

**Hydrox Holdings Pty Ltd and  
controlled entities**

ABN 94 138 990 593

**Annual report  
for period ended 30 June 2018**

Your director presents his report on the consolidated entity consisting of Hydrox Holdings Pty Ltd ("the Company") and the entities it controlled at the end of, or during, the financial period from 26 June 2017 to 30 June 2018. Throughout the report, the company and its controlled entities is referred to as the group.

**Directors**

The following persons were directors of Hydrox Holdings Pty Ltd and controlled entities during the whole of the financial period and up to the date of this report:

John Mouawad (resigned 11 October 2017)  
Mark Anthony Korda (resigned 11 October 2017)  
David Di Pilla (appointed 11 October 2017)

**Principal activities**

During the period the principal continuing activities of the group consisted of investing in and managing property including repurposing freehold and leasehold properties for leasing to receive rental income and to achieve capital growth. The entity ceased other non-property related activities during the prior period.

**Dividends**

No dividends have been paid during the financial period. The directors do not recommend a dividend be paid in respect of the financial period (2017: \$nil).

**Review of operations**

The profit from ordinary activities after income tax for the period amounted to \$516,295,000 (2017: \$447,435,000).

**Significant changes in the state of affairs**

On 26 June 2017 the company's previous parent entity, Woolworths Limited, entered into a Share Sale Agreement (SSA) to sell its 66.7% share of the company to Home Investment Consortium Company Pty Ltd as trustee for Home Investment Consortium Trust (Home Consortium) who at the date of this financial report controls the entity.

On 4 August 2017, WDR Delaware Corporation, the other shareholder of the Company, entered into a SSA to sell its 33.3% share of the company to a Trust related to Home Consortium with Home Consortium as the beneficiary.

On 11 October 2017 settlement of the above SSA's occurred with Home Consortium becoming the owner of 100% of the issued capital in the company.

The company continued the previous property related activities including leasing of properties to retail related tenants.

There have been no other significant changes in the state of affairs of the group during the period.

**Events since the end of the financial year**

Since the end of the period, the group has sold 4 freehold investment properties of which 2 were held for sale for gross proceeds of \$43m.

**Events since the end of the financial year (continued)**

The group has also exchanged a sale agreement to acquire leased properties at Coffs Harbour, NSW and Hawthorn East, VIC, as well as a put and call option agreement in relation to another property at Upper Coomera, QLD. Deposits were paid in relation to each agreement subsequent to year end and are expected to settle prior to 31 December 2019.

The group has entered into a \$75 million mezzanine financing facility repayable in July 2020.

Subsequent to the end of the financial year the group has signed a binding commitment letter with a syndicate of lenders for a new \$500 million senior debt facility to replace the existing facilities. The facility is subject to satisfying certain conditions, including successfully completing an equity raising.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected the group's operations, results or state of affairs, or may do so in future periods.

**Likely developments and expected results of operations**

Further information on likely developments in the operations of the group and the expected results of operations have not been included in this Annual report because the directors believe it would be likely to result in unreasonable prejudice to the group.

**Environmental regulation**

The director of the group is satisfied that adequate systems are in place to manage the group's environmental responsibility and compliance with regulations. The director is not aware of any material breach and to the best of his knowledge and belief, all activities have been undertaken in compliance with environmental requirements.

**Shares under option**

No options were granted as remuneration to the directors or any of the five highest remunerated officers of the company and the group during the year or since the end of the year.

**Insurance of officers and indemnities**

*(a) Insurance of officers*

During the financial period, Hydrox Holdings Pty Ltd and controlled entities paid a premium to insure the executive officers and secretaries of the company and controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

*(b) Indemnity of auditors*

Hydrox Holdings Pty Ltd has not agreed to indemnify their auditors, PwC.

**Proceedings on behalf of the company**

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

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

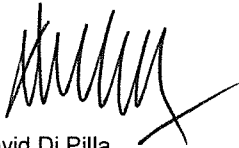
**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

**Rounding of amounts**

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the director's report. Amounts in the director's report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'David Di Pilla', with a long horizontal stroke extending to the right.

David Di Pilla  
Director

Sydney  
23 August 2019



## *Auditor's Independence Declaration*

As lead auditor for the audit of Hydrox Holdings Pty Ltd for the period 26 June 2017 to 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hydrox Holdings Pty Ltd and the entities it controlled during the period.

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

Adam Thompson  
Partner  
PricewaterhouseCoopers

Sydney  
23 August 2019

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# Hydrox Holdings Pty Ltd and controlled entities

ABN 94 138 990 593

## ***Annual report - 30 June 2018***

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These financial statements are the consolidated financial statements of Hydrox Holdings Pty Ltd and its controlled entities. A list of subsidiaries is included in note 24. The financial statements are presented in Australian dollars (\$).

The financial statements were authorised for issue by the directors on 23 August 2019. The directors have the power to amend and reissue the financial statements.

