

Annual Report 2010

BOARD OF DIRECTORS AS AT 30 JUNE 2010



JOHN PEARSON
Chairman of the Board



COLIN GRAY
Expertise Director



BILL LYNCH
Expertise Director



DAVID HYNES
Independent Director



BILL McMAHON
Nominee Director
Growers Market



DAVID WHITEMAN
Nominee Director
Warehouses



COS CREMONA
Nominee Director
Wholesale Market



JOHN OLIVIERI
Nominee Director
Flower Market



NEIL MATHEWS
Nominee Director
Retail Markets

SENIOR MANAGEMENT



BRADLEY LATHAM
Chief Executive Officer



SHANE CHESTER
Head of Operations



GERRY DARAS
Head of Special Projects



MICHAEL GOLDEN
Chief Financial Officer/
Company Secretary



MARTIN FORSTER
Head of Site Services

annual report

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30th June 2010

SYDNEY MARKETS LIMITED
ABN 51 077 119 290
ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2010

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joint message from the Chairman & CEO

JOINT MESSAGE FROM THE CHAIRMAN & CEO

We are very pleased to present the 2009/2010 Sydney Markets Limited Annual Report.

FINANCIALS

The 2009/2010 Financial Year has resulted in another strong financial performance despite the global economic conditions.

- Profit before theoretical valuation (loss) / gain on derivatives and income tax was \$9.1 million, an increase of \$0.5 million (5.3%) compared to last year.
- Profit after tax of \$6.7 million, was an increase of \$3.0 million on the previous year.
- Operating revenue for the year increased by 6.9% compared to last year. The increase was attributable to continued strong market occupancy levels, the introduction of Wednesday trading at Paddy's Haymarket, increase in lettable space in Building W and higher electricity income.
- Total expenses were up by 7.2% during the year. This was due to the higher property costs resulting from the introduction of Wednesday trading at Paddy's Haymarket, increases in electricity and legal costs plus higher levels of repairs and maintenance.
- The total capital expenditure for the year was \$4.9 million. This was driven by completion of stages two and three of the Master Plan process, replacement of Building E chillers and purchase of property on Smallwood Avenue.
- Sydney Markets Limited's Board's continued commitment to reducing debt has seen borrowings for the purchase of the Sydney Markets site reduce from \$51.0 million at 1 July 2009 to \$47.5 million at 1 July 2010.

HIGHLIGHTS

During the financial year Management and the Board continued to work on the Company's Strategic Plans and direction and were successful in finalising some major objectives. These included:

- The future of our Paddy's Haymarket operation was secured through successful negotiations of a new 30 year lease tenure with the Landlord (Jen Retail). The secured tenure of the site trading under the iconic Brand of Paddy's will ensure our operation will continue at one of the best known locations in Sydney for the next 30 years.
- To achieve this lease tenure, the Landlord required an additional trading day each Wednesday, which commenced on 14 October 2009 Wednesday trading is now well established and is a success.
- In line with our Strategy to Maximise the Value and Efficiency of the Sydney Markets site, a Seafood offer was introduced at Sunday Paddy's Flemington during November 2009. The additional food offer has been successful and will continue to grow our already successful Paddy's brand.
- The Sydney Markets Plaza Commercial Centre has attracted a number of key tenants during the reporting period:
 - The new **Tigers Sydney Markets Club** officially opened on Saturday 1 May 2010. This venue includes a 150 plus seat Chinese Restaurant catered by the renowned Tingha Palace together with modern facilities available 7 days a week for members and visitors;
 - **Subway** opened a retail shop and took up additional space for a training facility and other activities;
 - **ChiroDynamics** chiropractor practice has been established; and
 - **Sydney Discus World Aquariums** has also opened during the reporting period.
- SML's environmental sustainability record has continued to improve during the reporting period which is highlighted by the fact that well over 50% of the total waste at the Flemington site is recycled. The increase in recycling can be attributed to the introduction of a Polystyrene recycling machine combined with increased cardboard and plastic collection.

joint message from the Chairman & CEO

- The Sydney Markets Fresh for Kids Website was one of seven websites from around the world nominated in the category of Best Food/Drink Website organised by the Le Cordon Bleu World Food Awards. The SML Marketing Team and the commitment of the Fresh for Kids Committee are to be congratulated on this outstanding achievement.
- Part of the Sydney Markets Limited Branding process involved taking our Board and Management Team to Shepparton Victoria which is the hub of the Goulburn Valley District and one of the most significant agricultural areas in Australia to conduct an Industry briefing and hold our Board meeting. Our continued commitment to these forums is of great importance as we get to see and hear first hand any issues associated with the first step of the supply chain and provide guests with information and facts on the Sydney Markets Brand.
- SML has continued to maintain and improve the infrastructure of the Markets site. Over the past twelve months the focus has been on upgrading fire services and the fibre optic network and undertaking extensive roadway repairs. New energy efficient chillers were installed in the Banana Building E to provide updated cooling facilities and the Sydney Markets Credit Services building was extended to provide for the growing needs of the Co-operative.
- The Sydney Markets annual Mango Auction, Cherry Auction and Race Day raised a combined total of \$200,000. The funds raised assisted the Westmead's Children's Hospital, the Prostate Cancer Foundation of Australia and Variety, the Children's Charity. Congratulations must go to the Markets community on this outstanding achievement.

THE WAY FORWARD

The Board and Senior Management have reviewed the Company's Strategic Plan and agreed on new Strategic Imperatives for the period 2010 to 2015.

The revised Imperatives over the next five years 2010 to 2015 include the following:

1. Increase the value of the Flemington site and provide a strong foundation for future growth
2. Improve the efficiency of the Flemington and Haymarket sites
3. Satisfy the demand for warehouse space
4. Ensure the environmental sustainability of the Flemington site
5. Grow the SML business

The Plan is set at a time when SML has a strong base and is moving forward with the knowledge of being a major player in the Horticultural Industry and Retail Markets (through Paddy's) and one of the most advanced markets of its type in the world.

The Strategic Plan is intended to be a "living" document which will be used to cascade activities across the company. It will be reviewed periodically and rolled forward annually.

In conclusion, our sincere thanks go to our Directors, Management, staff and contractors and to all stakeholders, in particular those who give their time to represent the Council of Market Representatives, the Fresh for Kids Committee and the Paddy's Advisory Committee.

At the time of writing all financial indicators show SML can look forward to another strong performance for the 2010/2011 year.



MR BRADLEY LATHAM
CHIEF EXECUTIVE OFFICER



MR JOHN PEARSON
CHAIRMAN

marketing report

Marketing plays an important role in keeping the Sydney Markets Limited's brand active in the marketplace.

As well as successful marketing initiatives undertaken by Sydney's Paddy's Markets, Sydney Markets Limited also conducts three other major marketing programs:

1. Fresh for Kids
2. Greengrocer of the Year
3. Florist of the Year

FRESH FOR KIDS

The Fresh for Kids program is aimed at combating the rising levels of obesity in schoolage children by encouraging them to eat plenty of fresh fruit and vegetables and do more exercise.

The Program comprises numerous components that work both together and independently.

- The F&V Gang® a lovable group of 6 life-size fruit and vegetable characters being Summa Strawberry®, Captain Capsicum®, Megabite Apple®, Oscar Orange®, Bazza Banana® and Tamara Tomato®.
- www.freshforkids.com.au website
- A major sponsorship of the School Sports Foundation
- A Canteen Program that encourages children to make healthy choices
- A Retail Program that supports independent retailers of fresh fruit and vegetables
- A quarterly Canteen Fresh brochure that provides inspiration and demonstrates that fruit and vegetables can be easy to prepare.

The Fresh for Kids Program continues to increase in popularity and is licensed to both Brisbane and Newcastle Markets who are also enjoying similar successful results.

GREENGROCER OF THE YEAR

The Greengrocer of the Year Program rewards excellence in fresh produce retailing.

Throughout the year registered independent greengrocers across NSW and the ACT are frequented regularly by professional mystery shoppers who critique the stores' produce, cleanliness, level of customer service, instore display, staff knowledge and merchandising skills all from a customer's perspective.

The information obtained by the professional mystery shoppers, together with additional industry criteria is used to determine the recipients of the Greengrocer of the Month awards and ultimately the Metropolitan and Regional Greengrocer of the Year awards which are presented at a Gala Dinner each year.

This program is very successful as it provides greengrocers with a summary on the positive aspects of their business and at the same time alerts them to areas that may require change, which in turn improves the public's perception within their store and improves productivity, with the end result being increased sales.

This long running program is popular within the industry as it promotes and acknowledges best practices and plays an important role in increasing the levels of retail excellence year after year.

FLORIST OF THE YEAR

The Sydney Markets Limited's Florist of the Year program is highly recognised within the industry and is considered to be a useful resource to participating florists providing them with invaluable information on areas of their business which may require further improvement or highlighting areas which are doing exceptionally well.

Each year, participating florists are critiqued by mystery shoppers on several aspects of their business including customer service, environment, product knowledge and branding.

Monthly winners are chosen and the Florist of the Year is awarded at the annual industry dinner.

The Greengrocer and Florist of the Year programs have the added benefit of increasing wholesale trade for Sydney Markets Wholesalers.

Directors' report

Your Directors present their report on the consolidated entity consisting of Sydney Markets Limited and its wholly owned subsidiary for the year ended 30 June 2010.

