PAYCE Consolidated Limited

ABN: 19 001 566 310

HALF-YEAR REPORT

31 DECEMBER 2015

TRANSFORMING PLACES SINCE 1978

PAYCE Consolidated Limited
HALF-YEAR REPORT 31 DECEMBER 2015

CONTENTS

Results for Announcement to the Market

1. The reporting period is the financial half-year ended 31 December 2015 including comparative information for the half-year ended 31 December 2014.

2. Results for announcement to the market

		$000's				**$000's**
Change in revenues from ordinary activities *(item 2.1)*	up	9,302	or	4%	to	243,912
Change in profit from ordinary activities after tax attributable to members *(item 2.2)*	down	18,439	or	24%	to	58,267
Change in net profit for the period attributable to members *(item 2.3)*	down	18,439	or	24%	to	58,267

The change in the revenues and profits is due to the scale and timing of completion of property developments and revaluation of investment assets.

3. Net Tangible Assets

	Current period	**30 June 2015**
Net Tangible Asset backing per Ordinary Share	$8.93	$6.02

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:

   On 3 September 2015 a dividend of $0.1125 was declared and paid in cash for the quarterly unlisted Preference Share dividend.

   On 3 December 2015 a dividend of $0.1125 was declared and paid in cash for the quarterly unlisted Preference Share dividend.

   No other 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 2015.

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)	
		2015 %	**2014 %**	**2015 $'000**	**2014 $'000**
Henlia No. 7 Pty Ltd	Property development	50.1	50.1	(1)	(2)
Henlia No. 21 Pty Ltd	Property development	50.0	50.0	-	-
Lot 305 Unit Trust	Property development	50.0	50.0	(6)	21,463
Henlia Holdings Apartment Investment Trust	Property development	50.0	50.0	-	-
PayWin Developments Pty Limited	Property development	50.0	50.0	(601)	(6)
Constant 9 Pty Ltd	Property development	60.0	60.0	553	-
Constant 12 Pty Ltd	Property development	60.0	60.0	-	-
Constant 19 Pty Ltd	Property development	60.0	60.0	(1)	-
				(56)	**21,455**

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 2015 and the independent review report thereon.

Results Commentary

The Group recorded a profit before tax of $85.7 million for the half year to 31 December 2015 largely attributable to the completion and settlement of the second stage of the Riverwood project, disposal of a development site at Wentworth Point and revaluation of investment property.

The Group has successfully consolidated a large estate in Melrose Park in Western Sydney through the acquisition of adjacent industrial and mixed-use development lands.

The Group continues to progress its other medium/long term projects and joint ventures at Riverwood, Wentworth Point, Ermington and 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.

Events subsequent to balance sheet

On 16 February 2016 the Group, via a subsidiary special purpose vehicle, exchanged agreements to acquire a 4.5 hectare mixed-use zoned development in Melrose Park in the western suburbs of Sydney for a consideration of $160.0 million.

The Group bought back and cancelled $16.2 million senior secured notes subsequent to the reporting period.

No other material subsequent events have occurred between 31 December 2015 and 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 2015.

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	C.I. Gabriel
Director	Director

Sydney, New South Wales

19 February 2016

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 2015 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

KPMG

Steven Gatt
Partner

Sydney

19 February 2016

	Note	Consolidated Half-year ended 31 Dec 2015 $'000	Half-year ended 31 Dec 2014 $'000
Continuing Operations			
Revenue	6	243,912	234,610
Cost of sales		(173,840)	(175,946)
Gross profit		**70,072**	**58,664**
Other income		426	61
Gain on fair value of investment property	7(a)	48,121	67,203
Administration expenses	8	(14,542)	(7,467)
Property expenses		(2,530)	(1,333)
Marketing expenses		(6,513)	(6,942)
Share of (losses) / profits of equity accounted investments		(56)	21,455
Impairment loss on financial asset		-	(1,000)
Profit before tax and net financing costs		**94,978**	**130,641**
Finance income		1,277	1,834
Finance costs		(8,218)	(5,880)
Loss on fair value of derivative financial instrument		(2,384)	(5,532)
Net financing costs		(9,325)	(9,578)
Profit before income tax		**85,653**	**121,063**
Income tax expense		(25,837)	(34,656)
Profit for the period		**59,816**	**86,407**
Other comprehensive income			
Items that may be reclassified to profit and loss:			
Other comprehensive income (net of tax)		-	-
Total comprehensive profit for the period		**59,816**	**86,407**
Profit attributable to:			
Owners of the Company		58,267	76,706
Non-controlling interests		1,549	9,701
Profit for the period		**59,816**	**86,407**
Total comprehensive profit attributable to:			
Owners of the Company		58,267	76,706
Non-controlling interests		1,549	9,701
Total comprehensive profit for the period		**59,816**	**86,407**
Earnings per share			
Basic earnings per share (cents per share)		282.45	257.88
Diluted earnings per share (cents per share)		282.45	257.88

