



*ABN 59 003 200 664*

## **Annual Report**

**2014**



# London City Equities Limited



## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders of London City Equities Limited will be held at Level 10, 19 Pitt Street, Sydney on Thursday 23 October 2014 at 10.30am.

### Ordinary Business

1. To receive, consider and discuss the Directors' Report and Accounts for the year ended 30 June 2014 and note the payment of a dividend.
2. To adopt the Remuneration Report for the year ended 30 June 2014 as disclosed in the Directors Report. (Note: The vote on this resolution is advisory only and does not bind the Directors.)
3. To elect a Director. In accordance with the Constitution, Mr. P.E.J. Murray retires by rotation, and being eligible, offers himself for re-election. (Details on Mr Murray are shown later.)
4. To transact such other business as may be brought forward in accordance with the Constitution and the Corporations Act 2001.

By Order of the Board

A handwritten signature in black ink, appearing to read 'G. Furner', is written over a horizontal line.

Gordon F. Furner  
Company Secretary

Sydney,

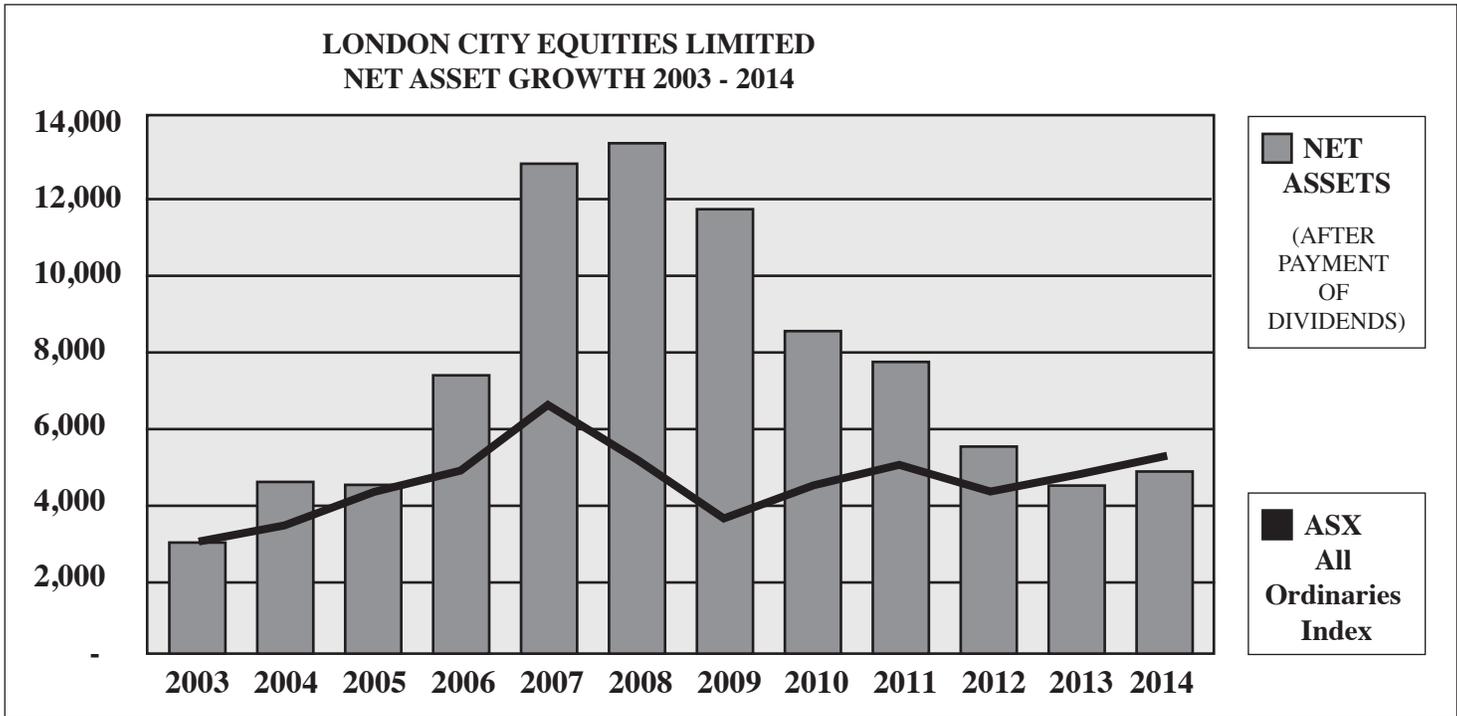
4 September 2014

### PROXIES

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



## CHART OF PROGRESS



# London City Equities Limited



## Key Features for 2013-2014

- Investment portfolio values improved markedly while opportunities continue to be examined and new investments undertaken
- Investment in Fiducian Portfolio Services Limited (4% owned) increased
- Shareholding in Tranzact Financial Services Limited increased to 8% - then sold through a takeover offer.
- Full participation in IMB Limited's 2013 share buy-back resulted in further increase in London City's franking credits. Some proceeds reinvested in IMB.
- Penrice Soda still being examined in terms of 2008 and 2009 information provided to investors at the time with a view to recovering outlays. (Now in liquidation)
- Liquidity continues at good levels.

## Corporate Directory

|   |  |
|---|--|
| <b>Directors:</b>                       | P. E. J. Murray FCA, SA Finsia (Chairman)<br>R. Chenery BSc, MBA<br>D.A. Sutherland BSc  |
| <b>Chief Operating Officer:</b>         | P. E. J. Murray FCA, SA Finsia   |
| <b>Company Secretary:</b>               | G. F. Furner CA, B Comm  |
| <b>Auditors:</b>                        | Cutcher & Neale, Chartered Accountants<br>25 Bolton Street, Newcastle, NSW 2300  |
| <b>Bankers:</b>                         | Westpac Banking Corporation<br>Bank of Western Australia (BankWest)  |
| <b>Corporate and Registered Office:</b> | Level 10, 19 Pitt Street, Sydney NSW 2000<br>Postal Address: PO Box R1414, Royal Exchange, NSW 1225<br>Telephone: (02) 9247-9315 |
| <b>Share Registrar:</b>                 | Registry Direct<br>Level 2, 120 Collins Street, Melbourne Vic 8003<br>Telephone: (03) 9020 7934 or 1300 55 66 35                 |
| <b>Web-site:</b>                        | <a href="http://www.londoncity.com.au">www.londoncity.com.au</a>   |
| <b>Stock Exchange:</b>                  | Australian Securities Exchange Limited<br>(Home Exchange – Sydney (Code - "LCE")<br>20 Bridge Street, Sydney, NSW 2000           |

# London City Equities Limited



## Chairman's Review

### Full Year

With Australians experiencing the lowest interest rate levels seen in a lifetime there has been a chase for yield. The example of bank's offering 3.5% interest rates and their shares offering over 5% (7% gross of franking credit) has seen investors flock to buying bank shares, especially as the banks have boosted dividend levels significantly. CBA shares, for instance, have improved 18% over the year and its dividend payout increased by 10%. Small wonder the ASX All Ordinaries Index increased 12% over the year.

London City's portfolio has improved markedly, too. Its appreciation is reflected in 2014's surplus of \$700,000 compared with the deficit in 2013 of \$366,000. It particular, in London City's focussed area, Fiducian Portfolio Services appreciated 57% and its dividend by 31%.

