PAYCE Consolidated Limited

ABN: 19 001 566 310

HALF-YEAR REPORT

31 DECEMBER 2014

TRANSFORMING PLACES SINCE 1978

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TRANSFORMING PLACES SINCE 1978

CONTENTS

Results for Announcement to the Market

1. The reporting period is the financial half-year ended 31 December 2014 including comparative information for the half-year ended 31 December 2013.

2. Results for announcement to the market

		$000's				$000's
Change in revenues from ordinary activities *(item 2.1)*	up	200,062	or	579%	to	234,610
Change in profit from ordinary activities after tax attributable to members *(item 2.2)*	up	71,634	or	1,412%	to	76,706
Change in net profit for the period attributable to members *(item 2.3)*	up	71,634	or	1,412%	to	76,706

The change in the revenues and profits is predominantly due to the sale of the Hurstville project and settlement of the Platinum and East Village residential developments, together with the revaluation of the retained investment retail/commercial asset at East Village.

3. Net Tangible Assets

	Current period	30 June 2014
Net Tangible Asset backing per Ordinary Share	$7.11	$4.49

4. Details of entities over which control has been gained or lost during the period:

   The reporting entity created a number of new companies and trusts during the period. These have made no material contribution to profit for the period.

5. Details of dividends paid or payable:

   No dividends have been paid or declared during the period and the Directors do not currently recommend the payment of a dividend in respect of the half-year ended 31 December 2014.

6. The reporting entity does not operate a dividend reinvestment plan.

7. Interests in associated and jointly controlled entities:

Name	Principal activity	Company and Group ownership interest		Share of profits/(losses)	
		2014 %	2013 %	2014 $'000	2013 $'000
Henlia No. 7 Pty Ltd	Property development	50.1	50.1	(2)	(8)
Henlia No. 21 Pty Ltd	Property development	50.0	50.0	-	-
Lot 305 Unit Trust	Property development	50.0	50.0	21,463	4
Henlia Holdings Apartment Investment Trust	Property development	50.0	50.0	-	-
PayWin Developments Pty Limited	Property development	50.0	50.0	(6)	(108)
Constant 9 Pty Ltd	Property development	60.0	-	-	-
Constant 12 Pty Ltd	Property development	60.0	-	-	-
Constant 19 Pty Ltd	Property development	60.0	-	-	-
				21,455	**(112)**

All entities have a 30 June reporting date.

8. The company is not a foreign entity.

9. The accounts are not subject to any audit dispute or qualification. This report is based on accounts that have been subject to an independent review. A copy of the Consolidated Interim Financial Statements is attached.

The directors present their report together with the consolidated interim financial statements of PAYCE Consolidated Limited and its controlled entities (the "Group") for the half-year ended 31 December 2014 and the independent review report thereon.

Results Commentary

The Group recorded a profit before tax of $121 million for the half year to 31 December 2014. This result is largely from the sale of the Hurstville property and completion of the East Village mixed-use and Platinum residential development projects.

The Group has elected to retain the East Village retail/commercial centre and has reclassified the asset as investment property at fair value.

The Group continues to progress its other medium/long term projects and joint ventures at Riverwood, Wentworth Point, Ermington, Kirrawee in Sydney and West End in Brisbane.

Directors

The directors, at any time during or since the financial period are:

Brian Boyd – Managing Director and Chairman

Christopher Gabriel – Non-executive Director

Roger Short – Non-executive Director

All directors held their position as director throughout the entire period and up to the date of this report.

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 half-year ended 31 December 2014.

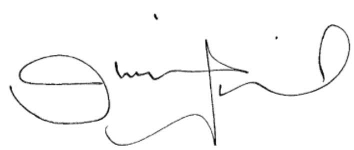
Rounding of amounts

The Company is of a kind specified in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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

B.M. Boyd

Director



C.I. Gabriel

Director

Sydney, New South Wales

20 February 2015

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 review for the half-year ended 31 December 2014 there have been:

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

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

KPMG

Steven Gatt
Partner

Sydney
20th February 2015

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Liability limited by a scheme approved under Professional Standards Legislation.

