

# **AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**

**ABN 37 004 268 679**

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## **APPENDIX 4E STATEMENT FOR THE YEAR ENDED 30 JUNE 2020**

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- Results for announcement to the market
- Letter to Australian Securities Exchange
- Financial Statements
- Independent Audit Report

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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The reporting period is the **year ended 30 June 2020** with the prior corresponding period being the year ended 30 June 2019.

This report is based on audited financial statements. A copy of the audit report can be found on page 32 of the financial statements.

### Results for announcement to the market:

- Revenue from ordinary activities was \$46.5 million, down 25.6% from the prior year.
- Profit after tax was \$41.1 million, down 26.2% from the prior year.
- Total net profit for the period of \$41.1 million excludes net realised gains and losses which are transferred directly to the Asset Realisation Reserve under the accounting standards.
- Total net profit includes special dividends of \$1,103,000 after tax (prior year \$6,806,000). Excluding these items revenue fell 18.7%\* and profit after tax fell 18.2%\*.
- Earnings per share based on profit after tax were 33.1 cents, a decrease of 26.3%. Excluding the special dividends distributed, earnings per share fell 18.3% to 32.2 cents\*. The weighted average number of ordinary shares for the year was 124,488,838 compared to 124,180,194 in the prior year, an increase of 0.3%.
- The final dividend is 19.0 cents per share (19.0 cents prior year) fully franked at 30%, bringing total dividends for the year to 36.0 cents fully franked at 30% (prior year 36.0 cents). The dividend is payable on 22 September 2020. The record date for determining entitlement to the final dividend is 3 September 2020.
- The final dividend will not include any Listed Investment Company capital gain dividend.
- The Company operates a Dividend Reinvestment Plan (“DRP”) under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be at the volume weighted average selling price of shares traded on the Australian Securities Exchange in the five days commencing from the day the shares start trading on an ex dividend basis, without any discount. The last day for the receipt of an election notice for participation in the plan is 4 September 2020.
- The net tangible asset backing per share based on the market valuation of investments was \$8.59 at 30 June 2020, compared to \$9.85 at the end of the prior year. These calculations are after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains/losses, and before provision for the final dividend.

\* Additional non IRFS information.

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**

ABN 37 004 268 679

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101 COLLINS STREET  
MELBOURNE VIC 3000  
AUSTRALIA

TEL (613) 9654 0499  
EMAIL INFO@AUL.COM.AU

19 August 2020

The General Manager  
Australian Securities Exchange  
P O Box H224  
Australia Square  
Sydney NSW 2000

Dear Sir,

**Financial Results and Dividend Announcement**  
**for the Financial Year Ended 30 June 2020**

The Directors make the following report concerning the Company's performance and final dividend.

**Operating Profit and Realised Capital Gains**

Profit after income tax for the year ended 30 June 2020 was \$41,145,000 (last year: \$55,777,000).

The profit includes special dividends of \$1,103,000 (prior year \$6,806,000). Excluding these items profit after tax fell 18.2%\*.

Excluding special dividends received the Company's revenue fell 25.6% on last year. During the second half of the financial year the COVID-19 pandemic affected the operations and outlook for many of the investee companies and a number of dividends and distributions were deferred, reduced or cancelled.

Net realised losses on the Company's investment portfolio after tax were \$930,000 (last year net losses: \$4,315,000), which under accounting standards are transferred directly to the Asset Realisation Reserve and not included in Net Profit.

**Earnings Per Share**

Earnings per share based on the weighted average number of shares on issue for the year were 33.1 cents, a fall of 26.3%. Excluding special dividends, earnings per share fell 18.3% to 32.2 cents\*.

The weighted average number of ordinary shares for the year was 124,488,838 compared to 124,180,194 last year, taking into account the shares issued under the dividend re-investment plan, an increase of 0.3%.

**Dividends**

The Directors also announce a final dividend of 19.0 cents per share fully franked at 30% to shareholders registered on 3 September 2020, to be paid on 22 September 2020. The comparable 2019 final dividend was 19.0 cents per share fully franked at 30%. Together with the interim dividend of 17.0 cents per share, total dividends for the year are 36.0 cents per share fully franked (last year 36.0 cents).

\* Additional non IFRS information.

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The directors have decided to maintain the final dividend even though total dividends for year ended 30 June 2020 are not covered by earnings in that year. Over the previous years, there have been some accumulated retained earnings and franking credits and these are being drawn on to cover the dividends for the year ended 30 June 2020.

Given the uncertainties, the directors cannot foreshadow whether or not this will be the case for the current year which will see another significant fall in dividends received by the company.

### **LIC Capital Gains**

The final dividend will not include any Listed Investment Company capital gain dividend.

### **Dividend Reinvestment Plan**

The Company operates a Dividend Reinvestment Plan ("DRP") under which shareholders may elect to have all or part of their dividend payment reinvested in new ordinary shares. Pricing of the new DRP shares will be at the volume weighted average selling price of shares traded on the Australian Securities Exchange in the five days beginning from the day the shares begin trading on an ex dividend basis, without any discount. The last day for the receipt of an election notice for participation in the plan is 4 September 2020.

### **Asset Backing**

The net tangible asset backing per share based on the market valuation of investments was \$8.59 at 30 June 2020 and \$8.46 at 31 July 2020. These calculations are after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains and losses, and before provision for the final dividend.

The Company is a long term investor and does not intend disposing of its total portfolio. If estimated tax on unrealised net portfolio gains were to be deducted, the above figures would be \$7.49 at 30 June 2020 and \$7.40 at 31 July 2020.

### **Performance**

The Company's net asset backing accumulation performance for the year to 30 June 2020 was a fall of 9.6% while the S&P/ASX 200 Accumulation Index fell 7.7% over the same period. The Company's returns are after tax and expenses and the impact of the Company's gearing for which no allowance is made in the S&P/ASX Index.

Including the benefit of franking credits for shareholders who can fully utilise them, the Company's accumulation return for the year to 30 June 2020 was a fall of 8.0% compared to a fall of 6.6% in the S&P/ASX 200 franking credit adjusted return.

The Company's relative performance for the year was assisted by overweight allocations to CSL, Rio Tinto and consumer stocks, and underweight holdings in property stocks. Performance was held back by holdings in Woodside, Westpac, ANZ and underweight allocations to the strong technology and gold sectors.

At 30 June 2020 the Company had cash reserves and undrawn debt of \$86m.

Operating expenses (excluding interest) were 0.12% of the average market value of the portfolio (last year: 0.10%).

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**Annual General Meeting**

The Annual General Meeting of the Company will be held as a virtual meeting on Thursday, 15 October 2020 at 11.00 am. Further details will be announced closer to the date of the meeting. Nominations for elections of directors will close at 5.00pm on Wednesday, 26 August 2020.

**Outlook**

As the effects of the COVID-19 pandemic unfold the outlook for economies and businesses remains uncertain. Financial markets are likely to remain volatile and dependant on central bank and government actions, and the success or otherwise of the containment of COVID-19. It can be expected that company profits and dividend distributions will be in aggregate at significantly lower levels for the year to 30 June 2021.