We continue to undertake over-the-top appraisals of new potential investments. Due to this tough approach the proceeds from the Tranzact takeover of \$1,025,000 are still not fully re-invested in the market.

### Financial Results

Once again, London City reports a solid net profit, this year of \$419,000. Dividend Franking Credits have been increased further by our participation in IMB's 2013 share buy-back. Directors have recommended a 1.0 cent fully franked dividend for 2014.

### Net Asset Backing – 23 cents per share at 30 June – close to 25.7 cents today – high liquidity

At 30 June 2014 London City's net asset backing per share was 23 cents, a figure that takes account of both the appreciated portfolio value and the one cent dividend paid during the year. Since balance date the investment portfolio has improved another \$600,000, around 2.7 cents a share. Please remember the Board has taken a conservative stance on accounting and has not fully taken up a potential future tax benefit on the Penrice capital losses. There is a theoretical tax benefit here of some \$2 million, or 9 cents a share.

### Investment

During the year we increased our shareholdings in **Fiducian Portfolio Services** to 4% and in **Tranzact Financial Services** to 8%. A takeover offer for Tranzact by its NZ parent was accepted in early 2014. A reduced shareholding in **IMB Limited** participated in that company's 2013 Share Buy-back and boosted our franking credit levels accordingly. Liquidity remains high with over \$2.5 million cash on deposit at year end, close to 10 cents a share.

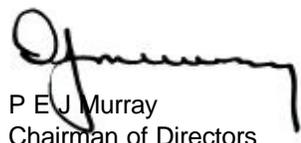
We are determined to pursue **Penrice Soda** logically where we lost over \$6 million. Information provided to investors in 2008 and 2009 has since been assessed by us as most unsatisfactory and our objective is to recover funds from implicated parties. In April 2014 Penrice appointed McGrath Nicol as Voluntary Administrators and that firm has now become the liquidators. From our sums it appears 3,500 shareholders have lost \$130 million, the banks some \$100 million and trade suppliers some \$30 million in Penrice. We encourage a government investigation into this mess.

### Outlook

While our current investments are expected to grow in value this year the effervescent share market conditions are making it difficult to buy meaningful numbers of shares in our target companies. Nonetheless, London City is positive about moving on with a new solid investment.

### Contact

As we always say, as shareholders you own this company. Don't hesitate to call to discuss any of this.



P E J Murray  
Chairman of Directors

4 September 2014

# Statutory Directors' Report for the year ended 30 June 2014

Your Directors present herewith their report on the Company for the financial year ended 30 June 2014.

## Strategic Positioning

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

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

## Directors and Officers

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

**Peter E.J. Murray** – Chairman of Directors and Chief Operating Officer

*Special Responsibility: Chief Operating Officer*

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

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

**Robin Chenery** - Non Executive Director.

*Special Responsibility: Chairman, Audit, Compliance and Risk Management Committee*

Bachelor of Science (Honours), Master of Business Administration

Mr Chenery's initial background was in manufacturing management. He has had in excess of 35 years extensive Australian and international experience in the steel and coal industries. He has also held a number of senior Board positions throughout his career. Past Director of CCI Holdings Limited. Presently a Director of Imperial Pacific Limited. [Director of London City since 2007].

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

*Special Responsibility: Chairman, Remuneration Committee*

Bachelor of Science (Agriculture)

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

**Gordon F. Furner** – Company Secretary

Chartered Accountant, Bachelor of Commerce

Mr Furner has been involved in the securities markets for over 20 years and is presently a senior stockbroking executive. His expertise includes economic matters, the financial markets, securities industry and corporate finance issues. [Company Secretary of London City since 2013].

## Statutory Directors Report (Cont'd)

### Directors and Officers (Cont'd)

Particulars of Directors Interests in Shares in the Company are:

|                | <b>Ordinary Shares</b> |
|----------------|------------------------|
| PEJ Murray     | 7,280,201              |
| R Chenery      | 6,491,396              |
| D A Sutherland | 6,491,396              |

(These include 6,491,396 Ordinary Shares held by Imperial Pacific Limited.)

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

During the financial year the following formal meetings were held:

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

\* By invitation

### Remuneration Report

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

|                   | <b>Fees</b> | <b>Super Contributions</b> | <b>Total</b> |
|-------------------|-------------|----------------------------|--------------|
| Mr P.E.J.Murray   | -           | -                          | -            |
| Mr R Chenery      | \$25,000    | \$2,312                    | \$27,312     |
| Mr D.A.Sutherland | \$25,000    | \$2,312                    | \$27,312     |

### Activities

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

London City's shareholding in Fiducian Portfolio Services Limited (4% owned) was increased. The 8% shareholding in Tranzact Financial Services Limited was sold in early 2014 via a takeover from that company's parent. An interest held in IMB Limited was sold through that company's 2013 share buy-back and some of the proceeds re-invested in IMB. The Board and advisors continued to spend time assessing Penrice and the information given to shareholders at the time of London City's investments.

While the Directors took into account future income tax benefit on the unrealised year-end losses, they decided not to account fully for potential tax benefits that might arise from the realised losses. The relevant potential benefit sum is in the order of \$2,000,000 - or approx 9 cents per share.

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

### **Results and Dividend Status**

London City reports an increased net profit for the year of \$419,000 (profit of \$383,000 in 2013). Net asset values at 30 June 2014 closed at \$4.9 million, or 23 cents per share, after the payment of 1.0 cent in a fully franked dividend in September 2013 and taking a conservative stance of future tax benefits. Directors recommend the payment of a fully franked dividend of 1.0 cent per share for 2014. The Dividend Reinvestment Plan (DRP) remains suspended.

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

The prime objectives during the year were to protect and enhance London City's long term aspirations as a strategic holding company. Overall, the portfolio remained largely unchanged with IMB and Tranzact share sale proceeds being re-invested into Fiducian Portfolio Services, IMB and some new stocks. The Board of London City sold the 8% shareholding in Tranzact by way of a takeover offer. They also continued to examine the Penrice situation. (They note that Penrice has now gone into liquidation). This process is continuing with key advisors.

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

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

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

London City intends to continue its investigation into how it might recover some of its funds lost in Penrice. While it might be argued that adverse issues at Penrice have not been fully brought to the attention of investors in either 2008 or 2009 it is noted that Penrice now has gone into liquidation with massive losses incurred by shareholders, banks, employees and trade suppliers. London City intends to retain its deposit funds in the short term and search for equity investments this year into companies that exhibit high market shares, inherent growth, management owner mentality and reflect good value. It favours companies where it may have positive influence.

Otherwise, Directors are not aware of any firm development likely to have a significant effect upon the operations of the company.

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

Directors propose the payment in October of a fully franked dividend of 1.0 cents per share. This sum has not been provided for in the financial statements. The investment portfolio has appreciated by \$600,000 since balance date.

### **Environmental regulation**

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

### **Other Information**

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

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

At the date of this report no person has applied to the Court under Section 237 of the Corporations Act 2001 for leave to bring action on behalf of the company. While London City has lawyers examining the Penrice situation, there are no court proceedings at foot at the present time.

