PAYCE CONSOLIDATED LIMITED

ABN 19 001 566 310

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2012

PAYCE CONSOLIDATED LIMITED
ANNUAL REPORT 2012

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CHAIRMAN'S REVIEW

Payce Consolidated Limited, and its associated entities ("the Group"), is pleased to report a third successive year of profit, recording an after tax profit of $23.3 million for the year ended June 2012. The Group has continued to focus on its property development projects and associated assets, largely centred in the Sydney region.

The Group's balance sheet has expanded over the past year reflecting the increased development activity at the Group's Victoria Park sites and the acquisition of 2 additional development sites. Balance sheet financial debt recorded at 30 June 2012 was $77.3 million (2011: $26.4 million) which is specific in purpose and terms, and recourse to particular assets and developments.

As discussed below, the Group is currently progressing its medium density residential and mixed-use projects at Victoria Park, Riverwood North, Hurstville and Wentworth Point, whilst it continues to assess additional appropriate medium to long term property opportunities.

In September 2011, the Group's joint venture successfully completed the settlement of the 129 residential unit development, known as "ARTISAN", in Sydney's inner-west suburb of Chiswick. The Group has substantially advanced the "APEX" project at Victoria Park. The 153 residential unit development is anticipated for completion by the end of 2012. The Group has commenced the development of the "East Village" mixed-use retail, commercial and residential project at Victoria Park, anticipated to complete in 2014. Development has also commenced on the Riverwood North urban renewal project with the NSW Government to redevelop 150 existing social housing units and construct up to 500 private units on the four hectare site over the next 8 years.

I would like to thank our Directors, management and staff for their continued efforts and loyalty to the Group's continued advancement.

B.M. Boyd
CHAIRMAN

DIRECTORS' REPORT

The directors present their report together with the financial report of Payce Consolidated Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2012.

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	63	Brian Boyd was appointed as a Director and Managing Director in 1987 and Chairman of the Board on 8 July 2010. Brian has over 31 years' experience in the property industry.
Mr. Roger R. Short Non-Executive Director Independent	67	Roger Short was appointed as a Director in 1996. He practised as a lawyer for over 34 years involved in large scale property development projects and commercial and public infrastructure, retiring from practice with McCullough Robertson in 2005. He has been a director of public companies for more than 27 years and continues to be involved in company governance in the construction and infrastructure industries. During the past 6 years Roger has also served as a director of Sedgman Limited. Roger is a member of the Audit Committee.
Mr. Christopher I. Gabriel Non-Executive Director Independent	64	Chris Gabriel was appointed as a Director in 2010. Chris brings substantial knowledge to the Board from over 31 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

Brain Bailison, aged 41, 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 consolidated entity during the year was the development and sale of residential, retail and commercial property. There were no significant changes in the activities of the consolidated entity during the year.

5. OPERATING RESULTS

The consolidated profit of the consolidated entity after providing for income tax and eliminating minority equity interests amounted to $23,391,000.

6. DIVIDENDS PAID AND RECOMMENDED

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made at this time.

7. REVIEW OF OPERATIONS

Overview

Following the completion of sale of non-core assets and operating businesses and the repayment of corporate debt, the consolidated entity during the year under review has successfully maintained its focus on its property development projects and associated assets, recording a net profit before tax for the year of $10.9 million.

Operations – Development Activities

ARTISAN development - Chiswick

Following practical completion of the "ARTISAN" project (comprising of 129 residential units) in Sydney's inner-west, the joint venture is pleased to report that in September 2011 it successfully completed the settlement of the completed units and repaid construction finance. The consolidated entity's interest in the joint venture is accounted for using the equity method of accounting resulting in a recorded after tax share of profits of $5 million during the year under review.

APEX development - Victoria Park

During the year under review the consolidated entity continued the construction of the wholly owned 153 residential unit development known as "APEX" located at 6 Defries Avenue Victoria Park. The project is on track for completion by the end of 2012.

East Village development – Victoria Park

In December 2011, the consolidated entity received a development approval for the construction of a mixed-use development at Victoria Park incorporating an integrated retail, commercial and residential use. In June 2012, the consolidated entity obtained construction finance from the Commonwealth Bank of Australia and commenced construction which is currently estimated for completion by June 2014. Sales of residential units and the pre-leasing of retail and commercial spaces are progressing strongly.

Riverwood North Urban Renewal project

The consolidated entity has progressed the urban renewal project with the NSW Government, commencing construction of the initial 123 social housing units at Riverwood North, Sydney. The total project includes the replacement of 150 social housing units and the construction of up to 500 private units on the four hectare site over the next 8 years.

Wentworth Point

As announced on 29 June 2012, the consolidated entity granted a call option to Sekisui House (exercisable at any time until 30 June 2014) to divest of its remaining undeveloped landholding at Wentworth Point. Exercise of the Call Option would bring to a conclusion Payce's long-standing ownership of all of its property at Wentworth Point, originally acquired in 1988.

Other development projects

During the period under review the consolidated entity assessed several development opportunities, successfully acquiring a 75% interest in a residential development site in Hurstville, NSW in August 2011 and settling the acquisition of a 50% interest in a residential development site at Victoria Park in June 2012. Both projects are in the planning and approval phase and are likely to be released for pre-sale in the coming year.

Operations – Finance

During the year under review the corporate entity's financial liabilities increased to $77.3 million (2011: $26.4 million) reflective of the finance drawn down to fund the increased construction development activities referred to above.

8. ENVIRONMENTAL REGULATION

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

9. FINANCIAL POSITION

The net assets of the consolidated entity increased from $93.1 million at 30 June 2011 to $116.8 million at 30 June 2012. During the year, the consolidated entity's total asset position increased by $82.9 million to $205.8 million at 30 June 2012, whilst total liabilities increased by $59.1 million to $88.9 million at 30 June 2012. The increase in assets and liabilities is attributable to the increase in development activities during the year under review.

10. EVENTS SUBSEQUENT TO BALANCE DATE

None

11. LIKELY DEVELOPMENTS AND FUTURE RESULTS

The directors have excluded from this report any further information on the likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, as the directors have reasonable grounds to believe that it would be likely to result in unreasonable prejudice to the consolidated entity.

12. KEY BUSINESS STRATEGIES AND FUTURE PROSPECTS

The consolidated entity's business strategies and prospects for growth in future financial years have not been included in this report, as the inclusion of this information is likely to result in an unreasonable prejudice to the consolidated entity.

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 consolidated entity during the year ended 30 June 2012.

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	14,006,799
R.R. Short	65,000
C.I. Gabriel	0

Refer to Note 28 for detailed information.

15. SHARE OPTIONS

Options granted over unissued shares

As at the date of this report the Company has 1,800,000 options over unissued ordinary shares.

No options over unissued shares have been granted during or since the end of the year.

For details of options granted in the prior year to officers of the Company, please refer to the Remuneration Report (section 18 Directors' Report).

Shares issued as a result of the exercise of options

No shares have been issued during or since the end of the year as a result of the exercise of an option of unissued shares.

16. 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 company secretaries named in Section 18.2 of the Directors' Report have the benefit of the indemnity in Clause 112. The Company has insured against amounts which it is liable to pay to officers pursuant to Clause 112 or which it otherwise agrees 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.

17. 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.

18. REMUNERATION REPORT - Audited

18.1 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, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and senior executives for 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 consolidated entity's performance being:
- the consolidated entity'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.

