.69** | (0.96) |
| Diluted earnings/(loss) per share | **0.69** | (0.96) |

| | **2016** | 2015 |
|---|---|---|
| | **$'000** | $'000 |
| Profit/(Loss) used in calculating basic and diluted earnings/(loss) per share | **1,788** | (1,832) |

| | **2016** | 2015 |
|---|---|---|
| | **Shares** | Shares |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **258,546,022** | 191,059,409 |
| Adjustments for calculation of diluted earnings per share | **-** | - |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share. | **258,546,022** | 191,059,409 |

## 20 OPERATING SEGMENTS

The Consolidated entity primary reporting format is business segments and its secondary reporting format is geographical segments.

**Business segments**

The Consolidated entity is organised into the following divisions by product and service type.

*Property investment & development*
Development and administration of industrial property in eastern Australia.

*Investment services*

Equity investment in listed entities and providing corporate finance services.

**Geographical segments**

All business segments are operated principally within Australia.

**Accounting policies**

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

**OPERATING SEGMENTS continued**

**Inter-segment transfers**

Segment revenues, expenses and results include transfers between segments. All other intersegment transfers are priced on an “arm’s-length” basis and are eliminated on consolidation.

**Primary reporting – business segments**

| | Property investment & development | Investment Services | Mineral, processing & exploration | Intersegment eliminations/ unallocated | Consolidated |
|---|---|---|---|---|---|
| | $’000 | $’000 | $’000 | $’000 | $’000 |
| **2016** | | | | | |
| Sales to external customers | **1,657** | **1,073** | **-** | **-** | **2,730** |
| Intersegment sales | **-** | **-** | **-** | **-** | **-** |
| Total sales revenue | **1,657** | **1,073** | **-** | **-** | **2,730** |
| Other revenue | **37** | **1,660** | **-** | **-** | **1,697** |
| **Total segment revenue** | **1,694** | **2,733** | **-** | **-** | **4,427** |
| **Segment result** | | | | | |
| Profit/(loss) before income tax | **(5,614)** | **10,696** | **-** | **(3,294)** | **1,788** |
| Income tax | **-** | **-** | **-** | **-** | **-** |
| **Net profit/(loss)** | **(5,614)** | **10,696** | **-** | **(3,294)** | **1,788** |
| Segment assets | **41,953** | **20,332** | **-** | **(27,630)** | **34,655** |
| Segment liabilities | **23,995** | **80,942** | **-** | **(82,438)** | **22,499** |
| Acquisition of non-current assets | **-** | **-** | **-** | **-** | **-** |
| Depreciation and amortisation expense | **-** | **17** | **-** | **-** | **17** |
| **2015** | | | | | |
| Sales to external customers | 2,358 | 1,420 | 4,370 | - | 8,148 |
| Intersegment sales | 1,857 | 465 | - | (2,322) | - |
| Total sales revenue | 4,215 | 1,885 | 4,370 | (2,322) | 8,148 |
| Other revenue | 22 | 1,942 | - | - | 1,964 |
| **Total segment revenue** | 4,237 | 3,827 | 4,370 | (2,322) | 10,112 |
| **Segment result** | | | | | |
| Profit/(loss) before income tax | 4,278 | (11,880) | (563) | 6,333 | (1,832) |
| Income tax | - | - | - | - | - |
| **Net profit/(loss)** | 4,278 | (11,880) | (563) | 6,333 | (1,832) |
| Segment assets | 59,958 | 18,194 | - | (38,649) | 39,503 |
| Segment liabilities | 41,607 | 89,415 | - | (98,091) | 32,931 |
| Acquisition of non-current assets | - | - | - | - | - |
| Depreciation and amortisation expense | - | 23 | - | - | 23 |