DIRECTORS

The following persons were Directors of Sydney Markets Limited during the financial year and up to the date of this report:

| | |
|----------------------------|---|
| Mr John C. Pearson | Chairman |
| Mr Colin H. Gray | Deputy Chairman from 25 August 2010 |
| Mr David J. Whiteman | Deputy Chairman from 23 July 2009 to 25 August 2010 |
| Mr William L. Lynch | |
| Mr Neil W. Mathews | Deputy Chairman up to 23 July 2009 |
| Mr Cosimo Cremona | |
| Mr William E. McMahon | |
| Mr David W. Hynes | |
| Mr Alvisio (John) Olivieri | |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

PRINCIPAL ACTIVITIES

The principal activities of Sydney Markets Limited during the financial year were to manage and administer the Sydney Markets at Flemington and Haymarket.

No significant change in the nature of these activities occurred during the year.

REVIEW OF OPERATIONS

A review of operations is provided in the Joint Message from the Chairman and CEO.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of Sydney Markets Limited during the year.

DIVIDENDS – SYDNEY MARKETS LIMITED

No dividends were paid or recommended during the year. Sydney Markets Limited's policy, as disclosed in the Prospectus dated 16 February 1998, is that no dividends will be declared. In exceptional circumstances the Directors may elect to declare a dividend, however, the Directors do not currently envisage any circumstance giving rise to the declaration of a dividend.

The reason for Sydney Markets Limited's dividend policy is that, in the opinion of the Directors, all cash and other reserves will need to be maintained, invested and accumulated in order to fund the costs associated with the continuation of the Central Markets.

Following the purchase of the Sydney Markets Site at Flemington from the NSW Government, the Board's policy has been to use any surplus cash resources to pay down its bank loan facility and for the purchase of key adjoining properties to allow for future expansion.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Directors are unaware of any significant event or development in the operations of Sydney Markets Limited and the expected results of those operations in future financial years, which will significantly change the state of affairs of Sydney Markets Limited or its shareholders.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Directors are not aware of any matter or circumstance that has arisen since 30 June 2010 which has significantly affected or may significantly affect the operations of Sydney Markets Limited, the results of those operations, or the state of affairs of Sydney Markets Limited in subsequent financial years.

Directors' report

ENVIRONMENTAL REGULATION

Sydney Markets Limited's operations are subject to significant environmental regulation under the laws of the Commonwealth and the State.

Sydney Markets Limited is subject to regulations under the Environmental Protection Authority Act in regards to the discharge of trade waste water and other liquid waste. Sydney Markets engages independent and registered testing companies to continuously monitor the discharge of trade waste water and other liquid waste from the Flemington site. Sydney Markets Limited has complied with all the required regulations during the year ended 30 June 2010.

INFORMATION ON DIRECTORS

Mr John C. Pearson – Non Executive Director & Chairman

- Experience and expertise:
- Board Member since 2003
 - Chairman since 18 May 2005
 - Experienced and successful finance executive with significant banking, building society and management exposure at senior levels
- Other current directorships:
- Director of Balmain Leagues Club
 - Director of Tigers Advisory Group Pty Ltd
 - Director of R.P. Cricket Pty Ltd – T/A Randwick Petersham Foundation
- SML Committees:
- Finance & Audit, Remuneration, Master Plan, Strategic Plan, Retail Markets Sub Committee
- Interests in shares:
- Nil

Mr David J. Whiteman – Non Executive Nominee Director – Warehouses and Deputy Chairman from 23 July 2009 to 25 August 2010

- Qualifications:
- BA (Macquarie University) majoring in Economics & Financial Studies
- Experience and expertise:
- Deputy Chairman from 23 July 2009 to 25 August 2010, Board Member since 2004
 - Over 42 years experience in the fruit and vegetable industry
- Other current directorships:
- Director of C J Lewis Pty Ltd
 - Director of C J Lewis Aust Pty Ltd
 - Director of Mount View (Batlow) Pty Ltd
 - Director of Davic Investments Pty Ltd
 - Director of Chamber (Holdings) Pty Ltd
 - Director of NSW Chamber (Services) Pty Ltd
 - Vice President, The NSW Chamber of Fruit and Vegetable Industries Inc.
 - Chairman, S.M.C.S. Co-operative Ltd
- SML Committees:
- Chairman, Environment Management
- Interests in shares:
- Nil

Directors' report

Mr Colin H. Gray – **Non Executive Expertise Director, Deputy Chairman from 25 August 2010**

Qualifications:

- Qualified Accountant (CPA)
- Associate Fellow, Australian Institute of Management (AFAIM)
- Member, Australian Institute of Training and Development (MAITD)
- Associate Fellow, Australian Society of Association Executives (AFSAE)
- Graduate, Australian Army Command and Staff College (the Army's highest training institution)

Experience and expertise:

- Deputy Chairman from 25 August 2010, Board Member since 1997
- Worked as an accountant in private industry
- More than 20 years service with the Australian Army in command, training and operational appointments in Australia, South East Asia and Europe and with the United Nations in the Middle East. Achieved the rank of Lieutenant Colonel.
- Over 16 years experience in the Fruit & Vegetables Industry
- Past Chairman, Sydney Markets Industries Group

Other current directorships:

- Chief Executive Officer, The NSW Chamber of Fruit and Vegetable Industries Inc.
- Secretary, Chamber (Holdings) Pty Ltd
- Secretary, NSW Chamber (Services) Pty Ltd

SML Committees:

- Finance & Audit, Master Plan, Strategic Plan, Fresh for Kids, Retail Markets Sub Committee

Interests in shares:

- Nil

Mr William L. Lynch – **Non Executive Expertise Director**

Experience and expertise:

- Board Member since 1998
- Over 52 years in the Australian Horticulture Industry as a grower, wholesaler and retailer
- Past President, Australian Flower Growers Association
- Past President, Flower Growers Group of NSW Inc.
- Associate Member, NSW Chamber of Fruit and Vegetable Industries Inc.

Other current directorships:

- Director of W & D Lynch Pty Ltd
- Director of Carismatic Pty Ltd

SML Committees:

- Remuneration, Finance & Audit Committee

Interests in shares:

- 10 Retail Markets Ordinary; and 7 Flower Market Ordinary Shares

Directors' report

- Mr Neil W. Mathews** – **Non Executive Nominee Director – Retail Markets, Deputy Chairman to 23 July 2009**
- Qualifications:
- Engineering Trade – Sydney Technical College
 - Production Engineering – University of Technology
 - Post Graduate Subject – University of NSW
- Experience and expertise:
- Deputy Chairman to 23 July 2009, Board Member since 1998
 - Foundation Committee original Paddy's Association
 - Representative, Paddy's Advisory Committee
 - Past Representative, Sydney Markets Industries Group
 - Co-founder, Bessemer Party Plan
 - Co-founder, Supreme Industries Pty Ltd
 - Past General Manager, Raco-Bissell
 - Past Product Manager, Rex Aluminium
- Other current directorships:
- None
- SML Committees:
- Environment Management, Property, Strategic Plan, Retail Markets Sub Committee
- Interests in shares:
- Nil
- Mr David W. Hynes** – **Non Executive Independent Director**
- Qualifications:
- B.Ec / LL.B (Sydney Uni)
- Experience and expertise:
- Board Member since 2005
 - Member, Australian Institute of Company Directors
- Other current directorships:
- Executive Director of Winston Langley Pty Limited, a property development and property advisory organisation
 - Director of the Australian Baseball Federation
- SML Committees:
- Remuneration, Master Plan, Strategic Plan, Retail Markets Sub Committee
- Interests in shares:
- Nil
- Mr William E. McMahon** – **Non Executive Nominee Director – Growers Market**
- Experience and expertise:
- Board Member since 1998
 - Over 51 years experience as a fruit and vegetable grower
 - A lifetime's experience as an industry representative at executive level on grower organisations
- Other current directorships:
- Secretary, NSW Free Growers Horticultural Council
 - Secretary, Lower Nepean / Hawkesbury Water Users Association
 - Member, Coastal Valleys Customer Service Committee of State Water
 - Past Member, Sydney Markets Industries Group.
- SML Committees:
- Property
- Interests in shares:
- Nil

Directors' report

Mr Cosimo Cremona – Non Executive Nominee Director – Wholesale

- Experience and expertise:
- Board Member since 2002
 - Over 30 years experience in the fruit and vegetable industry
 - Member of the Lions Club, Flemington
 - Member, NSW Chamber of Fruit and Vegetable Industries Inc.
- Other current directorships:
- Director of S.M.C.S. Co-operative Ltd
- SML Committees:
- Environment Management
- Interests in shares:
- Nil

Mr Alvisio (John) Olivieri – Non Executive Nominee Director – Flower Market

- Experience and expertise:
- Board Member since July 2008
 - Over 31 years involvement in the cut flower industry
 - Former Vice President of NSW Flower Growers Association
- Other current directorships:
- Director of A & L Property Developments Pty Ltd
- SML Committees:
- None
- Interests in shares:
- 4 Flower Market Ordinary Shares

COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year:

Mr Gerry Daras (up to 18 June 2010).

Mr Michael Golden (from 18 June 2010).

Mr Michael Golden has over 10 years experience in Chief Financial Officer roles. He is a Fellow of the Taxation Institute of Australia and Member of the National Institute of Accountants.