**Hydrox Holdings Pty Ltd and controlled entities**  
**Consolidated statement of comprehensive income**  
**For the period ended 30 June 2018**

	Notes	2018 \$'000	2017 \$'000
Revenue	4	-	903,786
Cost of sales of goods		-	(840,483)
<b>Gross profit</b>		<b>-</b>	<b>63,303</b>
Property income		<b>14,156</b>	8,988
Property expenses		<b>(14,114)</b>	-
Corporate expenses		<b>(3,810)</b>	(86,399)
Reorganisation costs prior to change in control	5	<b>(49,349)</b>	-
Store related expenses prior to change in control		-	(131,831)
Other losses		-	(314)
		<b>(53,117)</b>	<b>(146,253)</b>
<b>Unrealised gain/(loss) including change in fair value through profit or loss</b>			
Investment properties - freehold	12	<b>74,725</b>	-
Impairment reversal	5	<b>378,551</b>	614,884
<b>Realised gain - sale of investment properties</b>		<b>2,616</b>	-
<b>Operating profit</b>		<b>402,775</b>	468,631
<b>Finance costs - net</b>	6	<b>(14,744)</b>	(21,047)
<b>Profit before income tax</b>		<b>388,031</b>	447,584
Income tax benefit/(expense)	7	<b>128,277</b>	(149)
<b>Profit for the period</b>		<b>516,308</b>	447,435
<i>Items that may be reclassified to profit or loss</i>			
Cash flow hedges	19(a)	-	4,253
Exchange differences on translation of foreign operations	19(a)	-	(2)
Reversal of reserves	19(a)	<b>(13)</b>	-
<b>Other comprehensive income for the period, net of tax</b>		<b>(13)</b>	4,251
<b>Total comprehensive income for the period</b>		<b>516,295</b>	451,686
Profit is attributable to:			
Owners of Hydrox Holdings Pty Ltd		<b>516,308</b>	447,435
Total comprehensive income for the period is attributable to:			
Owners of Hydrox Holdings Pty Ltd		<b>516,295</b>	451,686

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Hydrox Holdings Pty Ltd and controlled entities**  
**Consolidated balance sheet**  
**As at 30 June 2018**

	Notes	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	29,501	110,422
Trade and other receivables	10	6,145	11,651
Assets classified as held for sale	8	19,500	66,750
<b>Total current assets</b>		<b>55,146</b>	<b>188,823</b>
<b>Non-current assets</b>			
Receivables	10	10,791	16
Property, plant and equipment	11	-	525,000
Investment properties	12	704,673	-
Deferred tax assets	13	128,277	-
<b>Total non-current assets</b>		<b>843,741</b>	<b>525,016</b>
<b>Total assets</b>		<b>898,887</b>	<b>713,839</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	23,143	16,709
Borrowings	15	-	110,512
Employee benefit obligations	17	266	-
Provisions	16	44,571	461,087
<b>Total current liabilities</b>		<b>67,980</b>	<b>588,308</b>
<b>Non-current liabilities</b>			
Borrowings	15	270,144	-
Provisions	16	114,226	-
<b>Total non-current liabilities</b>		<b>384,370</b>	<b>-</b>
<b>Total liabilities</b>		<b>452,350</b>	<b>588,308</b>
<b>Net assets</b>		<b>446,537</b>	<b>125,531</b>
<b>EQUITY</b>			
Contributed equity	18	3,291,155	3,486,444
Other reserves	19(a)	486,659	13
Accumulated losses	19(b)	(3,331,277)	(3,360,926)
<b>Total equity</b>		<b>446,537</b>	<b>125,531</b>

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

Hydrox Holdings Pty Ltd and controlled entities  
Consolidated statement of changes in equity  
For the period ended 30 June 2018

	Notes	Contributed equity \$'000	Other reserves \$'000	Profits reserve \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Balance at 26 June 2016</b>		3,486,444	(9,671)	-	(3,802,933)	(326,160)
Profit for the period		-	-	-	447,435	447,435
Other comprehensive income		-	4,251	-	-	4,251
<b>Total comprehensive income for the period</b>		-	<b>4,251</b>	-	<b>447,435</b>	<b>451,686</b>
<b>Transactions with owners in their capacity as owners:</b>						
Disposal of controlled entities	19	-	5,433	-	(5,433)	-
Other	19	-	-	-	5	5
		-	5,433	-	(5,428)	5
<b>Balance at 25 June 2017</b>		<b>3,486,444</b>	<b>13</b>	-	<b>(3,360,926)</b>	<b>125,531</b>
<b>Balance at 26 June 2017</b>		3,486,444	13	-	(3,360,926)	125,531
Profit for the period		-	-	-	516,308	516,308
Other comprehensive income		-	(13)	-	-	(13)
Transfer to profits reserve		-	-	486,659	(486,659)	-
<b>Total comprehensive income for the period</b>		-	<b>(13)</b>	<b>486,659</b>	<b>29,649</b>	<b>516,295</b>
Share buy-back	18(d)	(195,289)	-	-	-	(195,289)
<b>Balance at 30 June 2018</b>		<b>3,291,155</b>	-	<b>486,659</b>	<b>(3,331,277)</b>	<b>446,537</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**Hydrox Holdings Pty Ltd and controlled entities**  
**Consolidated statement of cash flows**  
**For the period ended 30 June 2018**

	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		-	946,405
Receipts from vendors and tenants (inclusive of goods and services tax)		12,131	8,773
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(360,461)</u>	<u>(1,068,229)</u>
		<u>(348,330)</u>	<u>(113,051)</u>
Interest received		397	3,158
Finance costs paid		<u>(21,796)</u>	<u>165</u>
<b>Net cash (outflow) from operating activities</b>		<u><b>(369,729)</b></u>	<u><b>(109,728)</b></u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment (leasehold improvements)		(11,804)	(37,334)
Payments for repurposing of investment properties		(72,418)	(6,500)
Proceeds from sale of business		-	178,687
Proceeds from sale of properties		412,823	14,361
Changes to restricted cash		<u>(7,836)</u>	<u>-</u>
<b>Net cash inflow from investing activities</b>		<u><b>320,765</b></u>	<u><b>149,214</b></u>
<b>Cash flows from financing activities</b>			
Cash settlement of FEC's		-	(4,253)
Proceeds from borrowings		276,799	57,512
Repayment of borrowings		-	(9,980)
Loan to/from related party		(121,303)	-
Payments for shares bought back		<u>(195,289)</u>	<u>-</u>
<b>Net cash (outflow) inflow from financing activities</b>		<u><b>(39,793)</b></u>	<u><b>43,279</b></u>
<b>Net (decrease) increase in cash and cash equivalents</b>		<u><b>(88,757)</b></u>	<u><b>82,765</b></u>
Cash and cash equivalents at the beginning of the financial period		110,422	27,657
Cash and cash equivalents at end of period	9	<u><b>21,665</b></u>	<u><b>110,422</b></u>