	Note	Half-year ended 31 Dec 2014 $'000	Half-year ended 31 Dec 2013 $'000
Operations			
Revenue	5	234,610	34,548
Cost of Sales		(175,946)	(17,042)
Gross Profit		**58,664**	**17,506**
Other income	5	61	745
Gain on fair value of investment property	6(a)	67,203	-
Administration expenses	7	(7,467)	(5,254)
Property expenses		(1,333)	(625)
Marketing expenses		(6,942)	(4,833)
Impairment loss on financial asset		(1,000)	-
Total expenses excluding net financing income		**(16,742)**	**(10,712)**
Result from operating activities		**109,186**	**7,539**
Finance income		1,834	606
Finance costs		(5,880)	(753)
Loss on fair value of derivative financial instrument		(5,532)	-
Net financing costs		(9,578)	(147)
Share of profits / (losses) of equity accounted investments		21,455	(112)
Profit before tax		**121,063**	**7,280**
Income tax expense		(34,656)	(2,208)
Profit for the period		**86,407**	**5,072**

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated interim financial statements.

	Half-year ended 31 Dec 2014 $'000	Half-year ended 31 Dec 2013 $'000
Profit for the period	**86,407**	**5,072**
Other comprehensive income		
Other	-	-
Total comprehensive profit for the period	**86,407**	**5,072**
Profit attributable to:		
Owners of the Company	76,706	5,072
Non-controlling interest	9,701	-
Profit for the period	**86,407**	**5,072**
Total comprehensive profit attributable to:		
Owners of the Company	76,706	5,072
Non-controlling interest	9,701	-
Total comprehensive profit for the period	**86,407**	**5,072**

Earnings per share	**cents per share**	**cents per share**
Basic earnings per share	257.88	17.05
Diluted earnings per share	257.88	17.05

The consolidated statement of comprehensive income should be read in conjunction with the notes to the consolidated interim financial statements.

	Note	31 Dec 2014 $'000	30 Jun 2014 $'000
Current Assets			
Cash and cash equivalents		27,008	25,769
Trade and other receivables		8,720	14,303
Properties held for development and resale		89,413	216,818
Investments accounted for using the equity method		3,467	-
Other assets		5,557	7,526
Total Current Assets		**134,165**	**264,416**
Non-Current Assets			
Trade and other receivables		19,140	9,873
Properties held for development and resale		223,885	202,807
Investments accounted for using the equity method		1,549	19,480
Property, plant and equipment		6,999	6,269
Investment property	6(a)	235,000	-
Available-for-sale financial assets		1,022	2,310
Deferred tax assets		-	13,195
Other assets		5,190	8,858
Total Non-Current Assets		**492,785**	**262,792**
Total Assets		**626,950**	**527,208**
Current Liabilities			
Trade and other payables		21,493	30,293
Financial liabilities	8	111,512	222,276
Provisions		1,033	986
Total Current Liabilities		**134,038**	**253,555**
Non-Current Liabilities			
Financial liabilities	8	247,322	132,875
Derivative financial liabilities	8	5,532	-
Provisions		53	50
Deferred tax liability		28,542	7,080
Total Non-Current Liabilities		**281,449**	**140,005**
Total Liabilities		**415,487**	**393,560**
Net Assets		**211,463**	**133,648**
Equity			
Issued Capital		45,382	45,382
Reserves		2,042	2,042
Retained Earnings		160,462	83,756
Equity attributable to equity holders of the Company		**207,886**	**131,180**
Non-controlling interest		3,577	2,468
Total Equity		**211,463**	**133,648**