**Investment Portfolio**

As at 30 June 2020 the twenty-five largest shareholdings of the Company, at market values were:

<b>Company</b>	<b>Market Value \$'000</b>	<b>% of Market Value of Total Investments</b>
1. CSL Ltd	114,800	9.9%
2. Commonwealth Bank of Australia Ltd	90,246	7.8%
3. Transurban Group	78,704	6.8%
4. Rio Tinto Ltd	73,470	6.4%
5. BHP Group Ltd	66,267	5.7%
6. Diversified United Investment Ltd	60,912	5.3%
7. Wesfarmers Ltd	59,176	5.1%
8. Australia & New Zealand Banking Group Ltd	55,920	4.8%
9. Westpac Banking Corporation	55,089	4.8%
10. Woodside Petroleum Ltd	44,382	3.8%
11. Atlas Arteria Ltd	42,699	3.7%
12. Woolworths Ltd	37,280	3.2%
13. National Australia Bank Ltd	36,804	3.2%
14. Ramsay Health Care Ltd	26,941	2.3%
15. Sydney Airport	25,515	2.2%
16. Coles Group Ltd	22,664	2.0%
17. Washington H Soul Pattinson & Company Ltd	22,459	1.9%
18. Seek Ltd	21,890	1.9%
19. Resmed Inc	20,655	1.8%
20. Brambles Ltd	17,664	1.5%
21. Aurizon Holdings Ltd	14,760	1.3%
22. Origin Energy Ltd	14,600	1.3%
23. Carsales.com Ltd	14,192	1.2%
24. Event Hospitality and Entertainment Ltd	12,615	1.1%
25. Orica Ltd	12,480	1.1%
	<b>1,042,184</b>	<b>90.1%</b>
<b>Total Investments at Market Value, Net Short Term Receivables and Cash</b>	<b>1,155,923</b>	

Note: At 30 June bank facilities were \$150M, drawn as to \$85M and cash and net short term receivables (included in the above figures) were \$21M.

Yours faithfully

A J Hancock  
Company Secretary

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**  
**(ABN 37 004 268 679)**

**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2020**

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Report*

The directors of Australian United Investment Company Limited present their Directors' Report together with the financial report for the year ended 30 June 2020 and the auditor's report thereon.

### **Directors**

The directors of the Company at any time during or since the end of the financial year are:

**Charles Goode** AC, B.Com (Hons) (Melb), MBA (Columbia), Hon LLD (Melb), Hon LLD (Mon)  
Non-executive Chairman, Appointed April 1990

Mr Goode is the Chairman of the Boards of Diversified United Investment Limited (since 1991), The Ian Potter Foundation Limited (Governor since 1987, Chairman since 1994) and is Chairman Emeritus of Flagstaff Partners (having been Chairman 2010 – 2019).

Mr Goode was formerly a director of Australia and New Zealand Banking Group Limited (1991 – 2010, Chairman 1996 – 2010) and Woodside Petroleum Limited (1988 – 2007, Chairman 1999 – 2007).

**James Craig** B.Ec/LLB (Adel), LLM (Melb)  
Non-executive Director, Appointed October 2009

Mr Craig is Chairman of River Capital Pty Ltd and IP Generation Pty Ltd, and a director of SC Storage Holdings Pty Ltd and Australian Super. He is Chair of the investment committee of Australian Super. He is Chairman of the Company's Nomination and Remuneration Committee.

**Fred Grimwade** B.Com/LLB (Hons) (Melb), MBA (Columbia), FAICD  
Non-executive Director, Appointed March 2014

Mr Grimwade is a Principal and Director of Fawkner Capital Management Pty Ltd. He is currently Chairman of CPT Global Limited and XRF Scientific Limited, and a director of Select Harvests Limited. Formerly he held senior executive positions with Colonial First State Investments Group, Colonial Mutual Group, Western Mining Corporation and Goldman, Sachs & Co. He is the Chairman of the Company's Audit and Risk Management Committee.

**Dion Hershan** B.Com/B.A. (Mon), MBA (Columbia)  
Non-executive Director, Appointed April 2018

Mr Hershan is Managing Director and Head of Australian Equities at Yarra Capital Management. He has more than 20 years' finance industry experience. Formerly he held senior executive positions with Goldman Sachs Asset Management, Citadel Investment Group (New York), Fidelity Investments (Boston) and Boston Consulting Group.

### **Company Secretaries**

**Andrew Hancock** FCA, B.Ec (Mon), Grad. Dip. CDP (RMIT)  
Company Secretary, Appointed October 1995

Mr Hancock is also the Company Secretary of Diversified United Investment Ltd (since 1991), has served as Chairman and is currently Secretary of the Australian Listed Investment Companies Association.

**James Pollard** CA, B.BusCom (Mon), Grad Cert FP (Kaplan)  
Company Secretary  
Appointed February 2020

Mr Pollard is also a Company Secretary of Diversified United Investment Ltd (since 2020), and has over a decade of experience in accounting, taxation and private wealth advisory.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Report (Continued)*

### **Operating and Financial Review**

The principal activity of the Company is that of an investment company which seeks, through a portfolio of securities predominantly comprising shares of companies listed on the ASX, to provide income and capital appreciation over the longer term. There has been no significant change in the nature of the Company's activities during the financial year.

The Company was affected in the second half of the financial year by the COVID-19 pandemic. The market value of the investment portfolio has been volatile and revenue has been reduced by the fall in dividend and distribution income from the Company's investments. Day to day operations have not been significantly affected.

For the year ended 30 June 2020 the profit after income tax was \$41,145,000 compared to \$55,777,000 in the previous year – a decrease of 26.2%. Special dividends received during the 2020 year were \$1,103,000 after tax (2019: \$6,806,000). Excluding these items, operating profit decreased 18.2%.

The weighted average number of ordinary shares for the year was 124,488,838 compared to 124,180,194 in the previous year, an increase of 0.3%.

The earnings per share was 32.2 cents per share excluding special dividends (2019: 39.4 cents) or were 33.1 cents per share including special dividends (2019: 44.9 cents). The Company incurred expenses (excluding finance costs and after cost recoveries) of \$1,416,000 (2019: \$1,273,000) which is equivalent to 0.12% (2019: 0.10%) of the average market value of the portfolio.

Bank borrowings facilities were \$150 million, drawn as to \$85 million at the end of the financial year (previous year \$150 million, drawn as to \$100 million). Gross debt as a proportion of the portfolio including cash was 7.4% (2019: 7.5%). Cash on hand, cash deposits and net short term receivables were \$20,805,000 or 1.8% of the investment portfolio at market values (2019: \$95,692,000, 7.2%). Net debt as a proportion of the portfolio excluding cash was 5.7% (2019: 0.4%). Annual interest expense was covered 14.8 times by investment revenue (2019: 13.5 times).