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

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## **1 Summary of significant accounting policies**

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Hydrox Holdings Pty Ltd and its controlled entities.

### **(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Hydrox Holdings Pty Ltd is a for-profit entity for the purpose of preparing the financial statements. The financial statements are for the period 26 June 2017 to 30 June 2018.

#### *(i) Compliance with Australian Accounting Standards - Reduced Disclosure Requirements*

The consolidated financial statements of the Hydrox Holdings Pty Ltd and controlled entities comply with Australian Accounting Standards - Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

The group has changed its financial statements from special purpose financial statements to general purpose financial statements-Reduced Disclosure Requirements as a result of the decision to consider offering the equities in the company is an initial public offering and considering the entity to have public accountability.

#### *(ii) Historical cost convention*

These financial statements have been prepared under the historical cost basis, except for the following:

- available-for-sale financial assets, financial assets and liabilities (including derivative instruments) certain classes of property, plant and equipment and investment property - measured at fair value; and
- assets held for sale - measured at fair value less cost of disposal.

#### *(iii) New and amended standards adopted by the company*

The group has applied the following standards and amendments for first time in their annual reporting period commencing 26 June 2017:

- *AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses*
- *AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107, and*
- *AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle.*

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

## 1 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### (iv) *Going concern*

As at 30 June 2018 the group had current liabilities that exceeded current assets by \$12.834 million and bank facilities of \$276.799 million that expire in April 2020. Since the end of the financial year the group has extended the bank facilities to \$415.665 million as at 30 June 2019 across two facilities that expire in April 2020 and July 2020.

Subsequent to the end of the financial year the group has signed a binding commitment letter with a syndicate of lenders for a new \$500 million senior debt facility that is subject to satisfying certain conditions, including successfully completing an equity raising. The group intends to use this facility to replace the existing facilities. In the event that the group does not satisfy the conditions in the commitment letter the group will need to arrange a new finance facility and may also need to raise further capital from its existing shareholders to continue as a going concern. The group is confident of satisfying the conditions in the commitment letter and if events out of the group's control impact the group's ability to satisfy the conditions in the commitment letter the group is confident of raising alternate bank facilities against the existing property values and also raising further equity from existing shareholders to continue as a going concern.

Accordingly, the annual report has been prepared on a going concern basis. However, while the Director is confident of the group continuing as a going concern, meeting debt obligations on the existing facilities and being able to continue to fund the business expansion, the going concern is dependent on replacing the facilities that mature in April 2020 and July 2020 and raising equity. As a result of the group being dependent on the above matters, there is a material uncertainty that may cast significant doubt on the group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

### (b) Principles of consolidation and equity accounting

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated consolidated income statement, statement of comprehensive income, statement of changes in equity and consolidated balance sheet respectively.

### (c) Foreign currency translation

#### (i) *Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars (\$), which is Hydrox Holdings Pty Ltd and controlled entities' functional and presentation currency.

## 1 Summary of significant accounting policies (continued)

### (c) Foreign currency translation (continued)

#### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statement within finance costs. All other foreign exchange gains and losses are presented in the consolidated income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

### (d) Revenue and rental income recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities using the methods outlined below.

#### *Sale of goods*

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

#### *Rental income*

Rental income is brought to account on a straight-line basis over the lease term for leases with fixed rate or guaranteed minimum rent review clauses, net of incentives. In all other circumstances, rental income is reflected in the consolidated balance sheet as a receivable. Recoverability of receivables is reviewed on an ongoing basis. Debts which are known to be not collectible are written off.

#### *Interest income*

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### (e) Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

## **1 Summary of significant accounting policies (continued)**

### **(e) Income tax (continued)**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### *(i) Tax consolidation legislation*

Effective from 20 October 2009, Hydrox Holdings Pty Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Hydrox Holdings Pty Ltd, and the controlled entities, as stated in note 24, in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone tax payer in its own right.

In addition to its own current and deferred tax amounts, Hydrox Holdings Pty Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Hydrox Holdings Pty Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Hydrox Holdings Pty Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from head entity, which is issued as soon as practicable after the end of each financial period. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## 1 Summary of significant accounting policies (continued)

### (f) Leases

#### (i) Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre- payments, made under operating leases (net of any incentives received from the lessor) are charged to income statement on a straight-line basis over the period of the lease.

#### (ii) Group is the lessor in an operating lease

Properties leased out under operating leases are included in investment property in the consolidated balance sheet. See note 1(d) for the recognition of rental income.

#### (iii) Group is the lessor - fees paid in connection with arranging leases and lease incentives

The Group makes payments to agents for services in connection with negotiating lease contracts with the Group's lessees. The letting fees are capitalised within the carrying amount of the related investment property and are amortised over the lease term.