The consolidated statement of financial position should be read in conjunction with the notes to the consolidated interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Issued Capital $'000	Retained Earnings $'000	Capital Profits Reserve $'000	Asset Revaluation Reserve $'000	Available for Sale Investment Revaluation Reserve $'000	Shares Forfeited $'000	Owners of the parent $'000	Non-controlling interest $'000	Total Equity $'000
As at 1 July 2014	**45,382**	**83,756**	**2,021**	**17**	**-**	**4**	**131,180**	**2,468**	**133,648**
Profit for the period	-	76,706	-	-	-	-	76,706	9,701	86,407
Total comprehensive income for the period	**-**	**76,706**	**-**	-	**-**	**-**	**76,706**	**9,701**	**86,407**
Minority shareholder redemption of investment	-	-	-	-	-	-	-	(3,415)	(3,415)
Distributions to non-controlling interests	-	-	-	-	-	-	-	(5,177)	(5,177)
Total transactions with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(8,592)**	**(8,592)**
As at 31 December 2014	**45,382**	**160,462**	**2,021**	**17**	**-**	**4**	**207,886**	**3,577**	**211,463**
As at 1 July 2013	**45,382**	**85,172**	**2,021**	**17**	**(286)**	**4**	**132,310**	**3,300**	**135,610**
Profit for the period	-	5,072	-	-	-	-	5,072	-	5,072
Total comprehensive income for the period	**-**	**5,072**	**-**	-	**-**	**-**	**5,072**	**-**	**140,682**
Minority shareholder investment	-	-	-	-	-	-	-	75	75
Total transactions with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75**	**75**
As at 31 December 2013	**45,382**	**90,244**	**2,021**	**17**	**(286)**	**4**	**137,382**	**3,375**	**140,757**

The consolidated statement of changes in equity should be read in conjunction with the notes to the consolidated interim financial statements.

	Half-year ended 31 Dec 2014 $'000	Half-year ended 31 Dec 2013 $'000
Cash flows from operating activities		
Cash receipts from customers	230,964	32,198
Cash paid to suppliers and employees	(180,781)	(93,127)
Payments for development property acquisitions	(62,944)	(22,010)
Funding advanced for property development ventures	(11,002)	(7,817)
Repayment of funding for property development ventures	22,046	827
Dividends and distributions received from development ventures	21,812	785
Dividends and distributions paid to development venture partners	(8,592)	-
Finance income received	1,834	606
Finance costs paid	(14,647)	(3,486)
Net cash used in operating activities	**(1,310)**	**(92,024)**
Cash flows from investing activities		
Payments for property, plant and equipment	(1,135)	(6,671)
Net cash used in investing activities	**(1,135)**	**(6,671)**
Cash flows from financing activities		
Proceeds from borrowings	255,854	125,609
Repayment of borrowings	(252,170)	(4,143)
Minority equity interest contributions	-	75
Net cash provided by financing activities	**3,684**	**121,541**
Net increase in cash held	**1,239**	**22,846**
Cash and cash equivalents at 1 July	25,769	24,911
Cash and cash equivalents at 31 December	**27,008**	**47,757**

The consolidated statement of cash flows should be read in conjunction with the notes to the consolidated interim financial statements.

Note 1 Reporting entity

PAYCE Consolidated Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report as at and for the half-year ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

Note 2 Basis of Preparation

(a) Statement of Compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2014.

The consolidated interim financial report was approved by the Board of Directors on 20 February 2015.

(b) Historical cost convention and functional currency

The consolidated interim financial report is presented in Australian dollars and has been prepared on a historical cost basis, except for derivatives and investment property which are measured at fair value.

(c) Use of estimates and judgments

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

In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2014, other than for the determination of the fair value of investment property and derivative financial instruments now held by the Group.

(d) Going concern basis

The consolidated interim 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 3 Significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 30 June 2014. The following changes in accounting policies are also expected to be reflected in the Group's 30 June 2015 consolidated financial statements.

Changes in accounting policies

The Group has adopted the following new standards since 1 July 2014.

(i) Investment Property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are recognised initially at fair value and any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in profit or loss.

The Group classifies fair value measurement using a fair value hierarchy which uses the following levels:

Level 1: derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Note 4 Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2014.