## 21 CONTROLLED ENTITIES

| Name of entity | Class of Share | Equity Holding 2016 % | 2015 % | Country of formation or incorporation |
|---|---|---|---|---|
| Hudson Imports Pty Limited | Ordinary | **100** | 100 | Australia |
| Raffles Equities Limited | Ordinary | **100** | 100 | Australia |
| Hudson Property Trust | Ordinary | **52.9** | 100 | Australia |
| Bundaberg Coal Pty Ltd | Ordinary | **100** | 100 | Australia |
| HSC Property Pty Limited** | Ordinary | **0** | 100 | Australia |
| Hudson Underwriting Limited* | Ordinary | **0** | 100 | Australia |
| Hudson Corporate Limited | Ordinary | **100** | 100 | Australia |
| Hudson Asset Management Pty Limited | Ordinary | **100** | 100 | Australia |
| Hudson Capital Corporation Pty Limited | Ordinary | **100** | 100 | Australia |
| Sorbent Minerals Pty Ltd | Ordinary | **100** | 100 | Australia |
| Ecofix Pty Ltd | Ordinary | **100** | 100 | Australia |
| EPC 1262 Pty Ltd* | Ordinary | **0** | 100 | Australia |

*Dormant entities were voluntary deregistered during the year
**Dormant entity was transferred out at nominal value during the year

## 22 CONTINGENT ASSETS AND LIABILITIES

**Guarantees**

Cross guarantees under Class Order 98/1418 by Hudson Pacific Group Limited and its wholly owned controlled entities exist in respect of loans.

**Deed Of Cross Guarantee**

As at 31 December 2016, Hudson Pacific Group Limited Hudson Imports Pty Limited, Raffles Equities Limited, Hudson Property Trust, Bundaberg Coal Pty Ltd, Hudson Corporate Limited, Hudson Asset Management Pty Limited, Hudson Capital Corporation Pty Limited, Sorbent Minerals Pty Ltd and Ecofix Pty Ltd entered a Deed of Cross Guarantee under which each Company guarantees the debts of the others.

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended by Class Order 98/2017) issued by the Australian Securities & Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Hudson Pacific Group Limited, they also represent the 'Extended Closed Group'. These consolidated financial statements for the year ended 31 December 2016 represent those of the "Closed Group".

## 23 COMMITMENTS

| | Consolidated 2016 $'000 | 2015 $'000 |
|---|---|---|
| **Lease commitments** | | |
| **Non-cancellable operating leases - future minimum lease payments** | | |
| Within one year | **11** | 11 |
| Later than one year but not later than 5 years | **23** | 34 |
| Later than 5 years | **-** | - |
| | **34** | 45 |

## 24 EVENTS OCCURRING AFTER BALANCE DATE

At the date of this report there are no other matters or circumstances, which have arisen since 31 December 2016 that have significantly affected or may significantly affect:

- The operations, in financial years subsequent to 31 December 2016 of the Group;
- The results of those operations; or
- The state of affairs in financial years subsequent to 31 December 2016 of the Group.

## 25 SUPERANNUATION

### Superannuation

Entities in the Group contribute to an accumulation fund, administered by a third party, to which all full time and certain part time employees are invited to join.

## PARENT ENTITY FINANCIAL INFORMATION

### a. Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

| | Parent Entity | |
|---|---|---|
| | **2016** | 2015 |
| | **$'000** | $'000 |
| **Balance Sheet** | | |
| Current assets | **75** | 186 |
| Total assets | **5,696** | 21,569 |
| Current liabilities | **70** | 69 |
| Total liabilities | **6,285** | 24,659 |
| | | |
| **Shareholder's equity** | | |
| Issued Capital | **20,950** | 20,950 |
| Reserves | **6,508** | 6,508 |
| Accumulated losses | **(28,047)** | (30,548) |
| | | |
| **Profit and Loss** | | |
| Profit/(Loss) for the year | **2,501** | (24,238) |
| Total comprehensive Profit/(Loss) | **2,501** | (24,238) |

### b. Guarantees entered into by the parent entity

Hudson Pacific Group Limited has provided guarantees to some of the subsidiaries within the Group. No liability was recognised by Hudson Pacific Group Limited in relation to these guarantees as the likelihood of payment is not probable.

