PAYCE Consolidated Limited

ABN 19 001 566 310

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

PAYCE Consolidated Limited

ANNUAL REPORT 2014

CONTENTS

TRANSFORMING PLACES SINCE 1978

DIRECTORS' REPORT

The directors present their report together with the financial report of PAYCE Consolidated Limited (the 'Company') and of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2014.

1. DIRECTORS

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

Name and independence status	Age	Qualifications, experience, special responsibilities and other directorships
Mr. Brian M. Boyd Chairman and Managing Director	65	Brian Boyd was appointed as a Director and Managing Director in 1987 and Chairman of the Board on 8 July 2010. Brian has over 33 years' experience in the property industry.
Mr. Roger R. Short Non-Executive Director Independent	69	Roger Short was appointed as a Director in 1996. He practised for over 36 years as a lawyer involved in large scale property development projects and commercial and public infrastructure, retiring from practice with McCullough Robertson in 2005. Roger has been a director of public companies for more than 29 years and continues to be involved in company governance in the construction and infrastructure industries. Roger has also served as a director of Sedgman Limited since 2006. Roger is a member of the Audit Committee.
Mr. Christopher I. Gabriel Non-Executive Director Independent	66	Chris Gabriel was appointed as a Director in 2010. Chris brings substantial knowledge to the Board from over 33 years of advisory, accounting and tax experience to mid-tier businesses across a broad spectrum of industries. Chris has been a Fellow with the Institute of Chartered Accountants of Australia since 1973, has been a principal in practice since 1976 and is a registered company auditor. Chris is a member of the Audit Committee.

All directors held their position as director throughout the entire financial year and up to the date of this report, unless otherwise stated.

2. COMPANY SECRETARY

Mr. Brian H. Bailison

Brian Bailison, aged 43, was appointed as Company Secretary on 15 October 2009. He has a degree in Commerce and is a Chartered Accountant with extensive experience in accounting and reporting for both public and private companies.

3. DIRECTORS' MEETINGS

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

	Board		Audit Committee	
Director	**A**	**B**	**A**	**B**
B. M. Boyd	4	4	-	-
R. R. Short	4	4	2	2
C. I. Gabriel	4	4	2	2

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

4. PRINCIPAL ACTIVITY

The principal activity of the Group during the year was the development and sale of residential, retail and commercial property. There were no significant changes in the activities of the Group during the year.

5. OPERATING RESULTS

The consolidated profit of the Group after providing for income tax amounted to $1.559 million.

6. DIVIDENDS PAID AND RECOMMENDED

The Company declared an unfranked ordinary dividend of 10c per share on 3 March 2014 amounting to $2.975 million which was paid on 20 March 2014. No other dividends were declared or paid during the financial year or to the date of this report. Refer to Note 11 of the Financial Report.

7. REVIEW OF OPERATIONS

Overview

During the year the Group maintained its development activities, progressing the development of multiple sites and acquiring additional development sites as further detailed below.

Operations – Development Activities

- **East Village – Victoria Park, NSW**

  Development of the mixed-use "East Village" site continues to progress to plan, with completion of both the 206 residential units and opening of the commercial/retail centre scheduled for the 4th quarter of 2014 calendar year.

- **Platinum – Victoria Park, NSW**

  The construction of the 322 residential unit "Platinum" development continues to advance to plan, with completion and settlement scheduled for the end of this calendar year.

- **Washington Park (Riverwood North), NSW**

  During the year under review, the Group successfully completed the construction of 123 social housing units (SHU's) for the NSW Government. Following a successful pre-sale campaign, the Group has commenced construction of 389 private residential units in "Como" and "Fairmount", which are expected to complete from mid-2015. Progress on the remaining residential projects continues.

- **Hurstville, NSW**

  As announced to the market on 18 July 2014, subsequent to year end the Group has exchanged contracts to dispose of its Hurstville development site for $43 million, in which the Group has a 75% interest. Completion is due in October 2014.

- **Kirrawee, NSW**

  Further to the market announcement on 8 April 2014 regarding the acquisition of a 4.2 hectare mixed-use development site in the Sutherland Shire of Sydney, the Group continues to progress its planning and pre-construction activities.

Operations – Joint Operations

Following the completion of the joint operation agreement with Sekisui House on "The Waterfront" development (announced 13 June 2013), the Group is pleased to have, during the year under review, expanded its 50:50 joint operations as further detailed below.

- **Wentworth Point Ferry Terminal, NSW**

  This project is a mixed-use development, located at the Ferry Terminal Wentworth Point to construct up to 250 quality residential units and ground floor commercial/retail. We are currently awaiting DA application approval following which project commencement will occur.

- **Ermington, NSW**

  Includes a 600+ waterfront residential development site, acquired from Defence Housing Australia, fronting the Parramatta River at Ermington. The development has received DA application approval and it is anticipated that project commencement will shortly occur.

- **West End (Brisbane), QLD**

  Encompasses a mixed-use residential and retail development located in South Brisbane to construct over 1,000 residential units and a vibrant retail precinct. The site was acquired for $45 million in May 2014.

Other development projects

The Group continues to assess appropriate development opportunities largely in New South Wales and Queensland, which together with the developments noted above, reflects a strong development pipeline to be progressed over the medium/long term.

8. ENVIRONMENTAL REGULATION

The Group's operations are subject to State and Federal legislation regulating building and the development of land. The Group has a policy of complying with all its environmental performance obligations and the directors are not aware of any significant breaches during the year covered by this report.

9. FINANCIAL POSITION

The net assets of the Group decreased from $135.6 million at 30 June 2013 to $133.6 million at 30 June 2014. During the year, the Group's total asset position increased by $309.7 million to $527.2 million at 30 June 2014, whilst total liabilities increased by $311.7 million to $393.6 million at 30 June 2014.

10. EVENTS SUBSEQUENT TO BALANCE DATE

As announced to the market on 18 July 2014, the Group has exchanged contracts to dispose of its Hurstville development site for $43 million, in which the Group has a 75% interest. Completion is due in October 2014.

On 15 August 2014 the Group exchanged contracts to acquire a 14 hectare industrial site in the western suburbs of Sydney for a consideration of $95 million. The Group has paid a 10% deposit with completion to occur on deferred settlement terms.

11. LIKELY DEVELOPMENTS AND FUTURE RESULTS

The business will continue to focus on the development and sale of community and stand-alone residential and mixed-use property in future years. Growth over the medium to longer term will be driven by the execution of the development pipeline projects mentioned in the Review of Operations above.

12. KEY BUSINESS STRATEGIES AND FUTURE PROSPECTS

PAYCE has a strong history of delivering successful residential and commercial development projects. This industry and business experience will be used to manage the business response to market cycles and identify new business opportunities in future periods.

13. STATE OF AFFAIRS

With the exception of the matters stated in the Review of Operations there have been no other significant changes in the state of affairs of the Company or the Group during the year ended 30 June 2014.

14. DIRECTORS' INTEREST IN SHARES OF THE COMPANY

Details of each director's relevant interest in the shares of the Company at the date of this report are:

B.M. Boyd	11,525,460
R.R. Short	65,000
C.I. Gabriel	0

Refer Section 17.5 for detailed information.

15. INDEMNIFICATION OF OFFICERS AND AUDITORS

Clause 112 of the Company's Constitution requires the Company to indemnify each officer of the Company (subject to certain qualifications) against any liability incurred by the officer in or arising out of the conduct of the business of the Company or the discharge of the duties of the officer unless the liability was incurred by the officer through his or her own dishonesty, negligence, lack of good faith or breach of duty.

The directors and key management personnel named in Section 17.2 of the Directors' Report have the benefit of the indemnity in Clause 112 to the extent they act in the capacity as officers of the Company or its Group companies. The Company has insured against amounts which it may be liable to pay to officers pursuant to Clause 112 or which it may otherwise agree to pay by way of indemnity. The terms and conditions of the contracts of insurance prohibit the nature of any liability and the amount of the premium from being disclosed.

The Company has not entered into any agreement with their current auditors, KPMG, indemnifying them against any claims by third parties arising from their report on the Annual Financial Report.

16. PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

17. REMUNERATION REPORT - *Audited*

17.1 Principles of compensation - Audited

Remuneration of Directors and senior executives is referred to as compensation as defined in *AASB 124 Related Party Disclosures.*

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the directors of the Company and senior executives of the Group.

The directors have agreed that under the Company's Constitution, the non-executive directors are to be paid remuneration for ordinary services such sums as may from time to time be determined by a meeting of members.

