



Audit
147 Collins Street
Melbourne Vic 3000

GPO Box 2291
Melbourne Vic 3001
Australia

ABN: 51 194 660 183
Telephone: +61 3 9288 5555
Facsimile: +61 3 9288 6666
www.kpmg.com.au

The Chair
Austock Group Limited
Level 12, 15 William Street
MELBOURNE VIC 3000

19 October 2011

Dear Sir

I refer to the questions asked by Mr Andrew Brown and submitted to the Austock Annual General Meeting ("AGM") to be answered by me as the auditor of the Austock Group.

The Corporations Act offers members an opportunity to submit written questions to the auditor prior to the AGM on:

- (a) the content of the auditor's report to be considered at the AGM; or
- (b) the conduct of the audit of the annual financial report to be considered at the AGM.

In our view, the questions asked refer to the conduct of our audit and our response relates to the manner in which the audit of the 3 areas in question was carried out.

Firstly we set out some background on the audit process used to form our audit opinion on the financial report.

Management prepares the financial report in accordance with the requirements of the Corporations Act 2001, the Australian Accounting Standards, the ASX listing rules and other regulatory requirements. The approval of the financial report is the responsibility of those charged with governance. The role of the auditor is to conduct an independent audit and to issue an independent auditor's report in accordance with the Corporations Act 2001.

In forming our opinion on the financial report, we comply with Australian Auditing Standards. In developing our approach we identify the business risks, internal controls and critical audit objectives expected to have a material impact on the financial report.

Our audit procedures are designed to test management's assertions regarding the financial report, including the operation of key internal control processes and procedures and other supporting evidence. Based on all audit work performed, we assess whether the financial report taken as a whole presents a true and fair view and is in compliance with the Corporations Act 2001, Australian Accounting Standards and the Corporations Regulations 2001.

Our audit procedures were designed to provide reasonable assurance whether the financial report is free of material misstatement. Our work was not carried out for the purpose of giving a separate opinion on the adequacy of internal controls or on each caption of the financial report in isolation. Based on the results of our work we were able to issue an unmodified auditor's report on the financial report, as set out on pages 37 and 38 of Austock's annual report.

With that background, the following are additional comments in relation to the specific questions asked. The questions and our responses are as follows:

1. [reference page 34 of Annual Report and Financial Statements – audited Remuneration Report- part (d)] Could the auditor provide calculations and explanations to the AGM as to how non share based payments to Directors who were non-executive Directors during the year of \$551,904 – including one month of the Chairman operating in an Executive capacity – was less than the shareholder mandated ceiling of \$500,000 in remuneration to non-executive Directors? If the ceiling was breached, why was this not disclosed by the auditor?

Fees paid to NEDs for their role as NEDs did not breach the \$500k cap. The table in the remuneration report shows total fees paid to NEDs, including income received whilst acting as executives. Fees paid to NEDs in their role as NEDs are calculated on the following basis.

Total NED fees per the NED Remuneration table were \$551,904 for the year. From this should be subtracted;

- Mr Boyle's remuneration whilst he was an executive for 9 days to 9 July 2010, of \$25,079; and
- Mr Gregg's remuneration for the month of June 2011, when he was an executive of \$28,350.

Giving a total for fees paid as NEDs of \$498,475.

2. [reference page 100, note 36 to the accounts] What measures did the auditor take in the eleven days between 15 August 2011 and the signing of the accounts on 26 August 2011 to establish the disputed debt in question can be fully repaid, given its quantum relative to the overall profitability of the Company during the 2011 financial year?

- The \$2.2m corporate finance receivable was booked as income and a receivable at 30 June 2011, which management determined to be reasonable given Austock fulfilled all obligations under its mandate, therefore meeting the requirements of accounting standard AASB 118 Revenue.
- Subsequent to the balance sheet date, on 15 August, we, KPMG were made aware of the debtor disputing payment.
- We discussed this matter at length with management, and reviewed legal advice from external legal counsel regarding the likelihood of payment and Austock's likelihood of success should a legal case be undertaken to recover the funds.
- At the date of our opinion, management and the directors believed, and we concurred, that a provision for the debt was not appropriate based on the legal advice stating that full recovery of the debt was probable. On this basis no provision was raised as at 30 June 2011.

3. [reference page 35 of Annual Report and Financial Statements – audited Remuneration report – part (e)] Have the auditors discussed with the Company that it should provide a more fulsome disclosure of individual Key Management Personnel contracts in line with Section 300A (1) (e) (vii) of the Corporations Act, rather than the more general disclosures given? Did the auditor make any comments in this respect regarding the change in status of the Chairman from “non executive” to “executive” and nondisclosure of the details of any new contract to shareholders?

Under s300A(1)(e)(vii) – details of employment contracts for Key Management Personnel (“KMPs”) should be provided if they exist. The financial statements state the broad contractual terms for KMPs on page 35. Contract details are not provided for each individual executive on the basis that there are no significant differences between each of their contracts. This meets the requirements of the Corporations Act. From a best practice perspective, given Mr Gregg’s change in role, the change in his contract could have been disclosed, however we do not believe the information provided and set out below contravenes any Corporations Act requirements.

The Company has entered into service contracts with each key management person, excluding non-executive directors, that are capable of termination with a notice period of between 3 to 6 months. The Company retains the right to terminate a contract immediately by making payment equal to the relevant 3 to 6 month period pay in lieu of notice. The key management personnel are entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

Should you wish to discuss our response to these questions please do not hesitate to call me on 03 9288 5102.

Yours faithfully

Darren Scammell
Partner