### c. Contingent liabilities of the parent entity

Refer to note 22.

### d. Contractual commitments by the parent entity for the acquisition of property, plant and equipment.

There are no contractual commitments by the parent entity for the acquisition of property, plant and equipment.

## 26 KEY MANAGEMENT PERSONNEL DISCLOSURES

### a. Directors

The following persons were Directors of Hudson Pacific Group Limited during the financial year unless otherwise stated:

| | | |
|---|---|---|
| John W Farey | Non-Executive Director | appointed 20 May 1998 |
| Vincent Tan | Executive Director | appointed 19 September 2003 |
| Alan P Beasley | Managing Director | appointed 24 February 2015 |

### a. Other key management personnel

The following persons were key management personnel of Hudson Pacific Group Limited during the financial year:

| | | |
|---|---|---|
| Juliana Tan | Corporate Consultant | |
| Luisa Tan | Corporate Consultant | |
| Allan Scadden | Compliance Consultant | |
| Julian Rockett | Company Secretary and In-house Counsel | retired 2 December 2016 |
| Francis Choy | Chief Financial Officer | |

## 26. KEY MANAGEMENT PERSONNEL DISCLOSURES continued

b. **Compensation of Directors and other key management personnel**

| | Short Term Employee Benefits | | Post-Employment Benefits | Long Term Benefits | |
|---|---|---|---|---|---|
| | Salary and other fees | Non-Monetary Benefits | Superannuation | Long Service Leave | Total |
| | $ | $ | $ | $ | $ |
| **Consolidated** | | | | | |
| **2016** | | | | | |
| **Directors** | | | | | |
| John Farey | **123,753** | **-** | **18,696** | **55,815** | **198,264** |
| Vincent Tan | **240,000** | **-** | **17,100** | **2,985** | **260,085** |
| Alan P Beasley | **-** | **-** | **-** | **-** | **-** |
| **Director - Total** | **363,753** | **-** | **35,796** | **58,800** | **458,349** |
| **KMP** | | | | | |
| Juliana Tan | **180,000** | **-** | **17,100** | **3,006** | **200,106** |
| Allan Scadden | **59,250** | **-** | **-** | **-** | **59,250** |
| Luisa Tan | **150,000** | **-** | **-** | **-** | **150,000** |
| Julian Rockett** | **37,000** | **-** | **-** | **-** | **37,000** |
| Francis Choy | **240,285** | **-** | **22,800** | **3,980** | **267,065** |
| **KMP - Total** | **666,535** | **-** | **39,900** | **6,986** | **713,421** |
| | $ | $ | $ | $ | $ |
| **Consolidated** | | | | | |
| **2015** | | | | | |
| **Directors** | | | | | |
| John Farey | 110,000 | 10,800 | 32,049 | 23,418 | 176,267 |
| Vincent Tan | 240,000 | 10,800 | 17,100 | 2,977 | 270,877 |
| Alan P Beasley* | - | - | - | - | - |
| **Director - Total** | 350,000 | 21,600 | 49,149 | 26,395 | 447,144 |
| **KMP** | | | | | |
| Juliana Tan | 180,000 | - | 17,100 | - | 197,100 |
| Venkata Kambala | 150,000 | 10,800 | 14,250 | 2,858 | 177,908 |
| Luisa Tan | 150,000 | - | - | - | 150,000 |
| Julian Rockett | 74,134 | - | 7,043 | 1,251 | 82,428 |

*Alan P Beasley was appointed on 24 February 2015.
** Julian Rockett retired on 2 December 2016.

The amounts reported represent the total remuneration paid by entities in the Group in relation to managing the affairs of all the entities within the Group. The remuneration has not been allocated between the individual entities within the Group as this would not be practicable.

There is no performance conditions related to any of the above payments.