The compensation structures explained below are designed to attract suitably qualified executives, reward the achievement of strategic objectives, and achieve the broader outcome of increasing the Company's profit and creation of value for shareholders. The compensation structures take into account:

- The capability and experience of the key management personnel;
- The key management personnel's ability to control the relevant segment performance;
- The Group's performance being:
- the Group's earnings;
- the growth in share price and returns on shareholder wealth;
- the amount of incentives within each key management personnel's remuneration.

Compensation packages may include a mix of fixed and performance linked compensation.

Fixed Compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any fringe benefits tax charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Key management personnel compensation levels are reviewed annually by the Managing Director through a process that considers individual and overall performance of the Group.

Short-term Incentive Bonus (STI)

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance.

On an annual basis, the overall performance of the Company is considered along with the individual executive's performance in determining any bonus amount.

Long-term Incentives (LTI)

The Company currently has no LTI scheme.

Company Performance and Remuneration

In considering the Group's performance and benefits for shareholders' wealth the directors have regard to the following indices in respect of the current financial year and the previous four financial years.

	2014	2013	2012	2011	2010
	$'000	$'000	$'000	$'000	$'000
Net profit	1,559	19,022	23,391	12,797	1,518
Share price at year end	$4.10	$4.15	$3.10	$3.01	$1.50

17. REMUNERATION REPORT (continued) - *Audited*

Service Agreements

Remuneration and other terms of employment for executives are formalised in service contracts. For executive directors no formalised service contracts exist.

Mr B.H. Bailison

Company Secretary & Chief Financial Officer

- Employment commenced 13 May 2008;
- Fixed remuneration, inclusive of superannuation, of $400,000 per annum, reviewed annually by Managing Director;
- May resign from position by giving one month's written notice. The Company may make payment in lieu of notice or part of that period.

Mr D.J. SULLIVAN

General Manager

- Employment commenced 1 January 2006;
- Fixed remuneration, inclusive of superannuation, of $380,000 per annum, reviewed annually by Managing Director;
- May resign from position by giving one month's written notice. The Company may make payment in lieu of notice or part of that period.

17. REMUNERATION REPORT (continued) - *Audited*

17.2 Directors' and senior executives' remuneration (Company and Consolidated) - Audited

Details of the nature and amount of each element of remuneration of each director of the Company and all Group key management personnel:

		Short-term			Post-employment	Other long term	Termin-ation	Share based payments	TOTAL	% of remuneration performance related
EXECUTIVES		**Salary, fees & commissions**	**Primary cash bonus**	**Non-cash benefits**	**Super-annuation**					
B.H. Bailison	2014	382,000	-	90,830	18,000	15,791	-	-	506,621	0.0%
Company Secretary & CFO	2013	297,000	-	64,930	18,000	26,376	-	-	406,306	0.0%
D.J. Sullivan	2014	362,225	-	104,609	17,775	28,423	-	-	513,032	0.0%
General Manager	2013	238,532	-	30,868	21,468	4,574	-	-	295,442	0.0%
Total	2014	744,225	-	195,439	35,775	44,214	-	-	1,019,653	0.0%
	2013	535,532	-	95,798	39,468	30,950	-	-	701,748	0.0%

17. REMUNERATION REPORT (continued) - *Audited*

17.2 Directors' and senior executives' remuneration (Company and Consolidated) - Audited

		Short-term			Post-employment	Other long-term	Termin-ation	Share based payments	TOTAL	% of remuneration performance related
DIRECTORS		**Salary, fees & commissions**	**Primary cash bonus**	**Non-cash benefits**	**Super-annuation**					
Non-executive										
R.R. Short	2014	70,000	-	-	6,475	-	-	-	76,475	0.0%
	2013	65,533	-	4,467	6,300	-	-	-	76,300	0.0%
C.I. Gabriel	2014	42,004	-	27,996	6,475	-	-	-	76,475	0.0%
	2013	52,300	-	17,700	6,300	-	-	-	76,300	0.0%
Executive										
B.M. Boyd	2014	112,110	-	238,045	17,772	8,555	-	-	376,482	0.0%
	2013	108,725	-	143,180	18,298	4,386	-	-	274,589	0.0%
Total	2014	224,114	-	266,041	30,722	8,555	-	-	529,432	0.0%
	2013	226,558	-	165,347	30,898	4,386	-	-	427,189	0.0%

17. REMUNERATION REPORT (continued) - *Audited*

17.3 Analysis of bonuses included in remuneration

No short-term incentive cash bonuses were awarded as remuneration during the year to any Director of the Company or any Group senior executive other than as noted in Section 17.2 of the Directors' Report.

17.4 Loans to key management personnel and their related parties

As at 1 July 2013 the Company had granted unsecured loans totalling $600,000 to B.H. Bailison and $400,000 to D.J. Sullivan. During the year the Company granted a further loan of $100,000 to D.J. Sullivan. The loans are interest-free and are repayable 3 years after being advanced or within 3 months of termination of employment if earlier. The loans to B.H. Bailison and D.J. Sullivan respectively have present values of $565,496 and $468,552 and would have borne interest of $36,000 and $29,023 if interest had been charged on an arm's-length basis.

On 27 June 2014 the Company granted an unsecured loan of $922,200 to a company of which B.H. Bailison and D.J. Sullivan are directors. The loan has an interest rate of 7% per annum and is repayable 9 years from being advanced.

17.5 Movements in shares and dividends received

The movement during the reporting period in the number of ordinary shares held, directly, indirectly or beneficially, by each KMP including their related parties is as follows:

	Held at 1 July 2013	Received during the year as remuneration	Other changes	Held at 30 June 2014
B.M. Boyd	14,006,799	-	(2,481,339)	11,525,460
R.R. Short	65,000	-	-	65,000
	14,071,799	-	(2,481,339)	11,590,460

	Held at 1 July 2012	Received during the year as remuneration	Other changes	Held at 30 June 2013
B.M. Boyd	14,006,799	-	-	14,006,799
R.R. Short	65,000	-	-	65,000
	14,071,799	-	-	14,071,799

Dividends received by KMP from the Group during the year:

B.M. Boyd $1,400,679 (2013: $1,400,679)

R. R. Short $6,500 (2013: $6,500)

18. AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

During the year the following fees were paid or payable for services provided by the auditor of the Group and its related parties:

Audit and Non-Audit Services	**2014 $**	**2013 $**
KPMG Australia		
Audit and review of financial reports and other audit work under the Corporations Act 2001	182,125	150,000
Non-Audit Services	6,000	-
Total Remuneration	**188,125**	**150,000**

19. AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

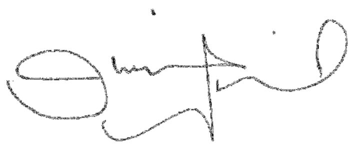
The Lead Auditor's Independence Declaration is set out overleaf and forms part of the Directors' Report for the financial year ended 30 June 2014.

20. ROUNDING OF AMOUNTS

The parent company is a company of the kind specified in Australian Securities and Investments Commission Class Order 98/100. In accordance with that Class Order, amounts in the financial statements have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

This report has been made in accordance with a resolution of directors.

B.M. Boyd
DIRECTOR



C.I. Gabriel
DIRECTOR

Sydney, New South Wales
22 August 2014

KPMG

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

To: the directors of Payce Consolidated Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Kim Lawry
Partner

Sydney
22 August 2014

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

CORPORATE GOVERNANCE STATEMENT

The Board is responsible for the corporate governance practices of PAYCE Consolidated Limited (the 'Company') and its group of entities (the 'Group'). This statement sets out the main corporate governance practices that are currently in place.

Unless otherwise stated the Company's governance accords with the principles and recommendations of the ASX Corporate Governance Council.

BOARD OF DIRECTORS

The Board Charter sets out the principles for the operation of the Board and has been adopted on the basis that corporate governance and good governance procedures can add to the performance of the Company, the creation of shareholder value and engender the confidence of stakeholders.

The Board is accountable to shareholders for the performance of the Company and its key responsibilities are to:

- determine and approve the corporate strategy, policy and direction of the Company with a view to maximise shareholder value and to set goals and objectives for management;
- approve all accounting policies, financial reports and material reporting by or on behalf of the Company;
- determine the Company's dividend policy and the amount and timing of all dividends paid to shareholders;
- oversee the processes for identifying the major risks facing the Company and review that appropriate and adequate controls, monitoring and reporting mechanisms are in place;
- review the performance and effectiveness of the Company's corporate governance policies and procedures and consider any amendments to those policies and procedures;
- approve the appointment of Directors to the Committees established by the Board; and
- maintain high business standards and ethical behaviour throughout the Company.