18. REMUNERATION REPORT (continued) - Audited

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, segment and overall performance of the consolidated entity.

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)

LTI's are currently provided to executives through an executive option scheme.

Company Performance and Remuneration

In considering the consolidated entity'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.

	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
Net profit /(loss)	23,391	12,797	1,518	(33,693)	(17,443)
Share price at year end	$3.10	$3.01	$1.50	$0.75	$2.45

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 $315,000 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;
- Entitled to participate in share option scheme – refer to section 18.4 of the Directors' Report.

Mr D. J. SULLIVAN

General Manager

- Employment commenced 1 January 2006;
- Fixed remuneration, inclusive of superannuation, of $260,000 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;

18. REMUNERATION REPORT (continued) - *Audited*

18.2 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 consolidated entity key management personnel:

		Short-term			Post-employment	Other long term	Termin-ation	Share based payments	TOTAL	% of remuneration performance related	Value of options as proportion of remuneration
EXECUTIVES		**Salary, fees & commissions**	**Primary cash bonus**	**Non-cash benefits**	**Super-annuation**						
B.H. Bailison	2012	297,000	-	10,281	18,000	1,624	-	-	326,905	0.0%	0.0%
Company Secretary & Chief Financial Officer	2011	297,000	900,000	3,427	18,000	473	-	23,131	1,242,031	74.3%	1.9%
D.J. Sullivan	2012	228,727	-	26,808	20,585	7,765	-	-	283,885	0.0%	0.0%
General Manager	2011	204,564	137,615	37,692	30,796	15,054	-	-	425,721	32.3%	0.0%
Total	2012	525,727	-	37,089	38,585	9,389	-	-	610,790	0.0%	0.0%
Total	2011	501,564	1,037,615	41,119	48,796	15,527	-	23,131	1,667,752	63.6%	1.4%

The short-term incentive bonus included as compensation for the relevant year relates to that financial year.

18. REMUNERATION REPORT (continued) - Audited

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

		Short-term			Post-employment	Other long-term	Termin-ation	Share based payments	TOTAL	% of remuneration performance related	Value of options as proportion of remuneration
DIRECTORS		**Salary, fees & commissions**	**Primary cash bonus**	**Non-cash benefits**	**Super-annuation**						
Non-executive											
R.R. Short	2012	34,000	-	36,000	6,300	-	-	-	76,300	0.0%	0.0%
	2011	40,000	-	30,000	6,300	-	-	-	76,300	0.0%	0.0%
C.I. Gabriel (appointed 8 July 2010)	2012	30,400	-	39,600	6,300	-	-	-	76,300	0.0%	0.0%
	2011	70,000	-	-	6,300	-	-	-	76,300	0.0%	0.0%
Executive											
B.M. Boyd	2012	108,725	-	143,973	18,298	4,599	-	-	275,595	0.0%	0.0%
	2011	108,725	-	139,858	18,298	3,986	-	-	270,867	0.0%	0.0%
D.H. Macintosh (resigned 8 July 2010)	2012	-	-	-	-	-	-	-	-	0.0%	0.0%
	2011	-	229,358	-	22,714	-	212,466	-	464,538	49.4%	0.0%
Total (Consolidated)	2012	173,125	-	219,573	30,898	4,599	-	-	428,195	0.0%	0.0%
	2011	218,725	229,358	169,858	53,612	3,986	212,466	-	888,005	25.8%	0.0%

18. REMUNERATION REPORT (continued) - *Audited*

18.3 Analysis of bonuses included in remuneration - Audited

No short-term incentive cash bonuses were awarded as remuneration during the year to any Director of the Company or any consolidated entity senior executive other than as noted in Section 18.2 of the Directors' Report.

18.4 Equity instruments - Audited

18.4.1 Options and rights over equity instruments granted as compensation

No options have been granted as compensation during or since the end of the year or in the prior year.

18.4.2 Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or prior period.

18.4.3 Exercise of options granted as compensation

No shares were issued on the exercise of options previously granted as compensation during the reporting period or prior periods.

18.4.4 Analysis of options and rights over equity instruments granted as compensation

Details of the vesting profile of the options granted as remuneration are detailed below:

	No. of options granted	Grant date	% vested in years	% forfeited in years	Financial years in which grant vests
Executives					
B.H. Bailison	200,000	4 June 2008	100%	-	Year ended 30 June 2009
B.H. Bailison	200,000	4 June 2008	100%	-	Year ended 30 June 2010
B.H. Bailison	200,000	4 June 2008	100%	-	Year ended 30 June 2011

All vested options expire on their expiry date. All unvested options expire on termination of the individual's employment.

18.4.5 Analysis of movements in options

During the financial year, no options were granted, exercised or lapsed.

19. NON-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.

The Board of Directors has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and did not compromise the auditor's independence requirements of the Corporations Act for the following reasons:

- The non-audit services did not impact the impartiality and objectivity of the auditor; and
- None of the general services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditors own work, acting in a management or decision sharing capacity for the Company or jointly sharing economic risk and rewards.

19. NON-AUDIT SERVICES (continued)

During the year the following fees were paid or payable for services provided by the auditor of the consolidated entity and its related practices:

	2012 $	2011 $
1. Audit Services		
Audit and review of financial reports and other audit work under the Corporations Act 2001		
KPMG Australia	205,000	246,730
2. Other Services		
Accounting Advice		
KPMG Australia	-	10,000
Total Remuneration	**205,000**	**256,730**

20. 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 2012.

21. 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
21 August 2012

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 2012 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

Nigel Virgo
Partner

Sydney
21 August 2012

CORPORATE GOVERNANCE STATEMENT

The Board is responsible for the corporate governance practices of Payce Consolidated Limited (the 'Company') and its group of entities. 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 and 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 in Item 1 of the Directors' Report.

The Chairman and Managing Director, Brian Boyd, is an integral part of the Company and has been for a significant period to time. Due to the complexity and scale of the Company's development, 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.

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.

BOARD COMMITTEES

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.

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.

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 Section 18 of the Directors' 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.

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;
- 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.

Females constitute approximately 50% of full time equivalent employees.

SECURITIES TRADING POLICY

The Company's Securities Trading Policy was released to the ASX on 29 December 2010 and 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.

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 to time. Due to the complexity and scale of the Company's development, 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 the Board 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 Nomination Committee does not provide the same efficiencies for smaller boards.

OTHER INFORMATION

Further information relating to the Company's corporate governance practices and policies can be obtained from the Company's Registered Office.

