

EAST 72 HOLDINGS LIMITED



**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

30 JUNE 2017

## **DIRECTORY**

### **Directors**

Wayne Adsett	Non Executive Chairman
Andrew Brown	Executive Director
Richard Ochojski	Non Executive Director

### **Company Secretary**

Andrew Brown

### **Registered Office**

Suite 112  
120 Bourke Street  
WOOLLOOMOOLOO  
NSW 2011

### **Communications**

<b>telephone:</b>	(02) 9380 9001
<b>mail:</b>	GPO Box 4870, SYDNEY NSW 2001
<b>email:</b>	admin@east72.com.au
<b>website:</b>	<a href="http://www.east72.com.au">www.east72.com.au</a>

### **Share Registry**

Boardroom Limited  
Level 12  
Grosvenor Place  
225 George Street  
SYDNEY NSW 2000

### **Shareholder Enquiries: 1 300 737 760 / (02) 9290 9600**

Shareholders requiring clarification of holdings, or requesting changes of name or address should contact Boardroom Limited directly. A variety of requisite forms may be downloaded from [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

### **Public listing**

National Stock Exchange of Australia - ticker code: E72

### **Nominated Adviser (NSXA)**

Oakhill Hamilton Pty. Limited  
PO Box 324  
CROWS NEST  
NSW 1585

### **Auditors**

PKF(NS) Audit and Assurance Limited Partnership  
755 Hunter Street  
NEWCASTLE WEST  
NSW 2302

### **Controlled Entity**

East 72 Investments Pty. Limited

### **Bankers**

Bendigo and Adelaide Bank Limited  
National Australia Bank Limited  
Saxo Capital Markets  
Westpac Banking Corporation Limited

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In this Annual Report a reference to "Group", "we", "us" "E72" or "our" is a reference to East 72 Holdings Limited ABN 85 099 912 044 and the entity that it controls unless otherwise stated.

# EXECUTIVE DIRECTOR'S REVIEW

## Fellow Shareholders

For many of you, this is the first annual report for East 72 Holdings (**E72**) since you may only have been an investor since March 2017. At the outset, we are grateful you have come on board; we are a very small company, presently listed on a secondary exchange. We hope to change both of these features over time, but thank you for entrusting us with some of your investment savings at this embryonic stage of development.

Twelve months ago we were rather less than embryonic, more akin to a wry smile on date night. We have progressed meaningfully in a changeable investment environment, and will be putting a proposal to you at the 2017 AGM to give birth to a more sustainable company.

## Fiscal 2017

During the year to 30 June 2017, E72:

- Generated an investment return over the year before corporate expenses of 56.9% or \$300,566 (nearly equivalent to our capital base twelve months ago);
- Paid out or accrued \$58,091 in operating costs;
- Raised new capital of \$2.65million, net of raising costs; and
- Increased net asset backing per share before tax by 61.2% from 22c to 35.5c.

The operating cost line shows you categorically that we are internally managed, on a reasonably frugal basis, and have no role as an asset gatherer.

I would refer you back to last year's annual report – available on our website ([www.east72.com.au](http://www.east72.com.au)) - for a full description of how E72 operates, its use of financial and synthetic leverage through margin lending and derivative contracts. This methodology has given us great flexibility during the fiscal 2017 year, especially in the immediate aftermath of the Brexit vote, and the attractive valuations available in the first quarter of FY2017. To put it simply, you would hardly expect an investment manager to act the same way after a 16% rise in prices (MSCI World index over fiscal 2017 in US\$) as they would prior to that. So we haven't. As you have been able to track in our quarterly reports, we now have a negative exposure to equities and would benefit from a correction in prices, rather than gearing our capital to benefit from a general rise in equity prices.

We have benefitted from a diverse array of equity exposures over the course of the year, including a number flagged ahead of time in our quarterly reports or AGM/update presentations late in 2016 and early this year. Most notably, we saw good contributions from:

- A 64% return in Fortress Investment Group, which agreed to be acquired by Softbank in February 2017, and was highlighted in our 2016 AGM presentation;
- 47% return from ASTM, the Italian roadway company featured in the December 2016 quarterly report;
- 44% return from AP Moller Maersk, which we continue to hold; and
- 49.5% return on cost over three months from Australian financial advisory company, Prime Financial Group.

Our short selling regime has been reasonable, particularly in the context of a rising market. Closed positions in Snap Inc, Myer Holdings, bitcoin, and Lululemon all produced good results. We do have a number of ongoing short positions which are currently showing unrealised losses (and a number showing gains!) but continually re-examine the investment thesis to ensure we are not shorting the next Amazon.

A full listing of our listed equity, long derivative and short sale derivative exposures at 30 June 2017 is given in notes 12, 13 and 15 to the financial statements.

## Proposed acquisition of Stiletto Investments Pty. Limited

As a responsible public company board, E72's recent Director's strategy meeting has mapped out an intended pathway for us to move to a much more sustainable base over the next two years, subject always to our investment performance. This pathway does include examining a listing on ASX at the appropriate time.

As a starting point, this year's AGM will ask you to vote on approving the acquisition of a private investment company, Stiletto Investments Pty. Limited<sup>1</sup> (**Stiletto**), from a group of shareholders who are also shareholders in E72, including myself and family. If approved, Stiletto will add around \$2.3million to pre tax equity, and will be paid for entirely by the issue of E72 shares, thereby expanding our own pre tax equity base to over \$5.5million<sup>2</sup>.

I have to be cautious in commenting since my family have the largest economic interest in Stiletto; whilst suggested by myself, the two non-conflicted directors, Wayne Adsett and Richard Ochojski, have had the final (and only) say to go ahead and put the proposal to shareholders.

Stiletto is the "predecessor" company referred to in February 2017 investment presentation and has an exceptional near seven-year track record. The original subscribers have had more than their entire capital repaid in fully franked dividends, with an unaudited pre-tax return of 22.5%pa compound to 30 June 2017.

Stiletto invests in the same way as E72, so there is an obvious logic in putting the two companies together if shareholders in both are happy to do so. Having a larger equity base will enable E72 to put in place a more sustainable infrastructure – whilst not devouring shareholder returns - and put in place the building blocks for wider access to capital in due course, on terms which I hope benefit the "early-adopters" like yourselves.

If approved, on the relative pricing pertaining at 30 June 2017, my family – as the earliest of the early adopters - will have an increased commitment to E72, with just under 5 million shares.

## Our unique strategy within the Listed Investment Company environment

You may wonder why we are pursuing this unique strategy of an **internally managed** global long/short equity investment company. A little examination of the local listed investment company industry may help.

Having taken decades to lift off, changes in the the listed investment company (**LIC**) industry in Australia in the mid 2000's and more recently have now tainted it to such a degree that many LIC's are plain rip-offs, with reward heavily weighted towards the fund manager, away from the shareholder. Many are merely vehicles for **asset gathering** with the manager, and his local real estate agent, the chief beneficiary. It may take time, but that will eventually become more apparent to the public, with accompanying disillusionment – most likely in a bear market.

Rip-off sounds a strong word but when you consider that many of the vehicles have ten year management contracts at 1%+pa fees – which equates to you signing away 9% of your money at the IPO<sup>3</sup> - as well as having large scale marketing and print costs which take away 1-1.5% of your money before you even start, means that signing up for the standard \$1 IPO effectively means you are really commencing with really less than \$0.90!!

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<sup>1</sup> Stiletto was named in recognition that the majority of the equity subscribers on its reconstruction in August 2010 were female and the name was available. It has no relationship to the establishment based in Camperdown, Sydney

<sup>2</sup> Pro-forma as at 30 June 2017

<sup>3</sup> assuming an 8% pa annual return, 4% dividend payment and 1% management fee

At the end of May 2017, there were 491 “listed managed investment” vehicles, capitalised at \$266billion, listed on ASX. A-REITs comprise over half by value (\$137bn) and the seven infrastructure type funds are a whopping \$67bn. There are exactly 100 equity type LIC’s with a market capitalization at end May 2017 of \$32.4billion, as follows<sup>4</sup>:

<b>AUSTRALIAN</b>	<b>#</b>	<b>Mkt cap</b>	<b>GLOBAL/OTHER</b>	<b>#</b>	<b>Mkt cap</b>
External	21	\$4,152m	Global	18	\$3,385m
Internal	13	\$20,404m	Asian specific	5	\$802m
Smaller comps.	15	\$1,318m	Emerging Markets	6	\$660m
Strategy (eg long/short)	16	\$1,198m	Other	6	\$479m
<b>TOTAL</b>	<b>65</b>	<b>\$27,072m</b>		<b>35</b>	<b>\$5,326m</b>

The thirteen Australian Equity “general” internally managed companies<sup>5</sup> – with over \$20billion - have exceptional attributes in maintaining expenses at levels of an exchange traded fund (ETF) – below 0.2%pa – as well as delivering above index performance over an extended time, albeit with arguably excessive weightings to financial securities.

That leaves 87 externally managed vehicles with about \$12billion of market capitalisation. Whilst a portion<sup>6</sup> have more than succeeded in meeting investor expectations, there are numerous others which are struggling to do so. We see four specific issues with many externally managed LIC’s:

- many don’t use the benefit of permanent equity capital enabling a manager to invest in asset classes and strategies which don’t require immediate liquidation;
- many run “me-too” strategies for very high fees;
- far too many load the IPO with attaching options which are highly dilutive<sup>7</sup>; and
- all external LIC’s run significant additional costs for accounting, custody, non executive Directors, marketing etc.

Take something like Perpetual Equity Investment Company (ASX: PIC) – managed by Perpetual Limited (ASX: PPT). Whilst PIC does have greater flexibility, it generally invests mainly in larger ASX companies, charges a management fee of 1%pa and has underperformed its benchmark by over 1% pa since its December 2014 inception. What’s the issue? Simply that the 1% management fee is around four times what the manager would get for managing institutional accounts of the same \$260m or so size. Unlike the institutional client, Perpetual is locked in for a minimum five and likely ten years of managing PIC. You can buy an S&P/ASX 200index fund ETF for less than one fifth of the price. Perpetual is now having trouble performing, given it has \$22billion of Australian equities, with a variety of self imposed investment guidelines which make areas of the market uninvestible. It’s no surprise that using its “brand’ name to find \$250m of high margin retail funds was an antidote to institutional outflow. Who wins?

## Fund Managers

Given our thinking on the LIC market, it may not be too much of a surprise that we have a few short sale exposures in Australian based fund managers. I should warn these positions may take a while to work out. You should also note we have a number of long positions in overseas domiciled managers. Why?

Australian funds management companies are generally expensive versus their global peers, perhaps reflecting a view that they have a degree of “captive market” in the world’s fifth largest superannuation

<sup>4</sup> source data ASX, compilations by E72

<sup>5</sup> this category includes the esoteric Mercantile Investment Company run by the legendary Sir Ron Brierley

<sup>6</sup> Wilson Asset Management account for over 17% of the externally managed dollars, having vehicles with over \$2.2billion of market capitalisation which have produced excellent results in the longer established vehicles

<sup>7</sup> Morpheic Asset Management has a management agreement in its Morpheic Ethical Equities Fund which enables it to earn a performance fee despite the fact the “outperformance” would likely be diluted away by option exercises!

arena. That's certainly been true, and masses of regulation have tended to entrench their position. However, it's now clear that technology has opened up the market to **low cost** global investment, with increased access to the planet's best investment managers. Many of our leading branded funds managers are not performing well on a **medium term** basis against their benchmarks with much of the "strong long term performance record" being in their early days, well before they were hampered by large scale funds (Magellan perhaps?)