Board Composition and Size

The Board currently comprises the following Board Members:

Name	Position
Brian Boyd	Chairman & Managing Director
Roger Short	Non-Executive Director – Independent
Christopher Gabriel	Non-Executive Director – Independent

The background details for each of the Company's directors are listed on page 5 of the Company's 30 June 2014 Financial Report.

The Chairman & Managing Director, Brian Boyd, is an integral part of the Company and has been for a significant period of time. Due to the complexity and scale of the Company's developments, the importance of continuity and his detailed knowledge of the business, the Board considers it optimal that Mr Boyd continues in his roles of both Chairman and Managing Director.

The Board Charter provides, where required, that a lead independent non-executive director will be nominated to act as a liaison for independent non-executive directors and to confer with the Chairman on any issues raised by the independent non-executive directors in connection with the discharge by the Chairman of his responsibilities and the function and obligations of the Board and each Board Committee.

CORPORATE GOVERNANCE STATEMENT (continued)

The Company's Constitution provides that:

- the number of Directors shall be not less than 3 nor more than 10;
- one third of the Directors must retire from office at the annual general meeting each year and are eligible for re-election;
- a Director appointed to fill a casual vacancy must face election at the next Annual General Meeting;
- a Director ceases to hold office on attaining the age of 72 years;
- a quorum requires a minimum of 2 Directors.

Director Independence

The two Non-Executive Directors on the Board of the Company meet the independence criteria detailed in the ASX Best Practice Recommendations. In particular they:

- do not have a substantial shareholding in the Company nor are they officers of, or otherwise associated directly with a substantial shareholder of the Company;
- are not, and within the last three years have not been, an employee of the Company or any of its related entities;
- do not have material business or contractual relationships with the Company; and
- have no conflicts of interest.

Subject to the prior approval of the Chairman, Board Committees and individual Directors are entitled to seek independent professional advice at the Company's expense for the purposes of the proper performance of their duties.

Audit Committee

The Audit Committee was established by the Board to support and advise the Board with fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:

- assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control relating to all matters affecting the Company's financial performance, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct; and
- supervising the Company's risk management practices.

The current members of the Audit Committee are:

- Roger Short; and
- Christopher Gabriel.

The Audit Committee meets as required throughout the year but not less than twice a year. The meetings are attended by the Managing Director, Chief Financial Officer and independent auditors where appropriate.

CORPORATE GOVERNANCE STATEMENT (continued)

As outlined in the Audit Committee Charter, the main objectives of the Committee are to:

- ensure that the quality of financial reporting for the half year, full year and annual report is complete and reflects appropriate accounting policies and practices;
- review with management and external auditors the results of the audit;
- make informed recommendations to the Board regarding accounting policies, practices and disclosures;
- review the scope, cost and results of the independent audit and review and confirm the independence and performance of the external auditors;
- review and assess the adequacy of the Company's accounting and internal controls;
- review with management the system for identifying, managing and monitoring the key risks of the Company, consider the overall risk management process and review its effectiveness in meeting sound corporate governance principles; and
- monitor conflicts of interest and review proposed transactions between related parties.

DISCLOSURE POLICY

The Company has a Disclosure Policy to ensure that the Company complies with its disclosure obligations under the Corporations Act 2001 and the Listing Rules of the ASX Limited (ASX). The policy sets out the standards, protocols and requirements expected of all Directors and employees of the Company, and is designed with the intention of ensuring that all investors have equal and timely access to information concerning the Company.

The Company Secretary, in conjunction with the Managing Director, is responsible for overseeing the implementation and operation of the Policy and is responsible for reviewing information reported by the Directors or employees and determining with the Managing Director whether any such information is required to be disclosed to the ASX, making ASX announcements and issuing media releases and other written public statements on behalf of the Company. This policy has been amended to reflect the recent update of the ASX Continuous Disclosure Guidelines.

REMUNERATION AND PERFORMANCE

Due to the structure and size of the Company the Board has not established a Remuneration Committee. In consultation with the Managing Director the Board is responsible for determining remuneration benchmarks, performance objectives and approving remuneration arrangements.

Board Remuneration and Performance Review

Non-Executive Directors are remunerated by way of fees and superannuation contributions only. The Non-Executive Directors do not receive options or bonus payments and are not provided with retirement benefits, other than superannuation.

The performance of the Board is reviewed to ensure that individual directors and the Board are collectively fulfilling their duties detailed above. The review takes into account the attendance at and involvement in Board Meetings, their performance and other matters identified by the Board.

Executive Remuneration and Performance Review

Executive remuneration comprises a balance of fixed and incentive pay, which varies with the seniority and complexity of the role and is benchmarked against relevant market practice.

The Remuneration Report is detailed in the 2014 Financial Report.

The Board (with the assistance of the Managing Director) annually assesses the performance of executives having regard to both the individual performance targets and the Company’s performance targets.

CORPORATE GOVERNANCE STATEMENT (continued)

ETHICAL STANDARDS

The Board has implemented a Code of Conduct that applies to all directors, officers and employees of the Company whether on a full time, part-time, casual, temporary or contract basis.

The Code of Conduct covers the following principles which are to be applied at all times:

- Conflicts of interest;
- Corporate opportunities;
- Confidentiality;
- Responsibilities to stakeholders;
- Trading in securities;
- Protection and proper use of the Company's assets;
- Compliance with laws and regulations; and
- Encouraging the reporting of unlawful or unethical behaviour.

DIVERSITY POLICY

The Board is committed to workplace diversity, in particular gender diversity, and has adopted a Diversity Policy that includes, but is not limited to, gender, age, ethnicity and cultural background. The Company recognises the benefits arising from employee and Board diversity, including a broader pool of high quality employees, higher employee retention and benefits arising from contributions of people with diverse backgrounds, experiences and perspectives.

Owing to the small number of Board members and employees and low staff turnover the Company does not set specific representation targets but does take diversity into account when hiring and promotion opportunities arise. The Board comprises three members and there are 21 employees.

SECURITIES TRADING POLICY

The Company has a Securities Trading Policy that details the legal duties placed upon the Directors, Officers and employees of the Company in respect of their dealings in the shares of the Company.

BUSINESS RISK MANAGEMENT

The Board ultimately determines the Company's risk profile and, with the assistance of the Audit Committee, is responsible for overseeing and approving risk management strategies and policies, internal compliance and controls.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management which provides regular reporting to the Audit Committee.

The Managing Director and Chief Financial Officer report in writing to the Board for half-year and year-end reporting periods that:

- the Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management, internal compliance & control systems are operating efficiently and effectively.

CORPORATE GOVERNANCE STATEMENT (continued)

COMMUNICATION WITH SHAREHOLDERS

Information is communicated to shareholders through:

- the Annual Report and Interim Report;
- disclosures made to the Australian Securities Exchange; and
- occasional letters from the Chairman and Managing Director to inform shareholders of key matters of interest.

The Company encourages shareholders to attend and participate in the Annual General Meeting and any General Meetings of the Company. Details of any proposed meetings will be provided to shareholders well in advance of the relevant dates.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

The Company does not currently comply with the following ASX Corporate Governance Principles and Recommendations:

Recommendation	Further Details
2.2 and 2.3 Chairperson should be an independent director and should be separate from the Managing Director	The Chairman and Managing Director, Brian Boyd, is an integral part of the Company, and has been for a significant period of time. Due to the complexity and scale of the Company's developments, the importance of continuity and his detailed knowledge of the business, the Board considers it optimal that Mr Boyd continues in his roles of both Chairman and Managing Director.
2.4 The Board should establish a Nomination Committee	Having regard to the number of members currently comprising the Company's Board, the Directors do not consider it appropriate to establish a Nomination Committee and currently performs these functions. Although this is inconsistent with the recommendation, the recommendation itself recognises that a Nomination Committee does not provide the same efficiencies for smaller boards.
8.1 & 8.2 The Board should establish a Remuneration Committee	Having regard to the number of members currently comprising the Company's Board, the Directors do not consider it appropriate to establish a Remuneration Committee. The Board, in consultation with the Managing Director is responsible for the determination of remuneration and the assessment of performance. Although this is inconsistent with the recommendation, the recommendation itself recognises that a Remuneration Committee does not provide the same efficiencies for smaller boards.