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Continuing Operations			
Revenue	5	22,359	62,917
Cost of sales	6	(9,478)	(45,216)
Gross profit		12,881	17,701
Other income	5	225	11,502
Administration expenses		(5,506)	(10,075)
Property expenses		(672)	(1,107)
Marketing expenses		(2,458)	(2,325)
Impairment of trademarks		-	(26)
Impairment of available for sale financial assets		(437)	(33)
Impairment of property, plant and equipment		-	(398)
Loss on disposal of investment properties		-	(182)
Loss on disposal of subsidiary		-	(210)
Profit before tax and net financing costs		4,033	14,847
Finance income		3,569	4,267
Finance costs		(1,638)	(1,857)
Net financing income	7	1,931	2,410
Share of profits of equity accounted investments	30	4,940	521
Profit before income tax		10,904	17,778
Income tax benefit / (expense)	8	12,487	(4,981)
Profit for the period		23,391	12,797
Other comprehensive income			
Revaluation of available for sale financial assets (net of tax)		(104)	(116)
Total comprehensive profit for the period		23,287	12,681
Profit attributable to:			
Owners of the Company		23,391	12,797
Profit for the period		23,391	12,797
Total comprehensive profit attributable to:			
Owners of the Company		23,287	12,681
Total comprehensive profit for the period		23,287	12,681
Earnings per share			
Basic earnings per share (cents per share)	10	78.6	40.4
Diluted earnings per share (cents per share)	10	78.6	40.4

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

		Consolidated	
		2012	2011
	Note	$'000	$'000
Current Assets			
Cash and cash equivalents	12	25,809	9,442
Trade and other receivables	13	6,074	12,566
Properties held for development and resale	14	53,963	2,856
Other assets	19	2,645	1,625
Total Current Assets		88,491	26,489
Non-Current Assets			
Trade and other receivables	13	9,699	10,529
Properties held for development and resale	14	82,867	79,687
Investments accounted for using the equity method	15	1,743	1,866
Property, plant and equipment	16	469	598
Financial assets	18	2,099	385
Deferred tax assets	23	14,338	1,851
Other assets	19	6,087	1,510
Total Non-Current Assets		117,302	96,426
Total Assets		205,793	122,915
Current Liabilities			
Trade and other payables	20	8,443	2,607
Financial liabilities	21	42,782	-
Provisions	22	705	608
Total Current Liabilities		51,930	3,215
Non-Current Liabilities			
Trade and other payables	20	2,500	178
Financial liabilities	21	34,474	26,379
Provisions	22	40	38
Total Non-Current Liabilities		37,014	26,595
Total Liabilities		88,944	29,810
Net Assets		116,849	93,105
Equity			
Issued capital	24	45,382	45,382
Reserves	25	2,367	19,048
Retained earnings		68,600	28,675
Total equity attributable to equity holders of the Company		116,349	93,105
Non-controlling interest		500	0
Total Equity		116,849	93,105

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

	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	Asset Realisation Reserve $'000	Shares Forfeited $'000	Total $'000
Consolidated									
Balance at 1 July 2010	**52,172**	**16,877**	**2,021**	**502**	**1,383**	**113**	**15,168**	**4**	**88,240**
Revaluation increment realised on sale of land held for redevelopment	-	-	-	-	(1,357)	-	1,357	-	-
Shares repurchased	(6,790)	(999)	-	-	-	-	-	-	(7,789)
Equity-settled transactions, net of tax	-	-	-	23	-	-	-	-	23
Revaluation of shares available for sale	-	-	-	-	-	(166)	-	-	(166)
Profit attributable to owners of the Company	-	12,797	-	-	-	-	-	-	12,797
Balance at 30 June 2011	**45,382**	**28,675**	**2,021**	**525**	**26**	**(53)**	**16,525**	**4**	**93,105**
Balance at 1 July 2011	**45,382**	**28,675**	**2,021**	**525**	**26**	**(53)**	**16,525**	**4**	**93,105**
Revaluation increment realised on sale of land held for redevelopment	-	-	-	-	(9)	-	9	-	-
Revaluation of shares available for sale	-	-	-	-	-	(147)	-	-	(147)
Transfer realisation reserve to Retained Earnings	-	16,534	-	-	-	-	(16,534)	-	-
Profit attributable to owners of the Company		23,391	-	-	-	-	-	-	23,391
Balance at 30 June 2012	**45,382**	**68,600**	**2,021**	**525**	**17**	**(200)**	**-**	**4**	**116,349**

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

		Consolidated	
		2012	2011
	Note	$'000	$'000
Cash flows from operating activities			
Receipts from customers		36,871	32,607
Payments to suppliers and employees		(58,516)	(25,191)
Payments for the acquisition of development properties		(9,312)	(1,500)
Loans to fund property development activities		(13,881)	(1,969)
Repayment of loans funding property development activities		7,495	7,460
Finance income received		3,400	2,201
Finance costs paid		(3,784)	(3,487)
Income taxes paid		-	(1,079)
Net cash (used in) / provided by operating activities	32a	(37,727)	9,042
Cash flows from investing activities			
Profits received from associates		4,858	-
Payments for financial assets acquired		(2,300)	-
Payments for investments in associates		-	(3,046)
Proceeds on disposal of investment in associate		-	17,460
Proceeds from sale of investment properties		-	5,520
Payment for investment in subsidiary		-	(494)
Dividends and distributions received		224	427
Payments for property, plant and equipment		(65)	(447)
Proceeds from sale of property, plant, and equipment		-	272
Net cash from investing activities		2,717	19,692
Cash flows from financing activities			
Proceeds from borrowings		50,877	26,379
Repayment of borrowings		-	(49,376)
Minority interest equity contributions		500	-
Buy back of own shares		-	(7,789)
Net cash provided by / (used in) financing activities		51,377	(30,786)
Net increase / (decrease) in cash held		16,367	(2,052)
Cash at beginning of financial year	12	9,442	11,494
Cash at end of financial year	12	25,809	9,442

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 2012 comprise the Company and its controlled entities and interests in associates and jointly controlled entities (together referred to as the "Group").

The nature of the operations and principal activities of the consolidated entity 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 21 August 2012.

(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 13).
- Investment Properties – measurement of fair value. (Note 17).
- Tax assets and liabilities – recognition of deferred tax assets. (Note 23.)
- Properties held for development and resale. (Note 14).

(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 2012 comprise the Company and its controlled entities and interests in associates and jointly controlled entities (together referred to as the "consolidated entity").

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 consolidated entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the consolidated entity holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those over whose activities the consolidated entity 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 consolidated entity'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 consolidated entity, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. If and when the consolidated entity'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 consolidated entity has an obligation or made commitments on behalf of the investee.

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 consolidated entity's interest in the investee. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Business combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations are accounted for by applying the acquisition method.

Note 3. Significant Accounting Policies (continued)

The acquisition method requires an acquirer of the business to be identified and for the cost of the acquisition and fair value of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of the assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

(c) 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.

(d) 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.

Note 3. Significant Accounting Policies (continued)

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.

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)

(e) 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.

(f) 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 consolidated entity'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).

(g) 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)

(h) 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 consolidated entity 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.

(i) 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.

(j) 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:

Plant and equipment	7 - 27%
Office equipment	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 consolidated entity'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)

(k) 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 consolidated entity's non-financial assets, other than deferred tax assets (Note 23), 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)

(l) 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 consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

(m) 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.

(n) Provisions

Provisions are recognised when the consolidated entity 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 consolidated entity'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.

(o) 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)

(p) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity 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.

(q) 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.

(r) Share-based payment transactions

At the Directors' discretion options to acquire shares of the Company may be granted to nominated employees. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the recipients become unconditionally entitled to the options.

The fair value of the options granted is measured using a Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares options that vest except where forfeiture is only due to share prices not

Note 3. Significant Accounting Policies (continued)

achieving the threshold for vesting. The fair value of shares granted is measured by reference to the closing ASX market price of shares at the grant date, adjusted as necessary for any term or conditions attached to the shares.

(s) Earnings per share

The consolidated entity 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.

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares, which comprise share options granted to employees. Options granted to employees which are accounted for as share-based payments are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share.