## Statutory Directors Report (Cont'd)

### Risk and Compliance Control

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

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

### Directors and auditors indemnification

The company has not, during or since the end of the financial year in respect of any person who is or has been an officer or auditor of the company or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred by an officer, including costs and expenses in successfully defending legal proceedings. Nor has the company paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings. There is at present no formal insurance policy in existence.

### Auditor

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

### Non-audit services.

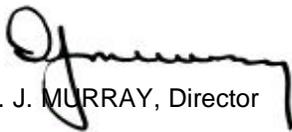
Details of the non-audit services provided by the auditor are set out at Note 18 of the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and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

### Auditor's Independence Declaration

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

Signed in accordance with a resolution of the Directors. Dated at Sydney this 4th September 2014.

On Behalf of the Board,



P E. J. MURRAY, Director



D. A. SUTHERLAND, Director

# London City Equities Limited



## Corporate Governance Statement – 30 June 2014

London City has noted the updated “principles and recommendations” of the ASX Corporate Governance Council issued in March 2014. London City has endeavoured to take account of the principles enunciated in March 2014, although they are not due formally until 30 June 2015. The Board of London City believes it carries out the broad thrust of the issues in a proper and pragmatic way for a small company such as London City in the strategic holding company business. In some cases it has not adopted recommendations. The corporate governance policies of the company and the departures from the recommendations are discussed below.

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

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

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

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

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

Directors also point out that they regard a formal Board nomination committee as not being appropriate for a company like London City. This task is undertaken by the Board as a whole as and when circumstances dictate. The criteria set for membership of the Board is to ensure that there exists a sufficient mix of skills and experience for a company of the nature of London City to add value and enhance shareholders’ wealth.

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

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

The Board is committed to ensuring that the group's affairs are conducted in a judicious and ethical manner above and beyond legal and regulatory obligations. To meet these objectives London City has in place a formal Code of Conduct Policy. It also has a Securities Trading Policy for dealing in the company’s securities in addition to complying with legislative obligations. A copy is on the ASX Announcements Platform – 29 December 2010.

This Trading Policy includes the prohibition of officeholders from dealing in London City securities between the end of accounting periods and the release of results without the written consent of the Chair. Investments on the Embargo list are prohibited without the approval of the Board.

# London City Equities Limited



## Corporate Governance (Continued)

A summary of terms of the Code of Conduct follows:

London City Equities Limited ("London City") and its shareholders expect that each Director, member of staff and / or related personnel should pursue exemplary conduct in respect of ethics, roles and responsibilities of their office.

The Group's directors and employees should conform with high community standards of corporate and individual behaviour., in particular:

### **PERSONAL BEHAVIOUR AND ACCOUNTABILITY**

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

### **SECURITY AND CONFIDENTIALITY**

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

### **MANAGEMENT OF PRIVATE INTERESTS**

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

### **COSTS TO THE CORPORATION**

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

### **SANCTIONS**

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

London City supports the principle of diversity of skills, background and gender in relation to board membership, management composure and commercial activity. It has incorporated into its Board Charter a policy in this regard. While such diversity is considered when the opportunity arises, the Board recognises that a company of the size of London City, conducting investment activities with no formal employees, has limited scope for making major changes. The Board believes production of numerical statistics are not meaningful in such a company.

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

The Board has in place an Audit, Compliance and Risk Management Committee which comprises two non-executive Directors (Mr Chenery as Chairman and Mr Sutherland as the other party). Both are regarded as independent persons. Their attendance at committee meetings during the year is set out elsewhere in this Annual Report. With a Board incorporating only three personnel London City believes two members, rather than three, are appropriate for an entity of its nature. London City has further assurances in regard to financial reporting integrity because of the involvement of external auditors and the manager of the company's portfolio, Imperial Pacific Asset Management, which has extensive ASIC obligations. Operating office-holders are professionally qualified in financial reporting matters. In relation to audit partner rotation of the company's external auditors, the Chief Operating Officer monitors the situation in conjunction with the audit firm. The Audit, Compliance and Risk Management Committee has a formal charter. A summary is set out in the rear pages of this Annual Report.

## Corporate Governance (Continued)

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

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

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

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

London City seeks to provide to its stakeholders the highest levels of communication standards by adopting the following focus:

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

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

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

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

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

London City has established policies for the recognition, oversight and management of material business risks. Given the volatility of equity markets and economic conditions, especially in recent times, London City regards risk management as a very important issue. In this regard the Board has in place an Audit, Compliance and Risk Management Committee. Risk recognition, oversight and management issues are carried out by senior personnel in conjunction with the Board, the Committee and in some cases, external professionals.

## Corporate Governance (Continued)

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

The Board of London City Equities Limited ("London City") believes in competent risk recognition, oversight and management.

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

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

### Internal Matters (Own resources)

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

### Other Matters (External Factors)

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

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

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

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

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

# London City Equities Limited

ABN 59 003 200 664



## Income Statement for the year ended 30 June 2014

|  |              | <b>2014</b>           | <b>2013</b>           |
|--|--------------|-----------------------|-----------------------|
|  | <i>Notes</i> | <b>\$</b>             | <b>\$</b>             |
| <b>Revenue from ordinary activities</b>                  | 3            | 1,792,983             | 851,001               |
| Other expenses from ordinary activities                  |              |                       |                       |
| Management fees  | 4            | (47,401)              | (43,425)              |
| Other Operating Expenses                                 | 4            | (136,722)             | (197,542)             |
|  |              | <u>(184,123)</u>      | <u>(240,967)</u>      |
| Cost of Trading Investments sold                         |              | (1,400,017)           | (201,760)             |
| <b>Profit (Loss) from ordinary activities before tax</b> |              | 208,843               | 408,274               |
| Income tax   | 5            | <u>210,000</u>        | <u>(25,457)</u>       |
| <b>Profit (Loss) for Year</b>                            |              | <u><b>418,843</b></u> | <u><b>382,817</b></u> |

### Earnings per share:

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

|  |    |      |      |
|--|----|------|------|
| Basic and Diluted earnings per share (Cents) | 25 | 1.94 | 1.77 |
|--|----|------|------|

The accompanying notes form part of these financial statements.

# London City Equities Limited

ABN 59 003 200 664



## Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2014

|   | <i>Notes</i> | 2014<br>\$     | 2013<br>\$         |
|---|--------------|----------------|--------------------|
| <b>Profit (Loss) for Year</b>   |              | <b>418,843</b> | <b>382,817</b>     |
| <b>Other Comprehensive Income (Expense)</b>   |              |                |                    |
| Items that will not be recycled through the Income Statement:                                     |              |                |                    |
| Net Realised and Unrealised Gain (Loss) for the period on securities in the Investment Portfolio: | 14           | 445,027        | (1,401,520)        |
| <b>Total Other Comprehensive Income (Expense)</b>   |              | <b>445,027</b> | <b>(1,401,520)</b> |
| <b>Total Comprehensive Income (Expense) for the year</b>  |              | <b>863,870</b> | <b>(1,018,703)</b> |

The accompanying notes form part of these financial statements.