Lease incentives are recognised as a reduction of rental income on a straight-line basis over the lease term.

### (g) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash- generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### (h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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, and bank overdrafts.

### (i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are usually settled within 30 days and therefore are all classified as current.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

## **1 Summary of significant accounting policies (continued)**

### **(j) Non-current assets (or disposal groups) held for sale and discontinued operations**

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of the carrying amount and fair value less costs to sell unless the assets are investment properties measured at fair value or financial assets in the scope of IFRS 9 in which case they are measured in accordance with those standards.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated income statement.

### **(k) Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Plant, equipment and fittings 2 - 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

In the current year, the company changed their classification of its land and buildings from property, plant and equipment associated with freehold properties to investment property and adopted the accounting policy applicable to investment properties which is to carry the property at fair value. See accounting policy (l).

## **1 Summary of significant accounting policies (continued)**

### **(l) Investment properties**

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property.

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as at the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the consolidated financial statements.

The fair value of investment property reflects, among other things, rental income from current leases and other assumptions market participants would make when pricing the property under current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the cost of the replacement is included in the carrying amount of the property, and the fair value is reassessed.

Changes in fair values are recognised in the income statement. Investment properties are derecognised when they have been disposed of.

Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the income statement within net gain from fair value adjustment on investment property.

If an investment property becomes owner occupied, it is reclassified as property, plant and equipment. Its fair value as at the date of reclassification becomes its cost for subsequent accounting purposes.

### **(m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the group prior to the end of financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

### **(n) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

## 1 Summary of significant accounting policies (continued)

### (n) Borrowings (continued)

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### (o) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Provision has been made for the future expected costs of returning property under operating lease to original condition as per the lease agreement.

Provisions have been made for property held under operating lease whereby the sublease does not cover the expected future obligations of the head lease

### (p) Employee benefits

#### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

#### (ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the consolidated balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

### (q) Contributed equity

Ordinary shares are classified as equity, where consideration is paid, including any directly attributable costs that is deducted from equity attributable to the owners of the company.

## **1 Summary of significant accounting policies (continued)**

### **(r) Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### **(s) Profits reserve**

The profits reserve is an amount allocated from retained earnings available for distribution as dividends in future years.

### **(t) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. 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. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated 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 taxation authority, are presented as operating cash flows.

### **(u) Rounding of amounts**

The company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### **(v) Parent entity financial information**

#### *(i) Investments in subsidiaries*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost less impairment in the financial statements of Hydrox Holdings Pty Limited. Dividends and distributions from trusts received from controlled entities are recognised in the parent entity's profit or loss when its right to receive the dividend is established. A dividend reserve is recognised in the parent accounts when distributions and dividends are received.

## 2 Financial risk management

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the company's functional currency

*Amounts recognised in profit or loss and other comprehensive income*

During the period, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

	2018 \$'000	2017 \$'000
<i>Amounts recognised in profit or loss</i>		
Net foreign exchange (loss) included in finance costs	-	(165)
<i>Net gain (losses) recognised in other comprehensive income (note 19(a))</i>		
Translation of foreign operations	(13)	(2)

#### (ii) Cash flow and fair value interest rate risk

The group's main interest rate risk arises from long-term borrowings with variable rates, which expose the group to cash flow interest rate risk. Amounts payable to/receivable from related parties, trade and other payables and trade and other receivables are not impacted by movements in interest rates.

The group's borrowings and receivables are carried at amortised cost. The borrowings are periodically contractually repriced (see below) and to that extent are also exposed to the risk of future changes in market interest rates.

The exposure of the group's borrowing to interest rate changes and the contractual re-pricing dates of the borrowings at the end of the reporting year are as follows:

	30 June 2018 \$'000	% of total loans
Variable rate borrowings - repricing dates:		
6 months or less	276,799	100.0%
	276,799	100.0%

#### Interest rate sensitivity

A change in the variable interest rate at balance date of +/- 50 bps would impact the Group's cash interest cost for the next 12 months by \$1.4 million.

Further information on borrowings is provided in note 15.

## 2 Financial risk management (continued)

### (b) Credit risk

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables, the estimated impairment losses are recognised in a separate provision for impairment. The company considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within property expenses. Subsequent recoveries of amounts previously written off are credited against property expenses. See note 1(g) for information about how impairment losses are calculated.

### (c) Liquidity risk

Management monitors rolling forecasts of the group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents (note 9) on the basis of expected cash flows. In addition, the group's liquidity management policy involves monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

#### (i) Financing arrangements

The group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2018 \$'000
<b>Floating rate</b>	
- Expiring beyond one year (bank loans)	<u>23,201</u>

Refinancing risk is the risk credit is unavailable or is only available at unfavourable interest rates and credit market conditions resulting in an unacceptable increase in the company's interest cost. Refinancing risk arises when the company is required to obtain debt to fund existing and new debt positions.

The company manages the risk by spreading sources, and counter parties of borrowings to minimise debt concentration risk, allowing access to funds in a manner that reduces risk of refinance and reducing interest costs and refinance amounts.

### **3 Critical estimates, judgements and errors**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

#### **(a) Significant estimates and judgements**

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### **(b) Critical accounting estimates and assumptions**

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

##### *(i) Impairment*

Any changes to carrying values in subsequent periods due to revisions to estimates or assumptions or as a result of the final realisation of the assets and liabilities upon exit of the business will be recognised in the profit or loss in a subsequent period.