MEETINGS OF DIRECTORS

Details of Directors' meetings held during the financial year ended 30 June 2010 and Directors' attendances at these meetings were as follows:

| | Full meetings of Directors | | Finance & audit committee meetings | |
|----------------------------|----------------------------|----|------------------------------------|---|
| | A | B | A | B |
| Mr John C. Pearson | 12 | 12 | 9 | 9 |
| Mr Colin H. Gray | 12 | 12 | 9 | 9 |
| Mr William L. Lynch | 12 | 12 | 9 | 7 |
| Mr Cosimo Cremona | 12 | 12 | 0 | 0 |
| Mr William E. McMahon | 12 | 11 | 0 | 0 |
| Mr Neil W. Mathews | 12 | 12 | 0 | 0 |
| Mr David J. Whiteman | 12 | 12 | 0 | 0 |
| Mr Alvisio (John) Olivieri | 12 | 12 | 0 | 0 |
| Mr David W. Hynes | 12 | 12 | 0 | 0 |

A = Number of meetings held during the time the Director held office or was a member of the committee during the year

B = Number of meetings attended

Directors' report

OPTIONS

No options over shares were granted or redeemed during the year. Sydney Markets Limited's Constitution precludes share options.

DIRECTORS AND OFFICERS REMUNERATION

No Director or Officer of Sydney Markets Limited is a party to any contract with Sydney Markets Limited under which the Director or Officer is entitled to a benefit except for:

- (a) Directors' and Officers' fees and remuneration as shown in Sydney Markets Limited's remuneration report below (Part B).
- (b) Interests or involvement in a company or entity that has a lease or licence with Sydney Markets Limited on terms and conditions no more favourable than those of other Market tenants (note 26).

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

The key management personnel comprise the Directors and the following persons who had authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, during the financial year:

| <i>Key Management Personnel</i> | <i>Position</i> |
|---------------------------------|---|
| Mr Bradley R. Latham | Chief Executive Officer |
| Mr Gerry Daras | Head of Special Projects / Company Secretary (up to 18 June 2010) |
| Mr Michael W. Golden | Chief Financial Officer / Company Secretary (from 18 June 2010) |
| Mr Shane R. Chester | Head of Operations |
| Mr Martin J. Forster | Head of Site Services |

A Principles used to determine the nature and amount of remuneration

The compensation structure for key management personnel is based on the experience and capability of the individual concerned, the market level for jobs of comparable nature, size and level of responsibility and the overall performance of Sydney Markets Limited. The contracts for service between Sydney Markets Limited and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future.

The Remuneration Committee sets senior management salaries and bonuses, based on agreed individual key performance indicators and reviews on the anniversary of employment date.

The objective of Sydney Markets Limited's senior management reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns their reward with achievement of strategic and operating objectives, and conforms with market best practice for delivery of reward. The Board ensures that senior management reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

Directors' report

The employment conditions of the Chief Executive Officer and other key management personnel are formalised in open contracts of employment, generally requiring three to six months notice of termination.

Directors' fees are determined within an aggregate Directors' fee pool limit. The pool limit for the 2010 year was \$420,000 (2009: \$405,000) as approved by the shareholders.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors and other key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) who are also the five highest paid executives of Sydney Markets Limited and the Group, are set out in the following tables. The performance related % shows the % of total remuneration which is subject to the performance of the individual and Sydney Markets Limited as determined by the Remuneration Committee.

Key management personnel of the Group

2010

| Name | Cash salary and fees \$ | Cash bonus \$ | Non monetary benefits \$ | Super-annuation \$ | Total \$ | Performance related % |
|----------------------------|------------------------------------|--------------------------|-------------------------------------|-------------------------------|---------------------|----------------------------------|
| Directors | | | | | | |
| Mr John C. Pearson | 92,238 | – | 2,207 | 8,500 | 102,945 | N/A |
| Mr Colin H. Gray | 27,142 | – | 1,200 | 11,271 | 39,613 | N/A |
| Mr Neil W. Matthews | 38,413 | – | 1,200 | – | 39,613 | N/A |
| Mr William L. Lynch | 35,142 | – | 1,200 | 3,271 | 39,613 | N/A |
| Mr David J. Whiteman | 32,321 | – | 1,200 | 6,092 | 39,613 | N/A |
| Mr William E. McMahon | 38,413 | – | 1,200 | – | 39,613 | N/A |
| Mr Cosimo Cremona | 35,142 | – | 1,200 | 3,271 | 39,613 | N/A |
| Mr Alvisio (John) Olivieri | 35,142 | – | 1,200 | 3,271 | 39,613 | N/A |
| Mr David W. Hynes | 35,142 | – | 1,200 | 3,271 | 39,613 | N/A |
| Total | 369,095 | – | 11,807 | 38,947 | 419,849 | |

Other key management personnel

| | | | | | | |
|----------------------|------------------|---------------|---------------|----------------|------------------|------|
| Mr Bradley R. Latham | 259,549 | 10,000 | 18,611 | 24,686 | 312,846 | 3.2% |
| Mr Gerry Daras | 81,427 | 5,000 | 26,487 | 41,967 | 154,881 | 3.2% |
| Mr Michael W. Golden | 121,330 | 5,000 | – | 10,920 | 137,250 | 3.6% |
| Mr Martin J. Forster | 108,577 | 5,000 | – | 13,165 | 126,742 | 3.9% |
| Mr Shane R. Chester | 95,041 | 5,000 | 20,890 | 9,004 | 129,935 | 3.9% |
| Total | 1,035,019 | 30,000 | 77,795 | 138,689 | 1,281,503 | |

Directors' report

Key management personnel of the Group

2009

| Name | Short term benefit | | Postemployment | | Performance related % |
|---------------------------------------|-------------------------|-------------------|--------------------|------------------|-----------------------|
| | Cash salary and fees \$ | Non cash bonus \$ | Super-annuation \$ | Total \$ | |
| Directors | | | | | |
| Mr John C. Pearson | 91,000 | - | 8,000 | 99,000 | N/A |
| Mr William E. McMahon | 34,000 | 1,000 | 3,000 | 38,000 | N/A |
| Mr Colin H. Gray | 34,000 | 1,000 | 3,000 | 38,000 | N/A |
| Mr Cosimo Cremona | 34,000 | 1,000 | 3,000 | 38,000 | N/A |
| Mr Neil W. Mathews | 34,000 | 1,000 | 3,000 | 38,000 | N/A |
| Mr William L. Lynch | 34,000 | 1,000 | 3,000 | 38,000 | N/A |
| Mr David J. Whiteman | - | 1,000 | 37,000 | 38,000 | N/A |
| Mr Alvisio (John) Olivieri | 34,000 | 1,000 | 3,000 | 38,000 | N/A |
| Mr David W. Hynes | 34,000 | 1,000 | 3,000 | 38,000 | N/A |
| Total | 329,000 | 8,000 | 66,000 | 403,000 | |
| <i>Other key management personnel</i> | | | | | |
| Mr Bradley R. Latham | 227,000 | 17,000 | 34,000 | 278,000 | 3.6% |
| Mr Adrian B. Spragg* | 177,000 | - | 11,000 | 188,000 | - % |
| Mr Gerry Daras | 116,000 | 18,000 | 10,000 | 144,000 | 3.5% |
| Mr Shane R. Chester | 91,000 | 20,000 | 8,000 | 119,000 | 2.5% |
| Mr Martin J. Forster | 114,000 | - | 10,000 | 124,000 | 4.0% |
| Mr Michael W. Golden | 18,000 | - | 7,000 | 25,000 | - % |
| Total | 1,072,000 | 63,000 | 146,000 | 1,281,000 | |

*This amount includes termination payment of \$53,092.

CORPORATE GOVERNANCE STATEMENT

Board composition

The composition of the Board is in accordance with the criteria laid down in Sydney Markets Limited's Constitution.

Directors' Shareholdings

No Director holds or is able to hold any share in Sydney Markets Limited except where he has a share entitlement as a holder of tradeable space in accordance with Sydney Markets Limited's Constitution.

Directors' committees

Directors' Committees encompassing Finance & Audit, Environment Management, Property, Remuneration, Master Plan and Strategic Plan operated during the year and these committees meet on a regular basis.

Directors' report

Ethical standards

Directors, staff and contractors are required to abide by Sydney Markets Limited's Code of Conduct.

Insurance of officers

During the financial year, Sydney Markets Limited paid insurance premiums for Directors and Officers Liability Insurance in respect of any person who is or has been a Director or Officer of Sydney Markets Limited. The terms of the policy do not allow the amount of the premium to be disclosed.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

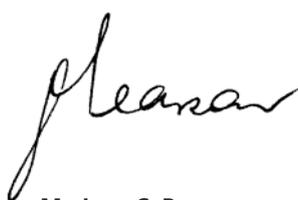
ROUNDING OF AMOUNTS

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

AUDITOR

PricewaterhouseCoopers was appointed as auditor and continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



MR JOHN C. PEARSON
CHAIRMAN



MR COLIN H. GRAY
DIRECTOR

Sydney
22 September 2010

auditor's independence declaration

Directors' report



PricewaterhouseCoopers
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Auditor's Independence Declaration

As lead auditor for the audit of Sydney Markets Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Sydney Markets Limited and the entity it controlled during the period.