This "captive market" aspect was really well encapsulated by one of the more controversial articles appearing on funds management<sup>8</sup> in the past fiscal year: publicity regarding a smaller fund manager's short sale thesis on Platinum Asset Management (ASX: PTM) the venerable leader of the newer brigade of global managers domiciled in Australia and dominated (in every respect) by the legendary Kerr Nielson. The short seller in question – Morpich Asset Management - put forward a number of well constructed arguments as to its bearishness, but one stood out. Put crudely: Platinum don't "sell", and have an inadequate number of marketing versus investment staff, which would serve to restrict their buffers against moderate performance.

Whether correct on PTM<sup>9</sup> or not, Morpich are on the money in one respect: most Australian fund managers – even some smaller ones - are now just sales machines, rather than investment managers. The business of the business has taken over from the business of investment management.

Technology is changing that at a rate of knots. Whilst the baby boomer generation have the money, Millennials have the knowhow. I can buy securities around the world very cheaply at the individual stock level online, through overseas headquartered brokers who are appropriately licensed in Australia, which also means the worlds of UK investment trusts, other managed funds and ETF's run out of virtually anywhere are at my fingertips. I can set up my own strategy and thematic. I can take responsibility in a way the advise-needy baby boomer generation generally don't.

These are not just short sale positions on the basis that ETF's<sup>10</sup> will plunder their funds and management fees, more the globalising nature of the industry, the low cost alternatives presented by the use of technology. Absent more government bureaucracy and successful lobbying by the industry – which it has been very good at – the friction costs in Australian fund management can only go one way. Which is, of course, why they float and promote LIC's.

### **Cryptocurrencies, platforms and bubbles**

Somewhat amazingly, the world woke back up to the world of crypto-currencies in May 2017. The price of bitcoin having "meandered" up four-fold from late 2015 at ~US\$350 to \$1300, exploded from US\$1250 in late April to a peak of \$3000 in early June. That, of course, isn't the sole story since a myriad of other cryptocurrencies – most notably Ethereum, Litecoin, Ripple (XRP), NEM and EOS (amongst the more than 800!!) – have captured speculator's imaginations.

It's hard not to conclude that this is a bubble of epic proportions. It's understandable perhaps, given the state of much of the world's political system, with despots, dictators, clowns, and totalitarian kleptocracies seemingly in the ascendancy, that Millennials wish to "hide". Hide their skills, their views and their wealth.

However, the currencies generally don't offer an ability to invest in, or benefit from development of the underlying platform, or "distributed ledger technology" (**DLT**) such as blockchain. These currencies emerge from and are held from three areas: proof of work (such as mining a bitcoin), proof of stake (the holder of the coin) and proof of importance (which rewards "participation").

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<sup>8</sup> Australian Financial Review: 3-4 September 2016 "Hedge Fund shorting Neilson"

<sup>9</sup> E72 has not held a short position in PTM

<sup>10</sup> see E72 June 2017 Quarterly Report

The currencies tend to be held out as “stores of value” because they are in “short supply”. However, most have no utility<sup>11</sup> other than for forms of speculation, fraud, hacking and other undesirable aspects. Lack of utility, and 800 of them suggests the currencies themselves to be akin to tulips<sup>12</sup>. We have profitably, and very carefully shorted bitcoin to good effect in the past year, and would expect to be given further opportunities to do so. When you think that quantum computing is around the corner to cut down the mining time of the residual estimated 6-7m bitcoins remaining.....

The DLT platforms are the interesting things. A number have bank “sponsors” – notably Ripple (direct investments by Santander, Standard Chartered amongst others) or Ethereum (via the Ethereum Enterprise Alliance comprising JP Morgan, Credit Suisse, UBS and BNYMellon amongst many others).

Two direct investment questions are raised by DLT platforms:

- who will benefit from the inevitable cost savings which should flow; and
- which industries offering “annuity type” regulated/oligopoly returns will be decimated.

The advent of the internet gave banks a massive cost reduction over prior systems, effectively taking customers out of branches, enabling staff reductions and automating a vast number of previously “human” based decisions. The beneficiaries? The customer to some degree, but the shareholders to a large degree (except where investment banking frittered away the proceeds). Can this happen again?

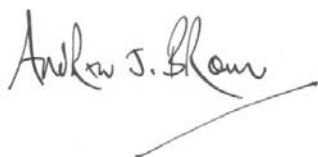
More intriguingly, as was the case with the internet forcing industries out of business, is the scope for DLT to massively reduce the friction costs/revenue for companies which rely on charging for access to a centralised database. Interestingly, especially in Australia, where various governments have mulled the sale of the ASIC Registry<sup>13</sup> or leasing the Land Titles Office. We are using our research on the platforms to advance this thinking as to who wins and loses from DLT, in both the crypto and existing commercial world.

## Outlook

It is evident from our recent portfolio positioning that we are extremely cautious about the pricing embedded into many equity markets at present. We are not saying there will be a harsh correction, but obviously believe it is more likely given the quantum of speculative fervour regarding modern industries and “new age” assets. Yes, they will grow, but the price being asked generally more than reflects a reasonable estimate of this future growth. Additionally, extraordinarily loose monetary policy has created major imbalances in asset pricing and seen money flow to fringe areas. We see lots of opportunities to short sell in this environment, whilst recognising the timing and overall financial risk.

Like any investor, we would much rather find cheap equity in exceptional businesses to purchase and hold, rather than the reverse. It’s easier – you can average down at will if need be - more emotionally satisfying, has a much lower turnover. We are hoping that fiscal 2018 is a financially rather than emotionally pleasing experience.

Sincerely,



Andrew Brown – Executive Director

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<sup>11</sup> Potcoin does enable you to buy cannabis in areas where sale is legal but banks holding the associated sale proceeds is not

<sup>12</sup> for context, Edward Chancellor’s 1999 book “Devil take the Hindmost: A History of Financial Speculation” contains outstanding analyses of the 1636-7 Dutch tulip mania and the 1720 South Sea bubble

<sup>13</sup> one of the most rapacious monopoly enterprises on the planet. \$19 for a company search versus £1 in the UK and free in NZ. Australia seems to be very good at creating these category killer rent seekers, publicly and privately



## DIRECTORS' REPORT

The Directors present their annual report, together with the financial statements on the consolidated entity East 72 Holdings Limited ("**E72**", "**the Company**") and its controlled entities ("**Group**" or "**Economic Entity**") for the financial year ended 30 June 2017.

### DIRECTORS

The names and details of the Directors of the Company in office at the date of this report are:

**Wayne Adsett** (*Chairman*) (Appointed 9 March 2010)

Wayne was a founding partner of Adsett & Braddock Chartered Accountants. Wayne practiced for some 25 years before retiring from the practice and the profession. He specialized in management and taxation of medium sized businesses. He now oversees the management of a number of companies' activities in his role of investor, consultant and director.

**Andrew Brown** (*Executive Director and Company Secretary*) (Appointed 22 April 2016)

Andrew has 36 years experience in the Australian equity market as a stockbroker, corporate investor and funds manager. Andrew has an honours degree majoring in economics and econometrics from the University of Manchester, England and is a Graduate of the Australian Institute of Company Directors.

During the past three years, Andrew has served as a Director of the following other public companies:

- Australian Rural Capital Limited (appointed 16/5/2003 – 19/8/2016)
- Cheviot Bridge Limited (in Liquidation) (appointed 14/2/2003 – ongoing)

**Richard Ochojski** (*Non Executive Director*) (Appointed 22 April 2016)

Richard is an experienced finance executive having been employed within the Banking and Finance industry for more than 30 years. For almost 20 years, until the end of 2005, he worked at Macquarie Bank as a Director of the Banking Division within the Banking and Property Group. Whilst at Macquarie, Richard had a pivotal role in realestate.com.au's public listing on the Australian Stock Exchange and is a former director of Realestate.com.au Limited.

Prior to this he was employed by a number of International Banks in London including The Bank of New York, Swiss Bank Corporation and Sumitomo Bank.

Richard has broad knowledge across a number of industries and in particular he has worked extensively with clients in the services sector. He has an extensive corporate finance and lending background specialising in cash flow lending.

Since leaving Macquarie, Richard has been employed in a number of consulting roles across a broad range of industries and has served on a number of Public Company Boards usually as a Non-Executive Director but also as Executive Chairman.

During the past three years, Richard has served as a Director of the following other public companies:

- Crowd Mobile Limited (appointed 20/3/2013; resigned 13/1/2015)
- Reel Time Media Limited (appointed 9/4/2010; resigned 17/4/2015)

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (continued)

### Interests in the Shares of the Company and Related Bodies Corporate

The relevant interests of each director in the share capital of the Company shown in the Register of Directors' Shareholding as at the date of this report is:

	<i>Ordinary Shares</i>	<i>Unlisted Options</i>
Mr Wayne Adsett	43,188	50,000
Mr Andrew Brown	2,028,571	100,000
Mr Richard Ochojski	7,423	50,000

### Interests in Contracts or Proposed Contracts with the Company

On 27 May 2016, East 72 Holdings Limited agreed a financing facility through a line of credit with Executive Director, Andrew Brown. The line of credit was unsecured, had a limit of \$500,000 and an initial expiry date of 30 June 2017. Interest is charged on drawn amounts at Reserve Bank of Australia Official Rate (currently 1.75%) plus 4.25%, charged daily on drawn amounts and accrued monthly. The line of credit was not drawn, expired on 30 June 2017 and has not been renewed.

## PRINCIPAL ACTIVITIES

The group's primary activities are investment in listed corporations, contracts for difference, futures, other derivatives and other financial assets.

## RESULTS AND DIVIDENDS

The net profit after income tax for the financial year to 30 June 2017 was \$197,437 (2016: loss \$111,071). No dividends were paid or declared during the year.

## TRADING IN COMPANY SHARES

During the 12 months to 30 June 2017, the Company's shares were listed on the National Stock Exchange of Australia ([www.nsx.com.au](http://www.nsx.com.au)). A single trade on 8 June 2017 of 28,571 shares at \$0.35 was made during the year.

## REVIEW OF OPERATIONS

A full review of operations is given on pages 2 - 6 which includes the Executive Director's Review.

## SIGNIFICANT EVENTS DURING THE YEAR

After the reconstruction of the Company in the year to 30 June 2016, E72 took advantage of attractive valuations on global equity markets in the early part of the year to 30 June 2017 (**FY17**) and increased its investment exposure to 142% of equity by 30 September 2016. The resulting gain in net tangible asset backing per share (**NTA/share**) enabled the Company to place new shares and increase the equity base in August 2016 and December 2016. A General Meeting held on 23 February 2017 ratified more substantial placements of new capital culminating in the placement of \$2.2million of new shares on 6 March 2017. Details of all placements during the year are contained in note 22 of the Financial Statements. Towards the end of FY17, the Company reduced its exposure to equity markets and held a net negative exposure to global equities for most of Q4FY17. As a result of new equity and growth of the Company's investment portfolio, NTA/share before tax grew by 61.2% from 22.0c to 35.5c.