**26. KEY MANAGEMENT PERSONNEL DISCLOSOURES continued**

c. **Shareholdings and option holdings of key management personnel**

**Shares held in Hudson Pacific Group Limited**

The numbers of shares in the Company held during the financial year by each director of Hudson Pacific Group Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

**Direct and indirect interest in ordinary shares**

| Ordinary Shares - Direct Interest | Balance at start of year shares | Changes during the year shares | Balance at end of year shares |
|---|---|---|---|
| **2016** | | | |
| **Directors** | | | |
| John W Farey | **10,000** | **-** | 10,000 |
| Vincent Tan | **294,362** | **-** | 294,362 |
| Alan P Beasley | **-** | 1,600,000 | 1,600,000 |
| **2015** | | | |
| **Directors** | | | |
| John W Farey | - | 10,000 | 10,000 |
| Vincent Tan | - | 294,362 | 294,362 |
| Alan P Beasley | - | - | - |

| Ordinary Shares - Indirect Interest | Balance at start of year shares | Changes during the year shares | Balance at end of year shares |
|---|---|---|---|
| **2016** | | | |
| **Directors** | | | |
| John W Farey | **-** | **-** | **-** |
| Alan P Beasley | **-** | **-** | **-** |
| Vincent Tan | **-** | **-** | **-** |
| **2015** | | | |
| **Directors** | | | |
| John W Farey | **-** | **-** | **-** |
| Vincent Tan | **-** | **-** | **-** |

No options over unissued shares were granted during the year and no options have been granted in the period since the end of the financial year and to the date of this report. At the date of this report there were no unissued shares in the capital of the Company under opinion.

## 26. KEY MANAGEMENT PERSONNEL DISCLOSURES continued

### e. **Loans to key management personnel**

Details of loans made to Directors and other Key Management Personnel (**KMP**) of Hudson Pacific Group Limited are set out below:

*a. Aggregates for key management personnel*

| **Consolidated and Parent Entity** | **Balance at the start of the year** | **Advance/ (Repayments)/ (Transfers)** | **Interest payable for the year** | **Balance at the end of the year** | **Highest indebtedness during the year** | **Additional interest otherwise payable** |
|---|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **2016** | | | | | | **-** |
| **Alan Beasley** | | | | | | |
| **- unsecured loan** | **30,950** | **-** | **2,446** | **33,396** | **33,396** | |
| 2015 | | | | | | |
| - ESP | 402,013 | (402,013) | - | - | - | - |
| Alan Beasley | | | | | | |
| - unsecured loan | - | 30,500 | 450 | 30,950 | 30,950 | - |

***Terms and conditions of loans***

*An unsecured interest bearing full recourse loan of $30,000 was advanced to Mr Beasley in 2015. The loan is repayable should Mr Beasley leave the Company. No provision was made in 2016. None were written down during the year.*

*b. Details of individuals with loans above $100,000 during the year are set out below.*

| | **Balance at the start of the year** | **Advance/ (Repayments)/ (Transfers)** | **Interest payable for the year** | **Balance at the end of the year** | **Highest indebtedness during the year** | **Additional interest otherwise payable** |
|---|---|---|---|---|---|---|
| **2016** | $ | $ | $ | $ | $ | $ |
| **Directors** | | | | | | |
| John W Farey (ESP) | | - | - | - | - | - |
| | - | - | - | - | - | - |
| **2015** | | | | | | |
| **Directors** | | | | | | |
| John W Farey (ESP) | 201,105 | (201,105) | - | - | 201,105 | - |
| **KMP** | | | | | | |
| David Hughes (ESP) | 200,908 | (200,908) | - | - | 200,908 | - |
| | 402,013 | (402,013) | - | - | 402,013 | - |

* *Market interest rate 6% (2015: 6%)*
*This represents the difference between interest charged at the latter and interest paid.*

**Terms and conditions of loans**

All non-recourse loans relate to the individuals participation in the Company's ESP. Interest is paid only from dividends paid by the Company during the year. Loans are secured against the Employee Share Option Plan shares only. Loans are repayable should employees leave the Company. If employee leave the Company, all ESP plan shares will be returned to Company within a specified period. None were written down during the year. Full provision was made at the reporting date.