S J Bourke
Partner
PricewaterhouseCoopers

Sydney
22 September 2010

financial report

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30th June 2010

SYDNEY MARKETS LIMITED
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These financial statements are the consolidated financial statements of the consolidated entity consisting of Sydney Markets Limited and its wholly-owned subsidiary. The financial statements are presented in the Australian currency.

Sydney Markets Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

Sydney Markets Limited
Level 3, Market Plaza Building
Sydney Markets NSW 2129

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 5 to 13, which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 22 September 2010. The Directors have the power to amend and reissue the financial statements.

consolidated statement of comprehensive income for the year ended 30th June 2010

| | Notes | 2010 \$'000 | 2009 \$'000 |
|--|-------|-----------------|----------------|
| Revenue from continuing operations | 4 | 52,080 | 48,726 |
| Other income | 5 | 6 | 20 |
| | | 52,086 | 48,746 |
| Property cost | | (18,465) | (16,875) |
| Payroll cost | | (5,031) | (4,986) |
| Repairs and maintenance | | (5,208) | (4,774) |
| Management and administration cost | | (725) | (512) |
| Advertising and promotion | | (4,064) | (3,761) |
| Professional fees | | (1,877) | (1,088) |
| Depreciation and amortisation expense | 6 | (4,457) | (4,413) |
| Finance expenses | 6 | (3,192) | (3,727) |
| Total expenses from continuing operations | | (43,019) | (40,136) |
| Profit before valuation (loss) / gain on derivatives and income tax | | 9,067 | 8,610 |
| Theoretical valuation gain/(loss) on derivatives | 11 | – | (3,254) |
| Profit before income tax | | 9,067 | 5,356 |
| Income tax expense | 7 | (2,362) | (1,647) |
| Profit for the year | | 6,705 | 3,709 |
| Other comprehensive income | | | |
| Cashflow hedges | 24(a) | (51) | – |
| Income tax relating to components of other comprehensive income | 24(a) | 15 | – |
| Other comprehensive income for the year | | (36) | – |
| Total comprehensive income for the year | | 6,669 | 3,709 |

From 1 July 2009 the Company has determined that its derivative instruments qualify for hedge accounting. Consequently from that date changes in the value of derivative financial instruments have been recognised in the cash flow hedge reserve.

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

consolidated balance sheet

as at

30th June 2010

| | Notes | 2010 \$'000 | 2009 \$'000 |
|----------------------------------|-------|----------------|----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 5,040 | 1,961 |
| Trade and other receivables | 9 | 6,847 | 5,818 |
| Other current assets | 10 | 1,817 | 1,710 |
| Total current assets | | <u>13,704</u> | 9,489 |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 110,636 | 110,216 |
| Deferred tax assets | 14 | – | – |
| Total non-current assets | | <u>110,636</u> | 110,216 |
| Total assets | | <u>124,340</u> | 119,705 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 5,779 | 6,837 |
| Borrowings | 19 | 5,000 | 4,250 |
| Current tax liabilities | 17 | 81 | 425 |
| Provisions | 16 | 385 | 323 |
| Other current liabilities | 18 | 12,859 | 9,702 |
| Total current liabilities | | <u>24,104</u> | 21,537 |
| Non-current liabilities | | | |
| Borrowings | 20 | 42,500 | 46,750 |
| Provisions | 22 | 104 | 104 |
| Deferred tax liabilities | 21 | 2,680 | 3,083 |
| Derivative financial instruments | 11 | 2,461 | 2,409 |
| Total non-current liabilities | | <u>47,745</u> | 52,346 |
| Total liabilities | | <u>71,849</u> | 73,883 |
| Net assets | | <u>52,491</u> | 45,822 |
| EQUITY | | | |
| Contributed equity | 23 | 7 | 7 |
| Reserves | 24(a) | (36) | – |
| Retained earnings | 24(b) | 52,520 | 45,815 |
| Total equity | | <u>52,491</u> | 45,822 |

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

consolidated statement of changes in equity for the year ended 30th June 2010

| | Notes | Contributed equity \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total equity \$'000 |
|--|-------|---------------------------------|--------------------|--------------------------------|---------------------------|
| CONSOLIDATED | | | | | |
| Balance at 1 July 2008 | | 7 | – | 42,106 | 42,113 |
| Total comprehensive income for the year as reported in 2009 | | – | – | 4,383 | 4,383 |
| Correction of derivative valuation | 11 | – | – | (674) | (674) |
| Restated total comprehensive income for the year | | – | – | 3,709 | 3,709 |
| Balance at 30 June 2009 | | 7 | – | 45,815 | 45,822 |
| Balance at 1 July 2009 | | 7 | – | 45,815 | 45,822 |
| Total comprehensive income for the year | | – | (36) | 6,705 | 6,669 |
| Balance at 30 June 2010 | | 7 | (36) | 52,520 | 52,491 |

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

consolidated cash flow statement for the year ended 30th June 2010

| | Notes | 2010 \$'000 | 2009 \$'000 |
|--|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Cash receipts from tenants and customers | | 59,161 | 52,751 |
| Cash payments to suppliers and employees | | (41,574) | (37,503) |
| | | 17,587 | 15,248 |
| Interest received | | 237 | 102 |
| Interest paid | | (3,282) | (3,829) |
| Income taxes paid | | (3,092) | (3,347) |
| Net cash inflow from operating activities | 32 | 11,450 | 8,174 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (4,877) | (11,210) |
| Proceeds from sale of property, plant and equipment | | 6 | 190 |
| Net cash (outflow) from investing activities | | (4,871) | (11,020) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (3,500) | (750) |
| Net cash (outflow) from financing activities | | (3,500) | (750) |
| Net increase (decrease) in cash and cash equivalents | | 3,079 | (3,596) |
| Cash and cash equivalents at the beginning of the financial year | | 1,961 | 5,557 |
| Cash and cash equivalents at end of year | 8 | 5,040 | 1,961 |

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

notes to the financial statements

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for the year ended

30th June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Sydney Markets Limited and its wholly owned subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with Australian Accounting Standards

The consolidated financial statements of the Sydney Markets Limited group complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, except for certain assets which, as noted, are at fair value. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Financial statement presentation

The consolidated entity has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the consolidated entity had to change the presentation of its financial statements. Comparative information has been represented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sydney Markets Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Sydney Markets Limited and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

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

Investments in subsidiaries are accounted for at cost in the separate financial statements of Sydney Markets Limited.

notes to the financial statements for the year ended

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the business, has been identified as the Senior Management team.

(d) Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense.

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 are therefore measured at the amounts expected to be paid to the relevant taxation authority.

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

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 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 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.

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.

Sydney Markets Limited and its wholly-owned subsidiary have formed an income tax consolidated group under the tax consolidation regime. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

(e) Property, plant and equipment

Each class of property, plant and equipment is carried at historical cost less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation of other assets, other than motor vehicles, is calculated using the straightline method to allocate their cost, net of their residual values, over their estimated useful lives. Motor vehicles are depreciated on a diminishing basis commencing from the date of acquisition. The depreciation rates used for each class of property, plant and equipment is:

30th June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

| | Depreciation Rate | Depreciation Method |
|----------------------------------|-------------------|---------------------|
| Buildings | 2.5% | Straight line |
| Plant and machinery | 15% | Straight line |
| Fixtures, fittings and equipment | 15% | Straight line |
| Motor vehicles | 22.5% | Diminishing value |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

(f) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straightline basis over the period of the lease.

Lease income from operating leases, inclusive of any up front incentives received or paid, is recognised as income on a straight-line basis over the lease term.

(g) Financial instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Prior to 1 July 2009, Sydney Markets Limited determined that its derivative instruments did not qualify for hedge accounting and changes in the fair value of any derivative instrument that did not qualify for hedge accounting were recognised immediately in the profit or loss.

Since that date Sydney Markets Limited designates these derivatives as hedging instruments. Sydney Markets Limited documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. It also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 11. Movements in the hedging reserve in shareholders' equity are shown in note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is

notes to the financial statements for the year ended

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

Fair value

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using quoted market prices or dealer quotes for similar instruments.

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

Impairment

At each reporting date, Sydney Markets Limited assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in profit or loss.

(h) **Impairment of assets**

At each reporting date, Sydney Markets Limited reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, Sydney Markets Limited estimates the recoverable amount of the cash generating unit to which the asset belongs.

(i) **Employee benefits**

Provision is made for Sydney Markets Limited liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

(j) **Provisions**

Provisions are recognised when Sydney Markets Limited has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligations and the amount has been reliably estimated.

30th June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of taxes paid. Revenue is recognised on an accruals basis in accordance with tenancy agreements or as services are rendered. Rental and other amounts received or receivable from tenants in respect of periods subsequent to the reporting period are included within liabilities.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

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

(m) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impairment of receivables, ie. allowance for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for impairment of receivables is established when there is objective evidence that Sydney Markets Limited will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The movement in the allowance is recognised in profit or loss.

(n) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to Sydney Markets Limited prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Contributed equity

Ordinary shares are classified as equity as they entitle the holder to a residual interest in the net assets of Sydney Markets Limited, in proportion to their respective tradeable space, so that each share is "stapled" to one unit of tradeable space.