As at 30 June 2020 the Company's portfolio had a market value (including cash and net receivables) of \$1,155,923,000 (2019: \$1,325,504,000). A list of the Company's top 25 investments is set out in Note 24 to the financial statements. The net tangible asset backing of the Company's ordinary shares at 30 June 2020 was \$8.59 (2019: \$9.85). This net tangible asset backing calculation is based on investments at market value and is after tax on net realised gains, before any future tax benefit of net realised losses, before estimated tax on net unrealised gains and losses, and before the Company's final dividend. The Company is a long-term investor and does not intend disposing of its portfolio. However, if estimated tax on net unrealised portfolio gains were to be deducted, the net tangible asset backing would be \$7.49 (2019: \$8.38).

During the year the accumulation performance of the Company's net asset backing (before provision for tax on unrealised gains) was a fall of 9.6%, compared to the S&P/ASX 200 Accumulation Index fall of 7.7%.

Dividends declared by the Company for the 2020 financial year total 36.0 cents per share fully franked (2019: 36.0 cents per share fully franked).

It is the Directors' intention to continue to invest in a portfolio of listed securities for long term capital gain and current income. The risks to which the Company is exposed are set out in Notes 19 and 20 to the Financial Statements.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Directors' Report (Continued)

### Dividends

Dividends paid or declared by the Company since the end of the previous financial year were:

	\$'000
<b>Paid or declared during the year</b>	
A final dividend in respect of the year ended 30 June 2019 of 19.0 cents per share fully franked at 30% paid on 20 September 2019.	23,622
An interim dividend in respect of the year ended 30 June 2020 of 17.0 cents per share fully franked at 30% paid on 16 March 2020.	21,162
<b>Paid or declared after end of year</b>	
A final dividend in respect of the year ended 30 June 2020 of 19.0 cents per share fully franked at 30% payable on 22 September 2020.	23,678

### Directors' Meetings

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

	Director's Meetings		Audit and Risk Management Committee Meetings		Nomination & Remuneration Committee Meetings	
	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible	No. of Meetings attended	No. of Meetings eligible
Charles B Goode	14	14	2*	2*	1	1
James S Craig	14	14	2	2	1	1
Fred S Grimwade	14	14	2	2	1	1
Dion C Hershan	14	14	2	2	1	1

\* In attendance – not a committee member.

The Audit and Risk Management Committee comprises Messrs Grimwade (Chairman), Craig and Hershan.

All directors are members of the Nomination and Remuneration Committee, which is chaired by Mr Craig.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Directors' Report (Continued)

### Directors' Interests

The relevant interest of each director in the issued capital of the Company as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Notes	Shares		
	1	2	3
Charles B Goode	126,657	1,303,475	33,583
James S Craig	-	350,000	-
Fred S Grimwade	-	20,000	-
Dion C Hershan	-	12,000	-

### Note:

1. Beneficial in own name
2. Held by an entity/related party in which the director has a relevant interest
3. Held for the Director in accordance with the terms of the Non-Executive Directors 2006 Accrued Entitlements Share Plan

Except as stated above, no director –

- (a) has any relevant interest in shares of the Company or a related body corporate;
- (b) has any relevant interests in debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (c) has any rights or options over shares in, debentures of, or interests in a registered scheme made available by, the Company or a related body corporate;
- (d) is a party to a contract, or is entitled to a benefit under a contract, that confers a right to call for or deliver shares in, or debenture of or interests in a registered scheme made available by the Company or a related body corporate.

### Remuneration report (audited)

	Non-executive Directors' Fees <sup>(i)</sup>					
	2020			2019		
	Fee \$	Superannuation \$	Total \$	Fee \$	Superannuation \$	Total \$
Charles B Goode	162,100	15,400	176,000	155,708	14,792	172,000
James S Craig	80,365	7,635	88,000	78,539	7,461	86,000
Fred S Grimwade	80,365	7,635	88,000	78,539	7,461	86,000
Dion C Hershan	80,365	7,635	88,000	78,539	7,461	86,000
<b>Total</b>	<b>403,195</b>	<b>38,305</b>	<b>440,000</b>	<b>391,325</b>	<b>37,175</b>	<b>430,000</b>

- (i) No additional fees are paid to members of the Board Committees.

The Nomination and Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the Company Secretaries and directors of the Company, including superannuation entitlements, retirement and termination entitlements, and professional indemnity policies. The Company's Key Management Personnel are the Directors and the Company Secretaries.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Directors' Report (Continued)

### Remuneration report (audited) (continued)

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors. The Nomination and Remuneration Committee may seek independent advice on the appropriateness of remuneration packages, given trends in comparative companies and in light of Company activity and changing responsibilities. The remuneration structures are designed to attract suitably qualified candidates, and for the broader outcome of increasing the Company's net profit. Directors' fees are fixed and reviewed annually and the maximum total of directors' fees is set by the shareholders in annual general meeting.

Directors' fees are fixed and not conditional on the Company's performance. However, consideration of the Company's performance and benefits for shareholder wealth in respect of the current financial year and the previous four financial years include:

	2020	2019	2018	2017	2016
Operating Profit (\$ Million)	41.1	55.8	47.8	44.1	42.2
Earnings Per Share (total) (cents)	33.1	44.9	38.6	35.7	35.2
Earnings Per Share (excluding special dividends and capital gains from managed funds) (cents)	32.2	39.4	37.0	34.3	35.0
Dividends paid (cents per share)	36.0	36.0	35.0	34.0	34.0
Share Price 30 June	\$8.05	\$9.08	\$8.65	\$8.09	\$7.15
Management Expense Ratio	0.12%	0.10%	0.09%	0.10%	0.10%
Net asset backing per share before tax on unrealised gains 30 June	\$8.59	\$9.85	\$9.21	\$8.57	\$7.57
AUI net asset backing accumulation return before tax or unrealised gains	(9.6%)	11.2%	11.8%	18.0%	(4.2%)
S&P/ASX 200 Index accumulation return	(7.7%)	11.6%	13.0%	14.1%	0.6%

Each director has entered into a Deed of Access, Indemnity and Insurance with the Company and is covered by the Company's Directors and Officers Liability Insurance. Refer to Note 16 of the financial statements for information relating to the insurance. No director has entered into a material contract with the Company since the end of the previous financial year and there were no other material contracts involving directors' interests existing at year end.

From 1 July 2019, the services of the Company Secretaries, Mr Andrew J Hancock and Mr James A Pollard, are also provided to Diversified United Investment Ltd through an administrative services agreement with the Company. After cost recovery for those services provided to Diversified United Investment Ltd, remuneration paid in relation to their services to the Company are as follows:

	2020	2019
	\$	\$
Andrew Hancock	113,000	126,000
James Pollard	74,500	-
<b>Total</b>	<b>187,500</b>	<b>126,000</b>

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Report (Continued)*

### **Non-audit services**

During the year KPMG, the Company's auditor, has provided taxation services in addition to their statutory duties. They received fees of \$10,531 (2019: \$10,429) for these services including GST.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were reviewed by the Audit and Risk Management Committee to ensure they do not affect the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

### **State of Affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

### **Environmental Regulation**

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

### **Events Subsequent to Balance Date**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

### **Likely Developments**

The directors do not anticipate any particular developments in the operations of the Company which will affect the results of future financial years other than the value of the investment portfolio is expected to fluctuate broadly in line with market movements, and dividend and distribution revenue is expected to continue to be impacted by the effects of the COVID-19 pandemic on the operations of investee companies.