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (continued)

### DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of a committee of Directors) attended by each of the Directors of the Company for the 12 months to 30 June 2017 was:

	Directors' Meetings held during period in office	
	No. of meetings eligible to attend	No. of meetings attended
Wayne Adsett	7	7
Andrew Brown	7	7
Richard Ochojski	7	7

### REMUNERATION REPORT (AUDITED)

#### (A) Key Management Personnel

The names and positions of key management personnel of the Company who have held office during the financial year are:

#### Directors

Wayne Adsett	Non Executive Chairman
Andrew Brown	Executive Director
Richard Ochojski	Non Executive Director

#### (B) Directors Remuneration for the financial years ended 30 June 2017 and 30 June 2016

	Short-Term Benefits			Post Employment Benefits		Share Based Payments	Total
	Salaries & fees	Cash bonuses	Non Monetary Benefits	Super-annuation	Other	Options	
<b>2017</b>							
Wayne Adsett	-	-	-	-	-	-	-
Andrew Brown	-	-	-	-	-	-	-
Richard Ochojski	-	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-	-
<b>2016</b>							
Wayne Adsett	-	-	-	-	-	\$10,820	\$10,820
Andrew Brown <sup>a</sup>	-	-	-	-	-	\$21,640	\$21,640
Richard Ochojski <sup>a</sup>	-	-	-	-	-	\$10,820	\$10,820
Kenneth Allen <sup>b</sup>	-	-	-	-	-	-	-
Mark Ellis <sup>b</sup>	-	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	<b>\$43,280</b>	<b>\$43,280</b>

a: appointed 22 April 2016; b: resigned 22 April 2016

#### (C) Specified Executives Remuneration for the years ended 30 June 2017 and 30 June 2016

There were no specified executive remuneration in the period from 1 July 2016 to 30 June 2017 or 1 July 2015 to 30 June 2016.

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### (D) Remuneration Policy

The Non Executive Directors will annually review and recommend the remuneration packages of any members of senior management. The payment of bonuses, options and other incentive payments are annually reviewed by the Non Executive Directors as part of the review of Executive Directors and any future Specified Executives.

The Non Executive Directors can exercise their discretion in relation to approving bonuses, options and incentives but will do so by reference to measurable performance criteria, and are able to seek independent advice on the appropriateness of remuneration packages.

A remuneration policy has yet to be developed by the new board of the Company in light of the Company's small size.

#### (E) Service Agreements

There are no existing service agreements with the Directors or any Specified Executives.

#### (F) Options held by Specified Directors and Specified Executives

By approval of a General Meeting held on 22 April 2016, Wayne Adsett and Richard Ochojski were each granted 50,000 options and Andrew Brown was granted 100,000 options. These options vested on approval and can be exercised at \$0.35 per share until 30 April 2021.

#### (G) Shareholdings by Specified Directors and Specified Executives

Directors	Balance at 1/7/15	Received as Remuneration	Options Exercised	Net change - other <sup>a</sup>	Balance at 30/6/16
Wayne Adsett	43,898	-	-	(710)	43,188
Andrew Brown	1,000,000	-	-	1,028,571	2,028,571
Richard Ochojski	-	-	-	7,423	7,423
TOTAL	1,043,898	-	-	1,035,284	2,079,182

a: net change - other refers to shares purchased or sold during the financial year

#### (H) Performance of East 72 Holdings Limited

*NSX Listing Rules 6.9(9) and (10) require an analysis of the Economic Entity over the past five financial years.*

\$	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Sales Revenue	2,426,955	2,658,575	898,645	14,988	468,571
EBITDA	1,044,408	1,067,742	182,793	(111,071)	316,893
EBIT	1,021,787	1,033,955	181,087	(111,071)	316,893
Profit/(loss) for the year	(14,436)	7,832	(179,773)	(111,071)	197,437

## DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (continued)

### REMUNERATION REPORT (AUDITED) (continued)

#### (H) Performance of East 72 Holdings Limited (continued)

The Company's aim of generating shareholder wealth through the provision of finance in the automotive industry did not provide the requisite return to shareholders as a result of an inability to diversify sources of finance to facilitate provision of loans to the Company's customer base. As a consequence, the Company was not able to adequately amortise overheads across the book of business. In the year to 30 June 2015, the Company arrived at the conclusion that the finance business was better run in privately held hands and organised the divestment to an experienced Director. Between November 2014 and April 2016, the Company was dormant and merely incurred administrative expenses. From late May 2016, the Company has invested in equity securities and derivative instruments, and operated profitably in FY17.

The table below shows the performance for the Company as measured by its share price, distributions via dividends and capital returns and profit from all operations (discontinued or ongoing) over the last five financial years.

	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Share price (year end)	The company's shares did not trade in these financial years				\$0.35
Dividends paid (\$000's)	-	-	-	-	-
Basic earnings per share (cents) <sup>1</sup>	(8.7)	4.7	(108.0)	(30.9)	4.8

1: adjusted for 350-1 consolidation effective 6 May 2016

**This concludes the Remuneration Report, which has been audited.**

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#### INDEMNIFICATION OF DIRECTORS AND OFFICERS

Pursuant to Access and Indemnity deeds signed by the parties when each Director was appointed, the Company has agreed to indemnify each Director against any liability incurred by being a Director of the Company and to pay all of the Directors reasonable defence costs in relation to any claim alleging any liability on the part of the Director as a result of being a Director of the Company.

#### ENVIRONMENTAL REGULATION

No significant environmental regulations apply to the economic entity.

#### CHANGES IN STATE OF AFFAIRS

During the financial year, there were no significant changes in the state of affairs of the economic entity other than those noted under significant events during the year.

#### PROCEEDINGS ON BEHALF OF THE COMPANY

There are no material legal or other proceedings being made on behalf of the Company or against the Company as at the date of this report.

## **DIRECTORS REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (continued)**

### **SUBSEQUENT EVENTS**

On 27 July 2017, E72 announced its intention to acquire a private investment company, Stiletto Investments Pty. Limited (Stiletto) for shares in E72, each company being valued at net tangible asset backing after tax. The acquisition is subject to shareholder approval at the Company's AGM in late September 2017, due to Stiletto being a related party of Andrew Brown, Executive Director of E72.

An independent experts report opining on the proposed transaction is being prepared by Stantons International Securities.

At the relative NTA's of E72 and Stiletto at 30 June 2017, E72 would be required to issue 6,180,402 shares to acquire Stiletto, which has unaudited shareholder's funds at 30 June 2017 of \$2,163,176.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Directors expect to continue to work towards investing the Company's capital. It is likely that the Company will seek to raise additional equity funds over the course of the next twelve months to more appropriately amortise the cost of administering a publicly listed company structure.

### **NON AUDIT SERVICES**

The auditors of the Company did not provide any non-audit related services to the Company.

### **AUDITOR'S INDEPENDENCE DECLARATION**

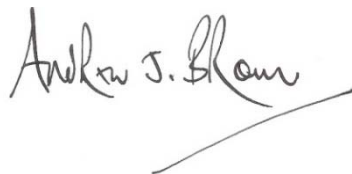
The auditor's independence declaration is included on page 15.

Dated at Sydney this 27<sup>th</sup> day of July 2017.

Signed in accordance with a resolution of the Board of Directors of East 72 Holdings Limited.



*R C Ochojski - Director*



*A J Brown - Director*

# CORPORATE GOVERNANCE STATEMENT – 30 JUNE 2017

## GOVERNANCE PROTOCOLS:

The Company's full Governance Protocols – being Board Charter, Constitution, Code of Conduct and Share Trading Policy – are available at [www.east72.com.au/governance](http://www.east72.com.au/governance)

## BOARD COMPOSITION AND MEMBERSHIP:

The number of directors must consist of no fewer than three and no more than seven. As at the date of this report the board consisted of two non-executive directors (Wayne Adsett and Richard Ochojski) and one executive director, Andrew Brown. The directors have elected Wayne Adsett as Chairman. Individual details of directors, including their skills and experience, are set out in the Directors' Report.

## DIRECTORS' ARRANGEMENTS:

The Group's constitution provides that a director may hold office in any other entity that the Group deals with, with the exception of acting in the capacity of external auditor. Each director must disclose their interests in any other entities with whom the Group deals. It is the practice of the board that when a conflict of interest or a potential conflict of interest exists, the director concerned withdraws from that part of the meeting whilst the matter is being considered. At the discretion of the other board members and depending on the degree to which a conflict exists, the director concerned may be able to be present during discussions but cannot vote or exert influence over other members of the board.

## REMUNERATION OF DIRECTORS:

The total remuneration of non executive directors is determined at a general meeting. Any increase must be approved at a general meeting provided notice of any suggested increase has been given when the meeting was convened. Once total non executive directors' fees have been determined at a general meeting, the directors determine the amount to be paid to each non executive director. Executive directors are not entitled to receive directors' fees. Any director who devotes special attention to the business of the Group, or who otherwise performs services, which in the opinion of other directors are outside the scope of ordinary duties, may be paid such extra remuneration as the directors may determine. All directors are entitled to be reimbursed for any out of pocket expenses incurred by them whilst engaged on the business of the Group. Further details regarding the Group's remuneration policy are dealt with in the Directors' Report.

## SHARE TRADING POLICY:

The Group's share trading policy regulates dealings by the Group's directors, employees and personally related entities of directors and employees in any securities issued by the Group. The purpose of the policy is to ensure that the Group's directors and employees are aware of the legal restrictions on trading any securities issued by the Group while such a person is in possession of unpublished price sensitive information. Additionally, the policy is intended to minimise the chance that misunderstandings or suspicions may arise if the Group's directors or employees are trading in securities while it is reasonable to assume that they may be in possession of price sensitive information. The policy recognises that it may be illegal to trade in the Group's securities while in possession of unpublished price sensitive information.

E72 regards the the following as precluded periods, in which shares may not be traded, namely between:

- End of the calendar month and release of unaudited NTA/share for the relevant month end;
- 30 June each year until a release of the full year results or definitive guidance; and
- 31 December each year until a release of the interim results or definitive guidance.

## **CORPORATE GOVERNANCE STATEMENT – 30 JUNE 2017 (continued)**

### **AUDIT COMMITTEE:**

The Group has not established an audit committee at 30 June 2017 due to the current size of the Group. Any matters of an audit nature are discussed with the external auditors. It is the intention of the board to establish an audit committee when the Group reaches a size for the establishment to be cost effective.

### **AUDIT:**

The board is responsible for the selection and appointment of the external auditor. To ensure the independence of the auditor, the Group will not use the services of the external auditor in a capacity that may jeopardize this independence.

### **RISK MANAGEMENT:**

The board is ultimately responsible for the management and performance of the Group. The board considers the management of risk as one of its key responsibilities. The following processes or procedures have been established to curtail or prevent the occurrence of risks within the Group's operations.