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Continuing Operations			
Revenue	5	57,018	152,169
Cost of sales	6	(36,606)	(115,167)
Gross profit		20,412	37,002
Other income	5	818	205
Administration expenses		(9,835)	(5,606)
Property expenses		(1,005)	(708)
Marketing expenses		(5,879)	(6,196)
Profit before tax and net financing costs		4,511	24,697
Finance income		1,489	2,258
Finance costs		(3,821)	(1,829)
Net financing (cost) / income	7	(2,332)	429
Share of profits of equity accounted investments	28	(144)	450
Profit before income tax		2,035	25,576
Income tax expense	8	(476)	(6,554)
Profit for the year		1,559	19,022
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Revaluation of available for sale financial assets (net of tax)		-	(86)
Total comprehensive profit for the year		1,559	18,936
Profit attributable to:			
Owners of the Company		1,559	19,022
Non-controlling interests		-	-
Profit for the year		1,559	19,022
Total comprehensive profit attributable to:			
Owners of the Company		1,559	18,936
Non-controlling interests		-	-
Total comprehensive profit for the year		1,559	18,936
Earnings per share			
Basic earnings per share (cents per share)	10	5.24	64.0
Diluted earnings per share (cents per share)	10	5.24	63.6

The Consolidated Statement of comprehensive income is to be read in conjunction with the notes to the financial statements.

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Current Assets			
Cash and cash equivalents	12	25,769	24,911
Trade and other receivables	13	14,303	19,092
Properties held for development and resale	14	216,818	-
Other assets	17	7,526	4,149
Total Current Assets		264,416	48,152
Non-Current Assets			
Trade and other receivables	13	9,873	2,262
Properties held for development and resale	14	202,807	124,349
Investments accounted for using the equity method	15	19,480	19,489
Property, plant and equipment	16	6,269	376
Financial assets		2,310	2,263
Deferred tax assets	21	13,195	11,724
Other assets	17	8,858	8,846
Total Non-Current Assets		262,792	169,309
Total Assets		527,208	217,461
Current Liabilities			
Trade and other payables	18	30,293	13,473
Financial liabilities	19	222,276	15,664
Provisions	20	986	802
Total Current Liabilities		253,555	29,939
Non-Current Liabilities			
Financial liabilities	19	132,875	46,739
Provisions	20	50	40
Deferred tax liability	21	7,080	5,133
Total Non-Current Liabilities		140,005	51,912
Total Liabilities		393,560	81,851
Net Assets		133,648	135,610
Equity			
Issued capital	22	45,382	45,382
Reserves	23	2,042	1,756
Retained earnings		83,756	85,172
Total equity attributable to equity holders of the Company		131,180	132,310
Non-controlling interest		2,468	3,300
Total Equity		133,648	135,610

The Consolidated Statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated	Issued Capital $'000	Retained Earnings $'000	Capital Profits Reserve $'000	Share Based Payments Reserve $'000	Asset Revaluation Reserve $'000	Available-For-Sale Investments Revaluation Reserve $'000	Shares Forfeited $'000	Non-controlling interest $'000	Total $'000
Balance at 1 July 2013	**45,382**	**85,172**	**2,021**	**-**	**17**	**(286)**	**4**	**3,300**	**135,610**
Profit attributable to owners of the Company	-	1,559	-	-	-	-	-	-	1,559
Dividends	-	(2,975)	-	-	-	-	-		(2,975)
Contributions by non-controlling interest	-	-	-	-	-	-	-	150	150
Distributions to non-controlling interest	-	-	-	-	-	-	-	(982)	(982)
Revaluation of shares available for sale	-	-	-	-	-	286	-	-	286
Balance at 30 June 2014	**45,382**	**83,756**	**2,021**	**-**	**17**	**-**	**4**	**2,468**	**133,648**
Balance at 1 July 2012	**45,382**	**68,600**	**2,021**	**525**	**17**	**(200)**	**4**	**500**	**116,849**
Revaluation of shares available for sale	-	-	-	-	-	(86)	-	-	(86)
Profit attributable to owners of the Company	-	19,022	-	-	-	-	-	-	19,022
Reserve transfer to Retained Earnings	-	525		(525)	-	-	-	-	-
Dividends	-	(2,975)	-	-	-	-	-	-	(2,975)
Contributions by non-controlling interest	-	-	-	-	-	-	-	2,800	2,800
Balance at 30 June 2013	**45,382**	**85,172**	**2,021**	**-**	**17**	**(286)**	**4**	**3,300**	**135,610**

The Statement of changes in equity is to be read in conjunction with the notes to the financial statements.

		Consolidated	
		2014	2013
	Note	$'000	$'000
Cash flows from operating activities			
Receipts from customers		62,499	141,635
Payments to suppliers and employees		(175,769)	(98,305)
Payments for the acquisition of development properties		(150,738)	(11,301)
Loans to fund property development activities		(5,325)	(13,794)
Repayment of loans funding property development activities		968	-
Finance income received		1,489	2,258
Finance costs paid		(15,253)	(7,401)
Income taxes refunded		-	1,194
Net cash (used in) / provided by operating activities	30a	(282,129)	14,286
Cash flows from investing activities			
Payments for financial assets acquired		(100)	(250)
Dividends and distributions received		858	204
Payments for the acquisition of property, plant and equipment		(6,710)	(110)
Net cash used in investing activities		(5,952)	(156)
Cash flows from financing activities			
Proceeds from borrowings		312,911	42,245
Repayment of borrowings		(20,165)	(57,098)
Minority interest equity contributions		150	2,800
Dividends and distributions paid		(3,957)	(2,975)
Net cash raised / (repaid) in financing activities		288,939	(15,028)
Net increase / (decrease) in cash held		858	(898)
Cash at beginning of financial year	12	24,911	25,809
Cash at end of financial year	12	25,769	24,911

The Consolidated Statement of cashflows is to be read in conjunction with the notes to the financial statements.

Note 1. Reporting Entity

PAYCE Consolidated Limited (the 'Company') is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial statements of the Company for the financial year ended 30 June 2014 comprise the Company and its controlled entities and interests in associates and jointly controlled entities (together referred to as the 'Group'). The Company is a for profit entity.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

Note 2. Basis of Preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial statements comply with the International Financial Reporting Standards ('IFRSs') adopted by the International Accounting Standards Board ('IASB').

The consolidated financial statements were authorised for issue by the Board of Directors on 22 August 2014.

(b) Basis of measurement and functional currency

The financial report is presented in Australian dollars (the Group's functional currency) and has been prepared on a historical cost basis, except for investment properties, trade receivables and available-for-sale financial assets which have been measured at fair value. The methods used to measure fair values are discussed further in Note 4.

(c) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes to the financial statements:

- Trade and other receivables – assessment of recoverable amounts. (Note 4 (a)).
- Tax assets and liabilities – recognition of deferred tax assets. (Note 4 (c)).

(d) Going concern basis

The financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Note 2. Basis of Preparation (continued)

In consideration of the above circumstances the directors have determined that the preparation of the financial report on a going concern basis to be appropriate.

Note 3. Description of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by all entities in the Group. Certain comparative amounts have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

The consolidated financial statements of the Group for the financial year ended 30 June 2014 comprise the Company and its controlled entities and interests in associates and jointly controlled entities (together referred to as the 'Group').

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date that control ceases.

Associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operational decisions.

Associates and jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after any adjustments necessary to realign accounting policies that are dissimilar to those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. If and when the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or made commitments on behalf of the investee.

Jointly controlled operations

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income earned from the joint operation.

Transactions eliminated on consolidation

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in the preparation of the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Note 3. Description of Significant Accounting Policies (continued)

(b) Segment reporting

The Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

(c) Taxation

Income tax expense/benefit on the profit or loss for the year comprises current and deferred tax. Income tax expense/benefit is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is not probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that may arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised.

Note 3. Significant Accounting Policies (continued)

Tax consolidation

The Company and its wholly-owned Australian resident entities are part of a tax consolidated group that was formed on 1 July 2003 of which PAYCE Consolidated Limited is the head entity.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the “separate taxpayer within group” approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax consolidated group and are recognised as amounts payable (receivable) to or from other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the head entity as an equity contribution or distribution.