### **Indemnification**

Details of directors' indemnification are set out in Note 16 to the financial statements.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Report (Continued)*

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

The lead auditor's independence declaration is set out on page 9 and forms part of the Directors' Report for the year ended 30 June 2020.

### **Rounding of Amounts**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors, for and on behalf of the board.

Charles Goode  
Director  
Melbourne, 19 August 2020



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

To the Directors of Australian United Investment Company Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian United Investment Company Limited for the financial year ended 30 June 2020 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.

  
KPMG



Chris Sargent

Partner

Melbourne

19 August 2020

**AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED**  
**Statement of Profit or Loss and Other Comprehensive Income**  
**for the year ended 30 June 2020**

	Note	2020 \$'000	2019 \$'000
Revenue from investment portfolio	2(a)	46,529	62,530
Administration and other expenses		(1,678)	(1,273)
Administration costs recovered		262	-
Finance expenses	2(b)	(3,164)	(4,634)
<b>Profit before income tax</b>		<b>41,949</b>	<b>56,623</b>
Income tax expense	4(a)	(804)	(846)
<b>Profit</b>		<b>41,145</b>	<b>55,777</b>
<b>Other Comprehensive Income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Revaluation of investment portfolio for the year		(153,055)	68,013
Provision for tax benefit/(expense) on revaluation of investment portfolio for the year		45,229	(21,017)
<b>Other comprehensive (loss)/profit net of income tax</b>		<b>(107,826)</b>	<b>46,996</b>
<b>Total comprehensive (loss)/profit</b>		<b>(66,681)</b>	<b>102,773</b>
Basic and diluted earnings per share (cents)	5	33.1	44.9

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 30.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Balance Sheet as at 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash assets	17	18,578	83,837
Receivables	7	2,226	11,855
Current tax receivable	4(c)	145	-
Other	9	79	87
<b>Total Current Assets</b>		<b>21,102</b>	<b>95,779</b>
Investment portfolio	8	1,135,118	1,229,812
Plant and equipment	10	28	3
Other	9	235	-
<b>Total Non-Current Assets</b>		<b>1,135,381</b>	<b>1,229,815</b>
<b>Total Assets</b>		<b>1,156,409</b>	<b>1,325,594</b>
<b>Liabilities</b>			
Payables	11	810	873
Borrowings – interest bearing	13	15,000	20,000
Current tax payable	4(c)	-	411
<b>Total Current Liabilities</b>		<b>15,810</b>	<b>21,284</b>
Payables	11	173	
Provision for long service leave		104	50
Borrowings – interest bearing	13	70,000	80,000
Deferred tax liability	4(b)	137,159	182,370
<b>Total Non-Current Liabilities</b>		<b>207,436</b>	<b>262,420</b>
<b>Total Liabilities</b>		<b>223,246</b>	<b>283,704</b>
<b>Net Assets</b>		<b>933,163</b>	<b>1,041,890</b>
<b>Equity</b>			
Issued capital	14(a)	448,411	445,673
Reserves	14(b)	484,752	596,217
<b>Total Equity</b>		<b>933,163</b>	<b>1,041,890</b>

The Balance Sheet is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 30.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Statement of Changes in Equity for the year ended 30 June 2020

	Issued Capital \$'000	Revaluation Reserve \$'000	Realisation Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>As at 1 July 2018</b>	442,948	383,882	20,322	133,910	981,062
<b>Comprehensive Income</b>					
Revaluation of investment portfolio	-	68,013	-	-	68,013
Tax expense on revaluation	-	(21,017)	-	-	(21,017)
Net realised losses on investment portfolio	-	2,794	(2,794)	-	-
Tax expense on net realised gains	-	1,521	(1,521)	-	-
Profit	-	-	-	55,777	55,777
	-	51,311	(4,315)	55,777	102,773
<b>Transactions with shareholders</b>					
Dividend reinvestment plan	2,725	-	-	-	2,725
Dividends paid	-	-	-	(44,670)	(44,670)
	2,725	-	-	(44,670)	(41,945)
<b>As at 30 June 2019</b>	445,673	435,193	16,007	145,017	1,041,890

	Issued Capital \$'000	Revaluation Reserve \$'000	Realisation Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>As at 1 July 2019</b>	445,673	435,193	16,007	145,017	1,041,890
<b>Comprehensive Income</b>					
Revaluation of investment portfolio	-	(153,055)	-	-	(153,055)
Tax benefit on revaluation	-	45,229	-	-	45,229
Net realised gains on investment portfolio	-	(343)	343	-	-
Tax expense on net realised gains	-	1,273	(1,273)	-	-
Profit	-	-	-	41,145	41,145
	-	(106,896)	(930)	41,145	(66,681)
<b>Transactions with shareholders</b>					
Dividend reinvestment plan	2,738	-	-	-	2,738
Dividends paid	-	-	-	(44,784)	(44,784)
	2,738	-	-	(44,784)	(42,046)
<b>As at 30 June 2020</b>	448,411	328,297	15,077	141,378	933,163

The Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 30.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Statement of Cash Flows for the year ended 30 June 2020

	Note	2020 \$'000	2019 \$'000
<b>Cash flows from operating activities</b>			
Interest received		488	1,046
Dividends and trust distributions received		49,854	65,535
Option premium income received		213	96
Other revenue received		262	-
Finance costs paid		(3,276)	(4,821)
Administration and other expenses paid		(1,637)	(1,167)
Income taxes paid		(826)	(693)
<b>Net cash flow from operating activities</b>	17	45,078	59,996
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		48,621	164,307
Return of capital from investment portfolio		195	-
Purchases of investments		(102,075)	(91,334)
Purchases of fixed assets		(31)	(3)
<b>Net cash flow from investing activities</b>		(53,290)	72,970
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(15,000)	(30,000)
Dividends paid net of dividend reinvestment plan		(42,047)	(41,945)
<b>Net cash flow used in financing activities</b>	13	(57,047)	(71,945)
Net increase / (decrease) in cash held		(65,259)	61,021
Cash and cash equivalents at 1 July	17	83,837	22,816
<b>Cash and cash equivalents at 30 June</b>	17	18,578	83,837

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 14 to 30.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### **1. Statement of Significant Accounting Policies**

Australian United Investment Company Limited (the 'Company') is a for-profit Company domiciled in Australia.

The financial report was authorised for issue by the directors on 19 August 2020.

#### **(a) Statement of compliance**

This financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Company complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

#### **(b) Basis of preparation**

The financial report is presented in Australian dollars. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The Company has not applied any Australian Accounting Standards that have been issued as at balance date but are not yet operative for the year ended 30 June 2020 ("the inoperative standards"). The effect of inoperative standards has been assessed and the effect has been identified as not being material.