Note 5 Revenue and other income

	31 Dec 2014 $'000	31 Dec 2013 $'000
Revenue:		
Property development sales	229,985	32,909
Rental income	2,941	896
Other revenue	1,684	743
Total revenue from operations	**234,610**	**34,548**
Other income		
Trust distribution	61	745
Total other income	**61**	**745**

Note 6 Investment property

(a) Reconciliation of carrying amount

	31 Dec 2014 $'000	31 Dec 2013 $'000
Opening balance	-	-
Transfer from properties held for development and resale, at cost	167,797	-
Gain on fair value	67,203	-
Closing balance	**235,000**	**-**

Fair value reflects the highest and best use in accordance with market valuation guidelines.

(b) Fair value hierarchy

The directors have adopted the fair value of investment property as determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation was dated 22 October 2014.

The fair value measurement for investment property of $235 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

The valuation is based on a discounted cash flow model. The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, void periods, occupancy rate, lease incentive costs and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of the building and its location, tenant credit quality and lease terms.

Note 7 Administration expenses

	31 Dec 2014 $'000	31 Dec 2013 $'000
Depreciation		
Plant and Equipment	405	392
Total depreciation	**405**	**392**
Employee benefits expense		
Wages and salaries	2,773	1,494
Other associated personnel expenses	357	75
Contributions to superannuation plans	209	109
Movement in employee provisions	50	130
Total employee benefits expense from operations	**3,389**	**1,808**
Other administration and operating expenses	**3,673**	**3,054**
Total administration expenses	**7,467**	**5,254**

Note 8 Financial liabilities

On 28 October 2014 the Group refinanced its East Village construction facility with a senior secured 7 year term loan facility that is fully drawn. The Group also entered into swaps to fix its interest rate exposure to this term facility. The swaps resulted in a fair value loss of $5.5 million for the current half year.

The carrying amount of the derivative liability was equal to the fair value measurement of $5.5 million which has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

The fair valuation technique is based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

Note 9 Operating Segments

During the current half year the Group established the investment property division. As a result the Group now operates the following two divisions, which are its reportable segments. These divisions offer different products and services, and are managed separately.

Property development

The Group maintained its residential and retail/commercial mixed use development projects. The Group has had a long history of successful projects and this forms the core of operational activities.

Investment property

During the current half year the Group established the investment property division. This is expected to provide recurring rental income for the Group upon completion of retail/commercial developments.

The accounting policies of reportable segments are the same as the Group's accounting policies.

Following is an analysis of the Group's revenue and results by reportable segment.

	Reportable segments		
2014	**Property development $'000**	**Investment property $'000**	**Total reportable segments $'000**
External revenues	232,886	1,724	234,610
Inter-segment revenue	-	-	-
Segment revenue	**232,886**	**1,724**	**234,610**
Segment profit / (loss) before tax	127,756	(6,693)	121,063
Segment assets	389,489	237,461	626,950
Segment liabilities	280,363	135,124	415,487

Note 10 Contingent Liabilities

As at balance date there were no contingent liabilities.

Note 11 Subsequent events

No material subsequent events have occurred between 31 December 2014 and the date of this report.

In the opinion of the directors of PAYCE Consolidated Limited ("the Company")

(a) the consolidated financial statements and notes to the consolidated financial statements for the half year ended 31 December 2014 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the six month period ended on that date;

  (ii) complying with Australian Accounting Standard 134 *Interim Financial Reporting* 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.

Signed in accordance with a resolution of the directors:

B.M. Boyd

Director

C.I. Gabriel

Director

Sydney, New South Wales

20 February 2015

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

We have reviewed the accompanying half-year financial report of PAYCE Consolidated Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2014, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 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 half-year's end or from time to time during the half-year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the half-year 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As auditor of PAYCE Consolidated Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of PAYCE Consolidated Limited is not in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(ii) complying with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

KPMG

KPMG

Steven Gatt
Partner

Sydney
20th February 2015

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