(t) 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 2012 accounting period. The Group’s assessment of the impact of these is set out below.

AASB 9 *Financial Instruments* will become mandatory for the Group’s annual reporting period ended 30 June 2014, and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early, and the extent of the impact has not yet been determined.

AASB 10 *Consolidated Financial Statements;* AASB 127 *Separate Financial Statements (2011);* AASB 11 *Joint Arrangements;* AASB 128 *Investments in Associates and Joint Ventures (2011); and* AASB 12 *Disclosure of Interests in Other Entities*. This suite of standards, applicable retrospectively to accounting periods commencing on or after 1 January 2013, introduce a new approach to the recognition of related entities, including determining which investees should be consolidated based on when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Accounting for joint arrangements is based on assessment of respective rights and obligations, rather than legal structure. Additional disclosure requirements apply to interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The Group does not intend to adopt these standards early. They will be first applied in the financial statements for the Group’s annual reporting period ending 30 June 2014. Any potential effect is expected to be on the Group’s disclosures in the consolidated financial statements.

AASB 13 *Fair Value Measurement* is applicable prospectively to accounting periods commencing on or after 1 January 2013, and explains how to measure fair value when required by other standards. The standard will be first applied in the financial statements for the Group’s annual reporting period ending 30 June 2014. The Group does not intend to adopt this standard early and it is not expected to have a significant effect on the consolidated financial statements of the Group.

Note 4. Determination of Fair Value

A number of the consolidated entity'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) Investment properties

An independent external valuer or Directors' valuation, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the consolidated entity's investment property portfolio at each reporting date. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(b) 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 at the market rate of interest to determine the fair value.

(c) 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.

(d) Share-based payment transactions

The valuation methodology used to determine the share based payment expense was the Black-Scholes option pricing model. As required by AASB 2 Share-based Payment, the model took into account the exercise price of the option, the life of the option, the current price of the underlying shares, expected volatility of the share price, expected dividends on the shares and the risk free interest rate for the life of the option.

(e) 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.

(f) 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. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value is determined by reference to the most recent and relevant available information regarding sales of comparable properties and an assessment of the costs of completion.

Note 5. Revenue and Other Income

	Consolidated 2012 $'000	Consolidated 2011 $'000
Sales revenue		
Property development sales	2,145	57,123
Construction contract revenue	8,006	-
Rent received	4,546	3,695
Other sales income	162	924
Other	7,500	1,175
Total revenue	22,359	62,917
Other Income		
Debt forgiveness	-	150
Profit on sale of associates	-	11,262
Other	225	90
Total other income	225	11,502

Note 6. Expenses excluding Net Financing Costs

	Consolidated 2012 $'000	Consolidated 2011 $'000
Cost of sales	9,478	45,216
Other expenses included in Administration expenses:		
Depreciation of plant and equipment	193	398
Impairment of current trade and other receivables	8	400
Payments on operating leases	264	277
Employee benefits expense		
Wages and salaries	1,957	4,910
Other associated personnel expenses	122	269
Contributions to defined contribution superannuation funds	166	230
Equity settled share based payments	-	23
Increase / (decrease) in employee benefits provisions	100	(283)
Total employee benefits expense	2,345	5,149

Note 7. Net Financing Income

	Consolidated 2012 $'000	Consolidated 2011 $'000
Finance income	3,569	4,267
Finance expense	3,785	3,488
Amount capitalised	(2,147)	(1,631)
Finance costs	1,638	1,857
Net financing income	1,931	2,410

Note 8. Income Tax

	Consolidated 2012 $'000	Consolidated 2011 $'000
The components of income tax benefit / (expense) comprise		
Current tax benefit / (expense)	3,161	(2,018)
Deferred tax benefit / (expense)	8,732	(1,885)
Over / (under) provision from prior year and unrecognised tax losses	594	(1,078)
	12,487	(4,981)
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% (2011: 30%)	(3,271)	(5,333)
Non-deductible expenses	(64)	(285)
Taxable income not recognised for accounting	4,141	1,715
Recognition of previously unrecognised timing differences	5,667	-
Recognition of previously unrecognised tax losses	5,420	-
Over / (under) provision for income tax in prior year	594	(1,078)
	12,487	(4,981)

Note 9. Auditor's Remuneration

	Consolidated 2012 $	Consolidated 2011 $
Audit Services		
Auditors of the Company		
KPMG		
Audit and review of financial reports		
Current year	185,000	160,000
Prior year	20,000	86,730
Other Auditors	-	25,750
	205,000	272,480
Other Services		
Auditors of the Company		
KPMG		
Accounting Advice	-	10,000
Other Auditors		
Accounting and advisory services	-	302,489
	-	312,489

Note 10. Earnings per Share

	Consolidated 2012 $'000	Consolidated 2011 $'000
a. Reconciliation of earnings to profit or loss		
Profit for the year	23,391	12,797
Earnings used to calculate basic and diluted EPS	23,391	12,797
	Number	**Number**
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	29,745,225	31,681,206
Effect of share options in issue	32,406	-
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	29,777,631	31,681,206

At 30 June 2012 Nil (2011: 1,800,000) options were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

Note 11. Dividends

	Consolidated 2012 $'000	Consolidated 2011 $'000
a. No dividends of the Company have been paid, declared or recommended during the year ended 30 June 2012 or since that date.		
b. Balance of franking account	1,451	1,451

Franking credits available for subsequent financial years based on a tax rate of 30% (2011: 30%).

The above amounts represent the balance of the franking account as at the end of the financial year adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax
- franking debits that will arise from the payment of dividends recognised as a liability at reporting date
- franking credits that will arise on the receipt of dividends recognised as a receivable at the reporting date

The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends.

Note 12. Cash and Cash Equivalents

	Consolidated 2012 $'000	Consolidated 2011 $'000
Cash at bank	25,809	9,442

The effective interest rate on short term bank deposits was 3.21% (2011: 4.73%).

Note 13. Trade and Other Receivables

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Trade receivables	3,232	693
Other receivables	2,230	6,095
Provision for impairment of receivables	(1,687)	(1,687)
	543	4,408
Amounts receivable from associated companies and jointly controlled entities	2,299	7,465
	6,074	12,566
Non-current		
Other receivables	69	10,529
Amounts receivable from associated companies and jointly controlled entities	9,630	-
	9,699	10,529

Note 14. Properties held for Development and Resale

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Properties held for development and resale	53,963	2,856
Non-current		
Properties held for development and resale	82,867	79,687
Finance costs capitalised during the period	2,147	1,631
Capitalisation rate	7.8%	7.9%

Note 15. Investments Accounted for using the Equity Method

	Consolidated 2012 $'000	Consolidated 2011 $'000
Jointly controlled entities	1,743	1,866

Note 16. Property, Plant & Equipment

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

2012	Leasehold improve-ments $'000	Plant & Equipment $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost					
Balance at 1 July 2011	559	10	295	-	864
Additions	-	-	64	-	64
Balance at 30 June 2012	559	10	359	-	928
Accumulated depreciation					
Balance at 1 July 2011	186	3	77	-	266
Depreciation charge	131	2	60	-	193
Balance at 30 June 2012	317	5	137	-	459
Net Book Value at 30 June 2012	**242**	**5**	**222**	**-**	**469**