The Company adopted AASB 16 Leases effective 1 July 2019, using the modified retrospective approach. The application of this standard has not had a material impact on the Company's financial statements. As at 1 July 2019 (the date of adoption by the Company), the Company's office lease gave rise to a right of use asset of \$309,000 and was recognised together with an offsetting lease liability of \$309,000.

The financial report is prepared on a historical cost basis except that the investment portfolio is stated at its fair value.

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

#### **(c) Investments**

The Company is a long term investor. Under Australian Accounting Standards, the Company has elected to classify equity investments at fair value through other comprehensive income, as they are not held for trading. After initial recognition at fair value (being cost), investments are measured at fair value.

Unrealised gains or losses on equity investments are recognised as a separate component of equity in the Asset Realisation Reserve until the investment is sold, collected or otherwise disposed of, at which time the cumulative gain or loss is transferred to the Asset Realisation Reserve.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### 1. Statement of Significant Accounting Policies (continued)

#### (c) Investments (continued)

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the Revaluation Reserve to the Realisation Reserve.

Interest bearing investments are recognised at fair value and then measured at amortised cost. Amortised cost is calculated with any difference between cost and redemption value being recognised in the income statement over the period of the investment on an effective interest basis.

#### (d) Revenue from investment portfolio

The activity of the Company is that of an investment company, returns being in the form of dividends, interest, trust income and option premiums. Dividend income is recognised in the income statement at ex-dividend date and all other income is recognised on an accruals basis. Special dividends are those dividends received which have been designated as special and non-recurring by the declaring company.

The managed funds in which the Company may invest distribute realised capital gains from time to time and these are included in operating revenue, as required under accounting standards.

The Company may write covered call options where it is prepared to sell or reduce an investment at prices higher than current market. Open options contracts are marked to market through the profit and loss account.

#### (e) Taxation

The income tax expense or revenue for the period is the tax payable or receivable on the current period's taxable income based on the company tax rate adjusted by changes in deferred tax assets and liabilities which arise from items being brought to account in different periods for income tax and accounting purposes.

The expected tax on disposal of equity securities in the investment portfolio is recognised directly in the Asset Realisation Reserve and as a deferred tax liability. Where the Company disposes of such securities, tax is calculated on gains made according to the particular parcels allocated to the sale for tax purposes and offset against any capital losses carried forward. At this time, the tax recognised directly in the Revaluation Reserve is transferred to the Realisation Reserve. The associated deferred tax liability is similarly adjusted and transferred to current tax payable.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (f) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing on an effective interest basis.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### 1. Statement of Significant Accounting Policies (continued)

#### (g) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### 2. Revenue and Expenses

	2020 \$'000	2019 \$'000
<b>(a) Revenue</b>		
Ordinary dividends received or due and receivable	40,556	48,640
Special dividends received or due and receivable	1,103	6,806
Dividends received or due and receivable	41,659	55,446
Interest received or due and receivable	488	1,046
Trust distributions received or due and receivable	4,169	5,942
Option premium income	213	96
	46,529	62,530
<b>(b) Expenses</b>		
<i>Finance expenses</i>		
Interest and borrowing expenses	3,164	4,634

### 3. Auditor's Remuneration

	2020 \$	2019 \$
During the year, KPMG, the Company's auditor, received the following remuneration, inclusive of GST:		
- Audit and review of financial reports	50,994	48,785
- Tax related services	10,531	10,429

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 4. Taxation

	2020 \$'000	2019 \$'000
<b>(a) Income Tax Expense</b>		
<i>(i) Recognised in the income statement</i>		
<b>Current tax expense</b>		
Current year tax payment accrued	(750)	(832)
Withholding tax on foreign dividends	(121)	(27)
	(871)	(859)
<b>Deferred Tax Expense</b>		
Recognition of tax losses and deferred tax balances	-	-
Temporary differences	(33)	33
Tax expense on operating profit	(33)	33
(Under)/Over provision for prior years	100	(20)
<b>Total income tax expense in income statement</b>	(804)	(846)
<i>(ii) Reconciliation between tax expense and pre-tax net profit</i>		
Prima facie tax expense calculated at 30% on the profit for the year	(12,585)	(16,987)
<b>Increase in tax expense due to:</b>		
Franking credits gross-up on dividends received	(5,157)	(7,007)
Sundry Items	(859)	(838)
<b>Decrease in tax expense due to:</b>		
Tax deferred revenue received	508	650
Franking credits on dividends received	17,189	23,356
Tax expense on operating profit	(904)	(826)
(Under)/Over provision for prior years	100	(20)
Income tax expense attributable to profit for the year	(804)	(846)
<i>(iii) Deferred tax recognised directly in equity</i>		
Increase/(decrease) in provision for tax on unrealised gains on the equity investment portfolio	(45,229)	21,017

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 4. Taxation (continued)

	2020 \$'000	2019 \$'000
<b>(b) Deferred Tax Assets and Liabilities</b>		
<b>Recognised Deferred Tax Assets and Liabilities</b>		
Revaluation reserve – Provision for tax on unrealised gains on the equity investment portfolio	(143,278)	(189,780)
Tax effect of unfranked dividend receivable	(88)	(49)
Tax benefit of audit fee accrual	8	7
Tax benefit of capital losses carried forward	6,164	7,437
Tax benefit of income tax losses carried forward	-	-
Tax benefit of annual leave	4	-
Tax benefit of long service leave	31	15
<b>Net deferred tax liabilities</b>	<b>(137,159)</b>	<b>(182,370)</b>
<b>(c) Current Tax Payable</b>		
Current year tax liability	750	833
Less: tax instalments paid	(516)	(381)
Less: withholding taxes receivable	(379)	(41)
<b>Current tax payable</b>	<b>(145)</b>	<b>411</b>

### 5. Earnings Per Share

	2020 cents	2019 cents
Basic and diluted earnings per share	33.1	44.9
Earnings per share excluding special dividends received and capital gains distributed from managed funds net of tax (refer Note 1(d))	32.2	39.4

There are no factors which cause diluted earnings per share to be different from basic earnings per share.

The earnings per share for the year is calculated on a weighted average adjusted number of ordinary shares of 124,488,838 (2019: 124,180,194). The weighted average adjusted number of ordinary shares takes into account the shares issued in the dividend re-investment plan.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 6. Dividends

	2020 \$'000	2019 \$'000
Dividends recognised in the current year by the Company are:		
(i) 2019 final dividend of 19.0 cents per share (2019: 19.0 cents) fully franked paid 20 September 2019	23,622	23,561
(ii) 2020 interim dividend of 17.0 cents per share (2019: 17.0 cents) fully franked paid 16 March 2020	21,162	21,109
	44,784	44,670

Since 30 June 2020, the directors have declared the following dividend payable on 22 September 2020:

Final dividend of 19.0 cents per share fully franked (2019: 19.0 cents)	23,678	23,622
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The final dividend will not contain a Listed Investment Company (LIC) capital gain dividend (2019: nil).

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2020.

#### Dividend Franking Account:

The balance of the Franking Account at 30 June 2020 is \$43,603,337 (2019: \$46,300,435) after adjusting for:

- (a) franking credits that will arise from any current income tax liability;
- (b) franking credits that will arise from the receipt of dividends recognised as receivables at year-end.