# London City Equities Limited

ABN 59 003 200 664



## Balance Sheet as at 30 June 2014

|   | Notes  | 2014<br>\$       | 2013<br>\$       |
|---|--------|------------------|------------------|
| <b>Current assets</b>                         |        |                  |                  |
| Cash and cash equivalents                     | 6      | 2,506,727        | 2,142,902        |
| Trade and other receivables                   | 7      | 24,545           | 21,450           |
| <b>Total current assets</b>                   |        | <b>2,531,272</b> | <b>2,164,352</b> |
| <b>Non-current assets</b>                     |        |                  |                  |
| Investment Portfolio                          | 8      | 2,374,872        | 2,111,618        |
| Deferred Tax Assets                           | 9      | 270,000          | 169,830          |
| <b>Total non-current assets</b>               |        | <b>2,644,872</b> | <b>2,281,448</b> |
| <b>Total assets</b>                           |        | <b>5,176,144</b> | <b>4,445,800</b> |
| <b>Current liabilities</b>                    |        |                  |                  |
| Trade and other payables                      | 10     | 19,621           | 121,779          |
| Income tax payable                            | 10     | -                | 25,457           |
| <b>Total current liabilities</b>              |        | <b>19,621</b>    | <b>147,236</b>   |
| <b>Non-current liabilities</b>                |        |                  |                  |
| Deferred Tax Liability - Investment Portfolio | 11     | 210,000          | -                |
|   |        | <b>210,000</b>   | <b>-</b>         |
| <b>Total liabilities</b>                      |        | <b>229,621</b>   | <b>147,236</b>   |
| <b>Net assets</b>                             |        | <b>4,946,523</b> | <b>4,298,564</b> |
| <b>Equity</b>                                 |        |                  |                  |
| Share Capital                                 | 12     | 4,240,881        | 4,240,881        |
| Realised Capital Gains Reserve                | 14 (a) | (7,140,370)      | (6,839,215)      |
| Unrealised Revaluation Reserve                | 14 (b) | 489,913          | (256,269)        |
| Retained Profits                              | 14 (c) | 7,356,099        | 7,153,167        |
| <b>Total equity</b>                           |        | <b>4,946,523</b> | <b>4,298,564</b> |

The accompanying notes form part of these financial statements.

# London City Equities Limited

ABN 59 003 200 664



## Statement of Changes in Equity for the Year Ended 30 June 2014

|   | Notes | 2014<br>\$       | 2013<br>\$         |
|---|-------|------------------|--------------------|
| <b>Total Equity at the beginning of the year</b>  |       | <b>4,298,564</b> | <b>5,546,947</b>   |
| <b>Transactions with Equity holders<br/>in their capacity as equity holders:</b>                              |       |                  |                    |
| Contributions/(Decrease) in Equity, net of<br>transaction costs:  | 12    | -                | (13,767)           |
| Dividends paid:   | 15    | (215,911)        | (215,914)          |
| <b>Total transactions with Equity holders<br/>in their capacity as equity holders:</b>                        |       | <b>(215,911)</b> | <b>(229,681)</b>   |
| <b>Income and Expense for Year:</b>   |       |                  |                    |
| Profit (Loss) for Year:   |       | <b>418,843</b>   | <b>382,817</b>     |
| <b>Other Comprehensive Income (Expense) Items:</b>  |       |                  |                    |
| Net Unrealised Gain (Loss) for the period<br>for stocks held on 30 June                                       | 14    | 746,182          | 2,314,279          |
| Net Realised Gain (Loss) for the period<br>for stocks held on 30 June   | 14    | (301,155)        | (3,715,798)        |
| <b>Total other comprehensive income (including realised<br/>and unrealised gains and losses) for the year</b> |       | <b>445,027</b>   | <b>(1,401,519)</b> |
| <b>Total Equity at the end of the year</b>  |       | <b>4,946,523</b> | <b>4,298,564</b>   |

The accompanying notes form part of these financial statements.

# London City Equities Limited

ABN 59 003 200 664



## Cash Flow Statement for the year ended 30 June 2014

|  |    | 2014             | 2013             |
|--|----|------------------|------------------|
|  |    | \$               | \$               |
| <b>Cash flows from operating activities</b>                                  |    |                  |                  |
| Payments to suppliers and employees<br>(inclusive of goods and services tax) |    | (314,286)        | (254,012)        |
| Dividends Received   |    | 382,468          | 586,980          |
| Interest Received  |    | 60,479           | 85,993           |
| Purchase of Trading Investments  |    | (1,115,985)      | (137,824)        |
| Proceeds - Sale of Trading Investments                                       |    | 1,117,780        | 86,258           |
| <b>Net cash inflow (outflow) from operating activities</b>                   | 25 | <b>130,456</b>   | <b>367,395</b>   |
| <b>Cash flows from investing activities</b>                                  |    |                  |                  |
| Payments for investments   |    | (765,021)        | (594,441)        |
| Proceeds from sale of investment   |    | 1,216,581        | 672,672          |
| <b>Net cash inflow (outflow) from investing activities</b>                   |    | <b>451,560</b>   | <b>78,231</b>    |
| <b>Cash flows from financing activities</b>                                  |    |                  |                  |
| Increase (Reduction) in related corporations accounts                        |    | (2,280)          | 70,925           |
| Payments for shares bought back  |    | -                | (13,775)         |
| Dividends paid   |    | (215,911)        | (215,914)        |
| <b>Net cash inflow (outflow) from financing activities</b>                   |    | <b>(218,191)</b> | <b>(158,764)</b> |
| <b>Net increase (decrease) in cash held</b>                                  |    | 363,825          | 286,862          |
| Cash at beginning of the financial year                                      |    | 2,142,902        | 1,856,040        |
| <b>Cash at end of the financial year</b>                                     | 6  | <b>2,506,727</b> | <b>2,142,902</b> |

The accompanying notes form part of these financial statements.



**Note 1: Summary of significant accounting policies**

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

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

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

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

**Basis of Accounting**

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Actual results may differ from these estimates. Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting policies are recognised in the period in which the estimate is revised.

**(a) Income Tax**

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

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

A tax provision is made for the unrealised gain or loss on Trading Portfolio securities valued at market value through the Income Statement.

Where non-current Investment Portfolio assets are adjusted for unrealised gains or losses at balance date in the Unrealised Revaluation Reserve an assessed deferred tax liability or asset is created to reflect the applicable tax, even though there may be no intention to dispose of those holdings. The tax sum is applied to the Unrealised Revaluation Reserve on one hand and the deferred tax liability or asset on the other. No deferred tax asset has been taken up in relation to losses arising from the realisation of certain non-current Investment Portfolio assets during the year. This judgement was made in the light of market conditions and the doubt of early recovery of those losses. The potential future benefit is \$2,000,000.

**(b) Investments**

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

# London City Equities Limited

Notes to the financial statements - 30 June 2014

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



### (c) Non-Current Assets

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

### (d) Derivatives

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

### (e) Financial Risk issues

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

### (f) Cash and cash equivalents

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

### (g) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established. Revenue from the rendering of a service is recognised upon delivery of the service.

### (h) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable where invoiced. The net amount of GST recoverable from, or payable to the ATO is included with other payables in the balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are reported as operating cash flows.

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

A number of new standards, amendments to standards and and interpretations are effective for annual periods beginning after 1 July 2014, and, except for AASB 9 which was early adopted, have not been applied in preparing these statements. None of these is expected to have a significant effect on the financial statements of the company.

### (j) Financial Statements Approval

The financial statements were authorised for issue by the Board of Directors on 20 August 2014.