- Establishment of exposure limits across the Group's portfolio of investments;
- Establishment of position limits across the Group's portfolio of investments;
- Establishment of monthly financial reporting systems;
- Transparent dissemination of account information across the Group's directors in relation to stockbroking, banking and derivative accounts; and
- Periodic assessment of our information technology systems which includes the identification and rectification of any potential weaknesses that may exist within the constraints of an organisation of this size.

### **CONTINUOUS DISCLOSURE AND REPORTING:**

The Group is aware of its responsibilities in relation to continuous disclosure as required by the Corporations Act 2001. Directors are also aware of their disclosure obligations at board meetings to keep the Group informed of any matters that are of a serious or significant nature that other directors should be aware of. The outcomes of discussions at board meeting are recorded in the Group's minutes.

During the year to 30 June 2017, the Company has released unaudited NTA/share calculations at the end of each month, together with a more fulsome disclosure of portfolio activity at the end of each quarter.



East 72 Holdings Limited

ACN: 099 912 044

## Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017, 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.



**PKF**  
Chartered Accountants

Newcastle, NSW

Dated: 27 July 2017



**MARTIN MATTHEWS**  
Partner

## **FINANCIAL REPORT FOR THE YEAR TO 30<sup>th</sup> JUNE 2017**

**Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2017**

**Statement of Financial Position as at 30 June 2017**

**Statement of Changes in Equity for the year ended 30 June 2017**

**Statement of Cash Flows for the year ended 30 June 2017**

### **NOTES:**

1. Statement of Significant Accounting Policies
2. Revenues
3. Profit/(Loss) for the Year
4. Finance Costs
5. Auditors Remuneration
6. Income Tax
7. Dividends and Franking Credit Balances
8. Earnings per Share
9. Cash and Cash Equivalents
10. Trade and Other Receivables
11. Financial Assets (Current)
12. Financial Assets – Shares in Listed Companies
13. Financial Assets – Derivative Securities held
14. Financial Liabilities
15. Financial Liabilities – Derivatives sold short for future purchase
16. Financial Liabilities – Borrowings
17. Derivative Account Composition
18. Trade and Other Payables
19. Controlled Entities
20. Parent Entity Information
21. Contingent Liabilities
22. Issued Capital
23. Share Based Payments
24. Key Management Personnel
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26. Cash Flow Information
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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	Economic Entity	
		2017	2016
		\$	\$
<b>Continuing operations</b>			
Revenues	2	468,571	14,988
Other expenses	3	(151,678)	(125,260)
Finance costs	4	(74,418)	(799)
Profit/(loss) before income tax		242,475	(111,071)
Income tax expense	6	(45,038)	-
Profit/(loss) after income tax		197,437	(111,071)
Profit/(loss) attributable to non-controlling interests		-	-
Profit/(loss) after income tax and non-controlling interests		197,437	(111,071)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income/(loss) attributable to owners of East 72 Holdings Limited		197,437	(111,071)
Basic profit/(loss) (cents) per share from continuing operations	8	4.8	(30.9)
Diluted profit/(loss) (cents) per share from continuing operations	8	4.8	(30.9)
Dividends (cents) per share	7	-	-

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

**EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY**

***STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017***

	Note	Economic Entity	
		2017	2016
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	968,628	54,135
Trade and other receivables	10	374	681
Financial assets	11,12,13,17,29	7,126,528	712,021
<b>TOTAL CURRENT ASSETS</b>		<b>8,095,530</b>	<b>766,837</b>
<b>NON CURRENT ASSETS</b>			
Deferred tax assets	6	6,265	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>6,265</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>8,101,795</b>	<b>766,837</b>
<b>CURRENT LIABILITIES</b>			
Financial derivative liabilities	14,15, 17, 29	4,534,004	395,232
Financial liabilities	9, 16	321,975	-
Trade and other payables	18	24,593	52,196
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,880,572</b>	<b>447,428</b>
<b>NON CURRENT LIABILITIES</b>			
Deferred tax liabilities	6	51,303	-
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>51,303</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>4,931,875</b>	<b>447,428</b>
<b>NET ASSETS</b>		<b>3,169,920</b>	<b>319,409</b>
<b>EQUITY</b>			
Issued Capital	22	3,284,824	631,750
Share based payments reserve	23	43,280	43,280
Accumulated Losses		(158,184)	(355,621)
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF EAST 72 HOLDINGS LIMITED</b>		<b>3,169,920</b>	<b>319,409</b>

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017**

<b>ECONOMIC ENTITY</b>	<b>Issued Capital \$</b>	<b>Share Based Payments Reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>As at 30 June 2015</b>	<b>182,700</b>	<b>-</b>	<b>(244,550)</b>	<b>(61,850)</b>
Total comprehensive loss for the year	-	-	(111,071)	(111,071)
Share based payments reserve	-	43,280	-	43,280
Contribution of equity (net)	449,050	-	-	449,050
<b>As at 30 June 2016</b>	<b>631,750</b>	<b>43,280</b>	<b>(355,621)</b>	<b>319,409</b>
Total comprehensive income for the year	-	-	197,437	197,437
Contribution of equity (net)	2,653,074	-	-	2,653,074
<b>As at 30 June 2017</b>	<b>3,284,824</b>	<b>43,280</b>	<b>(158,184)</b>	<b>3,169,920</b>

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017**

	Note	Economic Entity	
		2017	2016
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers		2,739	-
Payments to suppliers and employees		(49,312)	(104,230)
Purchases of equity investments		(1,951,665)	(160,685)
Proceeds of sale of equity investments		322,720	-
Investment in derivative account <sup>†</sup>		(404,000)	(130,000)
Dividends received		19,494	-
Interest received		6,487	-
Finance costs paid <sup>†</sup>		(6,087)	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>26 (A)</b>	<b>(2,059,624)</b>	<b>(394,915)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from equity issuance		2,662,395	449,050
Costs of equity issuance		(10,253)	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>		<b>2,652,142</b>	<b>449,050</b>
Net increase in cash held		592,518	54,135
Cash at the beginning of the financial year		54,135	-
<b>Cash at the end of the financial year</b>	<b>9</b>	<b>646,653</b>	<b>54,135</b>

† Dividends earned, dividends paid away, interest, fees, charges and commissions are capitalised to the derivative account.

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements.

## **EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

#### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been approved for issue by the Board of Directors of East 72 Holdings Limited on 27 July 2017. The functional currency of the entity is measured using the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the economic entity's functional and presentation currency.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements cover the economic entity, consisting of East 72 Holdings Limited and its subsidiary and covers the financial year ended 30 June 2017. East 72 Holdings Limited is a publicly listed entity, incorporated and domiciled in Australia.

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the Group. The principal accounting policies adopted in the preparation of this financial report are set out below.

##### **A. Basis of Preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards ("AASB's"), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures that the financial statements also comply with International Financial Reporting Standards.

The Group is a "for-profit" entity, the principal activities of which during the financial year ended 30 June 2017 included 'equity investment' and 'funds management and financial services'.

##### *Historical cost convention*

These financial statements have been prepared on an accruals basis and are based on historic costs as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

##### *Amendments to Accounting Standards*

In accordance with Corporations Amendment (Corporate Reporting Reform) Act 2010, the economic entity has dispensed with the inclusion of parent company accounts but discloses the requisite information for the parent company as per note 20.

##### **B. Principles of Consolidation**

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of East 72 Holdings Limited ("company" or "parent entity") as at 30 June 2017 and the results of its subsidiary for the year then ended. East 72 Holdings Limited and its subsidiary together are referred to in these financial statements as "group" or "the economic entity".

Subsidiaries are all those entities over which the economic entity has control. The economic entity controls an entity when the economic entity 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 economic entity. They are de-consolidated from the date that control ceases.

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

## **EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY**

### ***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)***

Investments in subsidiaries are accounted for at the lower of cost or recoverable value in the individual financial statements of the parent entity.

#### **C. Operating Segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ("CODM"). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

#### **D. Income Tax**

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

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the reporting date. Current tax (liabilities)/assets are therefore measured at the amounts expected to be (paid to)/recovered from the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the financial year as well as unused tax losses.

Current and deferred income tax (expense)/benefit is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

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

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

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

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

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

East 72 Holdings Limited and its wholly-owned Australian controlled entity implemented the tax consolidation legislation as at 22 April 2016.

The wholly-owned entity has not compensated East 72 Holdings Limited since no deferred tax liabilities were assumed by East 72 Holdings Limited on the date of the implementation of the legislation.



## **EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)**

#### **E. 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 the delivery of the service to the customers. Net gains on investments are recognised when a contract note is issued in the case of a sale of shares or when a signed transfer agreement has been effected with the purchaser.

#### **F. Financial Instruments**

##### *Recognition*

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

##### *Financial assets at fair value through profit and loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

##### *Financial liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation, using the effective interest rate method.

##### *Fair value*

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

##### *Impairment*

At each reporting date, the economic entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

#### **G. Trade and Other Receivables**

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at the reporting date plus accrued interest and less, where applicable, any unearned income or provision for doubtful debts.

#### **H. Trade and Other Payables**

Accounts payable represent the principal amounts outstanding at the reporting date plus, where applicable, any accrued interest.

#### **I. Finance Costs**

Borrowing costs are expensed in the period in which they are incurred.

#### **J. Employee Benefits**

##### *Share based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees and directors in exchange for the rendering of services.

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

Share based payments are expensed over the period that the payments vest to the employee and directors with a corresponding increase in equity over the vesting period. The current series of payments are options, valued by means of averaging (1) a six step binomial option calculation and (2) a Black-Scholes option calculation. Both option calculation methods use an exercise price of \$0.35, underlying security price of \$0.35, 75% volatility and risk-free rate of 1.96% with no dividend payment assumptions.

#### K. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash includes cash at bank and on hand and term deposits, offset by loans from a margin lending or overdraft facility .

#### L. Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable from the Australia Taxation Office. Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to, the Australian Taxation Office is included as part of receivables or payables in the Statement of Financial Position. Cash flows in the Statement of Cash Flows are included on a gross basis. The GST component of cash flows arising from investing and financing activities that are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

#### M. Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the cost of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example, as part of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised in equity.

#### N. Earnings Per Share

##### *Basic earnings per share*

Basic earnings per share is determined by dividing net profit/(loss) after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the year.

##### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect if interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### O. Impairment of Non-Financial Assets

Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

#### P. Fair Value Measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

## **EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY**

### ***NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)***

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

#### **Q. Business Combinations**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

#### **R. Comparative Figures**

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

#### **S. New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

##### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018. Although the Directors anticipate the adoption of AASB9 may have an impact on the Group's financial instruments, it is impractical at this stage to provide a reasonable estimate of such impact.

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### T. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group. The judgements, estimates and assumptions that have a risk of resulting in a material adjustment to the carrying amounts of assets and liabilities is primarily in relation to Level 2 Financial Assets, which is discussed further in Note 29 and share based payments, which is discussed further in Note 23.