After allowing for the final 2020 dividend, which is not provided for in the 30 June financial statements, the balance of the franking account would be \$33,455,818 (2019: \$36,176,608). The ability to utilise the franking credits is dependent upon the ability of the Company to declare dividends.

#### Listed Investment Company (LIC) Capital Gain Account:

The balance of the LIC Capital Gain Account at 30 June 2020 was \$372,101 (2019: \$372,101). When distributed, LIC capital gains may entitle certain shareholders to a special deduction in their taxation return, as set out in the relevant dividend statement.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 7. Receivables

	2020 \$'000	2019 \$'000
<b>Current</b>		
Dividends Receivable	1,335	4,225
Trust Distributions Receivable	891	2,527
Other - Unsettled equity sales	-	5,103
	2,226	11,855

### 8. Investments

	2020 \$'000	2019 \$'000
<b>Non-Current</b>		
Investments in equities quoted on prescribed stock exchanges (at fair value)	1,135,118	1,229,812

### 9. Other Assets

	2020 \$'000	2019 \$'000
<b>Current</b>		
Prepayments	79	82
Input Tax Credits	-	5
<b>Non-Current</b>		
Right of use asset	235	-
	314	87

### 10. Plant and equipment

	2020 \$'000	2019 \$'000
Plant and equipment at cost	34	3
Accumulated depreciation		-
<b>Movements</b>		
Carrying amount at beginning of year	3	-
Additions	32	3
Depreciation	(7)	-
Carrying amount at end of year	28	3

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 11. Payables

	2020 \$'000	2019 \$'000
<b>Current</b>		
Trade Creditors	106	159
Accrued Interest	602	714
Lease Liability	71	-
Annual Leave Provision	12	-
Input Tax Credits	19	-
<b>Non-Current</b>		
Lease Liability	173	
	983	873

### 12. Finance Facilities

	2020 \$'000	2019 \$'000
The Company has access to the following lines of credit:		
<i>Total facility available</i>		
Loan Facility – Secured	150,000	150,000
<i>Facilities utilised at balance date</i>		
Loan Facility – Secured	85,000	100,000

### 13. Borrowings Drawn

	2020 \$'000	2019 \$'000
<b>Current</b>		
Loan Facility Drawn – Secured	15,000	20,000
<b>Non-Current</b>		
Loan Facility Drawn – Secured	70,000	80,000

For information regarding the Company's exposure to interest risk and liquidity risk, see Notes 19 and 20.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 13. Borrowings Drawn (continued)

#### Reconciliation of movements in borrowings to cash flows from financing activities

	Liabilities Borrowings 2019 \$'000	Equity / Retained earnings 2019 \$'000
<b>Balance at 1 July 2018</b>	130,000	133,910
<b>Changes from financing cash flows</b>		
Proceeds from loans and borrowings	-	-
Repayment of borrowings	(30,000)	-
Cash dividends paid	-	(41,945)
<b>Total changes from financing cash flows</b>	<b>(30,000)</b>	<b>(41,945)</b>
<b>Equity-related other changes</b>	-	53,052
<b>Balance at 30 June 2019</b>	<b>100,000</b>	<b>145,017</b>

	Liabilities Borrowings 2020 \$'000	Equity / Retained earnings 2020 \$'000
<b>Balance at 1 July 2019</b>	100,000	145,017
<b>Changes from financing cash flows</b>		
Proceeds from loans and borrowings	15,000	-
Repayment of borrowings	(30,000)	-
Cash dividends paid	-	(42,047)
<b>Total changes from financing cash flows</b>	<b>(15,000)</b>	<b>(42,047)</b>
<b>Equity-related other changes</b>	-	38,408
<b>Balance at 30 June 2020</b>	<b>85,000</b>	<b>141,378</b>

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 14. Capital and Reserves

#### (a) Issued Capital

	2020 \$'000	2019 \$'000
Issued and paid-up share capital		
124,618,646 (2019: 124,327,707) fully paid ordinary shares	448,411	445,673
Movements in issued capital:		
Balance at beginning of the financial year	445,673	442,948
Shares issued		
- Dividend re-investment plan <sup>(1)</sup>	2,738	2,725
	448,411	445,673

In respect of the final dividend paid in September 2019, 156,424 ordinary shares were issued at \$9.13 each and in respect of the interim dividend paid in March 2020, 134,515 ordinary shares were issued at \$9.71 each.

#### (b) Nature and Purpose of Reserves

	2020 \$'000	2019 \$'000
Retained Earnings	141,378	145,017
Revaluation Reserve	328,297	435,193
Realisation Reserve	15,077	16,007
	484,752	596,217

#### **Revaluation Reserve**

Increments or decrements on the revaluation of long term equity investments after provision for deferred tax are recorded in this reserve. When an investment has been sold or de-recognised, realised gains or losses (after tax) are transferred from the Revaluation Reserve to the Realisation Reserve.

#### **Realisation Reserve**

The realisation reserve records realised gains and losses (after tax) from the sale of investments in equities which are transferred from the Revaluation Reserve.

### 15. Directors' Remuneration

The total director's remuneration for the year is \$441,500 (2019: \$428,500). Details of the directors' remuneration are set out in the Remuneration Report that forms part of the Directors' Report.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### 16. Related Parties

The Company has entered into an agreement with Diversified United Investment Ltd for the provision of administrative services, commencing 1 July 2019. The total fees received for services provided in the current year are \$288,200, including GST (2019: nil).

#### **Directors and director-related entities**

The names of each person holding the position of director of Australian United Investment Company Limited during the financial year are C B Goode (Chairman), J S Craig, F S Grimwade and D C Hershan.

The Company has indemnified each current director and the company secretaries against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position with the Company except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers, insuring them against liabilities, costs and expenses arising out of conduct which does not involve a wilful breach of duty. This insurance premium covers the period 18 June 2020 to 18 June 2021.

#### **Directors' Holdings of Shares**

The relevant interests of directors and their director related entities in shares of the Company as at year end are set out below:

<b>Directors</b>	<b>Held at 01/07/2019</b>	<b>Purchases</b>	<b>Sales</b>	<b>Held at 30/06/2020</b>
Charles B Goode	1,409,226	54,489	-	1,463,715
James S Craig	350,000	-	-	350,000
Fred S Grimwade	10,000	10,000	-	20,000
Dion C Hershan	12,000	-	-	12,000

#### **Directors' Transactions in Shares**

The movements in directors' holdings of ordinary shares resulted from purchases or sales on the open market or purchases under the Company's dividend reinvestment plan which were made on the same terms and conditions offered to other shareholders.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### 17. Notes to the Statement of Cash Flows

	2020 \$'000	2019 \$'000
<b>Reconciliation of Cash</b>		
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year is shown in the statement of cash flows and the balance sheet as follows:		
Units in Cash Management Trusts and Deposits at call	18,578	83,837
<b>Reconciliation of operating profit after income tax to net cash provided by operating activities:</b>		
Profit for the year	41,145	55,777
<i>Add / (less) changes in assets and liabilities:</i>		
(Increase) / decrease in dividends receivable	3,000	3,020
(Increase) / decrease in trust distributions receivable	1,526	1,195
(Increase) / decrease in interest receivable	9	-
(Increase) / decrease in other prepayments	2	18
(Increase) / decrease in deferred tax assets	(21)	879
(Increase) / decrease in other assets	(211)	2
Increase / (decrease) in deferred tax liability	38	(33)
Increase / (decrease) in other taxes	(555)	(761)
Increase / (decrease) in prepaid interest and borrowing costs	(112)	(189)
Increase / (decrease) in accrued expenses	190	84
Increase / (decrease) in provisions	67	4
<b>Net cash provided by operating activities</b>	<b>45,078</b>	<b>59,996</b>

### 18. Capital Management

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the longer term.