**Note 2. Segmental information**

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

|   | <b>Equity<br/>Investment</b> | <b>Other</b> | <b>Total</b> |
|---|------------------------------|--------------|--------------|
| <b>2014</b>                               |                              |              |              |
| Revenue                                   | \$                           | \$           | \$           |
| Investment /other revenue                 | 1,728,485                    | 64,498       | 1,792,983    |
| Segment result                            |                              |              |              |
| Profit (loss) after tax                   | 446,200                      | (27,357)     | 418,843      |
| Segment assets                            | 2,374,872                    | 2,801,272    | 5,176,144    |
| Segment liabilities                       | (124,094)                    | (124,094)    | (229,621)    |
| Net cash inflow from operating activities | 187,307                      | (56,851)     | 130,456      |
|   |                              |              |              |
| <b>2013</b>                               |                              |              |              |
| Revenue                                   | \$                           | \$           | \$           |
| Investment /other revenue                 | 766,727                      | 84,274       | 851,001      |
| Segment result                            |                              |              |              |
| Profit (loss) after tax                   | 411,380                      | (28,563)     | 382,817      |
| Segment assets                            | 2,281,447                    | 2,164,352    | 4,445,800    |
| Segment liabilities                       | (73,618)                     | (73,618)     | (147,236)    |
| Net cash inflow from operating activities | 415,547                      | (48,152)     | 367,395      |

**Note 3. Revenue**

|                                   | <b>2014</b>      | <b>2013</b>    |
|-----------------------------------|------------------|----------------|
| <b>From continuing operations</b> | <b>\$</b>        | <b>\$</b>      |
| Interest - Other Corporations     | 64,498           | 84,274         |
| Dividends                         | 382,469          | 598,318        |
| Proceeds - Trading investments    | 1,346,016        | 168,409        |
| <b>Total Operating Revenue</b>    | <b>1,792,983</b> | <b>851,001</b> |

**Note 4. Profit from ordinary activities**

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

| <b>Expenses</b>                               |                |                |
|---|----------------|----------------|
| Auditors Fees (Note 18)                       | 20,300         | 19,700         |
| Directors fees (Note 17)                      | 50,000         | 49,971         |
| Superannuation - Directors (Note 17)          | 4,754          | 4,684          |
| Rental expense relating to operating leases   | 18,986         | 19,209         |
| Management fees - associated company          |                |                |
| - Basic management fee                        | 47,401         | 43,425         |
| - Performance Fee                             | -              | -              |
| - Basic management fee (GST lost)             | 1,185          | -              |
| Professional Fee to Manager - extra curricula | -              | 15,000         |
| Legal and associated Costs                    | -              | 39,678         |
| Other Operating Expenses                      | 41,497         | 49,300         |
| <b>Total Operating Expenses</b>               | <b>184,123</b> | <b>240,967</b> |
| Cost of Trading Investments sold              | 1,400,017      | 201,760        |
| <b>Operating Profit before Tax</b>            | <b>208,843</b> | <b>408,274</b> |

**(b) Individually significant items included above**

|                                       |        |        |
|---------------------------------------|--------|--------|
| Management fees - associated company  | 47,401 | 43,425 |
| Professional Fee - associated company | -      | 15,000 |
| Current Year - Share Disposal losses  | 74,978 | 34,286 |

# London City Equities Limited

Notes to the financial statements - 30 June 2014 (Cont'd)



## Note 5. Income Tax Expense

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

|              | 2014           | 2013            |
|--------------|----------------|-----------------|
| Current Tax  | 60,000         | (25,457)        |
| Deferred Tax | 210,000        | -               |
|              | <u>270,000</u> | <u>(25,457)</u> |

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

|   |                |                 |
|---|----------------|-----------------|
| Profit from ordinary activities before income tax expense                             | 208,843        | 408,274         |
| Income tax calculated at 30%  | (62,653)       | (122,482)       |
| Less: Tax Effect of :   |                |                 |
| - Recoupment of prior year losses   | -              | -               |
| - Net Dividend Franking Credit re dividends   | 62,653         | 97,025          |
| - Future income tax benefits arising in prior years not previously brought to account | 210,000        | -               |
| <b>Income tax benefit (expense)</b>   | <u>210,000</u> | <u>(25,457)</u> |

(c) Amounts recognised directly in equity:

|  |                  |                  |
|--|------------------|------------------|
| Increase in deferred tax asset relating to   |                  |                  |
| (i) capital gains tax on the increase in unrealised losses in the Investment Portfolio | (319,830)        | (991,833)        |
| (ii) capital gains tax on realised loss in the Investment Portfolio                    | -                | -                |
| Net Movement   | <u>(319,830)</u> | <u>(991,833)</u> |

(d) Deferred tax assets not recognised

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

|                |                  |                  |
|----------------|------------------|------------------|
| Revenue Losses | 1,000,000        | 1,000,000        |
| Capital Losses | 6,900,000        | 6,000,000        |
|                | <u>7,900,000</u> | <u>7,000,000</u> |

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

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

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

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Cash at Bank and on Hand | <u>2,506,727</u> | <u>2,142,902</u> |
|--------------------------|------------------|------------------|

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

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

|   |               |               |
|---|---------------|---------------|
| Other debtors                                     | 24,545        | 15,699        |
| Listed securities of corporations at market value | -             | 5,751         |
|   | <u>24,545</u> | <u>21,450</u> |



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

|   | 2014             | 2013             |
|---|------------------|------------------|
| <b>Listed investments</b>                           |                  |                  |
| Listed securities of corporations at market value   | 2,293,527        | 1,775,895        |
| <b>Unlisted investments</b>                         |                  |                  |
| Unlisted securities of corporations at market value | 81,345           | 335,723          |
|   | <u>2,374,872</u> | <u>2,111,618</u> |

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

Recognised deferred tax assets are attributable to the following:

Tax Value of loss carry-forwards recognised:

|                            |                |                |
|----------------------------|----------------|----------------|
| Un-realised Capital Losses | 210,000        | 109,830        |
| Revenue Losses             | 60,000         | 60,000         |
|                            | <u>270,000</u> | <u>169,830</u> |

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

Unsecured liabilities

|                                       |               |                |
|---------------------------------------|---------------|----------------|
| Sundry Creditors                      | 19,571        | 47,370         |
| Amounts payable to associated company | 50            | 74,409         |
|                                       | <u>19,621</u> | <u>121,779</u> |

|                    |               |                |
|--------------------|---------------|----------------|
| Income tax payable | -             | 25,457         |
|                    | <u>19,621</u> | <u>147,236</u> |

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

Deferred Tax Liabilities on Unrealised Gains in the  
Investment Portfolio

|  |                |          |
|--|----------------|----------|
|  | 210,000        | -        |
|  | <u>210,000</u> | <u>-</u> |

**Note 12. Share Capital**

**(a) Issued capital**

21,591,099 (2013: 21,653,334) fully  
paid ordinary shares

|  |                  |                  |
|--|------------------|------------------|
|  | <u>4,240,881</u> | <u>4,240,881</u> |
|--|------------------|------------------|

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

Balance at beginning of accounting period

|  |           |           |
|--|-----------|-----------|
|  | 4,240,881 | 4,254,648 |
|--|-----------|-----------|

Movements during year:

|                           |   |          |
|---------------------------|---|----------|
| Share buy-back (Decrease) | - | (13,767) |
|---------------------------|---|----------|

Balance at reporting date

|  |                  |                  |
|--|------------------|------------------|
|  | <u>4,240,881</u> | <u>4,240,881</u> |
|--|------------------|------------------|

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

Balance at beginning of accounting period

|  | Number     | Number     |
|--|------------|------------|
|  | 21,591,099 | 21,653,334 |

Movements 2013 - 2014:

|                           |   |          |
|---------------------------|---|----------|
| Share buy-back (Decrease) | - | (62,235) |
|---------------------------|---|----------|

Balance at reporting date

|  |                   |                   |
|--|-------------------|-------------------|
|  | <u>21,591,099</u> | <u>21,591,099</u> |
|--|-------------------|-------------------|

**(d) Ordinary shares**

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

**Note 13. Capital Management**

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

The company recognises that its capital will fluctuate in accordance with market conditions and the performance of its underlying investments. It may adjust the amount of dividends paid, issue new shares from time to time, buy-back its own shares or sell assets to minimise debt. At present it has share buy-back programme in operation. The company intends pay dividends according to franked credits available.