(p) Promotional levies

Promotional levies are monies derived from levies on tenants where the funds are allocated to the promotion of the relevant area of the Markets. Any unused portion of these levies is recorded as a liability until expended.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets purchased are recognised net of the amount of goods and services tax (GST).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

(r) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

notes to the financial statements for the year ended

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The consolidated entity's assessment of the impact of these new standards and interpretations that may be relevant to the consolidated entity is set out below.

- (i) **AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project** (effective for annual periods beginning on or after 1 January 2010)

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The consolidated entity will apply the revised standards from 1 July 2010. The consolidated entity does not expect any adjustments will be necessary as a result of applying the revised rules.

- (ii) **AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project** (effective from 1 July 2010/1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The consolidated entity will apply the amendments from 1 July 2010 and from 1 July 2011. The consolidated entity does not expect that any adjustments will be necessary as the result of applying the revised rules.

- (iii) **AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements** (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Sydney Markets Limited is publicly accountable and is therefore a Tier One entity as defined in AASB 1053. As a consequence, the two standards will have no impact on the financial statements of the entity.

(t) Parent entity financial information

The financial information for the parent entity, Sydney Markets Limited, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Sydney Markets Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Sydney Markets Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Directors evaluate estimates and judgments incorporated into the financial statements 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 Sydney Markets Limited.

Key Estimates & Judgements

Impairment

Sydney Markets Limited assesses impairment at each reporting date by evaluating conditions specific to Sydney Markets that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

30th June 2010

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Allowance for impairment loss on trade receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. Due to the larger number of debtors, this assessment is based on supportable past collection history and historical write-offs of bad debts.

3 SEGMENT REPORTING

Sydney Markets Limited manages and administers the operations of the largest central produce and retail markets in Australia. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the business, has been identified as the Senior Management team. Internal reporting provided to the Senior Management team shows a single operating segment being the business as a whole.

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| 4 REVENUE | | |
| From continuing operations | | |
| Rents | 20,581 | 19,201 |
| Dues and fees | 17,700 | 16,831 |
| Other operating revenue | 9,282 | 8,647 |
| Advertising and promotion | 3,132 | 2,861 |
| Consideration on transfer of licenses and leases | 924 | 949 |
| Interest revenue | 237 | 119 |
| Other revenue | 224 | 118 |
| | 52,080 | 48,726 |
| 5 OTHER INCOME | | |
| Net gain on disposal of property, plant and equipment | 6 | 20 |
| 6 EXPENSES | | |
| Profit before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Buildings | 1,411 | 1,339 |
| Plant and equipment | 3,013 | 3,044 |
| Leasehold improvements | 33 | 30 |
| Total depreciation | 4,457 | 4,413 |
| <i>Finance costs</i> | | |
| Interest and finance charges paid to external parties | 3,192 | 3,727 |
| <i>Rental expense relating to operating leases</i> | | |
| Minimum lease payments | 2,682 | 3,602 |
| <i>Provision for employee entitlements</i> | 390 | 359 |

notes to the financial statements for the year ended

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| 7 INCOME TAX EXPENSE | | |
| (a) Income tax expense | | |
| Current tax – current year | 2,957 | 3,153 |
| Current tax – prior year | (207) | 61 |
| Deferred tax | (388) | (1,567) |
| | <u>2,362</u> | <u>1,647</u> |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Profit from continuing operations before income tax expense | 9,067 | 5,356 |
| Tax at the Australian tax rate of 30% (2009 30%) | 2,720 | 1,607 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| – Adjustment for (over)/under provision of tax in prior year | (385) | 18 |
| – Sundry items | 27 | 22 |
| Total income tax expense | <u>2,362</u> | <u>1,647</u> |
| 8 CURRENT ASSETS – CASH AND CASH EQUIVALENTS | | |
| Cash at bank and in hand | <u>5,040</u> | <u>1,961</u> |
| 9 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES | | |
| Trade receivables | 2,377 | 1,796 |
| Receivables invoiced in advanced | 3,227 | 2,974 |
| Provision for impairment of receivables | (20) | (10) |
| | <u>5,584</u> | <u>4,760</u> |
| Accrued income and other receivables | 1,263 | 1,058 |
| | <u>1,263</u> | <u>1,058</u> |
| | <u>6,847</u> | <u>5,818</u> |
| Provision for impairment of trade receivables | | |
| Current trade receivables are non-interest bearing loans and generally on 30 day terms. A provision for impairment is recognised when there is objective evidence that an individual trade receivable is impaired. These amounts have been included in other expenses. | | |
| Movements in the provision for impairment of receivables are as follows: | | |
| Opening balance at 1 July 2009 | 10 | 210 |
| Provision for impairment recognised/(released) during the year | 10 | (200) |
| Balance at 30 June 2010 | <u>20</u> | <u>10</u> |
| 10 CURRENT ASSETS – OTHER CURRENT ASSETS | | |
| Prepayments | <u>1,817</u> | <u>1,710</u> |

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| 11 DERIVATIVE FINANCIAL INSTRUMENTS | 2010 | 2009 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Non-current liabilities | | |
| Interest rate swaps and collars | 2,461 | 2,409 |
| Total derivative financial instrument liabilities | 2,461 | 2,409 |

Sydney Markets Limited has entered into interest rate swap agreements in order to hedge part of its borrowings against rises in interest rates by swapping variable interest rate obligations into fixed rate obligations. The contracts require settlement of the net interest receivable or payable each 90 days. The net receipt or payment is brought to account as an adjustment to borrowing costs. Net receipts or payments are recognised on an accruals basis.

Additionally, Sydney Markets Limited has entered into interest rate collar agreements, in which variable interest rate obligations move up or down only within a narrow band (between a cap and a floor).

Derivatives currently in place cover approximately 95% (2009: 88%) of the variable loan principal outstanding. The derivatives are timed to match the repayment terms of the existing loans or the forecast terms of replacement loans which will be negotiated prior to the expiry of the existing loans. Details of the terms of the derivatives are set out below.

Settlement date of interest rate swaps:

| | | |
|--------------------------------|---------------|--------|
| 1 to 5 years (fixed rate 6.6%) | 15,000 | 15,000 |
| | 15,000 | 15,000 |

Settlement date of interest rate collars:

| | | |
|----------------------|---------------|--------|
| 1 to 5 years | | |
| Max 7.75%, min 7.19% | 15,000 | – |
| More than 5 years | | |
| Max 7.75%, min 7.19% | – | 15,000 |
| Max 6.81%, min 3.75% | 5,000 | 5,000 |
| Max 6.81%, min 3.75% | 10,000 | 10,000 |
| | 30,000 | 30,000 |

As explained in note 1(g) prior to 1 July 2009, gains and losses arising from changes in the fair value of interest rate swaps and collars were recognised in profit or loss in the period in which they arise. Since that date Sydney Markets Limited designates these derivatives on hedging instruments and adopts hedge accounting.

The valuation loss on derivative financial instruments in 2009 of \$3,254,000 related directly to the downward movement in interest rates in 2009 compared to the hedged fixed interest rates entered into in previous periods to protect against adverse interest rate fluctuations arising on variable rate bank loans taken out to finance the purchase of the Flemington property.

The commercial decision to enter into fixed rate hedging was made taking into account the history of interest rate movements and the economic climate at the time of taking out derivatives. The Directors regard this as a prudent interest risk management technique in line with sound business practice.

notes to the financial statements for the year ended

11 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

In accordance with Australian Accounting Standards, in 2009 Sydney Markets Limited was required to mark to market the value of its derivative financial instruments and recognise changes in the fair value in its profit or loss.

The theoretical mark to market valuations can fluctuate greatly as market interest rates fluctuate and will change over the remaining life of the derivative financial instruments.

The Directors consider that, whilst the 2009 theoretical valuation loss on derivative financial instruments related to the financing of the business, it was not a core operating or cash transaction and was unusual due to its size and nature. Accordingly within profit or loss the Directors disclosed "operating profit before valuation (loss)/gain" to assist users to better understand the financial performance of Sydney Markets Limited core operations.

Correction of valuation of derivative financial instruments in the previous financial year

Due to the inadvertent omission of part of the theoretical valuation of two interest rate collars, the theoretical valuation loss on derivatives for the year ended 30 June 2009 was understated by \$963,000. This had the effect of understating derivative financial instruments by \$963,000 and total liabilities by \$674,000. It also affected profit before income tax by \$963,000, deferred tax liabilities and income tax expense by \$289,000 and profit after income tax, profit for the year, retained earnings and total equity by \$674,000.

This has been corrected by restating each of the affected financial statement line items and the related notes for the prior year, as described above.