2011	Leasehold improve-ments $'000	Plant & Equipment $'000	Office Equipment $'000	Motor Vehicles $'000	Total $'000
Cost					
Balance at 1 July 2010	604	990	258	5	1,857
Transfer to administration expenses	-	-	(16)	-	(16)
Disposals through deconsolidation	(45)	(233)	(25)	(5)	(308)
Additions		214	235	-	449
Disposals	-	(961)	(157)	-	(1,118)
Balance at 30 June 2011	559	10	295	-	864
Accumulated depreciation					
Balance at 1 July 2010	72	535	58	2	667
Disposals through deconsolidation	(17)	(25)	(4)	(2)	(48)
Depreciation charge	131	87	180	-	398
Disposals	-	(594)	(157)	-	(751)
Balance at 30 June 2011	186	3	77	-	266
Net Book Value at 30 June 2011	**373**	**7**	**218**	**-**	**598**

Note 17. Investment Properties

	Consolidated 2012 $'000	Consolidated 2011 $'000
Carrying amount at beginning of year	-	5,683
Acquisitions (subsequent expenditure)	-	21
Disposals	-	(5,704)
	-	-

Note 18. Financial Assets

	Consolidated 2012 $'000	Consolidated 2011 $'000
Available-for-sale financial assets		
Shares in listed securities - at fair value (Level 1)	99	385
Shares in unlisted securities - at fair value (Level 3)	2,000	-
	2,099	385

Valuation of financial assets:

Level 1 financial securities

The shares in listed securities are classified as a Level 1 financial instrument by the consolidated entity, being a financial instrument valued at the unadjusted quoted balance date closing price in an active market for identical assets.

Level 3 financial securities

The shares in unlisted securities are classified as a Level 3 financial instrument by the consolidated entity, being a financial instrument without an active market for identical assets. Fair value is determined by directors' valuation. The shares were purchased close to balance date. The acquisition price is considered to be representative of fair value at reporting date. The investment is considered to be recoverable owing to future expected earnings.

Note 19. Other Assets

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Prepayments	254	494
Other	2,391	1,131
	2,645	1,625
Non-current		
Prepayments	2,114	1,510
Other	3,973	-
	6,087	1,510

Note 20. Trade and Other Payables

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Trade payables	1,225	754
Other payables and accruals	7,218	1,853
	8,443	2,607
Non-current		
Option deposits	-	178
Other payables and accruals	2,500	-
	2,500	178

Note 21. Financial Liabilities

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Secured Loans	42,782	-
Non-current		
Secured Loans	34,474	26,379

Details of the facilities in place at 30 June 2012:

Facility	Limit $'000	Amount drawn at 30 June 2012 $'000	Expiry
Commercial Bill Line Facility	18,000	18,000	14 February 2014
Construction Facility	60,181	42,782	13 March 2013
Cash Advance Construction Facility	165,000	10,000	31 December 2014
Cash Advance and Bank Guarantee Construction Facility	28,000	6,474	31 December 2014
		77,256	

Secured Loans

Commercial Bill Line Facility

In March 2011, the consolidated entity agreed a 3 year interest only Commercial Bill Line Facility. The facility has a limit of $18 million, an LVR limit of 45% and a 1.5 times interest cover covenant.

The facility is secured by a fixed and floating charge and real property mortgage over freehold property.

Construction Facility

In June 2011, the consolidated entity entered into a Construction Facility Agreement to fund the construction of the APEX development located at Victoria Park, Sydney. The facility has a limit of $60.2 million and an LVR limit of 65%.

The facility is secured by a fixed and floating charge, real property mortgage over freehold property and a limited cost overrun corporate guarantee.

Cash Advance Construction Facility

In June 2012, the consolidated entity entered into a 2½ year Cash Advance Construction Facility to fund the construction of the East Village mixed-use development located at Victoria Park, Sydney. The construction facility has a limit stepping up from $10 million to $165 million (subject to various conditions) and a maximum LVR limit of 60%.

The facility is secured by a senior general security deed, real property mortgage over freehold property and a limited cost overrun corporate guarantee.

Cash Advance and Bank Guarantee Construction Facility

In June 2012, the consolidated entity agreed terms for a $28 million Cash Advance and Bank Guarantee Construction Facility in relation to the East Village project.

The facility is secured by a junior general security deed, real property mortgage over freehold property and a corporate guarantee.

Note 21. Financial Liabilities (continued)

As at 30 June 2012 and during the year, all facility covenants have been complied with.

Secured assets

	Consolidated 2012 $'000	Consolidated 2011 $'000
Senior and junior mortgage		
Properties held for development and resale	123,513	55,126
Floating charge over assets	20,579	1,934
	144,092	57,060

Note 22. Provisions

	Consolidated 2012 $'000	Consolidated 2011 $'000
Current		
Employee benefits	705	608
Non-current		
Employee benefits	5	3
Leasehold make good costs	35	35
	40	38

	Employee benefits $'000	Lease make good costs $'000	Total $'000
Movement in provisions during the year			
Balance at 1 July 2011	611	35	646
Additional provisions	99	-	99
Balance at 30 June 2012	710	35	745

(a) Employee benefits

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(n).

(b) Leasehold make good costs

Payce Management Limited entered into a lease for premises at Level 37 Chifley Tower, 2 Chifley Square, Sydney ending 13 May 2014. In accordance with the lease agreement, Payce Management Limited is responsible for removing the office fit out at the end of the lease. A provision of $35,000 has been made for the obligation to remove the fit out from the lease premises and to make good.

Note 23. Tax Assets and Liabilities

	Consolidated 2012 $'000	Consolidated 2011 $'000
Balance at the beginning of the period	1,851	5,754
Movement for the year	12,487	(3,903)
Balance at the end of the period	14,338	1,851

Deferred tax assets and liabilities are attributable to the following:

Consolidated	Assets 2012 $'000	Liabilities 2012 $'000	Net 2012 $'000	Net 2011 $'000
Properties held for development & resale	5,554	(6,473)	(919)	(13,186)
Investments accounted for using the equity method	44	-	44	127
Property, plant & equipment	88	-	88	439
Other	244	(377)	(133)	8,388
Tax loss carry-forwards	15,258	-	15,258	6,083
Tax assets/(liabilities)	21,188	(6,850)	14,338	1,851

Note 24. Issued Capital

	Consolidated 2012 $'000	Consolidated 2011 $'000
Issued		
29,745,225 (June 2011: 29,745,225) fully paid ordinary shares of no par value	45,382	45,382

	Number	Number
Balance at beginning of financial period	29,745,225	32,299,080
Shares bought back and cancelled during the period	-	(2,553,855)
Balance at end of financial period	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.

Options

For information relating to share options issued to key management personnel during the financial year refer to Note 33 Share-based Payments.

Capital Management

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

The consolidated entity's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements. Management effectively manages the consolidated entity's capital by assessing the consolidated entity's financial risks and adjusting the capital structure in response to changes in these risks and in the market. This includes the management of share issues and share buy-backs.

Note 24. Issued Capital (continued)

The gearing ratio is as follows:-

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Total borrowings (including payables)	20, 21	88,199	29,164
Less cash and cash equivalents	12	(25,809)	(9,442)
Net debt		62,390	19,722
Total equity		116,849	93,105
Total capital		179,239	112,827
Gearing ratio		35%	17%

Note 25. Reserves

	Consolidated 2012 $'000	Consolidated 2011 $'000
Reserves	2,367	19,048

The Reserves of the Consolidated entity, 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.