The head entity recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the unused tax losses can be applied.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Nature of tax funding and tax sharing arrangements

The head entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable or payable equal in amount to the tax liability or asset assumed. The inter-entity receivables or payables are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangements and reflect the timing of the head entity’s obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

Note 3. Significant Accounting Policies (continued)

(d) Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the statement of financial position.

The statement of cash flows is prepared on a GST inclusive basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the Australian Taxation Office, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from or payable to the Australian Taxation Office.

(e) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit and loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables (see note 13).

(f) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of statements of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Note 3. Significant Accounting Policies (continued)

(g) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

For receivables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables are discounted to determine fair value.

The collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of any such provision required is recognised in the income statement.

(h) Properties held for development and resale

Properties held for development and resale in the ordinary course of business are carried at the lower of cost and net realisable value. Cost includes, where applicable, the cost of acquisition, construction, interest, rates, taxes and other expenses directly related to the development. All recurring costs relating to completed developments are expensed when incurred.

Where an investment property changes to being held for development and resale its transfer value is based upon the carrying value at the date of transfer. Any subsequent loss as a consequence of re-measurement to net realisable value is immediately recognised in the income statement.

(i) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation on each item of property, plant and equipment (excluding land and leasehold improvements) is based on the expected useful economic lives of the assets using the straight line method at the following rates:

	2014	**2013**
Plant and equipment	7 - 27%	7 – 27%
Office equipment	9 – 27%	9 – 27%

Leasehold improvements are depreciated over the term of the lease.

The assets' residual values and useful lives are reviewed at least annually and adjusted, if appropriate, at each balance date. In undertaking this review the Directors have taken into consideration Directors' valuations obtained as at balance date and the relevant terms and conditions of leasing arrangements pertaining to the Group's freehold land and buildings.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is disposed.

Note 3. Significant Accounting Policies (continued)

(j) Impairment of assets

Financial assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is only reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amount of the Group's non-financial assets, other than deferred tax assets (Note 21), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is assessed at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill and intangible assets acquired in a business combination, for the purposes of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses in respect of goodwill are not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Note 3. Significant Accounting Policies (continued)

(k) Financial liabilities

All financial liabilities are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with borrowing.

After initial recognition, interest-bearing financial liabilities are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

(l) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at balance date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. These benefits include annual leave and long service leave. 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, plus related on-costs. Employee benefits payable later than one year have been measured at present value of the estimated future cash outflows to be made for those benefits.

(n) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue or cancellation of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Note 3. Significant Accounting Policies (continued)

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of development properties

Revenue from the sale of apartments and land held for development and resale in the ordinary course of activities is recognised at the fair value of the consideration receivable when the significant risks and rewards of ownership have been transferred to the purchaser and where there is no continuing management involvement, which normally coincides with settlement of the contract for sale.

Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contact cannot be estimated reliably, contact revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

Rental income

Rental income is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of total rental income over the term of the lease.

Interest income

Interest income is recognised in the income statement as it accrues using the effective interest method. Interest income on impaired loans is recognised using the original effective interest rate.

(p) Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

(q) Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Note 3. Significant Accounting Policies (continued)

(r) New accounting standards not yet adopted

Certain new accounting standards and interpretations have been published that are relevant to the Group's operations but are not mandatory for the 30 June 2014 accounting period and have not been applied in preparing these consolidated financial statements. The Group's assessment of the impact of those which may be relevant to the Group are set out below. The group does not plan to adopt these standards early.

AASB 9 *Financial Instruments* will become mandatory for the Group's annual reporting period ended 30 June 2016 and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early, and the extent of any impact is not expected to be material.

(s) New and amended standards adopted

PAYCE has adopted the following new standards and amendments with a date of initial application of 1 July 2013:

AASB 10 *Consolidated Financial Statements*

AASB 11 *Joint Arrangements*

AASB 12 *Disclosure of Interests in Other Entities*

AASB 13 *Fair Value Measurement*

PAYCE has assessed the impacts of the adoption of the new standards and amendments and determined that none of them had a significant impact on the financial statements

Note 4. Determination of Fair Value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

For receivables with a remaining life of less than one year, the notional amount of the debt is deemed to reflect fair value. All other receivables are discounted to fair market value at an appropriate market rate of interest taking into account counterparty credit risk.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(c) Tax assets and liabilities – recognition of deferred tax assets

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The probability that the tax benefit will be realised is based upon forecasts of the amount and timing of future taxable income.

Note 5. Revenue and Other Income

	Consolidated	
	2014	**2013**
	$'000	**$'000**
Sales revenue		
Property development sales	52,910	118,855
Construction contract revenue	606	29,578
Rent received	1,875	3,197
Other sales income	-	539
Other	1,627	-
Total revenue	57,018	152,169
Other Income		
Other	818	205
Total other income	818	205

Note 6. Expenses excluding Net Financing Costs

	Consolidated 2014 $'000	Consolidated 2013 $'000
Cost of sales	36,606	115,167
Other expenses included in Administration expenses:		
Depreciation of plant and equipment	816	203
Payments on operating leases	555	362
Employee benefits expense		
Wages and salaries	2,824	2,384
Other associated personnel expenses	176	145
Contributions to defined contribution superannuation funds	229	169
Increase / (decrease) in employee benefits provisions	194	97
Total employee benefits expense	3,423	2,795

Note 7. Net Financing Income

	Consolidated 2014 $'000	Consolidated 2013 $'000
Finance income	1,489	2,258
Finance expense	15,253	7,400
Amount capitalised	(11,432)	(5,571)
Finance costs	3,821	1,829
Net financing (cost) / income	(2,332)	429

Note 8. Income Tax

	Consolidated 2014 $'000	Consolidated 2013 $'000
The components of income tax benefit / (expense) comprise		
Current tax benefit / (expense)	7,089	(2,916)
Deferred tax (expense) / benefit	(7,565)	(4,852)
Over / (under) provision from prior year and unrecognised tax losses	-	1,214
	(476)	(6,554)
The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:		
Prima facie tax expense on profit from ordinary activities before income tax at 30% (2013: 30%)	(610)	(7,673)
Non-deductible expenses	(133)	(78)
Taxable income not recognised for accounting	(18)	2
Recognition of previously unrecognised timing differences	285	(19)
Recognition of previously unrecognised tax losses	-	22
Over / (under) provision for income tax in prior year	-	1,192
	(476)	(6,554)

Note 9. Auditor's Remuneration

	Consolidated 2014 $	Consolidated 2013 $
Audit Services		
Auditors of the Company (KPMG)		
Audit and review of financial reports		
Current year	171,625	150,000
Prior year	10,500	-
Other Auditors	-	-
	182,125	150,000
Other Services		
Auditors of the Company (KPMG)	6,000	-
Other Auditors	-	-
	6,000	-

Note 10. Earnings per Share

	Consolidated 2014 $'000	Consolidated 2013 $'000
a. Reconciliation of earnings to profit or loss		
Profit for the year	1,559	19,022
Earnings used to calculate basic and diluted EPS	1,559	19,022
	Number	**Number**
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	29,745,225	29,745,225
Effect of share options in issue	-	182,571
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	29,745,225	29,927,796

Note 11. Dividends

	Consolidated 2014 $'000	Consolidated 2013 $'000
a. The Company declared an unfranked ordinary dividend of 10c per share on 3 March 2014 which was paid on 20 March 2014. No other dividends were declared or paid during the financial year or to the date of this report.	2,975	2,975
b. Amount of franking credits available to shareholders of PAYCE Consolidated Limited for subsequent financial years.	1,013	372

Franking credits available for subsequent financial years are based on a tax rate of 30% (2013: 30%).

The ability to utilise the franking account credits is dependent upon sufficient profits being available for a dividend to be declared.

Note 12. Cash and Cash Equivalents

	Consolidated	
	2014	2013
	$'000	$'000
Cash at bank	25,769	24,911

The effective interest rate on short term bank deposits was 2.42% (2013: 3.21%).