12 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary:

| Name of entity | Country of incorporation | Class of shares | Percentage Owned | |
|--------------------------------|--------------------------|-----------------|------------------|-----------|
| | | | 2010 % | 2009 % |
| Flemington Storage Pty Limited | Australia | Ordinary | 100 | 100 |

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13. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | Capital work in progress \$'000 | Freehold land \$'000 | Buildings \$'000 | Plant and equipment \$'000 | Leasehold improvements \$'000 | Total \$'000 |
|--------------------------|--|----------------------------|---------------------|----------------------------------|-------------------------------------|-----------------|
| At 1 July 2008 | | | | | | |
| Cost | 1,556 | 48,668 | 52,479 | 25,601 | 401 | 128,705 |
| Accumulated depreciation | – | – | (7,629) | (17,380) | (107) | (25,116) |
| Net book amount | 1,556 | 48,668 | 44,850 | 8,221 | 294 | 103,589 |
| Year 30 June 2009 | | | | | | |
| Opening net book amount | 1,556 | 48,668 | 44,850 | 8,221 | 294 | 103,589 |
| Additions | 10,688 | 24 | – | 498 | – | 11,210 |
| Disposals | – | – | – | (170) | – | (170) |
| Transfers | (274) | – | – | 274 | – | – |
| Depreciation charge | – | – | (1,339) | (3,044) | (30) | (4,413) |
| Closing net book amount | 11,970 | 48,692 | 43,511 | 5,779 | 264 | 110,216 |
| At 30 June 2009 | | | | | | |
| Cost | 11,970 | 48,692 | 52,479 | 26,056 | 401 | 139,598 |
| Accumulated depreciation | – | – | (8,968) | (20,277) | (137) | (29,382) |
| Net book amount | 11,970 | 48,692 | 43,511 | 5,779 | 264 | 110,216 |
| Year 30 June 2010 | | | | | | |
| Opening net book amount | 11,970 | 48,692 | 43,511 | 5,779 | 264 | 110,216 |
| Additions | 1,854 | – | 961 | 2,009 | 53 | 4,877 |
| Transfers | (11,573) | – | 11,573 | – | – | – |
| Depreciation charge | – | – | (1,411) | (3,013) | (33) | (4,457) |
| Closing net book amount | 2,251 | 48,692 | 54,634 | 4,775 | 284 | 110,636 |
| At 30 June 2010 | | | | | | |
| Cost | 2,251 | 48,692 | 65,017 | 27,934 | 453 | 144,347 |
| Accumulated depreciation | – | – | (10,383) | (23,159) | (169) | (33,711) |
| Net book amount | 2,251 | 48,692 | 54,634 | 4,775 | 284 | 110,636 |

The land and buildings with building fixtures, fittings, plant and equipment were independently valued by Urbis JHD, Registered Property Valuer, as at 31 December 2004. In the valuer's opinion, the 'fair value' for financial reporting disclosure purposes was \$143 million. The Directors consider that the fair value of the property, plant and equipment continues to exceed its carrying value.

notes to the financial statements

for the year ended

| 14 NON-CURRENT ASSETS – DEFERRED TAX ASSETS | 2010 | 2009 |
|---|----------------|---------------|
| | \$'000 | \$'000 |
| The balance comprises temporary differences attributable to: | | |
| Provisions | 495 | 484 |
| Depreciation relating to property, plant and equipment | 2,150 | 3,139 |
| Lease premium | 333 | 776 |
| Derivative financial instrument | 738 | 723 |
| | 3,716 | 5,122 |
| Set-off of deferred tax liabilities pursuant to setoff provisions (note 21) | (3,716) | (5,122) |
| Net deferred tax assets | – | – |
| Movements: | | |
| Opening balance at 1 July | 5,122 | 3,734 |
| Credited/(charged) to profit or loss | (1,421) | 1,388 |
| Credited/(charged) to reserves | 15 | – |
| Closing balance at 30 June | 3,716 | 5,122 |

| | Provisions | Property, plant and equipment | Lease premium | Derivative financial instrument | Total |
|--------------------------------------|-------------------|--|--------------------------|--|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Movements – Consolidated | | | | | |
| At 1 July 2008 | 601 | 2,484 | 649 | – | 3,734 |
| (Charged)/credited to profit or loss | (117) | 655 | 127 | 723 | 1,388 |
| At 30 June 2009 | 484 | 3,139 | 776 | 723 | 5,122 |
| At 30 June 2009 | 484 | 3,139 | 776 | 723 | 5,122 |
| (Charged)/credited to profit or loss | 11 | (989) | (443) | – | (1,421) |
| (Charged)/credited to reserves | – | – | – | 15 | 15 |
| At 30 June 2010 | 495 | 2,150 | 333 | 738 | 3,716 |

30th June 2010

| | | | |
|-----------|--|---------------|---------------|
| 15 | CURRENT LIABILITIES – TRADE AND OTHER PAYABLES | 2010 | 2009 |
| | | \$'000 | \$'000 |
| | Trade payables and accruals | 5,180 | 6,305 |
| | Employee benefits | 599 | 532 |
| | | 5,779 | 6,837 |
| 16 | CURRENT LIABILITIES – PROVISIONS | | |
| | Employee benefits – long service leave | 385 | 323 |
| 17 | CURRENT LIABILITIES – CURRENT TAX LIABILITIES | | |
| | Income tax | 81 | 425 |
| 18 | CURRENT LIABILITIES – OTHER CURRENT LIABILITIES | | |
| | Rents and other income billed in advanced | 7,972 | 5,026 |
| | Rents and other income received in advanced | 4,887 | 4,676 |
| | | 12,859 | 9,702 |
| 19 | CURRENT LIABILITIES – BORROWINGS | | |
| | Commercial bill facility | 5,000 | 4,250 |

notes to the financial statements for the year ended

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| 20 NON-CURRENT LIABILITIES – BORROWINGS | | |
| Commercial bill facility | 42,500 | 46,750 |
| (a) Financing arrangements | | |
| Bank loan facilities | | |
| Total facilities | 50,750 | 54,750 |
| Used at balance date | 47,500 | 51,000 |
| Unused at balance date | 3,250 | 3,750 |
| Carrying amount of non-current assets pledged as security are: | | |
| First mortgage over freehold land & building | 103,326 | 92,203 |
| Floating charge over all other assets | 21,014 | 27,502 |
| Total assets pledged as security | 124,340 | 119,705 |

Sydney Markets Limited entered into a 10 year \$85 million loan facility (overdraft and commercial bill facility) with a major Australian bank to finance the 1 July 2002 purchase of the Sydney Markets Limited site at Flemington. The facility is secured by a mortgage over the land and a charge over the assets of Sydney Markets Limited and provides for quarterly principal and interest payments until 1 July 2012. There is a redraw facility on payments in advance of the scheduled principal payments.

The availability of finance under the facility is subject to borrowing covenants, which include a number of financial ratios. As at the date of this report Sydney Markets Limited has met all the obligations and covenants set by the bank.

30th June 2010

| | 2010 \$'000 | 2009 \$'000 |
|---|----------------|----------------|
| 21' NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES | | |
| The balance comprises temporary differences attributable to: | | |
| Tax allowances relating to property, plant and equipment | 6,021 | 7,953 |
| Prepayments | 375 | 252 |
| | 6,396 | 8,205 |
| Set off of deferred tax assets – (note 14) | (3,716) | (5,122) |
| Total deferred tax liabilities | 2,680 | 3,083 |
| Movements: | | |
| Opening balance at 1 July | 8,205 | 8,384 |
| Charged/(credited) to profit or loss | (1,809) | (179) |
| Closing balance at 30 June | 6,396 | 8,205 |

| | Property, plant and equipment \$'000 | Derivative financial instrument \$'000 | Prepayments \$'000 | Total \$'000 |
|---|---|---|-----------------------|-----------------|
| Movements – Consolidated and Parent entity | | | | |
| At 1 July 2008 | 7,884 | 253 | 247 | 8,384 |
| Charged/(credited) to profit or loss | 69 | (253) | 5 | (179) |
| At 30 June 2009 | 7,953 | - | 252 | 8,205 |
| At 30 June 2009 | 7,953 | - | 252 | 8,205 |
| Charged/(credited) to profit or loss | (1,932) | - | 123 | (1,809) |
| At 30 June 2010 | 6,021 | - | 375 | 6,396 |

notes to the financial statements for the year ended

22` NON-CURRENT LIABILITIES – PROVISIONS

| | 2010 \$'000 | 2009 \$'000 |
|--------------------------------------|----------------|----------------|
| Employee benefits long service leave | 104 | 104 |

23. CONTRIBUTED EQUITY

(a) Share capital

Issued capital comprises 6,524 (2009: 6,524) fully paid shares of \$1 each

| | 2010 Shares | 2009 Shares | 2010 \$ | 2009 \$ |
|--------------------------------|----------------|----------------|--------------|------------|
| Flowers Ordinary shares | 262 | 262 | 262 | 262 |
| Growers Ordinary Shares | 712 | 712 | 712 | 712 |
| Retail Markets Ordinary Shares | 5,060 | 5,060 | 5,060 | 5,060 |
| Warehouse Ordinary Shares | 240 | 240 | 240 | 240 |
| Wholesale Ordinary Shares | 250 | 250 | 250 | 250 |
| | 6,524 | 6,524 | 6,524 | 6,524 |

(b) Movements in ordinary share capital:

| Date | Details | Number of Shares | \$ |
|-----------------|------------------|---------------------|-------|
| 1 July 2008 | Opening balance | 6,521 | 6,521 |
| 12 January 2009 | Issue of shares | 2 | 2 |
| 25 June 2009 | Issues of shares | 1 | 1 |
| 30 June 2009 | Balance | 6,524 | 6,524 |
| 1 July 2009 | Opening balance | 6,524 | 6,524 |
| 30 June 2010 | Balance | 6,524 | 6,524 |

Each ordinary share of Sydney Markets Limited carries a right to vote, receive a dividend and participate in any surplus profit on a winding up in accordance with and determined by reference to the equity entitlement as set out in the Shareholders' Register.