The Company's assets will fluctuate in accordance with prevailing market movements, and it may adjust the amount of dividends paid, issue new shares or sell assets to reduce debt.

The Company is not subject to any externally imposed capital requirements.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### 19. Financial Risk Management

*AASB 7 – Financial Instruments: Disclosures* identifies three types of risk associated with financial instruments (i.e. investments, receivables, payables and borrowings).

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework, and receives advice from the Audit and Risk Management Committee.

#### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The credit risk exposure of the Company lies principally in its cash and receivables to the extent of their carrying values and any accrued unpaid interest. Refer Notes 7 and 17.

#### *Cash*

The Company invests in cash management units with the Mutual Trust Cash Management Fund and cash deposits with Australian banks, with a direct or underlying AA- credit rating assigned by Standard & Poor's, being a Recognised Rating Agency.

#### *Receivables*

Receivables are non-interest bearing and represent dividends, proceeds of sales and distributions yet to be received. The credit risk exposure of the Company in relation to receivables is the carrying amount.

Given the nature of the counterparties with which the Company deals, management does not expect any counterparty to fail to meet its obligations. Additionally, none of these assets are overdue or considered to be impaired.

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due. The Company monitors its cash flow requirements and ensures that it has cash or access to sufficient borrowing facilities or liquid securities to meet all its financial obligations as they fall due.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### 19. Financial Risk Management (continued)

Bank borrowings were \$85 million at the end of the financial year (previous year \$100 million) gearing the investment portfolio by 7.4% (previous year 7.5%). The Company has interest bearing loan facilities in place with the National Australia Bank which include both fixed and floating rate components. These facilities expire on various intervals through to 31 July 2022, unless renewed. Annual interest expense during the year was covered 14.8 times by investment revenue (previous year 13.5 times).

The major cash inflows for the Company include dividends, distributions and sales proceeds received. The major cash outflows are the purchase of securities, interest expense and dividends paid to shareholders, which are able to be managed by the Company. The Company's investments are quoted on a prescribed stock exchange and are able to be realised if required.

#### **Market Risk**

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Company's income and the value of its holdings of financial instruments.

Inherently, the Company is not free of market risk as it invests in securities whose market prices can fluctuate.

Based on a tax rate of 30% (2019: 30%), a general movement in market prices of 5% and 10% would lead to a change in the Company's equity of \$39,729,000 or 4.3% (2019: \$43,043,000 or 4.1%) and \$79,458,000 or 8.5% (2019: \$86,087,000 or 8.3%) respectively, after tax.

Market risk is managed by ensuring that the Company's investment portfolio is not overly exposed to one Company or one particular sector. The relative weightings of the individual securities and the relevant market sectors are reviewed by the Board at each Director's meeting.

The Company also has exposure to interest rate risk on its borrowings as detailed in Note 20, which is minimised through conservative levels of gearing and ensuring that there is appropriate interest cover at all times.

All of the Company's investments are quoted in Australian dollars therefore avoiding any direct exposure to currency risk. Nevertheless, a number of the underlying investee companies' businesses may have currency risk exposures.

### 20. Financial Instruments Disclosure

#### **Interest Rate Risk**

The Company's exposure to interest rate risk as at 30 June 2020 and the effective weighted average interest rate for classes of financial assets which bear interest is set out below.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 20. Financial Instruments Disclosure (continued)

	Note	Floating Interest Rate \$'000
<b>Financial Assets - 2020</b>		
Cash	17	18,578
Weighted Average Interest Rate		0.7%
<b>Financial Assets - 2019</b>		
Cash	17	83,837
Weighted Average Interest Rate		1.67%

The Company has secured borrowing facilities in place with the National Australia Bank Ltd totalling \$150,000,000 (2019: \$150,000,000) as follows:

#### National Australia Bank Ltd

Facility	Amount	Maturity	Interest Rate <sup>(1)</sup>
1	\$5,000,000	2 July 2021	Floating 1.53%
	\$15,000,000	2 July 2021	Fixed 4.01%
2	\$20,000,000	31 July 2022	Fixed 3.94%
3 <sup>(2)</sup>	\$10,000,000	31 October 2020	Floating 1.48%
4 <sup>(3)</sup>	\$20,000,000	31 July 2020	Fixed 4.05%
	\$10,000,000	14 January 2021	Floating 1.24%
5	\$5,000,000	10 March 2021	Floating 1.24%
	\$65,000,000 (undrawn)	28 November 2020	Floating 1.24%
Total	\$150,000,000		

(1) Interest rate includes bank margins and fees.

(2) At the maturity date, this facility will be replaced by a new loan for the same amount, maturing 3 July 2023 with a floating interest rate of 1.53%.

(3) At the maturity date, this facility was replaced by a new loan for the same amount, maturing 1 July 2024 with a floating interest rate of 1.63%.

The terms of the agreement require the market value of the securities pledged as collateral for the drawn secured borrowings (Facilities 1 - 5) to satisfy a minimum value of \$380 million. As at 30 June 2020 the market value of the securities pledged as collateral was \$520 million (2019: \$427 million).

#### Net Fair Values of Financial Assets and Liabilities

##### Valuation Approach

Net fair values of financial assets and liabilities are determined by the Company on the following basis:

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Notes to the Financial Statements for the year ended 30 June 2020*

### **20. Financial Instruments Disclosure (continued)**

#### *Recognised Financial Instruments*

Listed securities included in “Investments” are readily traded on organised markets in a standardised form. The net fair value of listed securities is determined by valuing them at the last quoted market price as at balance date. In accordance with Australian Accounting Standards, this is considered “level 1” under the fair value measurement hierarchy, which is defined as quoted prices (unadjusted) in active markets for identical assets or liabilities. The net fair value of unlisted managed funds is determined by valuing them at the net asset value provided by the fund manager as at balance date. Unlisted managed funds included in “Investments” are considered “level 2” under the fair value measurement hierarchy, which is defined as inputs other than quoted prices, which can be observed either directly (as prices) or indirectly (derived from prices). As at 30 June 2020 the Company does not hold any Level 2 investments (2019: none). The net fair value of investments is set out in notes 8 and 24.

#### *Fixed Interest Borrowings*

At 30 June 2020, the fair value of the Company’s fixed interest rate borrowings was \$57,039,000 (2019: \$91,557,000) while the face value was \$55,000,000 (2019: \$90,000,000).