**Note 14. Reserves and retained profits**

|   | 2014               | 2013               |
|---|--------------------|--------------------|
| <b>(a) Realised Capital Gains Reserve</b>           | <b>\$</b>          | <b>\$</b>          |
| Balance - beginning of year                         | (6,839,215)        | (3,123,417)        |
| Less Loss realised during year                      | (301,155)          | (3,715,798)        |
| Provision for Tax Benefit                           | -                  | -                  |
| Balance - year end                                  | <u>(7,140,370)</u> | <u>(6,839,215)</u> |
| <b>(b) Unrealised Revaluation Reserve</b>           |                    |                    |
| Balance - beginning of year                         | (256,269)          | (2,570,548)        |
| Reverse Unrealised - Prior Year                     | 366,099            | 3,672,211          |
| Reverse Applicable Tax - Prior Year                 | (109,830)          | (1,101,663)        |
| Increase in Unrealised Gains                        | 699,913            | (366,099)          |
| Provision for Tax on Unrealised Gains               | (210,000)          | 109,830            |
| Balance - year end                                  | <u>489,913</u>     | <u>(256,269)</u>   |
| <b>(c) Retained Profits</b>                         |                    |                    |
| Retained Profits at the start of the financial year | 7,153,167          | 6,986,263          |
| Net profit (loss) for the year                      | 418,843            | 382,817            |
| Dividends paid                                      | <u>(215,911)</u>   | <u>(215,913)</u>   |
| Retained Profits at the end of the financial year   | <u>7,356,099</u>   | <u>7,153,167</u>   |

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

**Realised Capital Gains Reserve**

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

**Unrealised Revaluation Reserve**

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

**Note 15. Dividends**

**(a) Status of dividends**

|                                       |              |                  |                  |
|---------------------------------------|--------------|------------------|------------------|
| Dividend paid - Fully Franked         | 24 Sept 2013 | <u>(215,911)</u> | <u>(215,913)</u> |
| Total Dividends Paid                  |              | <u>(215,911)</u> | <u>(215,913)</u> |
| Proposed fully franked dividends      |              |                  |                  |
| - 1.0 Cents per share (Ordinary Div.) | 9 Oct 2014   | <u>(215,911)</u> | <u>(215,913)</u> |

*Note: The dividend recommended for October 2014 has not been accrued in the above accounts.*

**(b) Franking credits**

|   |                |                |
|---|----------------|----------------|
| Franking credit tax component available for dividends in future years | 231,952        | 146,985        |
| Fully franked dividends possible at tax rate of 30%                   | <u>541,221</u> | <u>342,965</u> |

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



**Note 16. Financial instruments and risk**

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

The net fair value of cash and cash equivalents and non-interest bearing monetary assets and financial liabilities of the company approximates their carrying value. The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rate for assets and liabilities with similar risk profiles. Equity investments traded on organised markets have been valued by reference to the last sale price at balance date. For non-traded equity investments the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:-

|   | ----- 2014 ----- |                  | ----- 2013 ----- |                  |
|---|------------------|------------------|------------------|------------------|
|   | Carrying Amount  | Net Fair Value   | Carrying Amount  | Net Fair Value   |
| <b>On-balance sheet financial instruments</b> |                  |                  |                  |                  |
| <b>Financial assets</b>                       | \$               | \$               | \$               | \$               |
| Cash & cash equivalents                       | 2,506,727        | 2,506,727        | 2,142,902        | 2,142,902        |
| Debtors                                       | 24,545           | 24,545           | 15,699           | 15,699           |
| Non-traded financial assets                   | 2,531,272        | 2,531,272        | 2,158,601        | 2,158,601        |
| Traded investments:                           |                  |                  |                  |                  |
| Shares and Units in other corporations        |                  |                  |                  |                  |
| - current                                     | -                | 0                | 5,751            | 5751             |
| - non-current                                 | 2,374,872        | 2,374,872        | 2,111,618        | 2,111,618        |
|   | <u>4,906,144</u> | <u>4,906,144</u> | <u>4,275,970</u> | <u>4,275,970</u> |
| <b>Financial liabilities</b>                  | \$               | \$               | \$               | \$               |
| Other creditors                               | (19,621)         | (19,621)         | (147,236)        | (147,236)        |
| <b>Non-traded financial liabilities</b>       | <u>(19,621)</u>  | <u>(19,621)</u>  | <u>(147,236)</u> | <u>(147,236)</u> |

Other than those classes of assets and liabilities denoted as "traded", none of the classes of financial assets and liabilities are readily traded on organised markets in standardised form. Fair Values are based on cash flows discounted to commercial deposit rates. Net fair value is exclusive of costs which would be incurred on realisation of an asset, and inclusive of costs which would be incurred on settlement of a liability.

**B. Main Risk Considerations**

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

**(a) Market Risk**

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

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

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



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

**Price Risk Sensitivity Analysis:**

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

|                            | ---- 2014 ----                        |                                       | ---- 2013 ----                        |                                       |
|----------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                            | 10.0%<br>increase in<br>market prices | 10.0%<br>decrease in<br>market prices | 10.0%<br>increase in<br>market prices | 10.0%<br>decrease in<br>market prices |
|                            | \$                                    | \$                                    | \$                                    | \$                                    |
| Impact on Profit (Pre tax) | (2,375)                               | 2,375                                 | (2,117)                               | 2,117                                 |
| Impact on Equity (Pre tax) | 237,487                               | (237,487)                             | 211,737                               | (211,737)                             |

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

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

**Interest Rate Risk Sensitivity Analysis:**

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

|                            | ---- 2014 ----                          |   | ---- 2013 ----                          |   |
|----------------------------|---|---|---|---|
|                            | 100 bps<br>increase in<br>Interest Rate | 100 bps<br>decrease in<br>Interest Rate | 100 bps<br>increase in<br>Interest Rate | 100 bps<br>decrease in<br>Interest Rate |
|                            | \$                                      | \$                                      | \$                                      | \$                                      |
| Impact on profit (pre-tax) | 25,067                                  | (25,067)                                | 21,429                                  | (21,429)                                |

**(b) Credit Risk**

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

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

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

|  | 2014      | 2013      |
|--|-----------|-----------|
| Cash at bank and short-term bank deposits:<br>A-1+ | 2,506,727 | 2,142,902 |

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

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

**(c) Liquidity Risk**

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



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

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

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

| <b>Maturity:</b> | <b>2014</b> | <b>2013</b> |
|------------------|-------------|-------------|
| Immediate        | 194,727     | 342,901     |
| To 30 Days       | 824,545     | 1,021,451   |
| 30 - 365 days    | 1,512,000   | 800,000     |
| Longer Term      | 2,374,872   | 2,281,447   |

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

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

| <b>Maturity:</b> | <b>2014</b> | <b>2013</b> |
|------------------|-------------|-------------|
| To 30 Days       | 19,621      | 121,779     |

**Note 17. Directors and Executives' Remuneration**

The company has no executives. Its portfolio is managed by a Management Agreement with Imperial Pacific Asset Management Pty Limited. The management charge for 2014 was \$47,401 (2013 - \$43,425).