	Economic Entity	
	2017	2016
	\$	\$
<b>2. REVENUES</b>		
Profit from sale of derivative instruments	181,279	14,433
Profit from sale of equity investments (A)	52,556	-
Dividends received – other corporations	53,101	555
Interest received	6,515	-
Change in fair value of investments retained - equities	145,542	-
Change in fair value of investments retained - derivatives	25,469	-
Fee and other income	4,109	-
<b>TOTAL REVENUES</b>	<b>468,571</b>	<b>14,988</b>
<b>(A) Net gain from sale of equity investments is composed of:</b>		
Proceeds of sale of equity investments	322,720	-
Cost of sales of equity investments	(270,164)	-
	52,556	-
<b>3. PROFIT/(LOSS) FOR THE YEAR</b>		
<b>EXPENSES</b>		
Auditor's remuneration – audit and review of the financial report	21,152	12,750
Change in fair value of investments retained - equities	-	2,115
Change in fair value of investments retained - derivatives	-	22,404
Commutation of creditors by mutual agreement	-	(14,180)
Directors fees, employee benefits and costs	-	-
Directors fees and costs – share based payments	-	43,280
Dividends paid away on short sale derivatives	54,883	103
Fees, charges and commissions on derivative positions	14,996	919
Legal, professional and accounting costs	6,000	15,360
Loss on sale of derivatives	23,708	3,218
Other expenses	30,939	39,291
<b>TOTAL EXPENSES EXCLUDING FINANCE COSTS</b>	<b>151,678</b>	<b>125,260</b>

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

	Economic Entity	
	2017	2016
	\$	\$
<b>4. FINANCE COSTS</b>		
External - derivatives	68,330	799
External - margin loans	6,088	-
<b>Total finance costs</b>	<b>74,418</b>	<b>799</b>

### 5. AUDITOR'S REMUNERATION

#### Remuneration of the auditors of the parent entity for:

Auditing and reviewing the financial statements	21,152	12,750
	<b>21,152</b>	<b>12,750</b>

### 6. INCOME TAX

#### (A) INCOME TAX

The aggregate amount of income tax expense/(benefit) attributable to the year differs from the amount prima facie payable on the profit/(loss) from ordinary activities. The differences are reconciled as follows:

Profit/(loss) before tax	242,475	(111,071)
Prima facie income tax expense/(benefit) on the profit/(loss) before income tax at 30% (2016: 30%)	72,743	(33,321)
<b>Add/(deduct) tax effect of:</b>		
Franking credits	(5,442)	-
Deferred tax assets (used)/not brought to account	(22,263)	35,796
Other timing differences	-	(2,475)
	<b>(27,705)</b>	<b>-</b>
Income tax expense /(benefit) attributable to entity	<b>45,038</b>	<b>-</b>

The effective tax rate of 18.6% (2016: 0%) mainly arises from the use of prior year tax losses (2016: from adjustments to past deferred tax balances and a decision not to bring to account tax losses in respect of the 2016 year).

#### (B) DEFERRED TAX ASSETS

##### Deferred tax assets comprise:

Excess franking credits	1,049	-
Temporary differences - accruals	5,216	-
	<b>6,265</b>	<b>-</b>

As at 30 June 2016, the economic entity had estimated unrecouped operating income tax losses of \$74,209 which were not presented on the Statement of Financial Position. The benefit of these losses of \$22,263 was not been brought to account as realisation was not probable at the time. Unrecouped tax losses relating to the company's activities prior to April 2016 have been deemed as permanently unrecoverable as a result of a change of business and failure of "common ownership test" and have not been recognised.

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

	Economic Entity	
	2017	2016
	\$	\$

#### 6. INCOME TAX (continued)

##### (C) DEFERRED TAX LIABILITIES

##### Deferred tax liabilities comprise:

Deferred tax on unrealised gains on derivatives and equities	51,303	-
	51,303	-

#### 7. DIVIDENDS AND FRANKING CREDIT BALANCES

##### Franking Credits

Balance of franking account at the reporting date adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years.

	252,833	245,059
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No dividends were declared or paid in respect of the years ended 30 June 2017 or 30 June 2016.

#### 8. EARNINGS PER SHARE

Weighted average number of ordinary shares outstanding during the year used in calculation of EPS:

Basic and diluted EPS	4,130,700	359,268
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Unlisted options currently issued are treated as anti-dilutive since their exercise price was above the net asset backing per share of the Company for most of the 2017 year, and all of the 2016 year. EPS calculations are fully adjusted for the 350-1 share consolidation effected in May 2016.

##### Continuing operations

Earnings used in the calculation of basic and diluted EPS	197,437	(111,071)
Basic and diluted (loss) per share (cents)	4.8	(30.9)

#### 9. CASH AND CASH EQUIVALENTS

Cash on hand and at bank	914,794	39,970
Cash in broking accounts	53,834	-
Net cash and cash equivalents as per statement of financial position	968,628	39,970
Margin lending account balance	(321,975)	14,165
Net cash and cash equivalents as per Statement of Cash Flows	646,653	54,135

#### 10. TRADE AND OTHER RECEIVABLES

Other debtors and receivables	374	681
	374	681

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

	Economic Entity	
	2017	2016
	\$	\$
<b>11. FINANCIAL ASSETS</b>		
<b>Fair value through profit or loss:</b>		
Listed investments at fair value		
- shares in listed corporations (notes 12, 29)	1,991,899	199,243
Derivative securities held at fair value (notes 13, 29)	2,348,882	512,778
Net assets in derivative account (note 17)	2,785,747	-
	<u>7,126,528</u>	<u>712,021</u>

### 12. FINANCIAL ASSETS – SHARES IN LISTED CORPORATIONS

The Economic Entity's shares in listed corporations comprise the following interests:

Company	Industry	Value	Value
Ansell Limited	Healthcare/protection	-	23,696
Associated Capital Group Inc	Investment/funds management	88,427	-
Australian Rural Capital Limited	Agribusiness investment	136,799	-
Beadell Resources	Gold mining	43,000	-
Cabcharge Limited	Taxi management systems	75,900	31,900
Dreamscape Networks Ltd	Domain name sales & hosting	110,000	-
Ellerston Asian Investments	Asian equity closed end LIC	56,100	-
Frontier Digital Ventures Ltd	Digital business investments	30,000	-
Grays Ecommerce Limited	Business Auctions	163,239	-
Greencross Limited	Pet retail & veterinary	-	27,040
Janus Henderson Group PLC	Funds management	-	14,995
Kogan Limited	On-line commerce/MVNO	66,800	-
Matrix Composites Limited	Floatation technology	-	14,067
McGrath Holdings Limited	Real estate agency sales	64,400	-
McPhersons Limited	Consumer products	32,500	-
Medical Australia Limited	Medical products distribution	18,400	-
Mitula Group Limited	On-line real estate	58,200	-
Murray Goulburn Unit Trust	Capital provider to dairy co-op	25,800	-
News Corporation	Media conglomerate	54,750	-
NZME Limited	NZ based media	62,300	-
Pental Limited	Consumer products	51,470	-
PM Capital Global Opps Fund	Global equity closed end LIC	110,500	-
Prime Financial Group Limited	Wealth management & planning	238,229	26,086
Scottish Pacific Group Ltd	Non-bank commercial finance	40,650	-
Seven West Media Limited	Media	81,787	-
Shriro Group Limited	Consumer product distribution	-	12,037
Simonds Group	Housebuilding	53,512	-
Treasure ASA	Investment	49,864	-
Vealls Limited (capital shares)	Investment	80,695	23,250
Webster Limited	Agribusiness, water	68,011	26,172
Westgold Resources	Gold & copper mining	92,000	-
Wm. Wilhelmsen Holding ASA	Shipping based holding co.	38,566	-
		<u>1,991,899</u>	<u>199,243</u>



## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

Economic Entity	
2017	2016
\$	\$

#### 13. FINANCIAL ASSETS – DERIVATIVE SECURITIES HELD

The Economic Entity's derivative securities held comprise the following long exposures held through contracts for difference at fair value:

Company	Industry	Value	Value
A P Moeller Maersk	Shipping/oil	78,485	-
Acacia Research	Patent ownership	29,196	-
AerCap Holdings	Aircraft leasing	96,603	31,288
American Express Inc	Consumer credit	71,204	52,170
AMP Limited	Financial Services	51,900	-
Banca Sabadell SA	Banking	26,438	-
Bank of America	Financial Services	15,774	-
Barclays	Banking	61,814	19,967
British Empire Secs & Gen Trust	Investment trust	23,205	-
Credit Suisse Group	Financial services	94,068	-
Crude Oil	commodity contract	97,469	-
Dell Inc	VM Ware tracker stock	55,627	-
DHT Holdings	oil tanker owner	26,983	-
EasyJet PLC	Airline	69,055	-
EuroStoxx 50 index	European large cap index	-	33,713
Exor SpA	Holding company/reinsurance	105,640	28,950
Fairfax Financial Holdings	Insurance/reinsurance	67,658	-
Fairfax Media	Media/real estate	44,000	-
Fairpoint Communications Inc	Network ownership	-	19,376
Fortress Investment Group	Investment management	-	26,640
Fiat Chrysler	Automobile manufacture	68,690	-
Financiere de L'Odet	Intermediate holding co.	104,325	-
Flow Traders	ETF market making	43,067	-
Foxtons PLC	real estate agency	91,129	-
Frontline	oil tanker owner	14,679	-
Grand City Properties	Residential real estate	36,503	-
Greenlight Capital Re	Reinsurance	40,767	26,332
Hansa Trust PLC	Investment trust	45,986	-
Hornbach Baumarkt	Hardware retail	-	23,471
HRG Group	Holding company	-	21,539
ING Groep	Banking	67,321	22,907
Janus Henderson Group	Investment management	86,800	37,800
KKR and Co LP	Private equity	38,700	26,868
Liberty Global C (LBTYC)	European cable ownership	-	25,529
Liberty LiLAC	Caribbean/South America cable	-	3,573
Lloyds Banking Group	Banking	84,032	16,072
Man Group PLC	Alternative inv. management	-	16,313
News Corp B	Media conglomerate	18,400	-
Owens Illinois	Packaging	43,547	-
Pershing Square Holdings	Hedge fund investment co.	58,517	-
Rubicon Project (The)	Real time ad bidding	33,420	-
Shire PLC	Pharmaceutical	57,425	-



## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

		Economic Entity	
		2017	2016
		\$	\$
<b>13. FINANCIAL ASSETS – DERIVATIVE SECURITIES HELD (continued)</b>			
Company	Industry	Value	Value
SMI 20 index	Swiss equity index	-	43,579
St James Place PLC	Wealth management	-	14,212
Tanker Investments Ltd	Oil tanker owner	36,619	-
Third Point Re	Reinsurance	36,151	-
Twitter	Social media	34,857	-
Virgin Australia Holdings	Airline	16,000	-
Virtu Financial	Market making	103,283	-
Wellard	Animal freight	57,750	-
Wells Fargo	Banking	72,055	-
WPP plc	Advertising & marketing	43,740	22,479
		2,348,882	512,778

### 14. FINANCIAL LIABILITIES

Derivative securities sold short for future purchase at fair value (notes 15, 17)	4,534,004	249,835
Derivative account liabilities (note 17)	-	145,397
	4,504,004	395,232

### 15. FINANCIAL LIABILITIES – DERIVATIVE SECURITIES SOLD SHORT FOR FUTURE PURCHASE

The Economic Entity's derivative securities sold short comprise the following short exposures held through contracts for difference at fair value:

Company	Industry	Value	Value
Amazon Inc	Online/cloud supply chain	-	67,495
Apple	Consumer electronics	93,641	50,780
Bank of the Ozarks	Banking	60,949	-
BHP Billiton	Diversified resources	58,200	-
Blue Sky Alternative Investments	Alternative investment mgt	43,654	-
Caterpillar	Capital equipment	139,740	-
Computershare	Registry & mortgage servs	21,210	-
Corporate Travel Management	Travel services	70,999	-
Dexus Property Group	Office REIT	47,400	-
Ecplix Group	Fleet leasing & services	80,482	-
EuroStoxx50 index	European large cap index	411,449	-
FTSE 100 index	UK large cap index	21,988	-
GUD Holdings	Auto components, pumps	38,730	-
Hanesbrands	Apparel	22,588	-
Hormel Foods	SPAM & processed foods	22,178	-
Istoxx Iboxx High Yield ETF	Low rated bond investor	80,441	-
Lululemon Athletica	Designer spandex	-	31,332
Magellan Financial	Investment management	34,608	-
Marubeni Corp	Conglomerate	-	17,859
McCormick and Co	Spices, foods	38,040	-

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

	Economic Entity	
	2017	2016
	\$	\$

#### 15. FINANCIAL LIABILITIES – DERIVATIVE SECURITIES SOLD SHORT FOR FUTURE PURCHASE (continued)

Company	Industry	Value	Value
NASDAQ 100 index	US equity index	135,746	
Perpetual Limited	Investment management	106,153	-
Pioneer Natural Resources	Oil and gas producer	-	30,603
QBE Insurance	Insurance/reinsurance	23,620	-
S&P/ASX 200 index	Australian equity index	1,360,860	
S&P500 index	US equity index	1,018,451	51,766
Simon Property Group	Shopping mall REIT	21,035	-
Singapore Telecom	Telecommunications	55,136	-
SS&C Technologies	Inv. management software	24,974	-
Telstra Limited	Telecommunications	64,500	-
Tesla Inc	Solar/electrical vehicles	105,803	-
Wall Street index	Dow Jones IA Derivative	213,850	
WD40 Inc	Lubricant	57,399	-
Wesfarmers Limited	Conglomerate	60,180	-
		<u>4,534,004</u>	<u>249,835</u>

#### 16. FINANCIAL LIABILITIES – BORROWINGS (SECURED)

Margin loan	321,975	-
	<u>321,975</u>	<u>-</u>

At 30 June 2017, East 72 Investments Pty. Limited (“E72IPL”) had a margin loan facility of up to \$1,500,000 (2016: \$175,000) with a subsidiary of an ASX listed bank. This facility grants the bank a mortgage charge against all the equity investment assets of E72IPL, and is guaranteed by Andrew Brown, the sole Director of E72IPL and a Director of the Company.

#### 17. DERIVATIVE ACCOUNT COMPOSITION

Andrew Brown, a Director of the Company, is the guarantor of E72IPL’s derivative trading account. Derivative account liabilities arise from the composition of the derivative account at any given time, and are limited only by the composition of security exposures held or sold short, gearing capacity on individual exposures, and margin available within the account. The derivative account composition at the reporting dates was:

Derivative securities – long exposure (notes 11 & 13)	2,348,882	512,778
Derivative securities – sold short exposure (notes 14 & 15)	(4,534,004)	(249,835)
Net exposure to derivative account	<u>(2,185,122)</u>	<u>262,943</u>
<b>Funded by:</b>		
Equity within derivative account	600,625	117,546
Derivative account borrowings (note 14)	-	145,397
Derivative account assets (note 11)	(2,785,747)	-
	<u>(2,185,122)</u>	<u>262,943</u>

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

	Economic Entity	
	2017	2016
	\$	\$
<b>18. TRADE AND OTHER PAYABLES</b>		
<b>CURRENT (UNSECURED)</b>		
Trade creditors	6,425	43,564
Other creditors and accruals	18,168	8,250
Other payables to related parties	-	382
	24,593	52,196

### 19. CONTROLLED ENTITIES

	Country of	Percentage Owned	
	Incorporation	2017	2016
<b>Parent Entity:</b>			
East 72 Holdings Limited (formerly Australian Premier Finance Holdings Limited)	Australia	-	-
<b>Controlled Entity of East 72 Holdings Limited:</b>			
East 72 Investments Pty Limited <sup>†</sup>	Australia	100%	100%

<sup>†</sup> East 72 Investments Pty Limited was incorporated on 22 April 2016

	Economic Entity	
	2017	2016
	\$	\$
<b>20. PARENT ENTITY INFORMATION</b>		
<b>Information relating to the parent entity, East 72 Holdings Limited:</b>		
Current Assets	2,956,810	345,660
Total Assets	2,963,076	345,660
Current Liabilities	18,309	11,523
Total Liabilities	69,612	11,523
Issued Capital	3,284,824	631,750
Share Based Payments Reserve	43,280	43,280
Accumulated Losses	(434,640)	(340,893)
Total Shareholders' Equity	2,893,464	334,137
(Loss) of the parent entity	(93,747)	(96,343)
Total comprehensive loss of the parent entity	(93,747)	(96,343)

As at 30 June 2017 and 30 June 2016, the parent entity had not entered into any guarantees in relation to the debts of its subsidiaries, nor had entered into any contractual commitments for the acquisition of property, plant or equipment.

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

Economic Entity	
2017	2016
\$	\$

#### 21. CONTINGENT LIABILITIES

The Economic Entity has no outstanding contingent liabilities (2016: nil).

#### 22. ISSUED CAPITAL

9,056,428 fully paid authorised ordinary shares  
(2016: 1,449,586 shares)

3,284,824	631,750
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#### Terms and conditions of contributed equity:

Ordinary shares have no par value. Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. The voting rights attached to the ordinary shares at a general meeting of shareholders are such that on a show of hands every member present (in person or by proxy) shall have one vote and on a poll one vote for each share held.

#### MOVEMENT IN ISSUED SHARES OF THE PARENT ENTITY FOR THE YEAR

##### ORDINARY SHARES

Date	Details	Number of shares	\$
1 July 2016	Opening balance	1,449,586	631,750
17 Aug 2016	Share placement at \$0.35 per share	217,414	76,095
6 Dec 2016	Share placement at \$0.35 per share	333,000	116,550
8 Dec 2016	Share placement at \$0.35 per share	300,000	105,000
6 Mar 2017	Share placement at \$0.35 per share	6,327,857	2,214,750
15 Mar 2017	Share placement at \$0.35 per share	428,571	150,000
	Capital raising costs	-	(9,321)
30 June 2017	Closing balance	9,056,428	3,284,824

The Economic Entity, after approval by shareholders at a General Meeting on 22 April 2016, issued 200,000 options to the Directors. These options expire on 30 April 2021 and are exercisable at \$0.35 per share (see note 23).

#### 23. SHARE BASED PAYMENTS

The economic entity issued nil options (2016: 200,000 options) as share based payments during the period.

##### Executive Remuneration

No share based payments were made in the year to 30 June 2017. In the prior year, on 6 May 2016, the company issued 200,000 options each exercisable into one new share of E72 at a price of 35c per share before 30 April 2021, being 50,000 to the Chairman, Wayne Adsett, 100,000 to Executive Director, Andrew Brown and 50,000 to non-executive Director, Richard Ochojski. The options had no vesting provisions. These options had a fair value at the grant date of 21.64c per option, based on a share price of \$0.35, option exercise price of \$0.35, interest rate of 1.96%, no dividend payments and volatility factor of 75%. This is consistent with a Black-Scholes model valuation using these inputs.

The weighted average remaining contractual life of unlisted options outstanding at the end of the financial year was 3.83 years (2016: 4.83 years).

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### 24. KEY MANAGEMENT PERSONNEL

The names and positions held by Key Management Personnel of the economic entity who have held office during the financial year are:

##### Directors

Wayne Adsett	Chairman - Non Executive
Andrew Brown	Director – Executive
Richard Ochojski	Director – Non Executive

##### Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2017	2016
	\$	\$
Short-term employee benefits	-	-
Post-employment benefits	-	-
Share based payments	-	43,280
	-	43,280

##### Shareholding

The number of ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, is set out below:

	Balance at start of the year	Received as part of remuneration	Additions	Disposals / other <sup>a</sup>	Balance at the end of the year
<b>2017</b>					
Wayne Adsett	43,898	-	-	(710)	43,188
Andrew Brown	1,000,000	-	1,028,571	-	2,028,571
Richard Ochojski	-	-	7,423	-	7,423
	1,043,898	-	1,035,994	(710)	2,079,892
<b>2016</b>					
Wayne Adsett	14,863,782	-	-	(14,819,884)	43,898
Andrew Brown	-	-	1,000,000	-	1,000,000
Richard Ochojski	-	-	-	-	-
Kenneth Allen	7,806,891	-	-	(7,784,585)	22,306
Mark Ellis	8,212,740	-	-	(8,189,275)	23,465
	30,883,413	-	-	(29,793,744)	1,089,669

a: 2016 year disposals solely reflect 350-1 share consolidation effective 6 May 2016

##### Related party transactions

Related party transactions are set out in note 28.

#### 25. CAPITAL AND LEASING COMMITMENTS

##### (A) OPERATING LEASE COMMITMENTS

The Economic Entity has no outstanding operating lease commitments (2016: nil).

##### (B) CAPITAL COMMITMENTS

The Economic Entity has no outstanding capital commitments (2016: nil).

##### (C) SUPERANNUATION

The Company does not currently pay Directors fees other than through share based payments.

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

	Economic Entity	
	2017	2016
	\$	\$
<b>26. CASH FLOW INFORMATION</b>		
<b>(A) RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH OPERATING PROFIT/(LOSS) AFTER TAX</b>		
Operating profit/(loss) after income tax	197,437	(111,071)
<b>Cash flows excluded from profit/(loss) attributable to operating activities:</b>		
Purchases of equity investments	(1,951,665)	(160,685)
Sales of equity investments	322,720	
Investment in derivatives account	(404,000)	(130,000)
<b>Non cash flows in operating profit/(loss):</b>		
Change in fair value of equity investments retained	(145,542)	2,114
Change in fair value of derivative investments retained	(25,469)	22,404
Profit on sale of equities	(52,556)	-
Profit on sale of derivatives	(157,571)	(9,950)
Other amounts capitalised to derivative account	103,961	-
Share based payments	-	43,280
<b>Changes in assets and liabilities net of acquisitions:</b>		
(Increase)/decrease in deferred tax balances	45,038	-
Decrease/(increase) in loan receivables	-	-
(Increase)/decrease in sundry debtors & prepayments	307	(681)
(Decrease)/increase in trade creditors & accruals	7,716	(50,326)
<b>Cash flows (used in)/provided by operations</b>	<b>(2,059,624)</b>	<b>(394,915)</b>
<b>(B) LOAN FACILITIES</b>		
Margin lending facilities	1,500,000	175,000
Related party loan facilities	-	500,000
Amount utilised	(321,975)	-
Unused loan facilities	1,178,025	675,000

At 30 June 2017, controlled entity E72IPL had a margin lending facility with a maximum limit of \$1,500,000 (2015: \$175,000) with a controlled entity of an ASX listed bank. The facility is secured by mortgage over the CHESS sponsored equity investments held within the facility.