For all other financial assets and liabilities, the carrying amount closely approximates its fair value.

### **21. Contingent Liabilities and Capital Commitments**

There were no contingent liabilities or capital commitments as at 30 June 2020.

### **22. Segment Reporting**

The Company operates as an investment company in Australia.

### **23. Events Subsequent to Balance Date**

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature, likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial periods.

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## Notes to the Financial Statements for the year ended 30 June 2020

### 24. Holdings of Securities as at 30 June 2020

The following is a list of the Company's top 25 investments as at 30 June 2020, which represent 90% of the total investment portfolio (2019: 85%). All investments are valued at fair value through Other Comprehensive Income.

2020		Market Value	2019		Market Value
Company		\$'000	Company		\$'000
1	CSL Ltd	114,800	Commonwealth Bank of Australia Ltd		107,614
2	Commonwealth Bank of Australia Ltd	90,246	CSL Ltd		86,000
3	Transurban Group	78,704	Westpac Banking Corporation		85,080
4	Rio Tinto Ltd	73,470	Australia & New Zealand Banking Group Ltd		84,630
5	BHP Group Ltd	66,267	Transurban Group		81,070
6	Diversified United Investment Ltd	60,912	Rio Tinto Ltd		77,820
7	Wesfarmers Ltd	59,176	BHP Group Ltd		76,146
8	Australia & New Zealand Banking Group Ltd	55,920	Woodside Petroleum Ltd		69,084
9	Westpac Banking Corporation	55,089	Diversified United Investment Ltd		62,784
10	Woodside Petroleum Ltd	44,382	National Australia Bank Ltd		53,440
11	Atlas Arteria	42,699	Wesfarmers Ltd		50,624
12	Woolworths Group Ltd	37,280	Sydney Airport		36,180
13	National Australia Bank Ltd	36,804	Woolworths Group Ltd		33,230
14	Ramsay Health Care Ltd	26,941	Atlas Arteria		26,656
15	Sydney Airport	25,515	Washington H Soul Pattinson & Company Ltd		21,990
16	Coles Group Ltd	22,664	Seek Ltd		21,160
17	Washington H Soul Pattinson & Company Ltd	22,459	Brambles Ltd		20,930
18	Seek Ltd	21,890	Invocare Ltd		19,188
19	Resmed Inc	20,655	Event Hospitality and Entertainment Ltd		18,750
20	Brambles Ltd	17,664	Coles Group Ltd		18,690
21	Aurizon Holdings Ltd	14,760	Aurizon Holdings Ltd		16,200
22	Origin Energy Ltd	14,600	Orica Ltd		15,203
23	Carsales.com Ltd	14,192	Origin Energy Ltd		14,620
24	Event Hospitality and Entertainment Ltd	12,615	Ramsay Health Care Ltd		14,448
25	Orica Ltd	12,480	LendLease Group		14,300
<b>Total Top 25 Investments</b>		<b>1,042,184</b>			<b>1,125,837</b>
<b>Total Investments at Market Value, Net Short Term Receivables and Cash</b>		<b>1,155,923</b>			<b>1,325,504</b>

# AUSTRALIAN UNITED INVESTMENT COMPANY LIMITED

## *Directors' Declaration*

1. In the opinion of the directors of Australian United Investment Company Limited ("the Company"):
  - a. The financial statements and notes set out on pages 10 to 30, and the remuneration disclosures that are contained in the Remuneration Report on pages 5 and 6 of the Directors' Report, are in accordance with the Corporations Act 2001, including:
    - i. giving a true and fair view of the financial position of the Company as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
    - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - b. The financial report also complies with International Financial Reporting Standards;
  - c. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

Signed in accordance with a resolution of the directors.

Charles Goode

Director

Dated at Melbourne this 19<sup>th</sup> day of August 2020



# Independent Auditor's Report

To the shareholders of Australian United Investment Company Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of Australian United Investment Company Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Company's** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Balance Sheet as at 30 June 2020
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company 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 fulfilled our other ethical responsibilities in accordance with the Code.



## Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation and existence of the investment portfolio
- Completeness of the deferred tax liability

**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.

### Valuation and existence of investment portfolio (\$1,135.1 million)

Refer to Note 8 - Investments

#### The key audit matter

The Company's investment portfolio is \$1,135.1 million which constitutes 98% of the Company's total assets as at 30 June 2020 and is considered to be one of the key drivers of operations and performance results.

We do not consider the fair value of the investment portfolio to be judgemental in nature as it is comprised of equity securities listed on the ASX. However, due to the size of the investment portfolio, valuation and existence is considered a key audit matter. It is an area which had the greatest effect on our overall audit strategy and allocation of time and resources in planning and completing our audit.

#### How the matter was addressed in our audit

Our procedures included:

- Documenting and assessing the processes in place to buy and sell equities in the portfolio, including assessing the controls over transactions;
- Checking the number of shares or units in each equity investment for the entire investment portfolio to electronic share registry records;
- Recalculating the fair value of investments based on the last quoted market price; and
- Assessing the disclosures in the financial statements with reference to the requirements of accounting standards.



### Completeness of the net deferred tax liability (\$137.2 million)

Refer to Note 4 - Taxation

#### The key audit matter

The Company's deferred tax liability is \$137.2 million which constitutes 61% of the Company's total liabilities as at 30 June 2020.

The deferred tax liability relates to the expected tax on disposal of equity securities in the investment portfolio. The deferred tax liability is determined as the difference between the carrying amount of the investment portfolio as per the financial statements and the tax base of the individual investments, multiplied by the applicable company tax rate.

The Company's deferred tax assets are set off against the deferred tax liability to the extent that it is probable taxable profit will be available against which the deductible temporary difference can be utilised.

The completeness of the deferred tax liability is a key audit matter given it represents a significant portion of the total liabilities of the Company and involved the use of senior audit team members, including tax specialists.

#### How the matter was addressed in our audit

Our procedures included:

- Recalculating the closing tax cost base of the investment portfolio by adding the total purchases and sales for the year, stated at their tax cost base, to the opening balances of the investment portfolio and reconciling this to the Company's portfolio valuation report;
- Recalculating the gross deferred tax liability, including checking the valuation and accuracy of the market value of the investment portfolio and checking the tax base to the Company's investment register;
- Recalculating the net deferred tax liability by reconciling the opening and closing deferred tax balances, including the offset of deferred tax assets and liabilities;
- Assessing whether the tax effects of significant events identified during the audit, such as fair value or tax base adjustments, have been appropriately identified, calculated and recorded, as applicable; and
- Engaging KPMG tax specialists to assess the tax calculations prepared by the Company, including the deferred tax liability relating to the investment portfolio.

### Other Information

Other Information is financial and non-financial information in Australian United Investment Company Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.



We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar2\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf). This description forms part of our Auditor's Report.



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Australian United Investment Company Limited for the year ended 30 June 2020 complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' 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 responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



Chris Sargent

*Partner*

Melbourne

19 August 2020