(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 26. Contingent Liabilities

Consolidated and Company

	2012 $'000	2011 $'000
a. Guarantees given in the ordinary course of business for borrowings and commitments of controlled entities	19,374	5,400
b. Guarantees given in the ordinary course of business for borrowings and commitments of an associated company	-	2,500
c. Assignment of loans related to the purchase of consolidated entity property held for development and resale by third parties	5,000	5,000

In respect of the foregoing contingent liabilities no material losses giving rise to actual liabilities are anticipated.

d. A superannuation fund on a cash accumulation basis provides employees or their dependants with benefits on retirement, resignation, disability or death. The members and the consolidated entity make contributions as specified in the rules of the fund. The assets of the fund are sufficient to satisfy all benefits that would be payable in the event of the fund's termination, or the voluntary or compulsory termination of employment of each employee. In addition, contributions are made to the superannuation fund in order to satisfy the legal entitlements of employees.

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

f. Payce Consolidated Limited has undertaken, if required, to provide funds or to indemnify any person against the consequences of default in payment or otherwise be responsible for any debt or monetary liability of the following controlled entities:

Payce Industries Pty Limited
Payce Management Pty Limited
Pacific Assets Pty Limited
Payce Properties Pty Limited
Payce Finance Pty Limited
H.B. Properties Pty Limited
Quadratical Pty Limited

Note 27. Operating Leases

Leases as lessee

The consolidated entity leases office space at 2 locations in Sydney. The remaining terms of the leases are 22 months and 5 months respectively. Both leases have annual rental escalations and options to renew at the end of the lease term.

	Consolidated	
	2012 $'000	2011 $'000
Non-cancellable operating lease commitments		
payable not later than one year	237	218
later than one year but not later than 5 years	190	391
later than 5 years	-	-
	427	609

Leases as lessor

The consolidated entity 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	3,185	3,185
later than 1 year but not later than 5 years	6,635	9,820
	9,820	13,005

During the year $4.5 million (2011: $3.7m) was recognised as rental income.

Note 28. Related Party Transactions

Key management personnel compensation

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

	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	955,514	2,447,614
Other long term benefits	13,988	19,513
Post-employment benefits	69,483	124,852
Termination benefits	-	279,101
Share-based payments	-	23,131
	1,038,985	2,894,211

Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' 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, no director 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.

Loans to key management personnel and their related parties

No key management personnel or their related parties have entered into any loans with any company in the consolidated entity.

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.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares held, directly or beneficially, by each key management personnel, including their related parties, is as follows:

	Held at 1 July 2011	Granted as compens-ation	Exercised	Other changes	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
B.H. Bailison	600,000	-	-	-	600,000	-	600,000

	Held at 1 July 2010	Granted as compens-ation	Exercised	Other changes	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
B.J. Klevansky	1,200,000	-	-	-	1,200,000	-	1,200,000
B.H. Bailison	600,000	-	-	-	600,000	200,000	600,000
	1,800,000	-	-	-	1,800,000	200,000	1,800,000

Note 28. Related Party Transactions (continued)

Movements in shares

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

	Held at 1 July 2011	Received during the year as remuneration	Other changes	Held at 30 June 2012
			-	
B.M. Boyd	14,006,799	-	-	14,006,799
R.R. Short	65,000	-	-	65,000
	14,071,799	-	-	14,071,799

	Held at 1 July 2010	Received during the year as remuneration	Other changes	Held at 30 June 2011
B.M. Boyd	14,006,799	-	-	14,006,799
R.R. Short	65,000	-	-	65,000
B.J. Klevansky	727,173	-	(727,173)	-
	14,798,972	-	(727,173)	14,071,799

Other related party transactions

	Transaction value year ended 30 June		Balance outstanding as at 30 June	
	2012 $	2011 $	2012 $	2011 $
Consolidated				
Associates - development & project management services	6,000	1,012,636	7,809	11,109
Associates - loans to associates	3,933,382	1,309,706	11,929,866	7,465,042
Associates - loans from associates	4,700,000	-	371,972	-
Associates - interest income	160,461	485,845	-	-
Associates - interest expense	340,613	308,727	-	-
Associates - debt forgiveness granted	7,520	-	-	-
Associates - debt forgiveness received	-	150,294	-	-

Note 29. Financial Risk Management

The consolidated entity'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 consolidated entity. It is, and has been throughout the period under review, the consolidated entity's policy not to trade in financial instruments.

The main risks arising from the consolidated entity'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 consolidated entity'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 consolidated entity in meeting financial targets whilst minimizing potential adverse effects on financial performance.

(a) 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 consolidated entity's exposure to interest rates relates primarily to the consolidated entity's financial liabilities as disclosed in Note 21.

Note 29. Financial Risk Management (continued)

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

	Consolidated	
	2012 $'000	2011 $'000
Financial assets		
Cash and cash equivalents	25,809	9,442
Financial liabilities		
Secured Loans	77,256	26,379
Net exposure	(51,447)	(16,937)

The consolidated entity 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.

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

At 30 June 2012, and at 30 June 2011, 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)	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Consolidated				
+1% (100 basis points)	(5)	(76)	(5)	(76)
-1% (100 basis points)	5	76	5	76

The movements in profit/ (loss) are due to higher/lower interest costs from cash balances, variable rate receivable and debt.

Price risk

The consolidated entity is exposed to equity securities price risk. This arises from shares in listed securities held by the consolidated entity and classified in the statement of financial position as available for sale.

(b) Credit risk

Credit risk arises from the financial assets of the consolidated entity, which comprise cash and cash equivalents, and trade and other receivables. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets 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 consolidated entity's exposure to credit risk arises from potential default of the counter party under a financial instrument or contract with a maximum exposure equal to the carrying amount of those instruments or contracts. The consolidated entity, 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.

Note 29. Financial Risk Management (continued)

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

	Carrying Amount	
	2012 $'000	2011 $'000
Cash and cash equivalents	25,809	9,442
Trade and other receivables	3,232	693
Vendor property financing	69	78
Loans and other receivables	2,230	16,546
Provision for impairment	(1,687)	(1,687)
	543	14,859
Amounts due from associated companies and jointly controlled entities	11,929	7,465
	41,582	32,537

Provision for Impairment Losses

At each reporting date, the consolidated entity 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 end reporting date the consolidated entity makes a formal estimate of recoverable amount. In determining if the carrying amount of an asset exceeds its recoverable amount the consolidated entity 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 consolidated entity 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 consolidated entity 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 did not have any selling or re-pledging restrictions and the total estimated fair value at balance date was $2,299,000 (2011: $21,539,000).

(c) 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 consolidated entity'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 consolidated entity manages its liquidity risk by monitoring cash flows and ensuring that adequate cash and utilised borrowing facilities are maintained.

Note 29. Financial Risk Management (continued)

The table below reflects all contractual maturities of financial liabilities including estimated interest payments (using existing interest rates) as at 30 June 2012:

	Carrying Amount $'000	Contractual Cash Flow $'000	Less than 1 year $'000	Between 1 – 5 years $'000	Over 5 Years $'000
Consolidated					
2012					
Trade and other payables	10,943	10,943	8,443	2,500	-
Secured Loans	77,256	83,446	46,712	36,734	-
	88,199	94,389	55,155	39,234	-
2011					
Trade and other payables	2,785	2,785	2,607	-	178
Secured Loans	26,379	32,070	1,362	30,708	-
	29,164	34,855	3,969	30,708	178

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 2012.