##### *(ii) Fair value of investment properties*

Investment property is measured initially at its cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for differences in the nature, location or condition of the specific asset. If this information is not available, the group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections. Valuations are performed as at the financial position date by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. These valuations form the basis for the carrying amounts in the consolidated financial statements.

##### *(iii) Deferred tax assets*

Significant estimates are required in determining the provision for income taxes and the recognition of deferred tax assets. The deferred tax assets recognised have been based on future profitability assumptions. In the event of changes to these profitability assumptions the tax assets recognised may be adjusted.

The deferred tax assets include carried forward tax losses of the group and other temporary differences. The group has concluded that the deferred assets (tax losses and temporary differences) will be recoverable while using the estimated future taxable income based on the approved business plans and budgets.

##### *(iv) Onerous lease provisions*

Provisions have been made for property held under operating lease whereby the sublease does not cover the expected future obligations of the head lease.

##### *(v) Make good provisions*

Provision has been made for the future expected costs of returning property under operating leases to original condition as per the lease agreement.

Hydrox Holdings Pty Ltd and controlled entities  
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**4 Revenue**

	2018 \$'000	2017 \$'000
Sale of goods	-	903,127
Revenue from related parties	-	659
<b>Total revenue</b>	<b>-</b>	<b>903,786</b>

**5 Reversal of impairment and reorganisation costs prior to change in control**

	2018 \$'000	2017 \$'000
Reversal of property, plant and equipment impairment prior to change in control	<b>378,551</b>	614,884
	<b>2018 \$'000</b>	<b>2017 \$'000</b>
Gain on disposal of onerous leases prior to change in control	<b>168,212</b>	-
Recognition of onerous leases prior to change in control	<b>(191,864)</b>	-
Other costs for period prior to change in control	<b>(25,697)</b>	-
<b>Reorganisation costs prior to change in control</b>	<b>(49,349)</b>	-

**6 Finance costs - net**

	2018 \$'000	2017 \$'000
<i>Finance income</i>		
Interest income	<b>397</b>	3,158
<b>Finance income</b>	<b>397</b>	3,158
<i>Finance costs</i>		
Interest and finance charges paid/payable	<b>11,996</b>	2,390
Interest expense - onerous lease discount unwind	-	21,980
Amortisation of borrowing costs	<b>3,145</b>	-
Foreign exchange gain	-	(165)
<b>Finance costs expensed</b>	<b>15,141</b>	24,205
<b>Net finance costs</b>	<b>(14,744)</b>	(21,047)

## 7 Income tax (benefit)/expense

### (a) Income tax (benefit)/expense

	2018 \$'000	2017 \$'000
<i>Current tax</i>		
Current tax on profits for the year	-	149
<b>Total current tax expense</b>	<b>-</b>	<b>149</b>
<i>Deferred tax</i>		
Decrease (increase) in deferred tax assets (note 13)	(128,277)	-
<b>Total deferred tax benefit</b>	<b>(128,277)</b>	<b>-</b>
<b>Income tax (benefit)/expense</b>	<b>(128,277)</b>	<b>149</b>

Following a reorganisation of the entities in the group and an improved trading outlook as a result of the execution of a number of property leases with tenants the group reviewed previously unrecognised tax losses and determined that it was now reasonably certain that taxable profits will be available against which the tax losses can be utilised.

### (b) Numerical reconciliation of income tax (benefit)expense to prima facie tax payable

	2018 \$'000	2017 \$'000
Profit before income tax expense	388,031	447,584
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	116,409	134,275
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-assessable income	(162,236)	(319,602)
Permanent differences and others	84	149
Current year losses not recognised	8,548	185,327
Recognition of previously unrecognised deferred tax assets	(91,082)	-
<b>Income tax (benefit)/expense</b>	<b>(128,277)</b>	<b>149</b>

**7 Income tax (benefit)/expense (continued)**

**(c) Tax losses**

	2018 \$'000	2017 \$'000
Unused capital and revenue tax losses for which no deferred tax asset has been recognised	2,173,009	1,837,854
Potential tax benefit @ 30.0%	651,903	551,356

**8 Assets and liabilities classified as held for sale**

	2018 \$'000	2017 \$'000
Property held for sale	19,500	66,750

**9 Cash and cash equivalents**

	2018 \$'000	2017 \$'000
<b>Current assets</b>		
Cash at bank and in hand	29,501	110,422

**(a) Restricted cash**

The above includes cash that is subject to restrictions.

Cash backed Bank Guarantees issued	(1,591)	-
6 month interest reserve	(6,245)	-
	(7,836)	-

Unrestricted cash	21,665	110,422
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**10 Trade and other receivables**

	2018			2017		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Trade receivables	926	-	926	-	-	-
Loans to related parties	-	10,791	10,791	-	-	-
Other receivables	1,646	-	1,646	10,417	-	10,417
Provision for impairment of receivables	-	-	-	(2,915)	-	(2,915)
Prepayments	3,573	-	3,573	4,149	16	4,165
	<b>6,145</b>	<b>10,791</b>	<b>16,936</b>	<b>11,651</b>	<b>16</b>	<b>11,667</b>

**11 Property, plant and equipment**

	Property, Plant and equipment \$'000
<b>Non-current</b>	
<b>At 25 June 2017</b>	
Net book amount	<u>525,000</u>
<b>Period ended 30 June 2018</b>	
Opening net book amount	525,000
Disposals	(327,657)
Reversal of impairment	378,551
Additions	11,804
Impairment - utilisation of onerous lease provision	(11,793)
Transfer to investment properties	<u>(575,905)</u>
Closing net book amount	<u>-</u>
<b>At 30 June 2018</b>	
Cost	-
Accumulated depreciation	<u>-</u>
Net book amount	<u>-</u>

## 12 Investment properties

	2018 \$'000	2017 \$'000
<b>Non-current assets - at fair value</b>		
Transfer from property, plant and equipment	575,905	-
Additions	88,584	-
Disposals	(15,800)	-
Classified as held for sale or disposals	(19,500)	-
Net unrealised gain from fair value adjustments	74,725	-
Straight-lining of rent and amortisation	759	-
<b>Closing balance at 30 June 2018</b>	<b>704,673</b>	<b>-</b>

Investment properties, principally for rental to retail tenants are held for long term rental yields and are not occupied by the group. They are carried at fair value. Changes in fair value are presented in profit and loss.