At 30 June 2016, East 72 Holdings Limited had a financing facility through a line of credit with Executive Director, Andrew Brown. The line of credit was unsecured, had a limit of \$500,000 and expired on 30 June 2017. Interest was charged on drawn amounts at Reserve Bank of Australia Official Rate (currently 1.75%) plus 4.25%, charged daily on drawn amounts and accrued monthly. Interest charged in the year to 30 June 2017 was nil. The facility has not been renewed given the increased availability of external capital.

## 27. EVENTS SUBSEQUENT TO REPORTING DATE

On 27 July 2017, E72 announced its intention to acquire a private investment company, Stiletto Investments Pty. Limited (**Stiletto**) for shares in E72, each company being valued at net tangible asset backing after tax. The acquisition is subject to shareholder approval at the Company's AGM in late September 2017, due to Stiletto being a related party of Andrew Brown, Executive Director of E72.

## **EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)**

#### **27. EVENTS SUBSEQUENT TO REPORTING DATE (continued)**

An independent experts report opining on the proposed transaction is being prepared by Stantons International Securities.

At the relative NTA's of E72 and Stiletto at 30 June 2017, E72 would be required to issue 6,180,402 shares to acquire Stiletto, which has unaudited shareholders funds at 30 June 2017 of \$2,163,176.

#### **28. RELATED PARTY TRANSACTIONS**

##### **(a) Related Parties**

The Group's main related parties are as follows:

###### *(i) Parent Entity*

The Parent Entity is East 72 Holdings Limited, who holds a 100% interest in East 72 Investments Pty Limited.

###### *(ii) Key Management Personnel*

Any persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity are considered key management personnel.

##### **(b) Transactions with Related Parties**

###### **Key management personnel remuneration**

During the financial year, total remuneration of nil (2016: \$43,280) was paid to Directors and key management personnel by the economic entity, including partially owned controlled entities. Details of the payments and shareholdings in East 72 Holdings Limited of Directors and key management personnel are shown in the Remuneration Report contained as part of the Directors Report on pages 9 - 11 of this Financial Report.

###### **Other related party transactions**

In the year to 30 June 2017 – nil.

In the year to 30 June 2016, on 27 May 2016, East 72 Holdings Limited agreed a financing facility through a line of credit with Executive Director, Andrew Brown. The line of credit was unsecured, had a limit of \$500,000 and an initial expiry date of 30 June 2017 or within 30 days of written notice from the lender. Interest was charged on drawn amounts at Reserve Bank of Australia Official Rate (currently 1.75%) plus 4.25%, charged daily on drawn amounts and accrued monthly. The line of credit was undrawn at 30 June 2016. At 30 June 2016, Andrew Brown was owed \$382 by the Company for minor expenses relating to administration costs which does not form part of this credit line.

On 6 November 2014, the then subsidiary Australian Premier Finance Company Pty. Limited ("**APFCPL**") was sold to Kenneth and Joan Allen for \$2,594,799. This transaction was approved by shareholders at a General Meeting held on 4 August 2014 and was considered to be at arms length.

In the year ended 30 June 2016, after the sale of the controlled entity APFCPL, the Company had no remaining business and was dormant until 22 April 2016. As a consequence, from 6 November 2014 to 6 May 2016, various invoices relating to the administration of the Company were paid by APFCPL, a then related entity of Kenneth Allen, a Director of the Company until 22 April 2016. As at 30 June 2015, the balance owed to APFCPL was \$38,301. In the year to 30 June 2016, APFCPL paid a further \$68,471 on behalf of the Company to settle invoices. After adjustments for GST, by mutual agreement, the Company paid \$84,198 to settle the outstanding balance with APFCPL of \$98,378. At 30 June 2017 and as at 30 June 2016, there is no outstanding balance with APFCPL.



## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### 29. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT

The economic entity undertakes transactions in a range of financial instruments including:

- listed shares and equity type securities in other corporations;
- contracts for difference and other derivatives;
- cash assets;
- receivables;
- payables;
- deposits; and
- bills of exchange and commercial paper.

As a consequence, the Economic Entity is exposed to a number of financial risks. The Directors believe that these risks fall into two categories:

- “largely controllable risks” including interest rate risk, credit risk, and liquidity and operational risks; and
- “partly controllable risks” mainly arising from financial market risk.

We seek to sensibly mitigate the controllable risks but recognise that our financial performance is likely to be highly volatile as a result of “mark-to-market” accounting conventions, and the economic entity’s policy of using gearing, derivatives and margin loans to make investments.

The Board provides overall guidance in respect of risk management, mainly in the areas of approving overall exposures, and providing advice and guidance in respect of the economic entity’s debt financing of its activities.

##### (A) CAPITAL RISK MANAGEMENT

We aim to manage equity and debt capital in order to provide returns for shareholders, whilst maintaining the Economic Entity’s ability to pay its debts as and when they come due. As a smaller corporation, there is limited ability to manage the overall cost of capital, since equity capital may not always be accessible, and if so, only at significant theoretical cost. These costs may result in significant dilution to existing shareholders’ percentage interest in the economic entity.

In addition, the supply of debt capital is also not always assured as a result of the economic entity’s requirements to use specialist margin loan facilities, derivatives contracts and support from related interests of its major shareholder. Since the economic entity’s business is of a specialist nature, commercial banks may not always be willing to lend to support its activities, or may do so on terms which are highly constraining. These constraints include not only the price of available credit – referenced by its margin over market based bank bill rates – but also the variable nature of covenants required to be observed by the economic entity.

The Company observed in the Notice of Meeting dated 22 March 2016 that it would maintain overall exposures – including the gross long positions and short positions held using derivatives to a maximum of six times equity, and single directional exposures to four times equity. Other restrictions were noted in relation to single security exposures. Further details are provided in note 29E below.

##### (B) LARGELY CONTROLLABLE RISKS – INTEREST RATE RISK AND EXPOSURES

**Interest rate risk** refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that we use. Non derivative interest bearing assets are predominantly short term liquid assets, such as interest bearing bank accounts. The economic entity currently has access to a loan facility provided by a margin loan.



## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### 29. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

##### (B) LARGELY CONTROLLABLE RISKS – INTEREST RATE RISK AND EXPOSURES (continued)

At current interest rates, over the course of a full year, an increase of 100 basis points in borrowing rates with an accompanying change in deposit rates would decrease pre-tax profit by \$39,618 (2016: \$6,451).

Interest rate risk is not specifically managed since the economic entity has no fixed balance sheet inflow/outflow requirements which would require complex asset-liability management. Given the equity nature of the economic entity's investments, the Directors believe that any increases in the costs of debt finance could be mitigated by the sale of equity investments.

The following table summarises interest rate risk, for the economic entity with weighted average interest rates at reporting date:

	Interest Rate	Fixed Interest Rate \$	Floating Interest Rate \$	Non Interest Bearing \$	Total \$
<b>ECONOMIC ENTITY 2017</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	1.38%	-	894,202	74,426	968,628
Trade and other receivables	-	-	-	374	374
Investments	-	-	-	7,126,528	7,126,528
		-	894,202	7,201,328	8,095,530
<b>Financial Liabilities:</b>					
Derivative account liabilities	2.00%	-	4,534,004	-	4,534,004
Borrowings	5.85%	-	321,975	-	321,975
Trade and other payables	-	-	-	24,593	24,593
		-	4,855,979	24,593	4,880,572
<b>Net Financial Assets/(Liabilities)</b>		-	(3,961,777)	7,176,735	3,214,958
<b>ECONOMIC ENTITY 2016</b>					
<b>Financial assets:</b>					
Cash and cash equivalents	0.02%	-	39,970	14,165	54,135
Trade and other receivables	-	-	-	681	681
Investments	-	-	-	712,021	712,021
		-	39,970	726,867	766,837
<b>Financial Liabilities:</b>					
Derivative account liabilities	2.96%	-	145,397	-	145,397
Securities sold short	-	-	-	249,835	249,835
Trade and other payables	-	-	-	52,196	52,196
		-	145,397	302,031	447,428
<b>Net Financial Assets/(Liabilities)</b>		-	(105,427)	424,836	319,409

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### 29. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

##### (C) LARGELY CONTROLLABLE RISKS – CREDIT RISK

**Credit risk** is the risk that a contracting entity will not complete its obligations under an agreement or financial instrument and cause us to incur a financial loss. We have exposure to credit risk on various financial assets included in our statement of financial position.

The economic entity's two major credit risks relate to:

- its exposure to sold securities transactions where Clearing Members of Australian Securities Exchange are required to settle such transactions in the normal course of business on the Australian Securities Exchange. Clearing Members of ASX Limited are generally covered by the National Guarantee Fund for the types of transactions entered into by the Economic Entity. To help manage this risk, we monitor our exposures to individual entities. The maximum amount to which the economic entity is exposed as at 30 June 2017 is \$nil (2016: \$nil); and
- its exposure to providers of contracts for difference ("CFD") and other derivatives. The economic entity attempts to ensure it deals only with CFD providers who maintain a strict segmentation of client monies from those of the CFD provider itself. The economic entity will not transact business with CFD providers who knowingly co-mingle client and principal funds.

The economic entity is also exposed to credit risk through bank deposits and other simple money market instruments. These risks are managed by the economic entity placing short term deposits and bills only with highly rated major domestic commercial banks.

##### (D) LARGELY CONTROLLABLE RISKS – OPERATIONAL AND LIQUIDITY RISK

**Liquidity risk** includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle or recover a financial asset at all.

To help mitigate these risks we maintain constant monitoring of the economic entity's financial position through a series of cross-linked financial programs, and attempt to ensure the economic entity has accessible liquidity in the form of cash, readily saleable securities and access to line of credit and margin financing. The contracted cash flows of all financial liabilities (refer notes 14-18) are equal to their carrying value and will mature within twelve months of the reporting date.

##### (E) PARTLY CONTROLLABLE RISKS – FINANCIAL MARKET AND SECURITIES RISK

**Financial market risk** is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. In the main, this occurs due to the economic entity's investments in listed ordinary shares whose share prices can fluctuate significantly over short periods of time.

The Board of Directors regard financial market risk as being only partly controllable, since investing in ordinary shares and derivatives is an inherent component of the economic entity's activities, from which it seeks to profit. The economic entity is subject to significant risks which it is largely unable to control. In addition, the economic entity will endure additional risk as a result of investing in smaller and "microcap" companies, together with companies which themselves hold financial assets.

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### 29. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

##### (E) PARTLY CONTROLLABLE RISKS – FINANCIAL MARKET AND SECURITIES RISK (continued)

Investments in these companies are subject to more volatile price fluctuations as a result of:

- illiquidity of trading in the investee company's securities;
- potential proprietorial conflict from large shareholdings owned by management or Directors;
- concentration of major shareholdings, which can lead to extreme negative fluctuations in share prices when single investors seek to sell their securities in the investee company, irrespective of the business performance of the investee;
- lack of diversification of business activities of the investee company, rendering the investee susceptible to volatility within a single industry; and
- non-voting or restricted voting securities or other restrictive mechanisms enshrined in investee constitutions.