Note 13. Trade and Other Receivables

	Consolidated	
	2014	2013
	$'000	$'000
Current		
Trade receivables	13,211	14,271
Other receivables	3,586	2,742
Provision for impairment of receivables	(2,522)	(2,669)
	1,064	73
Amounts receivable from associated companies and jointly controlled entities	28	4,748
	14,303	19,092
Non-current		
Other receivables	2,664	1,239
Amounts receivable from associated companies and jointly controlled entities	7,209	1,023
	9,873	2,262

Note 14. Properties held for Development and Resale

	Consolidated	
	2014	2013
	$'000	$'000
Current		
Properties held for development and resale	216,818	-
Non-current		
Properties held for development and resale	202,807	124,349
Finance costs capitalised during the period	11,432	5,571

Note 15. Investments Accounted for using the Equity Method

	Consolidated	
	2014	2013
	$'000	$'000
Joint venture entities	19,480	19,489

Note 16. Property, Plant and Equipment

The movements in the consolidated property, plant and equipment balances are as follows:

2014	Leasehold Improvements $'000	Plant & Equipment $'000	Office Equipment $'000	Total $'000
Cost				
Balance at 1 July 2013	559	13	466	1,038
Additions	389	6,277	43	6,709
Balance at 30 June 2014	948	6,290	509	7,747
Accumulated depreciation				
Balance at 1 July 2013	449	7	206	662
Depreciation charge	226	524	66	816
Balance at 30 June 2014	675	531	272	1,478
Net Book Value at 30 June 2014	**273**	**5,759**	**237**	**6,269**

2013	Leasehold Improvements $'000	Plant & Equipment $'000	Office Equipment $'000	Total $'000
Cost				
Balance at 1 July 2012	559	10	359	928
Additions	-	3	107	110
Balance at 30 June 2013	559	13	466	1,038
Accumulated depreciation				
Balance at 1 July 2012	317	5	137	459
Depreciation charge	132	2	69	203
Balance at 30 June 2013	449	7	206	662
Net Book Value at 30 June 2013	**110**	**6**	**260**	**376**

Note 17. Other Assets

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current		
Prepayments	23	29
Other	7,503	4,120
	7,526	4,149
Non-current		
Prepayments	4,974	3,964
Other	3,884	4,882
	8,858	8,846

Note 18. Trade and Other Payables

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current		
Trade payables	8,843	8,009
Other payables and accruals	21,450	5,464
	30,293	13,473

Note 19. Financial Liabilities

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current		
Secured loans	222,276	15,664
Non-current		
Secured loans	82,788	46,739
Secured notes	47,587	-
Unsecured loan	2,500	-
	132,875	46,739

The Group maintains a range of interest-bearing loans and borrowings. The sources of funding are spread over a number of counterparties and the terms of the instruments are negotiated to achieve a balance between availability and cost of debt. The secured loans are specific to individual projects with security held over land and buildings.

As at 30 June 2014 and during the year, all facility covenants have been complied with.

(a) Secured Loans	Total Facility $'000	Facility Used $'000	Maturity
Commercial bill line	15,000	15,000	14 December 2014
Cash advance and bank guarantee construction	216,193	167,276	31 December 2014
Cash advance construction	134,978	34,091	12 December 2015
Cash Advance	71,400	66,423	31 December 2015
Cash Advance	20,000	17,568	8 May 2017
	457,571	300,358	

(b) Secured Notes

On 3 December 2013 the Company announced the completion of a $50 million senior secured note issue. The notes have a 5 year term, maturing in December 2018, and pay a fixed quarterly coupon at 9.5% per annum.

	Consolidated 2014 $'000	Consolidated 2013 $'000
Notes – issued	50,000	-
Transaction cost of notes issued	(2,413)	-
	47,587	-

(c) Equipment Finance

	Consolidated 2014 $'000	Consolidated 2013 $'000
Fixed rate loan secured against plant and equipment	4,706	-
	4,706	-

Note 19. Financial Liabilities *(Continued)*

(d) Secured Assets

	Consolidated 2014 $'000	Consolidated 2013 $'000
Senior and junior mortgage		
Properties held for development and resale	375,952	95,307
Floating charge over assets	21,796	9,469
	397,748	104,776

Note 20. Provisions

	Consolidated 2014 $'000	Consolidated 2013 $'000
Current		
Employee benefits	986	802
Non-current		
Employee benefits	15	5
Other	35	35
	50	40

	Employee benefits $'000	Lease make good costs $'000	Total $'000
Movement in provisions during the year			
Balance at 1 July 2013	807	35	842
Additional provisions	194	-	194
Balance at 30 June 2014	1,001	35	1,036

Employee benefits provisions

A provision is recognised for employee entitlements relating to annual and long service leave for employees. The calculation of the present value of future cash flows in respect of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been included in Note 3(m).

Note 21. Deferred Tax Assets and Liabilities

Consolidated	Assets 2014 $'000	Liabilities 2014 $'000	Assets 2013 $'000	Liabilities 2013 $'000
Balance at the beginning of the year	11,724	(5,133)	14,338	-
Movement for the year	1,471	(1,947)	(2,614)	(5,133)
Balance at the end of the year	13,195	(7,080)	11,724	(5,133)

Note 21. Deferred Tax Assets and Liabilities *(Continued)*

Deferred tax assets have been assessed as recoverable through future profits. The Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets 2014 $'000	Liabilities 2014 $'000	Assets 2013 $'000	Liabilities 2013 $'000
Properties held for development & resale	1,440	9,032	4,295	(10,791)
Investments accounted for using the equity method	-	40	-	346
Property, plant & equipment	-	-	-	90
Other	-	(25,028)	(1,166)	1,430
Tax loss carry-forwards	11,755	8,876	8,595	3,792
Tax assets/(liabilities)	13,195	(7,080)	11,724	(5,133)

Note 22. Issued Capital

	Consolidated 2014 $'000	Consolidated 2013 $'000
Issued		
29,745,225 (June 2013: 29,745,225) fully paid ordinary shares of no par value	45,382	45,382
	Number	**Number**
Balance at beginning and end of the financial year	29,745,225	29,745,225

Ordinary shares participate in dividends and the proceeds on winding up of the parent company in proportion to the number of ordinary shares held.

The voting rights are governed by the Company's Constitution. In summary, every member present in person or by proxy shall have one vote and upon a poll, the members with ordinary fully paid shares have one vote for each share held.

Capital Management

Management controls the capital of the Group in order to provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting the capital structure in response to changes in these risks and in the market, which includes the management of share issues and share buy-backs.

The gearing ratio is as follows:-

	Note	Consolidated 2014 $'000	Consolidated 2013 $'000
Total borrowings (including payables)	18, 19	385,444	75,876
Less cash and cash equivalents	12	(25,769)	(24,911)
Net debt		359,675	50,965
Total equity		133,648	135,610
Total capital		493,323	186,575
Gearing ratio		73%	27%

Note 23. Reserves

	Consolidated	
	2014 $'000	2013 $'000
Reserves	2,042	1,756

The Reserves of the Group, set out in the Statement of Changes in Equity, comprise the following -

(a) Capital Profits

Capital profits are transferred to the capital profits reserve upon disposal of non-current assets.

(b) Asset Revaluation

The asset revaluation reserve includes the net revaluation increments and decrements arising from the revaluation of non-current assets. This reserve relates to previously revalued land and buildings. This reserve is not available for future asset write-downs as a result of using the deemed cost election under the previous accounting standard AASB 1041.

(c) Available-for-sale Investments Revaluation

Changes in the fair value on translation of investments such as equities classified as available-for-sale financial assets are taken to the available-for-sale investment revaluation reserve. When an investment is disposed of or determined to be impaired, the cumulative gain or loss in equity is transferred to the income statement.

(d) Asset Realisation

Upon disposal of revalued assets, any related revaluation increment standing to the credit of the asset revaluation reserve is transferred to the asset realisation reserve.

(e) Share Based Payments Reserve

The receipt of goods or services by the Group as consideration for its own equity instruments under share-based payment arrangements is accounted for as an expense in the Statement of comprehensive income and an increase in the Share based payment reserve. Reserve amounts relating to expired unexercised share options are transferred to Retained Earnings.

(f) Forfeited Shares

Where partly paid shares are forfeited, the amount paid is transferred to the forfeited shares reserve. No shares were forfeited during the year.

Note 24. Contingent Liabilities

	2014 $'000	2013 $'000
a. Guarantees given by the Company in the ordinary course of business for borrowings and commitments of controlled entities	126,715	53,802
b. Guarantees given by the Company in the ordinary course of business for borrowings and commitments of an associated company	35,113	14,423

No material losses giving rise to actual liabilities are anticipated in respect of the foregoing contingent liabilities.

As at balance date there was no contingent liability for termination benefits under service agreements with directors or employees of the Company or its controlled entities.

Note 25. Operating Leases

Leases as lessee

The Group leases office space at 3 locations in Sydney with remaining lease terms of 17, 41 and 59 months. The two earlier-expiring leases have renewal options at the end of the lease term and annual rental escalations.