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

|                  |                                     |
|------------------|-------------------------------------|
| Mr P E J Murray  | - Chair and Chief Operating Officer |
| Mr R Chenery     | - Director - Non-Executive          |
| Mr DA Sutherland | - Director - Non-Executive          |

**(b) Directors' Remuneration:**

| <b>2014</b>       | Salary, Fees<br>Commissions | Primary<br>Super<br>Contributions | Post<br>Employment | Other<br>(Equity<br>Options Etc ) | Total<br>\$   |
|-------------------|-----------------------------|-----------------------------------|--------------------|-----------------------------------|---------------|
| Mr P E J Murray   | -                           | -                                 | -                  | -                                 | -             |
| Mr R Chenery      | 25,000                      | 2,313                             | -                  | -                                 | 27,313        |
| Mr D A Sutherland | 25,000                      | 2,313                             | -                  | -                                 | 27,313        |
|                   | <u>50,000</u>               | <u>4,754</u>                      | <u>-</u>           | <u>-</u>                          | <u>54,626</u> |

| <b>2013</b>       | Salary, Fees<br>Commissions | Primary<br>Super<br>Contributions | Post<br>Employment | Other<br>(Equity<br>Options Etc ) | Total<br>\$   |
|-------------------|-----------------------------|-----------------------------------|--------------------|-----------------------------------|---------------|
| Mr P E J Murray   | -                           | -                                 | -                  | -                                 | -             |
| Mr R Chenery      | 25,000                      | 2,250                             | -                  | -                                 | 27,250        |
| Mr D A Sutherland | 24,971                      | 2,434                             | -                  | -                                 | 27,405        |
|                   | <u>49,971</u>               | <u>4,684</u>                      | <u>-</u>           | <u>-</u>                          | <u>54,655</u> |

**(c) Shareholdings**

Number of Shares held by Directors and Specified Executives

|                   | Balance<br>01-Jul-13 | Received as<br>Remuneration | Options<br>Exercised | Net change * | Balance<br>30-Jun-14 |
|-------------------|----------------------|-----------------------------|----------------------|--------------|----------------------|
| Mr P E J Murray   | 7,278,001            | -                           | -                    | -            | 7,278,001            |
| Mr R Chenery      | 6,491,396            | -                           | -                    | -            | 6,491,396            |
| Mr D A Sutherland | 6,491,396            | -                           | -                    | -            | 6,491,396            |

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

Note: Each holding includes 6,491,396 shares (2013 - 6,381,396 shares) held by Imperial Pacific Ltd.



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

**(d) Remuneration Practices**

1. The company has no executives.
2. The remuneration arrangements for directors are determined by the shareholders in general meeting. From time to time the Board may submit proposals to increase the fees, which are presently a maximum of \$125,000. The company has scope to remunerate Directors for special duties that may be requested on occasion. Mr Murray does not receive Directors Fees from the Company.
3. There is a formal management agreement in place with Imperial Pacific Asset Management Pty Limited, a subsidiary of Imperial Pacific Limited. This was approved by shareholders on 16 November 2004 and provides for, inter alia, a term of 15 years from 1 July 2005 and fees of 1% of the value of the Portfolio, together with possible performance fees of 15% of any gain achieved above the performance of the S&P ASX 300 Accum Index movement. The total fee payable during 2014 was \$47,401 (2013 \$43,425).
4. Interests of Mr Murray were paid \$123,370 by Imperial Pacific Limited during 2014.
5. The company has a Remuneration Committee in operation.

**Note 18. Auditor's remuneration**

|   | <b>2014</b>   | <b>2013</b>   |
|---|---------------|---------------|
| Remuneration for audit review of the financial reports of the parent entity or any entity in the consolidated entity. | \$            | \$            |
| Cutcher & Neale - Assurance services  | 13,700        | 16,700        |
|   | <u>13,700</u> | <u>16,700</u> |
| Remuneration for other services   |               |               |
| Cutcher & Neale - Other compliance services   | 6,600         | 3,000         |
|   | <u>6,600</u>  | <u>3,000</u>  |
|   | <u>20,300</u> | <u>19,700</u> |

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

**Note 19. Contingent liabilities**

The Directors of London City Equities Limited are not aware of any contingent liabilities that may impact on the company.

**Note 20 Contingent assets**

On 17 June 2011 London City was granted judgment in its favour by the Federal Court of Australia to access certain records and documents of Penrice Soda Holdings Limited ("Penrice") and on 25 July 2011 Federal Court gave orders granting London City's access to specific Penrice records. The records have since been returned. The purpose of the legal action was, inter alia, to assess the conduct of the directors of Penrice and the provision of information at the time London City made its investments in Penrice. On 11 April 2014 Administrators were appointed over Penrice and the processing operations have since been closed. London City estimates that over \$200 million has been lost in Penrice by investors and the two banks. The Board of London City is continuing this investigatory process with its advisors. It may lead to legal action being taken against the Directors of Penrice, or that company itself, for the recovery of substantial investment losses. Although information is supportive of a case there is insufficient information at this date to estimate future benefit that may arise from this action.

**Note 21. Capital and Leasing commitments**

|   | <b>2014</b>  | <b>2013</b>   |
|---|--------------|---------------|
| (a) Capital Expenditure Commitments   | \$           | \$            |
| There are no material capital commitments outstanding at year end.  |              |               |
| (b) Operating Lease Commitments   |              |               |
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable |              |               |
| Not later than one year   | 6,108        | 18,324        |
| Between 1 & 2 years   | -            | 6,108         |
| Later than 2 years but not later than 5 years   | -            | -             |
|   | <u>6,108</u> | <u>24,432</u> |

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



## **Note 22. Related parties**

### **Directors**

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

### **Remuneration**

Information on remuneration of directors is disclosed in Note 17.

### **Other related parties**

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

| Management fee payable:   | <b>2014</b> | <b>2013</b> |
|---|-------------|-------------|
| Associated Entity - Imperial Pacific Limited Group                | 47,401      | 43,425      |
| Professional Fee - Imperial Pacific Limited Group                 | -           | 15,000      |
| Amounts payable at balance date to Imperial Pacific Limited Group | 50          | 74,409      |

## **Note 23. Economic dependency**

The main trading activity of the company during the year was investment in equities, property and cash deposits. From time to time a significant strategic investment may be made which could influence its economic dependency. At 30 June 2014 in the financial services sector the company owned approximately 4% of the capital in Fiducian Portfolio Services Limited and other miscellaneous equity investments. To this extent the company has some dependency of the financial services sector. With its funds on deposit the company's revenue will have some dependence on the level of interest rates.