(d) 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 30. Associated Companies and Jointly Controlled Entities

Name	Principal activity	Consolidated entity's ownership interest 2012 %	Consolidated entity's ownership interest 2011 %	Consolidated entity's carrying amounts of investment and loans 2012 $'000	Consolidated entity's carrying amounts of investment and loans 2011 $'000	Contribution towards Net (Loss)/Profit 2012 $'000	Contribution towards Net (Loss)/Profit 2011 $'000
Associated Companies							
Henlia No. 7 Pty Ltd (Note a)	Property development	50.1%	50.1%	(372)	6,415	5,070	(71)
The Waterfront Partnership (Note b)	Real estate agency	-	-	-	-	-	217
Babcock & Brown Apartment Investment Trust	Property development	50.0%	50.0%	-	7	-	-
G8 Education Limited (Note c)	Child care services	-	-	-	-	-	398
Henlia No. 21 Pty Ltd (Note d)	Property development	50.0%	100.0%	1	-	-	-
Lot 305 Unit Trust (Note d)	Property development	50.0%	100.0%	9,630	-	(6)	-
Jointly Controlled Entities							
PayWin Developments Pty Ltd	Property development	50.0%	50.0%	4,042	2,892	(124)	(23)
Total				13,301	9,314	4,940	521

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

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

Note b - In June 2011 the consolidated entity disposed of its interest in the Waterfront Partnership.

Note c - On 5 November 2010, the consolidated entity disposed of its interest in G8 Education Limited.

Note d – During the year the consolidated entity reduced its respective interests in Lot 305 Unit Trust and its trustee, Henlia No. 21 Pty Ltd, to a 50% joint venture interest. These entities were previously wholly-owned owing to their formation by the consolidated entity for purposes of the intended joint venture.

Note 30. Associated Companies and Jointly Controlled Entities (continued)

	Consolidated 2012 $'000	Consolidated 2011 $'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 year	9,314	10,717
New investments during the year	1	3,070
Return of investment during the year	-	(6,361)
New loan advances during the year	6,050	1,161
Loan repayments during the year	(6,816)	-
Share of associated company and jointly controlled entity profit after income tax	4,940	521
Impairment of investment	-	(32)
Loan balance originating on de-recognition of associates	-	(181)
Debt forgiveness	-	150
Partnership profit distribution received	-	(215)
Impairment of loan	(7)	-
Interest on loan	(181)	484
Balance at the end of the financial year	13,301	9,314
Recognised as -		
Investments accounted for using the equity method (Note 15)	1,743	1,867
Amounts receivable from associated companies (Note 13)	11,929	7,447
Trade and other Payables (loan from associate)	(371)	-
	13,301	9,314
(b) Equity accounted profits of associated companies and jointly controlled entities are broken down as follows:		
Share of associated company and jointly controlled entity profit before income tax expense	5,829	692
Share of associated company and jointly controlled entity's income tax expense	(889)	(171)
Share of associated company and jointly controlled entity profit after income tax	4,940	521
(c) Summarised presentation of aggregate assets, liabilities and performance of associated companies and jointly controlled entities		
Current assets	15,344	2,827
Non-current assets	17,568	58,882
Total assets	32,912	61,709
Current liabilities	3,260	23,451
Non-current liabilities	18,752	57,996
Total Liabilities	22,012	81,447
Net assets	10,900	(19,738)
Revenue	96,566	1,430
Expenses	(64,160)	(1,183)
Profit after income tax of associated companies and jointly controlled entities	30,631	247

The profit differs from that recognised by the Consolidated entity owing to income in an associated company which is not recoverable by the Consolidated entity.

Note 30. Associated Companies and Jointly Controlled Entities (continued)

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 consolidated entity'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 consolidated entity's interests in associates and jointly controlled entities that are in a net liability position are carried at nil as the consolidated entity has incurred no obligations and commitments on behalf of those investees.

Note 31. Segment Reporting

The consolidated entity has a single business segment, Development Properties, being the development of residential, retail and commercial property.

Primary Reporting - Business Segments

	Development Activities		Rental Properties		Consolidated	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Revenue						
External sales	22,359	59,241	-	1,572	22,359	60,813
Unallocated revenue					-	2,104
					22,359	62,917
Result						
Segment result	11,117	11,456	-	68	11,117	11,524
Unallocated (expenses) / income					(213)	6,254
Profit before income tax					10,904	17,778
Income tax benefit / (expense)					12,487	(4,981)
Profit after income tax					23,391	12,797
Assets						
Segment assets	203,694	82,544	-	-	203,694	82,544
Unallocated assets					2,099	40,371
Total assets					205,793	122,915
Liabilities						
Segment liabilities	88,944	26,379	-	-	88,944	26,379
Unallocated liabilities					-	3,431
Total liabilities					88,944	29,810

Note 31. Segment Reporting (continued)

Other

The segment result includes the following non-cash items:

Write-down of properties held for resale to net realisable value	-	(906)	-	-	-	(906)
Accrued revenues and expenses	(1,718)	-	-	-	(1,718)	-
Capitalised finance costs	2,147	1,631	-	-	2,147	1,631
Depreciation and amortisation of segment assets	(188)	-	-	(131)	(188)	(131)

Secondary Reporting – Geographical Segments

The consolidated entity's business segments are located and operate in Australia.

Intersegmental Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegmental transactions are the same as those charged for similar transactions outside of the consolidated entity at arm's length. These transfers are eliminated on consolidation.

Note 32. Cash Flow Information

	Consolidated 2012 $'000	Consolidated 2011 $'000
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after Income Tax	23,391	12,797
Non-cash flows in profit / (loss)		
Depreciation and amortisation	194	398
Loss / (profit) on disposal of property, plant and equipment	-	358
Profit on disposal of associate	-	(11,261)
Loss on sale of investment properties	-	182
Share of associated companies' net profit after income tax	(4,734)	(543)
Accrued interest investment earnings	(224)	(918)
Income from debt forgiveness	-	(150)
Impairment of financial assets	438	-
Development property revenues settled by divestment of liabilities	-	(19,655)
Other non-cash items	-	(49)
Changes in assets and liabilities, net of the acquisition and disposal of controlled entities		
Change in receivables	7,322	(5,935)
Change in other assets	(5,597)	(853)
Change in property held for resale	(54,287)	31,099
Change in deferred tax asset	(12,487)	3,902
Change in payables	8,158	(46)
Change in provisions	99	(284)
Cash flow from operations	(37,727)	9,042

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

	2012 $'000	2011 $'000
The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows.		
Cash on hand and at bank	25,809	9,442
Net cash assets	25,809	9,442

(c) Financing facilities

At 30 June 2012 bank financing facilities of $271,181,000 (2011: $78,181,000) were available to the consolidated entity, of which $77,256,000 (2011: $26,379,000) had been drawn down.

Refer to Note 21 Financial Liabilities for further details of financing facilities.

Note 33. Share Based Payments

At 30 June 2012 the consolidated entity has the following share based payment arrangement. The consolidated entity has previously issued share options to the CFO. No share options were granted during the year. All share options have vested and can be exercised until 12 May 2013.