*(i) Amounts recognised in profit or loss since reclassification to investment properties*

	2018 \$'000
Rental income	14,156
Direct operating expenses from property that generated rental income	(14,114)
Fair value gain	74,725

*(ii) Fair value hierarchy*

This note explains the judgements and estimates made in determining the fair values of the investment properties that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial assets and liabilities into the three levels prescribed under the accounting standards. An explanation of each level is provided in note below:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>30 June 2018</b>				
Investment properties				
Freehold	-	-	704,673	704,673
<b>Total non-financial assets</b>	-	-	704,673	704,673

The group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels for recurring fair value measurements during the year.

*(iii) Valuation inputs and relationships to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

## 12 Investment properties (continued)

(iii) Valuation inputs and relationships to fair value (continued)

	Fair value at		Range of inputs (probability - weighted average)	
Description	30 June 2018 \$'000	Unobservable inputs	2018	Relationship of unobservable inputs to fair value
Freehold Properties	\$704,673	Capitalisation rate	6.00%-8.50% (7.25%)	A higher capitalisation rate, discount rate, or terminal yield will lead to a lower fair value.
		Discount rate	7.25%-9.00% (8.13%)	
		Terminal yield	6.25%-8.50% (7.48%)	
		Rental growth	2.31%-3.34% (2.60%)	A higher rental growth rate will lead to a higher fair value.

(iv) Valuation techniques used to determine level 2 and level 3 fair values

The group obtains independent valuations for its investment properties periodically.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

- Current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- Discounted cash flow projections based on reliable estimates of future cash flows
- Capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence.

All resulting fair value estimates for properties are included in level 3.

Other than described above, there were no changes in valuation techniques during the year.

(v) Leasing arrangements

Investment properties to tenants under long-term operating leases with rentals payable monthly. Minimum undiscounted lease payments receivable on leases of investment properties are as follows:

	<b>2018</b>
	<b>\$'000</b>
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:	
Within one year	18,896
Later than one year but not later than 5 years	79,803
Later than 5 years	44,512
	143,211

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**13 Deferred tax assets**

	2018 \$'000	2017 \$'000			
<b>The balance comprises temporary differences attributable to:</b>					
Onerous provisions	46,616	-			
Tax losses	20,751	-			
Others	5,459	-			
Investment property	55,451	-			
	<b>128,277</b>	-			
			Tax losses	Onerous provision	Investment property
	\$'000	\$'000	\$'000	\$'000	\$'000
Movements					Other
<b>At 25 June 2017</b>	-	-	-	-	\$'000
					Total
(Charged)/credited					\$'000
- to profit or loss	20,751	46,616	55,451	5,459	128,277
<b>At 30 June 2018</b>	<b>20,751</b>	<b>46,616</b>	<b>55,451</b>	<b>5,459</b>	<b>128,277</b>

**14 Trade and other payables**

	2018	2017			
	Current	Non-current	Total	Current	Non-current
	\$'000	\$'000	\$'000	\$'000	\$'000
					Total
					\$'000
Trade payables	6,083	-	6,083	11,608	-
Related party payables	-	-	-	751	-
Accrued expenses	17,060	-	17,060	4,350	-
	<b>23,143</b>	-	<b>23,143</b>	16,709	-
					16,709

## 15 Borrowings

	2018			2017		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
<i>Secured</i>						
Bank loans	-	276,799	276,799	-	-	-
Capitalised borrowing costs	-	(6,655)	(6,655)	-	-	-
Total secured borrowings	-	270,144	270,144	-	-	-
<i>Unsecured</i>						
Loans from related party - Woolworths Limited	-	-	-	110,512	-	110,512
Total unsecured borrowings	-	-	-	110,512	-	110,512
Total borrowings	-	270,144	270,144	110,512	-	110,512

The bank loans are secured by first mortgages over the group's freehold land and buildings, including those classified as investment properties.

## 16 Provisions

	2018			2017		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Onerous lease provision	44,571	110,816	155,387	386,261	-	386,261
Make good provision	-	3,410	3,410	74,826	-	74,826
	44,571	114,226	158,797	461,087	-	461,087

### (a) Information about individual provisions and significant estimates

#### *Make good provision*

The group is required to restore the leased premises of its retail sites to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

#### *Onerous lease provision*

The provision is in relation to the head lease agreements for premises across Australia. The provision represents the lesser of the amount payable upon termination of the lease agreements or the discounted net cash out flow expected to be incurred up to the end of the lease.