## 27. RELATED PARTY DISCLOSURES

### a. Parent entities

The parent entity and ultimate Australian parent entity is Hudson Pacific Group Limited (the Company).

### b. Subsidiaries

Interests in subsidiaries are disclosed in Note 21.

### c. Key management personnel compensation

Key management personnel compensation information is disclosed in Note 26.

### d. Transactions with related parties

The following transactions occurred with related parties during the year

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| **Corporate services fee received** | | |
| – From Hudson Resources Limited | **528,840** | 408,000 |
| – From RafflesCo Limited | **180,000** | 105,000 |
| – From Hudson Investment Group Limited | **192,000** | 96,000 |
| – From Hudson Marketing Pty Limited | **30,000** | 190,000 |
| **Rental Income** | | |
| – From Hudson Resources Limited | **131,290** | 134,408 |
| – From HTH Holding Pty Ltd | **-** | 30,000 |
| – From Hudson Investment Group Ltd | **10,800** | 5,400 |
| **Rental Expenses** | | |
| – Paid to Hudson Resources Limited | **216,882** | 423,650 |
| **Purchase of Goods** | | |
| – From Hudson Resources Limited | **-** | 325,780 |

***Corporate services fees received***

*Consolidated group only*

HCL received a corporate services fee from Hudson Resources Limited of $528,840 (2015: $408,000) as payment of recoveries for office administration and running expenses incurred in HCL.

HCL received a corporate services fee from RafflesCo Limited of $180,000 (2015: 105,000) as payment of recoveries for office administration and running expenses incurred in HCL.

HCL received a corporate services fee from Hudson Investment Group Limited of $192,000 (2015:$96,000) as payment of recoveries for office administration and running expenses incurred in HCL.

HCL received a corporate services fee from Hudson Marketing Pty Limited of $30,000 (2015: 190,000) as payment of recoveries for office administration and running expenses incurred in HCL.

***Rental income***

*Consolidated group only*

Group incurred rental income from HRL $131,290 (2015: $134,408) for using the storage facilities in Geraldton plant.

***Rental expenses***

*Consolidated group only*

Group incurred rental expenses of $216,882 (2015: $423,650) payable to both HRL and Hudson Minerals Limited (HML) for leasing the Geraldton property.

**e. Outstanding balances**

The following balances are outstanding at the reporting date in relation to transaction with related parties:

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| **Payable** | | |
| **Non-Current** | | |
| Related Entities | | |
| – Hudson Resources Limited | **755,319** | 10,000,000 |
| **Receivable** | | |
| **Non-Current** | | |
| Related Entities | | |
| – HTH Holding Pty Ltd | **-** | 1,520,629 |
| – RafflesCo Limited | **138,085** | 1,498,440 |
| – Hudson Marketing Pty Limited | **50,000** | 2,654,370 |
| – Hudson Resources Limited | **-** | 615,565 |

**Payable – related entities**

Hudson Resources Limited hold $Nil (2015:$10 million) non-cumulative preference share of Hudson Pacific Group Limited. All remaining preference shares were redeemed during the year.

**Receivable – related entities**

An interest bearing loan of $Nil (2015: $1.52 million) was advanced to HTH Holding Pty Ltd. The loan was fully repaid during the year. None were written down during the year.

An interest bearing secured loan of $0.13 million (2015: $1.49 million ) was advanced to RafflesCo Limited. The loan was secured by shares. None were written down during the year.

An interest bearing non-secured loan of $0.05 million (2015: $2.65 million) was advanced to Hudson Marketing Pty Limited. The loan has fixed repayment date. None were written down during the year.

Hudson Resources Limited advanced $0.75 million (2015: Hudson Resources Ltd borrowed $0.615 million) interest bearing non-secured loan from Hudson Corporate Ltd under one loan funding agreement.

**f. Guarantees**

No guarantees were given or received from related parties during the year.