Each share is irrevocably linked to the specific space within the Markets to which it relates and neither the share nor the space can be dealt with in any way without the other. The Retail Markets Ordinary Shares comprise two separate classes identified as "Flemington" and "Haymarket".

Shares not taken up by tenants are transferred to the Trustee, Perpetual Trustee Company Limited. The Trustee has no voting rights. Sydney Markets Limited has authorised share capital amounting to 200,000,000 ordinary shares of \$1.00 each.

Capital management

Sydney Markets Limited controls its capital in order to maintain an appropriate debt to equity ratio and ensure that it can fund its operations and continue as a going concern.

As stated in the Director's Report, the Directors have established a policy that all operating profits and reserves earned by Sydney Markets Limited will be maintained, invested and accumulated in order to fund the costs associated with the continuation of the Central Markets.

30th June 2010

23. CONTRIBUTED EQUITY (continued)

The only externally imposed capital requirement arises from the company's loan facility (overdraft and commercial bill facility) with a major Australian bank. There is a redraw facility on payments in advance of the scheduled principal payments. Ongoing funding will be provided as long as Sydney Markets Limited continues to comply with the facility agreement. There have been no changes in the strategy adopted by Sydney Markets Limited to manage its capital since the prior year.

| | 2010 \$'000 | 2009 \$'000 |
|---------------------------------|----------------|----------------|
| Total borrowings | 47,500 | 51,000 |
| Less: cash and cash equivalents | (5,040) | (1,961) |
| Net debt | 42,460 | 49,039 |
| Total equity | 52,491 | 45,822 |
| Total capital | 94,951 | 94,861 |
| Gearing ratio | 45% | 52% |

24. RESERVES AND RETAINED EARNINGS

(a) Reserves

Hedging reserve – cash flow hedges

| | |
|------|---|
| (36) | – |
| (36) | – |

Movements:

Hedging reserve – cash flow hedges

| | | |
|---------------------|------|---|
| Balance 1 July | – | – |
| Revaluation – gross | (51) | – |
| Deferred tax | 15 | – |
| Balance 30 June | (36) | – |

(b) Retained earnings

Movements in retained earnings were as follows:

| | | |
|-------------------------|--------|--------|
| Balance 1 July | 45,815 | 42,106 |
| Net profit for the year | 6,705 | 3,709 |
| Balance 30 June | 52,520 | 45,815 |

(c) Nature and purpose of reserves

Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

25. FRANKING CREDITS

Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2009 – 30%)

| | |
|--------|--------|
| 32,559 | 30,521 |
|--------|--------|

notes to the financial statements for the year ended

| 26. KEY MANAGEMENT PERSONNEL COMPENSATION | 2010 | 2009 |
|--|------------------|---------------|
| | \$'000 | \$'000 |
| (a) Key management personnel compensation | | |
| Short-term employee benefits | 1,142,814 | 1,081,908 |
| Post-employment benefits | 138,689 | 146,000 |
| Termination benefits | – | 53,092 |
| | 1,281,503 | 1,281,000 |

Detailed remuneration disclosures are provided in sections A-B of the remuneration report on pages 10 to 12.

(b) Shareholdings related to key management personnel

The numbers of shares held directly, indirectly or beneficially held during the financial year by each Director of Sydney Markets Limited and other key management personnel of the consolidated entity, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| Name | Balance at the | Changes during | Balance at the |
|----------------------------|--------------------------|-----------------------|------------------------|
| 2010 | start of the year | the year | end of the year |
| Ordinary shares | | | |
| Mr Cosimo Cremona | 5 | (5) | – |
| Mr William L. Lynch | 17 | – | 17 |
| Mr Alvisio (John) Olivieri | 4 | – | 4 |
| 2009 | | | |
| Ordinary shares | | | |
| Mr Cosimo Cremona | 5 | – | 5 |
| Mr William L. Lynch | 17 | – | 17 |
| Mr Alvisio (John) Olivieri | 4 | – | 4 |

| (c) Other transactions with key management personnel | 2010 | 2009 |
|---|---------------|---------------|
| | \$'000 | \$'000 |

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties.

| | | |
|--|----------------|---------|
| (i) Total income received or receivable by Sydney Markets Limited from Director-related entities for rents, dues and fees (recognised in revenue from continuing operations) | 636,468 | 595,113 |
| (ii) Total expenditure paid or payable by Sydney Markets Limited to Director-related entities for produce, sponsorships and scholarships (recognised in Advertising and promotion costs and Management and administration costs) | 79,772 | 59,182 |

The names of Directors concerned with the above transactions were Mr Cosimo Cremona; Mr David J. Whiteman; Mr Colin H. Gray, Mr William L. Lynch and Mr Alvisio (John) Olivieri.

Apart from the matters mentioned above, no Director has entered into a material contract with Sydney Markets Limited during the financial year.

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| 27. REMUNERATION OF AUDITORS | 2010 | 2009 |
|--|----------------|---------------|
| | \$'000 | \$'000 |
| (a) PricewaterhouseCoopers Australia | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial reports | 129,780 | 112,300 |
| Other assurance services | 50,752 | 20,700 |
| Total remuneration for audit and other services | 180,532 | 133,000 |
| <i>Taxation services</i> | | |
| Tax compliance services | 51,321 | 30,000 |
| Total remuneration for taxation services | 51,321 | 30,000 |
| Total remuneration of PricewaterhouseCoopers Australia | 231,853 | 163,000 |

28. CONTINGENCIES

There are no contingent liabilities or assets at the reporting date (2009: \$Nil).

29. COMMITMENTS

(a) Operating commitments

Operating commitments contracted for but not capitalised in the accounts:

Payable:

| | | |
|--|----------------|--------|
| Less than 1 year | 2,749 | 2,683 |
| Longer than 1 year not longer than 5 years | 11,522 | 11,241 |
| Longer than 5 years | 99,368 | 17,397 |
| | 113,639 | 31,321 |

The above commitments relate to the Paddy's Market Haymarket site pursuant to a 30 year licence from 1 January 2010 until 31 December 2039 to the Sydney Market Authority (SMA). SMA assigned the licence to Sydney Markets Limited in 1997.

The licence is for a fixed annual lump sum payment indexed on 1 January each year by annual CPI.

(b) Capital expenditure commitments

Commitments in relation to leases contracted for:

| | | |
|------------------------------------|--------------|-------|
| Acquisition of commercial property | 1,600 | 549 |
| Other capital expenditure projects | 1,400 | 1,757 |
| | 3,000 | 2,306 |
| Representing: | | |
| Less than 1 year | 3,000 | 2,306 |
| | 3,000 | 2,306 |

notes to the financial statements for the year ended

30 FINANCIAL RISK MANAGEMENT

Sydney Markets Limited financial instruments consist of cash balances and short-term deposits with banks, bank commercial bills, accounts receivable and payable and interest rate derivatives. The main risks Sydney Markets Limited is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Sydney Markets Limited manages its exposure to key financial risks in accordance with its financial risk management policy. The objective of the policy is to support the delivery of Sydney Markets Limited financial targets whilst protecting future financial security.

Primary responsibility for identification and control of financial risks rests with the Finance and Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

(a) Interest rate risk

Sydney Markets Limited manages its funding costs by using derivative financial instruments to reduce exposure created by its variable rate debt. Details relating to Sydney Markets Limited hedging are set out in note 11.

Sydney Markets Limited regularly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

As at the reporting date, Sydney Markets Limited had the following variable rate borrowings and interest rate derivatives outstanding:

| | 30 June 2010 Balance \$'000 | 30 June 2009 Balance \$'000 |
|---|--------------------------------------|--------------------------------------|
| Commercial bill facility | 47,500 | 51,000 |
| Interest rate derivatives (notional principal amount) | (45,000) | (45,000) |
| Net exposure to cash flow interest rate risk | 2,500 | 6,000 |

The loans drawn down under the commercial bill facility bear an average variable interest rate of 4.47% (2009 – 6.62%). The fixed interest rate of the interest swap is 6.6% and the cap and the floor of the collars vary between 6.81% and 7.75% and 3.75% and 7.19% respectively with a premium between 0% and 0.9875%.

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and the hedging reserve would have been affected as follows:

| | 2010 | | 2009 | |
|------------------------------|------------------|------------------------------|------------------|------------------------------|
| | Profit \$'000 | Hedging reserve \$'000 | Profit \$'000 | Hedging reserve \$'000 |
| +1% (100 basis point) | | | | |
| Interest income/(expense) | 18 | – | (343) | – |
| Valuation of derivatives | – | 815 | 1,124 | – |
| –1% (100 basis point) | | | | |
| Interest income/(expense) | (18) | – | 343 | – |
| Valuation of derivatives | – | (844) | (1,170) | – |

30th June 2010

30 FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk with respect to receivables represents the loss that would be recognised if a substantial number of tenants failed to meet their obligations under lease or licence arrangements. The risk is minimal as many tenancies (especially warehouse leases and wholesale licences) have inherent market value which Sydney Markets Limited can offset against outstanding receivables. Credit risks are identified in a timely fashion as the majority of revenue is invoiced in advance. Ageing analysis and monitoring of specific overdue debtors are undertaken to manage credit risk. There is no significant concentration of credit risk involving any one tenant.