## 16 Provisions (continued)

### (b) Movements in provisions

2018	Make good provision \$'000	Onerous lease provision \$'000	Total \$'000
Carrying amount at the start of the year	74,826	386,261	461,087
Utilised prior to change in control	(70,526)	(218,049)	(288,575)
Charged/(credited) to profit or loss			
- additional provisions recognised	-	200,300	200,300
- unused amounts reversed upon disposal	-	(168,212)	(168,212)
Amounts utilised during the year	(890)	(44,913)	(45,803)
Carrying amount at end of year	3,410	155,387	158,797

## 17 Employee benefit obligations

	2018			2017		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Salary and wage accruals	203	-	203	-	-	-
Leave obligations	63	-	63	-	-	-
	266	-	266	-	-	-

The leave obligations cover the group's liability for long service leave and annual leave.

## 18 Contributed equity

### (a) Share capital

	2018 Shares	2017 Shares	2018 \$'000	2017 \$'000
Ordinary shares				
Ordinary shares - fully paid	1,287,740,632	3,486,444,197	3,291,155	3,486,444

### (b) Movements in ordinary shares:

Details	Number of shares '000	Total \$'000
Opening balance 26 June 2016	3,486,444	3,486,444
Shares issued during the period	-	-
Balance 25 June 2017	3,486,444	3,486,444
Opening balance 26 June 2017	3,486,444	3,486,444
Share buy-back during the period	(2,198,704)	(195,289)
Balance 30 June 2018	1,287,740	3,291,155

## 18 Contributed equity (continued)

### (c) 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 of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

### (d) Share buy-back

During the period, a share buy-back occurred as part of the group reorganisation, specified in the share purchase agreement, prior to change in control.

A total of 2,198,703,564 shares were bought back for cash consideration of \$195,288,709.

## 19 Other reserves and accumulated losses

### (a) Other reserves

The following table shows a breakdown and the movements in reserves during the year.

	2018 \$'000	2017 \$'000
Foreign currency translation	-	13
Profit reserve	<b>486,659</b>	-
	<b>486,659</b>	<b>13</b>

	2018 \$'000	2017 \$'000
<b>Movements:</b>		
<i>Profit reserve</i>		
Opening balance	-	-
Profits transferred for future dividend payments	<b>486,659</b>	-
Balance 30 June	<b>486,659</b>	-
<i>General reserve</i>		
Opening balance	-	(5,433)
Disposal of controlled entities - transferred to accumulated losses	-	5,433
Balance 30 June	-	-
<i>Hedge reserve</i>		
Opening balance	-	(4,253)
Disposal of controlled entities - transferred to accumulated losses	-	4,253
Balance 30 June	-	-
<i>Foreign currency translation</i>		
Opening balance	<b>13</b>	15
Disposal of controlled entities - transferred to accumulated losses	<b>(13)</b>	(2)
Balance 30 June	-	<b>13</b>

## 19 Other reserves and accumulated losses (continued)

### (b) Accumulated losses

Movements in accumulated losses were as follows:

	2018 \$'000	2017 \$'000
Opening balance	(3,360,926)	(3,802,933)
Net profit for the year	516,308	447,435
Disposal of controlled entities	-	(5,433)
Other movement	-	5
Transfer to profit reserve	(486,659)	-
Closing balance	<u>(3,331,277)</u>	<u>(3,360,926)</u>

## 20 Dividends

### Franked dividends

Future dividends may be fully franked out of existing franking credits, or out of franking credits arising from the payment of income tax in future years.

	2018 \$'000	2017 \$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30.0% (2017 - 30.0%)	<u>40,901</u>	40,901

The above amounts are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

## 21 Contingent liabilities

At 30 June 2018 the group holds twelve leases of which Woolworths Limited (the previous parent) remains the guarantor. Should more than 5 of these leases not have the guarantor transferred to a group entity at the 5th anniversary of the change in control occurs (i.e. by 31 October 2022) a liability of \$5,000,000 will be due to Woolworths Limited.

No other contingent liabilities exist at 30 June 2018.

## 22 Commitments

### (a) Capital commitments

Significant capital expenditure contracted for in relation to investment properties at the end of the reporting period but not recognised as liabilities is as follows:

	2018 \$'000	2017 \$'000
Within one year	42,286	2,353

## 22 Commitments (continued)

### (b) Non-cancellable operating leases

#### (i) Non-cancellable operating leases

The group has retail premises under non-cancellable operating leases expiring within 5 and 19 years. The leases have various terms, escalation clauses and renewal rights.

<b>2018</b>	2017
<b>\$'000</b>	\$'000

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	28,665	65,782
Later than two years but not later than five years	114,659	261,047
Later than five years	<u>229,139</u>	<u>523,119</u>
	<b>372,463</b>	<b>849,948</b>

## 23 Related party transactions

The group is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest	
			2018	2017
Woolworths Limited	Ultimate and immediate parent entity	Australia	0%	66.67%
WDR Delaware Corporation	Non-controlling interest	USA	0%	33.33%
Home Investment Consortium Trust	Ultimate and immediate parent entity	Australia	100%	0%

### (a) Key management personnel compensation

**2018**  
\$

Total key personnel management compensation	<u>1,075,000</u>
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### (b) Transactions with other related parties

The following transactions occurred with related parties:

**30 June**  
**2018**  
\$

An entity controlled by the director charged the group for office space and associated administrative costs during the period and for management fees up to 31 December 2017	<b>485,000</b>
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**23 Related party transactions (continued)**

**(c) Outstanding balances arising from sales/purchases of goods and services**

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	<b>2018</b>	<b>\$</b>
Included in trade and other payables		
Entity controlled by director as described above	<b>35,000</b>	