**g. Terms and conditions**

All transactions were made on normal commercial terms and conditions and at market interest rates, except that there are no fixed terms or repayment of loans between the parties.

## 28. REMUNERATION OF AUDITORS

| | Consolidated | |
|---|---|---|
| | **2016** | 2015 |
| | **$** | $ |
| **Audit services:**<br>Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group | | |
| Audit and review services fees | **10,995** | 16,795 |
| **Taxation and other advisory services:**<br>Amounts paid or payable to the Auditor for non-audit taxation services for the entity or any entity in the Group for review and lodgement of the income tax return | | |
| Taxation services | **1,460** | 1,295 |
| Advisory services | | - |
| Total | **1,460** | 1,295 |

# DECLARATION BY DIRECTORS

The directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:
   (a) comply with Accounting Standards which as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with international Financial Reporting Standards (IFRS); and
   (b) give a true and fair view of the financial position as at 31 December 2016 and of the performance for the year ended on that date of the Company and the 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.
3. The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A.

The entities identified in Note 22 are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a Group be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in Note 22.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

John Farey

**John W Farey**
**Chairman**

A Beasley

**Alan Beasley**
**Executive Director**

Sydney
30 March 2017

# INDEPENDENT AUDITORS' REPORT

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SYDNEY NSW 2000

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K.S. Black & Co.
ABN 48 117 620 556

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North Parramatta NSW 2151

PO Box 2210
North Parramatta NSW 1750

| | |
|---|---|
| This liability was a key audit matter due to debt being material in size. | • received representations from management that the loan facility has been maintained in accordance with terms and conditions of the lender and that the company expect the be able to repay the required repayments on the ensuing 12 month period. |

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

### Directors' responsibility for the financial report

The directors are responsible for the preparation of he financial report the 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 presentation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibility for the audit of the financial report

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

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### Key audit matters

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

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Financial Assets**<br>Refer to note 10 (Financial Assets)<br><br>At 31 December 2016, the Group has investments in related entities valued at \$5.83Mil.<br><br>This asset was a key audit matter due to the investment being in a related party transactions and the amount material. | Our procedures included, amongst others:<br>• We have sighted the share register of the related companies and confirmed the number of shares purchased and the amount paid;<br>• We have investigated the underlying assets of the investments and believe that the carrying amount of the investments are stated fairly; and<br>• We have reviewed the calculation for impairment pursuant to AASB 136, and considered the amount of impairment appropriate. |
| **Investment Property**<br>Refer to note 15 (Investment Property)<br><br>At 31 December 2016, the Group has a commercial car park investment located in Sydney CBD valued at \$26.5mil.<br><br>This asset was a key audit matter due the carrying value in the financial statements being material | Our procedures included, amongst others:<br>• We reviewed the valuation report prepared by m3property dated 14 June 2016;<br>• sighted title deeds of the property;<br>• We have obtained representations from management regarding market rent received, terms of existing lease and condition of asset; and<br>• considered managements assessment of impairment. |
| **Financial Liabilities**<br>Refer to note 15 (Financial liabilities)<br><br>At 31 December 2016, the Group has included in its financial liabilities an amount of \$17.52mil relating to the commercial car park. | Our procedures included, amongst others:<br>• we sighted loan documents to confirm that the company is the borrower;<br>• reviewed bank correspondence to ensure that the company has not breached any loan terms and conditions; and |

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| | |
|---|---|
| This liability was a key audit matter due to debt being material in size. | • received representations from management that the loan facility has been maintained in accordance with terms and conditions of the lender and that the company expect the be able to repay the required repayments on the ensuing 12 month period. |

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

**Directors' responsibility for the financial report**

The directors are responsible for the preparation of he financial report the 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 presentation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibility for the audit of the financial report**

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

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A further description of our representation of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx. This description forms part of our auditor's report.

KS Black & Co
Chartered Accountants

Scott Bennison

Scott Bennison
Partner
Dated: 30 March 2017
Sydney

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