	Consolidated	
	2014 $'000	2013 $'000
Non-cancellable operating lease commitments		
payable not later than one year	1,255	392
later than one year but not later than 5 years	5,078	348
	6,333	740

Leases as lessor

The Group earns rental income from tenanted property on its development sites. The future minimum lease payments under non-cancellable leases are as follows:

Receivable		
not later than 1 year	2,093	1,593
later than 1 year but not later than 5 years	1,049	1,725
	3,142	3,318

During the year $1.9 million (2013: $3.2 million) was recognised as rental income.

Note 26. Related Party Transactions

Key management personnel compensation

The key management personnel compensation included in 'employee benefits expense' (refer note 6) is as follows:

	Consolidated	
	2014 $	2013 $
Short-term employee benefits	1,429,819	1,023,235
Other long term benefits	52,769	35,336
Post-employment benefits	66,497	70,366
	1,549,085	1,128,397

Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' ("KMP") compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the Remuneration Report within the Directors' Report.

Apart from the details disclosed in this note and the Remuneration Report, no KMP has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Note 26. Related Party Transactions (continued)

Key management personnel and director transactions

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

Other related party transactions

Consolidated	Transaction value year ended 30 June 2014 $	2013 $	Balance outstanding as at 30 June 2014 $	2013 $
Associates - consulting and management services	-	-		7,809
Associates - loans to associates	2,412,118	12,196,855	7,237,513	5,770,698
Associates - loans from associates	-	(251,418)	-	588,192
Associates - interest income	595,945	390,718	-	-
Associates - interest expense	-	467,638	-	-
Associates - loan repayment	(943,625)	-	-	-
Associates - return of investment	3,879,525	2,202,132	-	-

Note 27. Financial Risk Management

The Group's principal financial instruments comprise bank accounts, receivables, financial assets, payables and financial liabilities.

The main purpose of these financial instruments is to provide operating finance to the Group. It is, and has been throughout the period under review, the Group's policy not to trade in financial instruments.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. Management's overall risk management strategy seeks to assist the Group in meeting financial targets whilst minimising potential adverse effects on financial performance.

Market risk

Market risk is the risk that changes in market prices such as interest rates and share prices will affect income or the value of holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's exposure to interest rates relates primarily to the Group's financial liabilities as disclosed in Note 19.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk:

	Consolidated 2014 $'000	2013 $'000
Financial assets		
Cash and cash equivalents	25,769	24,911
Financial liabilities		
Secured loans	295,689	62,403
Net exposure	(269,920)	(37,492)

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of variable and fixed interest rates.

Note 27. Financial Risk Management (continued)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance dates.

At 30 June 2014, and at 30 June 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements	Post tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Consolidated				
+1% (100 basis points)	186	61	186	61
-1% (100 basis points)	(186)	(61)	(186)	(61)

The movements in profit/ (loss) are due to higher/lower interest costs from cash balances, variable rate receivables and debt. The capitalisation of interest on debt reduces the effect of changes in interest rates on post-tax profit. The effect on profit and equity of a 1% interest rate movement in either direction is not material to the results or financial position of the Group.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, and trade and other receivables. At balance date the maximum credit risk exposure to recognised financial assets, excluding the value of any collateral or other security, is the carrying amount, net of provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group's exposure to credit risk arises from potential default of the counterparty under a financial instrument or contract with a maximum exposure equal to the carrying amount of those instruments or contracts. The Group, wherever possible, obtains sufficient collateral or other forms of security such as first mortgages, caveats, fixed & floating charges and personal guarantees to mitigate the risk of financial loss.

The carrying amount of the Group's financial assets, described above, represents the maximum credit exposure. The Group's maximum exposure to credit risk at balance date was:

	Carrying Amount	
	2014 $'000	2013 $'000
Cash and cash equivalents	25,769	24,911
Trade and other receivables	13,172	14,012
Vendor property financing	39	59
Loans and other receivables	6,250	4,181
Provision for impairment	(2,522)	(2,669)
	3,728	1,512
Amounts due from associated companies and jointly controlled entities	7,237	5,770
	49,945	46,264

Note 27. Financial Risk Management (continued)

Provision for Impairment Losses

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists and based upon information known at the reporting date the Group makes a formal estimate of recoverable amount. In determining if the carrying amount of an asset exceeds its recoverable amount the Group considers whether the receivable is past due and the value of the pledged collateral or other forms of security (if any). Where the carrying amount of a material asset which is past due exceeds the assessed value of the pledged collateral or other forms of security, a provision for impairment is raised. However, the Group reserves its full rights through litigation, negotiation, arbitration or otherwise to seek recovery of the gross asset and when such outcome(s) become known the provision for impairment is reassessed.

Loans to third parties

The Group holds collateral or other forms of security in the form of first mortgages and caveats in relation to several of its loans and its vendor property financing loans. The collateral does not have any selling or re-pledging restrictions and the total estimated fair value at balance date was $7.13 million (2013: $4.74 million).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's objective is to maintain a balance between continuity of funding and flexibility by maintaining sufficient cash and through the use of notes, bank and non-bank loans and committed available credit lines. Due to the dynamic nature of the business, the Group manages its liquidity risk by monitoring cash flows and ensuring that adequate cash and utilised borrowing facilities are maintained.

The table below reflects all contractual maturities of financial liabilities including estimated interest payments (using existing interest rates) as at 30 June 2014:

	Carrying Amount $'000	Contractual Cash Flow $'000	Less than 1 year $'000	Between 1 – 5 years $'000	Over 5 Years $'000
Consolidated					
2014					
Trade and other payables	30,293	30,293	30,293	-	-
Secured notes	47,587	70,979	4,750	66,229	-
Secured loans	305,064	321,278	234,634	86,644	-
Unsecured loan	2,500	2,500	-	2,500	-
	385,444	425,050	269,677	155,373	-
2013					
Trade and other payables	13,473	13,473	13,473	-	-
Secured loans	62,403	69,405	15,201	54,204	-
	75,876	82,878	28,674	54,204	-

For the above obligations the respective undiscounted cash flows for respective upcoming financial years are presented. Any obligation without a fixed amount or timing is based on the conditions existing at 30 June 2014.

Net fair value

The net fair value of financial assets and financial liabilities approximate the carrying amounts as disclosed in the statement of financial position and notes to the financial statements.

The net fair value of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. All other financial assets together with financial liabilities are not readily traded on organised markets in a standardised form.

Note 28. Associated Companies and Jointly Controlled Entities

Name	Principal activity	Group ownership interest		Group carrying amounts of investment and loans		Contribution towards Net (Loss)/Profit	
		2014 %	2013 %	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Associated Companies							
Henlia No. 7 Pty Ltd (Note a)	Property development	50.1%	50.1%	28	(588)	(10)	1,451
Henlia Holdings Apartment Investment Trust	Property development	50.0%	50.0%	-	-	-	-
Henlia No. 21 Pty Ltd	Property development	50.0%	50.0%	1	1	-	-
Lot 305 Unit Trust	Property development	50.0%	50.0%	18,004	18,844	(22)	(925)
Jointly Controlled Entities							
PayWin Developments Pty Ltd	Property development	50.0%	50.0%	8,684	6,414	(112)	(76)
Total				26,717	24,671	(144)	450

The Group is party to four Joint Operations for the development of multiple projects in NSW and QLD. The Group has a 50% interest in each Joint Operation and has proportionally consolidated these interests.

Contribution towards Net Profit / (Loss) is arrived at after taking into consideration the elimination of upstream and downstream transactions between The Group and the respective associated company or jointly controlled entity. All associated companies and jointly controlled entities were incorporated in Australia and have a 30 June reporting date.

The Company's Equity accounted investment in the Lot 305 Unit Trust is material. Consequently further detail of the Company's interest in the assets and liabilities of the associate are provided. The Company's interest in the associate's current assets comprises $0.4 million of Cash and cash equivalents and $0.4 million of Trade receivables; in non-current assets: $56.8 million of Development properties held for resale and $2.6 million of Other assets; in current liabilities: $4.3 million of trade payables and in non-current liabilities: $38 million in financial liabilities.