Credit risk with respect to derivatives arises with unrealised gains and the potential failure of a counterparty to meet their obligations at maturity of contracts. All of Sydney Markets Limited's derivatives have been entered into with a single AAA+ credit rated counterparty.

(c) Liquidity risk

Sydney Markets Limited manages liquidity risk by monitoring forecast cash flows, taking into account forecast capital expenditure and repairs and maintenance, and ensuring that adequate borrowing facilities are maintained.

The table below reflects undiscounted cashflows arising from all contractually fixed settlement terms for recognised financial liabilities including derivative financial instruments as of 30 June 2010.

| | Less than 6 months \$'000 | 6-12 months \$'000 | Between 1 and 5 years \$'000 | Over 5 years \$'000 | Total \$'000 | Carrying Value \$'000 |
|--------------------------------|------------------------------|-----------------------|---------------------------------|------------------------|--|--------------------------|
| Year ended 30 June 2010 | | | | | | |
| Financial liabilities | | | | | | |
| Trade and other payables | (5,779) | – | – | – | (5,779) | (5,779) |
| Interest bearing loans* | (3,567) | (3,494) | (44,767) | – | (51,828) | (47,500) |
| Derivatives | (248) | (346) | (1,612) | (255) | (2,461) | (2,461) |
| | (9,594) | (3,840) | (46,379) | (255) | (60,068) | (55,740) |
| | Less than 6 months \$'000 | 6-12 months \$'000 | Between 1 and 5 years \$'000 | Over 5 years \$'000 | Total contractual cash flows \$'000 | Total \$'000 |
| Consolidated | | | | | | |
| Year ended 30 June 2009 | | | | | | |
| Financial liabilities | | | | | | |
| Trade and other payables | (6,837) | – | – | – | (6,837) | (6,837) |
| Interest bearing loans* | (3,964) | (3,892) | (54,849) | – | (62,705) | (51,000) |
| Derivatives | (562) | (539) | (1,116) | (192) | (2,409) | (2,409) |
| | (11,363) | (4,431) | (55,965) | (192) | (71,951) | (60,246) |

*These maturities are in line with Sydney Markets Limited's strategy. The facilities maturing in 2012 will be renegotiated at that time.

notes to the financial statements for the year ended

30 FINANCIAL RISK MANAGEMENT (continued)

(d) Foreign currency risk and price risk

Sydney Markets Limited has no exposure to foreign currency nor equity securities price risk.

(e) Fair value

The net fair value of financial assets and financial liabilities approximate their carrying values.

31. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of Sydney Markets Limited, the results of those operations or the state of affairs of Sydney Markets Limited in subsequent financial years.

32. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2010 \$'000 | 2009 \$'000 |
|--|----------------|----------------|
| Profit for the year | 6,705 | 3,709 |
| Depreciation and amortisation | 4,457 | 4,413 |
| Profit on disposal of plant and equipment | (6) | (20) |
| Fair value loss (gain) on derivative financial instruments | – | 3,254 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in receivables | (1,029) | (923) |
| (Increase)/decrease in other current assets | (107) | (583) |
| (Increase)/decrease in deferred tax balances | (388) | (1,567) |
| Increase/(decrease) in trade and other payables | 2,099 | 10 |
| Increase/(decrease) in provisions | 62 | 74 |
| Increase/(decrease) in current tax payable/recoverable | (343) | (193) |
| Net cash inflow from operating activities | 11,450 | 8,174 |

30th June 2010

| 33 PARENT ENTITY FINANCIAL INFORMATION | 2010 | 2009 |
|---|----------------|---------------|
| | \$'000 | \$'000 |
| (a) Summary financial information | | |
| Balance sheet | | |
| Current assets | 16,878 | 12,443 |
| Non-current assets | 107,504 | 107,065 |
| Total assets | 124,382 | 119,508 |
| Current liabilities | 24,104 | 21,537 |
| Non-current liabilities | 47,745 | 52,151 |
| Total liabilities | 71,849 | 73,688 |
| <i>Shareholders' equity</i> | | |
| Contributed equity | 7 | 7 |
| Reserves | (36) | – |
| Retained earnings | 52,562 | 45,813 |
| | 52,533 | 45,820 |
| Profit for the year | 6,749 | 3,402 |
| Total comprehensive income | 6,713 | 3,402 |

(b) Guarantees entered into by the parent entity

The parent entity has not provided any financial or other guarantees in respect of bank overdrafts, loans or other obligations of subsidiaries.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

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

As at 30 June 2010, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$3,000,000 (30 June 2009 – \$2,306,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

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Directors' declaration

30th June 2010

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 43 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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



MR JOHN C. PEARSON
CHAIRMAN



MR COLIN H. GRAY
DIRECTOR

Sydney
22 September 2010

independent audit report to the members of



PricewaterhouseCoopers
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYDNEY MARKETS LIMITED

Report on the financial report

We have audited the accompanying financial report of Sydney Markets Limited (the company), which comprises the balance sheets as at 30 June 2010, and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for Sydney Markets Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1a, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with Australian Accounting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by Directors or management.

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

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Sydney Markets Ltd

30th June 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYDNEY MARKETS LIMITED (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Sydney Markets Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with Australian Accounting Standards as disclosed in note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 10 to 12 of the Directors' report for the year ended 30 June 2010. 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.

Auditor's opinion

In our opinion, the remuneration report of Sydney Markets Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Sydney Markets Limited (the company) for the year ended 30 June 2010 included on Sydney Markets Limited web site. The company's Directors are responsible for the integrity of the Sydney Markets Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.



PricewaterhouseCoopers



S J Bourke
Partner

Sydney
22 September 2010

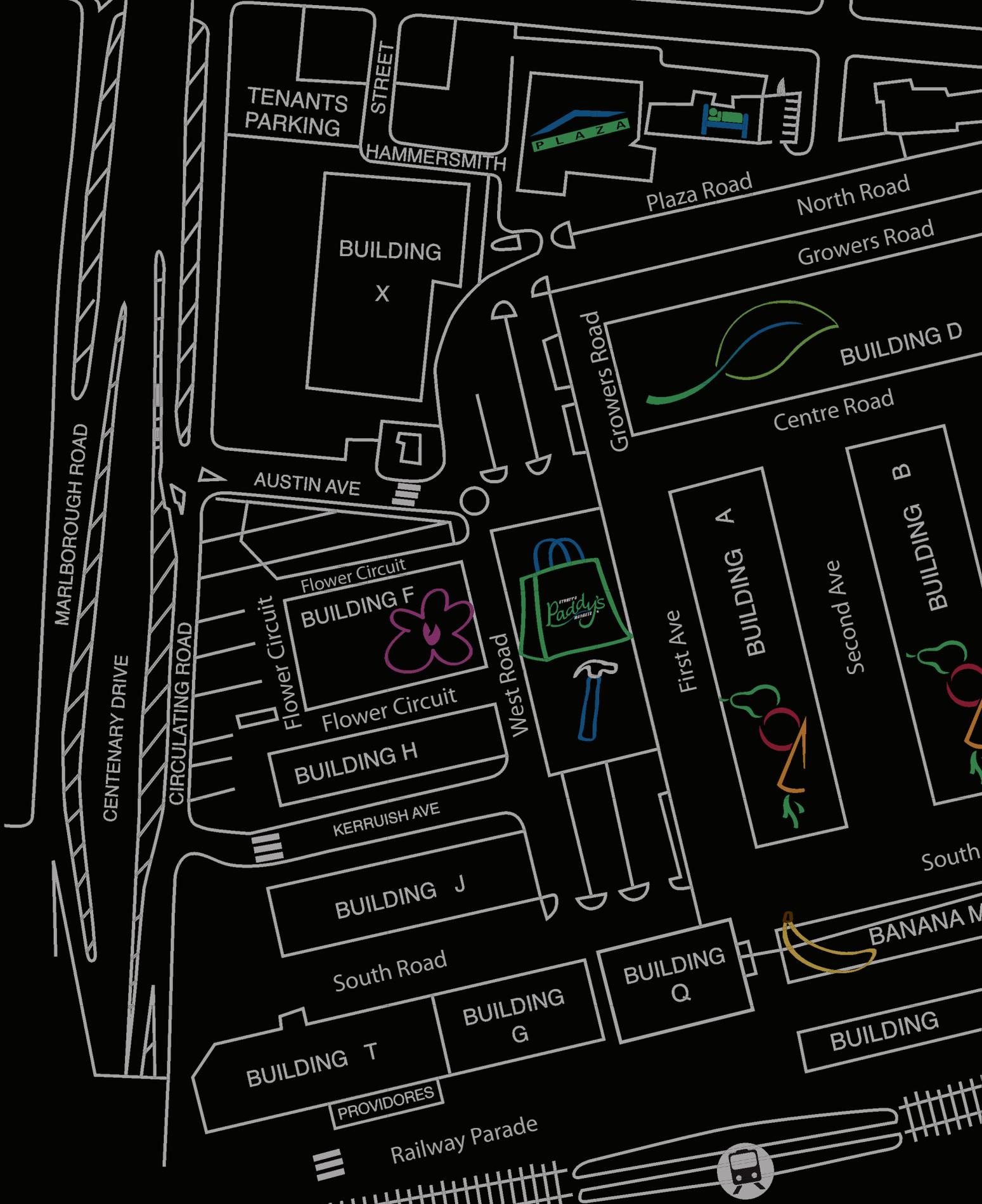
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