**(d) Loans to/from related parties**

	<b>2018</b>	<b>2017</b>	
	<b>\$</b>	<b>\$</b>	
<i>Loans from Woolworths Limited (previous parent entity)</i>			
Beginning of the year	<b>110,512,000</b>	-	
Loans advanced	-	110,512,000	
Loans repayments made	<b>(110,512,000)</b>	-	
Interest charged	-	-	
Interest paid	-	-	
End of year	-	110,512,000	
<i>Loans to Home Investment Consortium Trust (parent entity)</i>			
Beginning of the year	-	-	
Loans advanced	<b>10,791,000</b>	-	
End of year	<b>10,791,000</b>	-	

## 24 Interests in other entities

### (a) Material subsidiaries

The Company's principal subsidiaries as at 30 June 2018 are set out below. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the group		Principal activities
		2018 %	2017 %	
Hydrox Nominees Pty Ltd*	Australia	100	100	Trustee of Hydrox Property Trust
Masters Home Improvement Australia Pty Ltd*	Australia	100	100	Lessor of leasehold properties
Masters Installation Pty Limited	Australia	-	100	Dormant
Hydrox Brands Pty Ltd	Australia	-	100	Dormant
Hydrox Brands Limited	New Zealand	-	100	Dormant
Hydrox Property Trust*	Australia	100	-	Owner of freehold property

\* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. For further information refer to note 25.

## 25 Deed of cross guarantee

Hydrox Holdings Pty Ltd and controlled entities, Masters Home Improvement Australia Pty Ltd and Hydrox Nominees Pty Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and director's report under *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*.

The performance and position of the closed group are the same as that of the consolidated entity.

## 26 Events occurring after the reporting period

Since the end of the period, the group has sold 4 freehold investment properties of which 2 were held for sale for gross proceeds of \$43m.

The group has also exchanged a sale agreement to acquire leased properties at Coffs Harbour, NSW and Hawthorn East, VIC, as well as a put and call option agreement in relation to another property at Upper Coomera, QLD. Deposits were paid in relation to each agreement subsequent to year end and are expected to settle prior to 31 December 2019.

The group has entered into a \$75 million mezzanine financing facility repayable in July 2020.

Subsequent to the end of the financial year the group has signed a binding commitment letter with a syndicate of lenders for a new \$500 million senior debt facility to replace the existing facilities. The facility is subject to satisfying certain conditions, including successfully completing an equity raising.

No other matters or circumstances has arisen since 30 June 2018 that has significantly affected the group's operations, results or state of affairs, or may do so in future periods.

## 27 Parent entity financial information

### (a) Summary financial information

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

	2018 \$'000	2017 \$'000
Balance sheet		
Current assets	31,109	-
Non-current assets	530,523	-
<b>Total assets</b>	<b>561,632</b>	-
Current liabilities	(117)	-
Non-current liabilities	(270,144)	-
<b>Total liabilities</b>	<b>(270,261)</b>	-
<b>Net assets</b>	<b>291,371</b>	-
<i>Shareholders' equity</i>		
Issued capital	3,291,155	3,486,444
Reserves	486,659	-
Retained earnings	(3,486,443)	(3,486,444)
	<b>291,371</b>	-
<b>Profit or (loss) for the period</b>	<b>486,659</b>	(57,158)
<b>Total comprehensive income</b>	<b>486,659</b>	(57,158)

### (b) Guarantees entered into by the parent entity

The parent entity has not provided any other financial guarantees as at 30 June 2018 or 25 June 2017 other than under the cross guarantee (refer to note 25).

### (c) Contingent liabilities of the parent entity

For information about guarantees given by the parent entity, refer to note 21. The parent entity did not have any other contingent liabilities as at 30 June 2018 or 25 June 2017

### (d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity had no contractual commitments for the acquisition of property, plant and equipment as at 30 June 2018 or 25 June 2017.

In the director's opinion:

- (a) the financial statements and notes set out on pages 5 to 37 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards - Reduced Disclosure Requirements, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the financial period ended 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) at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 25.

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



David Di Pilla  
Director

Sydney  
23 August 2019



## *Independent auditor's report*

To the member of Hydrox Holdings Pty Ltd

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### *Our opinion*

In our opinion:

The accompanying financial report of Hydrox Holdings Pty Ltd (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position for the period ended 30 June 2018 and of its financial performance for the period 26 June 2017 to 30 June 2018; and
- (b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

### *What we have audited*

The Group financial report comprises:

- the Consolidated balance sheet for the period ended 30 June 2018
- the Consolidated statement of comprehensive income for the period 26 June 2017 to 30 June 2018
- the Consolidated statement of changes in equity for the period 26 June 2017 to 30 June 2018
- the Consolidated statement of cash flows for the period 26 June 2017 to 30 June 2018
- the Notes to the consolidated financial statements, which include a summary of significant accounting policies
- the Director's declaration.

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### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

### *Independence*

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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### *Emphasis of matter: Material uncertainty related to going concern*

We draw attention to Note 1 in the financial statements which indicates that as at 30 June 2018, current liabilities exceeded current assets by \$12.834 million and at the date of signing these financial statements the Group has two bank facilities in place that expire in April 2020 and July 2020. The going concern of the Group is dependent on these facilities being renewed or refinanced. These conditions set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt over the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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### *Other information*

The director is responsible for the other information. The other information comprises the information included in the annual report for the period ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

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### *Responsibilities of the director for the financial report*

The director of the Company is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the director determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material



misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). This description forms part of our auditor's report.

A handwritten signature in black ink that reads "PricewaterhouseCoopers" in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads "Adam Thompson" in a cursive script.

Adam Thompson  
Partner

Sydney  
23 August 2019