	Consolidated 2014 $'000	Consolidated 2013 $'000
(a) Movements during the year in equity accounted investments and loan borrowings to/(from) associated companies and jointly controlled entities		
Balance at the beginning of the financial year	24,671	13,301
Amounts invested	-	18,752
Return of investments	(3,880)	(2,202)
Loan advances	2,537	10,997
Loan repayments by borrowers / (to lenders)	2,937	(16,550)
Share of (loss) /profit after income tax	(144)	450
Loan interest received / (paid)	596	(77)
Balance at the end of the financial year	26,717	24,671
Recognised as -		
Investments accounted for using the equity method (Note 15)	19,480	19,488
Amounts receivable from associated companies (Note 13)	7,237	5,771
Trade and other Payables (loan from associate)	-	(588)
	26,717	24,671

Note 28. Associated Companies and Jointly Controlled Entities (continued)

	Consolidated 2014 $'000	Consolidated 2013 $'000
(b) Equity accounted profits of associated companies and jointly controlled entities are broken down as follows:		
Share of (loss)/profit before income tax	(138)	1,139
Share of income tax	(6)	(689)
Share of (loss)/profit after income tax	(144)	450
(c) Summarised presentation of aggregate assets, liabilities and performance of associated companies and jointly controlled entities		
Current assets	7,114	19,061
Non-current assets	118,799	56,205
Total assets	125,913	75,266
Current liabilities	12,327	13,269
Non-current liabilities	76,044	16,648
Total Liabilities	88,371	29,917
Net assets	37,542	45,349
Revenue	110	5,220
Expenses	(386)	(2,926)
Loss/profit after income tax of associated companies and jointly controlled entities	(288)	919

The Company is not aware of any significant events or transactions which have occurred after the reporting date that could materially affect the financial position or operating performance of the associates for the next financial year.

No associate had any contingent liabilities as at year end.

The Company is not aware of any dissimilar accounting policies adopted by the associates that would materially affect the amounts of the Group's share of net assets, the profit or loss and the reserves of the associates.

In accordance with its accounting policies (refer note 3 (a) – Associates and jointly controlled entities) the Group's interests in associates and jointly controlled entities that are in a net liability position are carried at nil as the Group has incurred no obligations and commitments on behalf of those investees.

Note a - The Group at balance date maintained a 50.1% interest in Henlia No. 7 Pty Limited however it has been deemed not to be a controlled entity as the Group does not retain majority voting rights or management control of relevant activities.

Note 29. Segment Reporting

The results and financial position of the Group's single operating segment, Property Development, are prepared on a basis consistent with Australian Accounting Standards and thus no additional disclosures in relation to the revenues, profit or loss, assets and liabilities and other material items have been made.

Note 30. Cash Flow Information

	Consolidated 2014 $'000	Consolidated 2013 $'000
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after Income Tax	1,559	19,022
Non-operating items in profit / (loss)		
Trust distribution	-	(204)
Depreciation of property, plant and equipment	-	203
Other non-operating	300	-
Changes in operating assets and liabilities		
Change in receivables	(2,822)	(5,581)
Change in other assets	(3,389)	(4,263)
Change in property held for resale	(295,276)	12,481
Change in deferred tax assets and liabilities	476	7,747
Change in payables	16,820	2,530
Change in provisions	194	97
Change in investments accounted for using the equity method	9	(17,746)
Cash provided by / (used in) operations	(282,129)	14,286

(b) Reconciliation of cash at the end of the year

	2014 $'000	2013 $'000
The above figures are reconciled to cash at the end of the financial year as Cash on hand and at bank	25,769	24,911
Cash and cash equivalents in the statement of cash flows	25,769	24,911

(c) Financing facilities

At 30 June 2014 bank financing facilities of $458 million (2013: $208 million) were available to the Group, of which $300 million (2013: $62.4 million) had been drawn down.

Refer to Note 19 Financial Liabilities for further details.

Note 31. Controlled Entities

AE2 - East 1 Pty Ltd
AE2 - East 2 Pty Ltd
AE2 - East DM Pty Ltd
AE2 - West 1 Pty Ltd
AE2 - West 2 Pty Ltd
AE2 - West DM Pty Ltd
CML Aviation Pty Ltd
Constant 10 Pty Ltd
Constant 11 Pty Ltd
Constant 12 Pty Ltd
Constant 7 Pty Ltd
Constant 8 Pty Ltd
Constant 9 Pty Ltd
Constant High Street Pty Ltd
Constant No 6 Pty Ltd
Constant No. 1 Pty Ltd
Constant No. 2 Pty Ltd
Constant No. 4 Pty Ltd
Constant No. 5 Pty Ltd
Felvey Holdings Pty Ltd
H.B. Properties Pty Ltd
Henlia Holdings Ltd and its controlled entities
Henlia No. 20 Pty Ltd
Henlia No. 22 Pty Ltd
Henlia No. 24 Pty Ltd ATF The Hurstville Unit Trust
Henlia No. 3 Pty Ltd
Matthews Civil Pty Ltd
Pacific Assets Pty Ltd
Payce AE 2 - I Pty Ltd ATF Payce AE2 - I Unit Trust
Payce AE2 - III Pty Ltd ATF Payce AE2 - III Unit Trust
Payce Communities No. 1 Pty Ltd
Payce Communities No. 2 Pty Ltd
Payce Communities No. 3 Pty Ltd
Payce Communities Pty Ltd
Payce Communities Wentworth Point Pty Ltd
Payce Finance No. 2 Pty Ltd
Payce Finance Pty Ltd
Payce Industries Pty Ltd
Payce Land Holdings Pty Ltd
Payce Management Pty Ltd
Payce Projects Pty Ltd
Payce Properties Pty Ltd
Payce West End DM Pty Ltd
Payce West End Holding Pty Ltd
Payce West End Pty Ltd
PRT 1 Pty Ltd ATF PRT Trust
Quadratical Pty Ltd
South Village Pty Limited ATF South Village Trust
Trade Winds Finance Pty Ltd
Uniacke Pty Ltd
Wingate Communities Pty Ltd
WP DM Pty Ltd
WP No. 1 Pty Ltd
WP No. 2 Pty Ltd

All controlled entities are 100% owned except for Henlia Holdings (95%), Henlia No. 24 (75%) and Matthews Civil (75%).

All controlled entities were incorporated in Australia and have the same financial year as that of the parent company.

During the year under review the Group created a number of new entities for the purpose of holding investments in new ventures. None of these new entities has made a significant contribution to the current year's result.

The ultimate parent company, PAYCE Consolidated Limited, is incorporated and domiciled in Australia.

The registered office is Level 37 Chifley Tower, 2 Chifley Square, Sydney NSW 2000.

Note 32. Events After Balance Date

As announced to the market on 18 July 2014, the Group has exchanged contracts to dispose of its Hurstville development site for $43 million, in which the Group has a 75% interest. Completion is due in October 2014.

On 15 August 2014, The Group exchanged contracts to acquire a 14 hectare industrial site in the western suburbs of Sydney for a consideration of $95 million. The Group has paid a 10% deposit with completion to occur on deferred settlement terms.

Note 33. Company

As at 30 June 2014 and throughout the year then ended the parent company of the Group was PAYCE Consolidated Limited.

	2014 $'000	2013 $'000
Result of the Company		
Profit before income tax	64,226	280
Income tax (expense) / benefit	(19,268)	(84)
Total comprehensive profit for the year	44,958	196
Financial position of the Company at year end		
Current assets	170,338	65,574
Total assets	179,485	72,308
Current liabilities	13,408	162
Total liabilities	70,489	5,295
Total equity of the Company comprising:		
Share capital	45,382	45,382
Reserves	8	534
Retained earnings	63,606	21,097
Total equity	108,996	67,013

Company guarantees in respect of debts of its subsidiaries

Refer to Note 24

1. In the opinion of the Directors of PAYCE Consolidated Limited (the "Company"):

   (a) The Consolidated Financial Statements, Notes to the Financial Statements and the Remuneration Report included in section 17 of the Directors' Report, are in accordance with the Corporations Act 2001, including:

      i. giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

      ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and the Company Secretary/Chief Financial Officer for the financial year ended 30 June 2014.

3. The Directors draw attention to Note 2 (a) to the consolidated financial statement, which includes a statement of compliance with the International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.

B.M. Boyd
DIRECTOR

C.I. Gabriel
DIRECTOR

Sydney, New South Wales
22 August 2014

Independent auditor's report to the members of Payce Consolidated Limited

Report on the financial report

We have audited the accompanying financial report of Payce Consolidated Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In Note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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 the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in paragraphs 17.1 to 17.5 of the directors' report for the year ended 30 June 2014. 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Payce Consolidated for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Kim Lawry
Partner

Sydney

22 August 2014

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