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

The Board of London City and its advisors have continued to investigate matters associated with Penrice Soda with particular emphasis on the provision (or lack thereof) of information to investors during 2008 and 2009 and scope for recovery. The Board notes that Penrice had Administrators appointed on 11 April 2014 and their role is now that of liquidators. Any major decision taken by the London City Board will be advised to shareholders immediately.

An Ordinary Dividend of 1.0 Cents per share has been proposed for payment in October 2014. This has not been provided for in the financial statements.

The investment portfolio has appreciated some \$600,000 since balance date.



**Note 25. Cash Flow Information**

|   | 2014             | 2013             |
|---|------------------|------------------|
| Reconciliation of operating profit after income tax to net cash inflow from operating activities: | \$               | \$               |
| Operating Profit (Loss) after Income Tax  | 418,843          | 382,817          |
| Income Tax (Benefit) / Expense accrued not received   | (210,000)        | 25,457           |
| Trading Losses offset by Dividends Received   | 26,866           | (40,152)         |
| Changes in Operating Assets and Liabilities:  |                  |                  |
| (Increase) Decrease in Other Debtors, prepayments   | (3,095)          | 38,873           |
| Increase (Decrease) in Other Creditors  | (102,158)        | (39,600)         |
| Net Cash inflow from Operating Activities   | <u>130,456</u>   | <u>367,395</u>   |
| <b>Cash Balances at year end:</b>   |                  |                  |
| Money at Bank and on Hand   | <u>2,506,727</u> | <u>2,142,902</u> |
|   | <u>2,506,727</u> | <u>2,142,902</u> |

**Note 26. Earnings per share**

|  | Cents      | Cents      |
|--|------------|------------|
| Basic and Diluted earnings per share   | 1.94       | 1.77       |
| (Note: No dilution as no options in existence).  |            |            |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 21,591,099 | 21,622,217 |

# London City Equities Limited

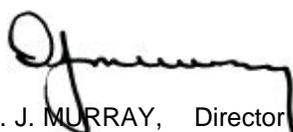


## Directors' Declaration

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

- (a) the financial statements and notes as set out on pages 12 to 28 are in accordance with the Corporations Act 2001 including
  - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
  - b. complying with International Accounting Standards as indicated in Note 1; and
  - c. giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out in the financial report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.
- (d) The Directors have been given the declarations by the effective chief executive officer and the effective chief financial officer required by Section 295A of the Corporations Act 2001.

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



P. E. J. MURRAY, Director



D. A. SUTHERLAND, Director

Sydney

Dated: 4 September 2014

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

**LONDON CITY EQUITIES LIMITED  
ABN 59 003 200 664**

I declare that to the best of my knowledge and belief, during the year ended 30 June 2014 there have been:

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

Cutcher & Neale  
Chartered Accountants



J.K. Neale FCA  
Partner

4 September 2014

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

We have audited the accompanying financial report of London City Equities Limited (the company), which comprises the statement of financial position as at 30 June 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

**Directors' Responsibility for the Financial Report**

The directors of London City Equities Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Directors also state, in accordance with Accounting Standard AASB101: Presentation of Financial Statements, that compliance with Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

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

### **Auditor's Responsibility (cont'd)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement on the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors', as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

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

### **Independence**

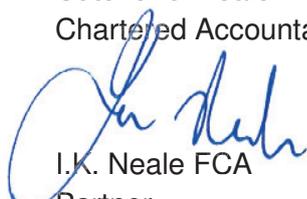
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors London City Equities Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

### **Auditor's Opinion**

In our opinion:

- a) the financial report of London City Equities Limited is in accordance with the Corporations Act 2001, including:
  - i) giving a true and fair view of the company's financial position as at 30 June 2014 and their performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Cutcher & Neale  
Chartered Accountants



I.K. Neale FCA  
Partner

4 September 2014  
NEWCASTLE

# London City Equities Limited



## Corporate Governance Charters - 2014

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

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

#### **Terms of Reference**

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

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

#### **Membership**

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

London City supports the principle of diversity of skills, background and gender in relation to board membership, management composure and commercial activity. It will adopt as far as practicable for a company of the size and business activity of London City such a policy in this regard.

#### **Meetings**

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

#### **External Reporting**

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

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

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

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

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

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

### **Monitoring**

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

### **Reporting**

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

### **Management**

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

### **Liaison with Management**

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

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

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

### **Other**

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

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

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

### **Terms of Reference**

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

#### **A. Audit**

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

#### **B. Compliance**

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

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

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

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

### **Membership**

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

### **Meetings**

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

### **Reporting to the Board**

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

### **Specific Duties and Responsibilities**

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

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

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

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

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

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

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

#### **Four - Compliance**

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

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

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

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

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

### **General**

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

## C – The Remuneration Committee Charter (Summary)

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

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

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

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

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

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

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

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

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

# London City Equities Limited

## Additional Information for Australian Securities Exchange Limited



### Distribution of Equity Securities as at 7 August 2014

214 Shareholders held Ordinary Shares

| Number of Ordinary Shares | Number of Shareholders |
|---------------------------|------------------------|
| 1 - 1,000                 | 77                     |
| 1,001 - 5,000             | 28                     |
| 5,001 - 10,000            | 47                     |
| 10,001 - 100,000          | 52                     |
| 100,001 and over          | 10                     |
|                           | 214                    |

Note: There were 92 shareholders with non-marketable parcels of shares.

### Substantial Shareholders as at 7 August 2014

|                          | Shares in which a relevant interest could be held |
|--------------------------|---|
| J.C.Plummer              | 9,724,843   |
| Imperial Pacific Limited | 6,491,196   |

### Twenty Largest Shareholders as at 7 August 2014

The names of the 20 largest shareholders are:-

| <i>Name</i>  | <i>Number</i> |
|--|---------------|
| J.C. Plummer   | 9,724,843     |
| Imperial Pacific Limited                             | 6,491,196     |
| V. J. Plummer  | 890,000       |
| Capel Court Corporation Pty Limited                  | 766,605       |
| Ellaville Holdings Pty Limited                       | 717,933       |
| D.J. and B.L. LeCornu                                | 275,000       |
| Clapsy Pty Limited                                   | 138,650       |
| Baulderstone Nominees Pty Limited                    | 135,000       |
| Wildrose Pty Limited                                 | 120,000       |
| Silmar Pty Limited                                   | 105,000       |
| Forwest Investments Pty Limited                      | 90,755        |
| R.E.Redfern  | 74,532        |
| Oakey Creek Pastoral Co Pty Limited                  | 70,163        |
| Minton Consulting Pty Limited                        | 62,395        |
| M and L Haydon                                       | 55,000        |
| J.K. Murray  | 51,053        |
| TAT Investments Pty Limited                          | 50,000        |
| R.K. Warren  | 50,500        |
| S.G.S.Hughes   | 50,000        |
| J.H. and L.J. Cole                                   | 49,000        |
|  | 19,967,625    |
| Percentage of the issued capital held by top twenty: | 91.59%        |

### Voting Rights

Voting Rights are one vote per share held

### Service Agreements

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



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