In respect of individual securities, the Board of Directors monitors significant exposures to individual securities, other than controlled entities.

The Company observed in the Notice of Meeting dated 22 March 2016 that it would maintain overall exposures – including the gross long positions and short positions held using derivatives to a maximum of six times equity, and single directional exposures to four times equity. As at 30 June 2017 and 30 June 2016, the portfolio exposures exhibited the following characteristics in this respect:

As at 30 June 2017	Exposure	Capital <sup>†</sup>	Ratio	Maximum
Gross long and short exposures (physical & derivative)	\$8,874,785	\$3,214,958	2.76:1	6.1
Gross long exposures (physical and derivative)	\$4,340,781	\$3,214,958	1.35:1	4.1
Gross short exposures (derivative)	\$4,534,004	\$3,214,958	1.41:1	4.1
Single largest non-index long position	\$238,229		2.6%	6%
Single largest non-index short position	\$139,740		1.6%	6%
As at 30 June 2016	Exposure	Capital	Ratio	Maximum
Gross long and short exposures (physical & derivative)	\$961,856	\$319,409	3.01:1	6.1
Gross long exposures (physical and derivative)	\$712,021	\$319,409	2.22:1	4.1
Gross short exposures (derivative)	\$249,835	\$319,409	0.78:1	4.1
Single largest non-index long position	\$52,170		5.4%	6%
Single largest non-index short position	\$67,495		7.0%	6%

† calculated before tax liabilities/assets

At 30 June 2016, the economic entity had one position (short sale of Amazon Inc) which had grown to in excess of the intended portfolio limits.

In the event that the listed company portfolio increased or decreased in value by 10% from the levels of 30 June 2017, there would be a corresponding impact on pre-tax profit/(loss) of (\$19,322) since the company has a net short position in equities (2016: positive \$46,218) (assuming perfect correlations between the securities).

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### 29. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

##### (F) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The group has adopted AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

30 June 2017	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
Financial assets at fair value through profit or loss:				
Shares in other corporations	1,991,899	-	-	1,991,899
Long derivative exposures	-	2,348,882	-	2,348,882
Short derivative exposures	-	(4,534,004)	-	(4,534,004)
TOTAL	1,991,899	(2,185,122)	-	(193,223)

30 June 2016	Level 1 \$	Level 2 \$	Level 3 \$	TOTAL \$
Financial assets at fair value through profit or loss:				
Shares in other corporations	199,243	-	-	199,243
Long derivative exposures	-	512,778	-	512,778
Short derivative exposures	-	(249,835)	-	(249,835)
TOTAL	199,243	262,943	-	462,186

## EAST 72 HOLDINGS LIMITED AND CONTROLLED ENTITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017 (continued)

#### 29. FINANCIAL INSTRUMENTS, RISK MANGEMENT AND CAPITAL RISK MANAGEMENT (continued)

##### (F) NET FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

Financial assets/financial liabilities	Fair value as at 30 June		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
Held for trading financial assets (see notes 11, 12)	Listed Australian equity securities:		Level 1	Quoted bid prices in an active market	N/A	N/A
	\$1,991,889	\$199,243				
Held for trading derivative financial assets (notes 11, 13)	Contracts for difference:		Level 2	Third party provided prices based on active market	N/A	N/A
	\$2,348,882	\$512,778				
Held for trading derivative financial liabilities (notes 14, 15)	Contracts for difference:		Level 2	Third party provided prices based on active market	N/A	N/A
	\$4,534,004	\$249,835				

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. Other data on net fair values of assets and liabilities is presented in notes 11, 12, 13, 14, 15 and 17 to the financial statements.

##### (G) RECONCILIATION OF NET FINANCIAL ASSETS TO NET ASSETS

	Economic Entity	
	2017	2016
	\$	\$
Net Financial Assets as above	3,214,958	319,409
<b>Non financial assets and liabilities:</b>		
Deferred tax assets	6,265	-
Deferred tax liabilities	(51,303)	-
Net assets per balance sheet	3,169,920	319,409

#### 30. COMPANY DETAILS

The Registered Office and Principal Place of Business of the Economic Entity is Suite 112, 120 Bourke Street, WOOLLOOMOOLOO, NSW 2011

#### 31. SEGMENT REPORTING

The Economic Entity operates in only one segment being investment (listed securities and derivative and non-derivative financial assets).

## EAST 72 HOLDINGS LIMITED

### DIRECTORS DECLARATION

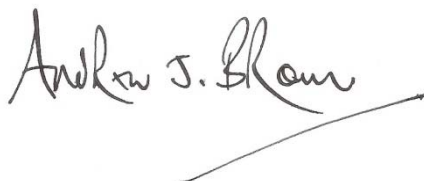
In accordance with a resolution of the Board of directors of East 72 Holdings Limited, we declare that:

- (a) The financial statements and notes of the Economic Entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Economic Entity's financial position as at 30 June 2017 and of its performance for the year ended on that date;
  - (ii) complying with Accounting Standards and Corporations Regulations; and
  - (iii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements; and
- (b) In the opinion of the directors, there are reasonable grounds to believe that the Economic Entity will be able to pay its debts as and when they become due and payable.
- (c) The Executive Director has declared that:
  - (i) the financial records of the Economic Entity for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (iii) the financial statements and notes for the financial year give a true and fair view.
- (d) The remuneration disclosures that are contained in pages 10 to 12 of the Directors' Report comply with Australian Accounting Standard AASB 124 Related Parties and Corporations Regulations 2001.

On behalf of the Board



R C Ochojski  
Director



A J Brown  
Director

Date: 27 July 2017

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF EAST 72 HOLDINGS LIMITED

#### Report on the Financial Report

##### Opinion

We have audited the accompanying financial report of East 72 Holdings Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion:

- a) The financial report of East 72 Holdings Ltd is in accordance with the Corporations Act 2001, including:
  - i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
  - ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.
- b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

##### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility 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 consolidated entity in accordance with 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.

##### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.

These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

## 1. Valuation & Existence of Securities Portfolio

### Why significant

As at 30 June 2017, a significant proportion of the Company's assets (88%) and liabilities (92%) are made up of leveraged equities and derivative securities. The fair value of financial assets is \$7,126,528 (2016: \$712,021) and financial derivative liabilities are \$4,534,004 (2016: \$395,232) as disclosed in notes 11 and 14 of the financial report. As noted in note 1(f) of the financial report, securities are recognised initially at cost on trade date and are subsequently re-measured at fair value through the profit and loss in accordance with AASB 139.

Based on the above, we have considered the valuation and existence of financial assets and financial liabilities to be a Key Audit Matter.

### How our audit addressed the key audit matter

We used independent sources to perform substantive testing on a sample of financial assets and financial liabilities. This included:

- agreeing the quantity of securities held and recognised in the financial report to external independent trading statements held in the Company's name;
- confirming the market value as at 30 June 2017 using trading websites; and
- reviewing reconciliations and supporting documentation to confirm market movements. This included calculating the gain/loss on a sample of shares sold during the year.

Our testing noted no material misstatements in the valuation and existence of financial assets and financial liabilities.

We also assessed the appropriateness of the related disclosures in Notes 11, 12, 13, 14, 15, 17, and 29.

### Other Information

The Directors are responsible for the other information. The other information comprises the information included in the consolidated entity's Annual Report, 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 we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Directors' Responsibilities for the Financial Report

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



In Note 1, the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards.

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

### Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. 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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individual or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

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 assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.

We evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements. We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### Opinion

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of East 72 Holdings Ltd for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**PKF**  
Chartered Accountants

Newcastle, NSW

Dated: 27 July 2017



**MARTIN MATTHEWS**  
Partner

## EAST 72 HOLDINGS LIMITED.

### OTHER REQUIRED INFORMATION – YEAR ENDED 30 JUNE 2017

#### A. Range of Shares Issued as at 10 July 2017

As at 10 July 2017 there were 9,056,428 shares held by 98 shareholders, all of which were quoted on the NSXA.

Range	Holders	Shares held	% of capital
1-1,000	14	1,652	0.0
1,001-5,000	3	6,178	0.1
5,001-10,000	26	175,291	1.9
10,001-100,000	28	957,892	10.6
100,001-9,999,999,999	27	7,915,415	87.4
<b>Totals</b>	<b>98</b>	<b>9,056,428</b>	<b>100.0</b>

#### B. Top Twenty shareholders as at 10 July 2017

Holder	Shares	%
Donna Ann Brown	800,000	8.83%
David John Gallop & Katherine Mary Gallop <Gallop Super Fund A/C>	671,428	7.41%
J & S Rayner Pty Ltd <Rayner Super Fund A/C>	647,429	7.15%
Abron Investments Pty Limited	520,000	5.74%
Stephen Murray Roberts & Megan Roberts <Dover Downs Super Fund A/C>	514,000	5.68%
Clapsy Pty Limited <Baron Super Fund A/C PY>	430,700	4.76%
Pax Pasha Pty Limited	428,571	4.73%
Stiletto Investments Pty Ltd	400,000	4.42%
Kew Superannuation Fund Pty Ltd <KW Super Fund A/C>	285,715	3.15%
TCWH Pty Ltd <TCWH Super Fund A/C>	285,715	3.15%
Laufmann Longterm Investments Pty Ltd <Laufmann Super Fund A/C>	285,714	3.15%
Ruck & Maul Pty Ltd <John Eales Family A/C>	214,287	2.37%
Larsen Family Pty Ltd <The Larsen Family A/C>	214,286	2.37%
Abron Management Services Pty Limited <Brown Family Super A/C>	200,000	2.21%
WSB Super Pty Limited <Wsb Dist Super Fund A/C>	195,857	2.16%
Phillip Jason Stanway & Linda Jean Stanway <P & L Stanway Super Fund A/C>	195,857	2.16%
Pethol (Vic) Pty Limited <Macdy No 5 Super A/C>	186,000	2.05%
Slate Creek Pty Limited <Phil Stanway Family A/C>	155,857	1.72%
Stanway Nominees Pty Limited <RI & PT Stanway Family A/C>	155,857	1.72%
Patrick James Dymock Elliott	151,000	1.67%
<b>TOP 20 SHAREHOLDERS</b>	<b>6,938,273</b>	<b>76.61%</b>

#### C. Voting Rights

Shareholders are entitled to one vote for each share held. On a show of hands every shareholder present in person or by proxy shall have one vote and upon a poll, every shareholder so present shall have one vote for every share held.

## OTHER REQUIRED INFORMATION – YEAR ENDED 30 JUNE 2017 (CONTINUED)

### D. Substantial Shareholders

The company is aware of five shareholders who holds relevant interests of in excess of 5% of the company's ordinary shares as at 10 July 2017:

<b>Holder</b>	<b>Shares held</b>	<b>% of capital</b>
Andrew John Brown and Donna Ann Brown (relevant interests)	2,028,571	22.4%
David John Gallop & Katherine Mary Gallop <Gallop Super Fund A/C>	671,428	7.4%
J & S Rayner Pty Ltd <Rayner Super Fund A/C>	647,429	7.1%
Stephen Murray Roberts & Megan Roberts (relevant interests)	528,000	5.8%
Paul Antony Young (relevant interests)	466,700	5.2%