The number and weighted average exercise price of share options is as follows:

Consolidated	2012 Number of options	2012 Weighted Average Exercise Price $	2011 Number of options	2011 Weighted Average Exercise Price $
Outstanding at 1 July	1,800,000	3.00	1,800,000	3.00
Outstanding at 30 June	1,800,000	3.00	1,800,000	3.00
Exercisable at 30 June	1,800,000	3.00	1,800,000	3.00

The weighted average fair value of the options granted in 2008 was $0.40.

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:-

Weighted average exercise price	$3.00
Life of each option	In accordance with the terms and conditions of each grant.
Underlying share price	$2.00
Expected share price volatility	24.50%
Risk free interest rate	7.25%
Expected dividends	-

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate.

Included under employee benefits expense in the income statement is $Nil (2011: $23,131) that relates in full to equity-settled share-based payment transactions.

Note 34. Controlled Entities

- Payce Communities Pty Ltd
- Payce Finance Pty Ltd
- Payce Finance No. 2 Pty Ltd
- Payce Industries Pty Ltd
- Payce Land Holdings Pty Ltd
- Payce Management Pty Ltd
- Payce Projects Pty Ltd
- Payce Properties Pty Ltd
- Constant 1 Pty Ltd
- Constant 2 Pty Ltd
- Trade Winds Finance Pty Ltd
- Henlia Holdings Ltd and its controlled entities
- Henlia No. 3 Pty Ltd
- Henlia No. 20 Pty Ltd
- Henlia No. 22 Pty Ltd
- Henlia No. 24 Pty Ltd ATF The Hurstville Unit Trust
- Matthews Civil Pty Ltd
- Pacific Assets Pty Ltd
- PRT 1 Pty Ltd ATF PRT Trust
- Quadratical Pty Ltd
- H.B. Properties 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 consolidated entity deregistered several dormant companies as part of the efficient management of the corporate structure. In addition the consolidated entity 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 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 35. Events After Balance Date

None

Note 36. Company

As at 30 June 2012 and throughout the year then ended the parent company of the group was Payce Consolidated Limited.

	2012 $'000	2011 $'000
Result of the company		
Profit / (loss) before income tax	66,436	(987)
Income tax benefit / (expense)	63	(4,981)
Total comprehensive profit / (loss) for the period	66,499	(5,968)
Financial position of the Company at year end		
Current assets	96,308	123,165
Total assets	105,185	201,373
Current liabilities	35,394	198,081
Total liabilities	35,394	198,081
Total equity of the Company comprising:		
Share capital	45,386	45,386
Reserves	530	992
Retained earnings	23,875	(43,086)
Total equity	69,791	3,292

Company guarantees in respect of debts of its subsidiaries

Refer to Note 26

Note 37. Acquisition of subsidiary

On 6 October 2010 the Group acquired 45% of the equity in Babcock and Brown Apartment Investment Company Limited (BBAICL). As a result the Group's equity interest in BBAICL increased from 50% to 95%. The BBAICL group, previously an equity accounted associate of the Group, became a subsidiary. BBAICL was subsequently renamed Henlia Holdings Limited.

The consideration for the acquisition was a cash payment of $9. Acquisition costs of $493,800 were incurred relating to duties. The following summarises the recognised fair value of assets acquired and liabilities assumed at the acquisition date:

	2011 $'000
Cash	89
Receivables	1,840
Properties held for development and resale	22,542
Financial liabilities	(23,977)
	494

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 18 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 2012 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 2012.

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
21 August 2012

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 2012, 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 37 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

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 2012 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 18.1 to 18.4 of the directors' report for the year ended 30 June 2012. 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 Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Nigel Virgo
Partner

Sydney

21 August 2012

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report. The information presented is at 21 August 2012.

Classes of Shares and Voting Rights

There were 330 holders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Article 55 of the Company's Articles of Association, are:

"(1) Subject to Sub-Article (2) of this Article 55, an entitlement to receive notice of general meeting shall confer on members the right to attend and vote thereat.

(2) Subject to any rights or restrictions with respect to voting rights that are attached to or affect any class or classes of shares, on a show of hands each person present as a member, proxy, attorney or representative has one vote and on a poll each member present in person or by proxy, attorney or representative has:

(a) one vote for every fully paid share by him;

(b) one vote for each partly paid share held by him which was part of an issue of partly paid shares offered pro rata to shareholders; and

(c) in respect to each partly paid share held by him that was not part of an issue offered pro rata to shareholders, a vote pro rata to the proportion of the total issue price then paid up on each such share."

There are 1,800,000 unquoted options.

Distribution of Shareholders

Category	Number of Ordinary Shareholders	Number of Ordinary Shares	Shares %
1-1,000	195	93,460	0.314
1,001-5,000	91	214,584	0.722
5,001-10,000	18	150,874	0.507
10,001-100,000	16	534,256	1.796
100,001 and over	10	28,752,051	96.661
Totals	**330**	**29,745,225**	**100**

At 21 August 2012 a marketable parcel was 162 shares. The number of shareholders owning fewer than this number of shares was 24. These shareholders held 1,759 shares in total.

On-Market Buy-Back

There is no current on-market buy-back.

Restricted Securities

There were no restricted holdings of securities.

Twenty Largest Shareholders

Ordinary Shares (quoted) as at 21 August 2012

Name	Number of Ordinary shares held	% of capital held
Lanox Pty Ltd	8,806,799	29.6
Lianshare Pty Limited	5,200,000	17.5
KMSJ Pty Ltd	4,607,573	15.5
Ruzshare Pty Limited	4,375,758	14.7
Hurlcla Pty Limited	4,063,794	13.7
Ruz Pty Limited	824,242	2.8
Mr Frederick Bruce Wareham	464,054	1.6
Citicorp Nominees Pty Limited	179,001	0.6
Howard Hargrave Pty Limited	117,049	0.4
Ms Alisa Margaret Wareham	113,781	0.4
Mr Frederick Bruce Wareham & Mrs Alisa Margaret Wareham	99,000	0.3
Llandilo Pty Limited	75,000	0.3
Jurocorp Pty Ltd	65,000	0.2
KMSJ Pty Ltd	46,949	0.2
Mr Ronald Francis Ottrey	46,250	0.2
Ago Pty Ltd	30,000	0.1
Mrs Colleen Boyd	27,844	0.1
Ms Frances Lorraine Simmonds	21,877	0.1
Revenden Pty Ltd	20,000	0.1
Mr Murray James Wareham	20,000	0.1

Substantial Shareholders

As at 21 August 2012

Brian Michael Boyd	14,006,799
Garry James Boyd	13,993,316
Lanox Pty Limited	8,806,799
Llanshare Pty Limited	5,200,000
KMSJ Pty Limited	4,654,522
Ruzshare Pty Limited	4,375,758
Hurlcla Pty Limited	4,063,794
Ruz Pty Limited	824,242
Llandilo Pty Limited	75,000

Directors

Mr B.M. Boyd (Chairman & Managing Director)

Mr R.S. Short (Independent Director)

Mr C.I. Gabriel (Independent Director)

Secretary

Mr B.H. Bailison

Registered Office

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KPMG

Solicitors

Colin Biggers and Paisley

King&Wood Mallesons

Minter Ellison

Morgan Lewis Attorneys

Osbornes Lawyers

Banker

Westpac Banking Corporation

Commonwealth Bank of Australia

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