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

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 30 Jun 2015 $'000
Current Assets			
Cash and cash equivalents		36,157	52,469
Trade and other receivables		60,728	10,851
Properties held for development and resale		68,139	85,389
Investments accounted for using the equity method		86	85
Other assets		8,477	2,728
Total Current Assets		**173,587**	**151,522**
Non-Current Assets			
Trade and other receivables		32,712	27,943
Properties held for development and resale		236,601	181,184
Investments accounted for using the equity method		1,958	2,013
Property, plant and equipment		6,289	7,477
Investment property	7(a)	285,000	235,000
Financial assets		1,194	1,022
Other assets		8,438	11,783
Total Non-Current Assets		**572,192**	**466,422**
Total Assets		**745,779**	**617,944**
Current Liabilities			
Trade and other payables		28,691	53,895
Financial liabilities	9	92,673	62,075
Provisions		1,205	1,155
Total Current Liabilities		**122,569**	**117,125**
Non-Current Liabilities			
Trade and other payables		-	6,934
Financial liabilities	9	306,803	263,290
Derivative financial liabilities	9	6,882	4,498
Provisions		49	46
Deferred tax liability		58,090	32,253
Total Non-Current Liabilities		**371,824**	**307,021**
Total Liabilities		**494,393**	**424,146**
Net Assets		**251,386**	**193,798**
Equity			
Issued capital		103,916	103,916
Reserves		2,042	2,042
Retained earnings		140,574	84,535
Total equity attributable to equity holders of the Company		**246,532**	**190,493**
Non-controlling interest		4,854	3,305
Total Equity		**251,386**	**193,798**

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

Consolidated	Issued Capital $'000	Retained Earnings $'000	Capital Profits Reserve $'000	Asset Revaluation Reserve $'000	Shares Forfeited $'000	Non-controlling interest $'000	Total Equity $'000
Balance at 1 July 2015	**103,916**	**84,535**	**2,021**	**17**	**4**	**3,305**	**193,798**
Profit attributable to owners of the Company	-	58,267	-	-	-	1,549	59,816
Dividends	-	(2,228)	-	-	-	-	(2,228)
Balance at 31 December 2015	**103,916**	**140,574**	**2,021**	**17**	**4**	**4,854**	**251,386**
Balance at 1 July 2014	**45,382**	**83,756**	**2,021**	**17**	**4**	**2,468**	**133,648**
Profit attributable to owners of the Company	-	76,706	-	-	-	9,701	86,407
Minority shareholder redemption of investment	-	-	-	-	-	(3,415)	(3,415)
Distributions to non-controlling interest	-	-	-	-	-	(5,177)	(5,177)
Balance at 31 December 2014	**45,382**	**160,462**	**2,021**	**17**	**4**	**3,577**	**211,463**

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

		Consolidated	
		Half-year ended 31 Dec 2015	Half year ended 31 Dec 2014
	Note	**$'000**	**$'000**
Cash flows from operating activities			
Receipts from customers		119,239	230,964
Payments to suppliers and employees		(113,194)	(180,781)
Payments for the acquisition of development properties		(72,250)	(62,944)
Funding advanced for property development ventures		(4,167)	(11,002)
Repayment of funding for property development ventures		-	22,046
Dividends and distributions received from development ventures		-	21,812
Dividends and distributions paid to development venture partners		-	(8,592)
Finance income received		1,277	1,834
Finance costs paid		(15,786)	(14,647)
Net cash used in operating activities		**(84,881)**	**(1,310)**
Cash flows from investing activities			
Dividends and distributions received		254	-
Payments for investment property		(2,452)	-
Payments for the acquisition of property, plant and equipment		(147)	(1,135)
Net cash used in investing activities		**(2,345)**	**(1,135)**
Cash flows from financing activities			
Proceeds from borrowings		142,489	255,854
Repayment of borrowings		(69,347)	(252,170)
Dividends paid to shareholders		(2,228)	-
Net cash raised in financing activities		**70,914**	**3,694**
Net (decrease) / increase in cash held		(16,312)	1,239
Cash and cash equivalents at 1 July		52,469	25,769
Cash and cash equivalents at 31 December		**36,157**	**27,008**

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 2015 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 2015.

The consolidated interim financial report was approved by the Board of Directors on 19 February 2016.

(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 2015.

(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

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 2015.

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 2015.

Note 5. Operating Segments

The Group 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 core operational activities in residential and retail/commercial mixed use development projects.

Investment property

In the previous half year the Group established the investment property division. This is expected to provide recurring rental income for the Group.

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		
31 December 2015	**Property development $'000**	**Investment property $'000**	**Total reportable segments $'000**
External revenues	236,713	7,199	243,912
Inter-segment revenue	-	-	-
Segment revenue	**236,713**	**7,199**	**243,912**
Segment profit before tax	41,373	44,280	85,653
Segment assets	456,699	289,080	745,779
Segment liabilities	329,372	165,021	494,393

	Reportable segments		
31 December 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 6. Revenue and other income

	31 Dec 2015 $'000	31 Dec 2014 $'000
Revenue:		
Property development sales	230,964	229,985
Rental income	9,015	2,941
Other revenue	3,933	1,684
Total revenue from operations	**243,912**	**234,610**

Note 7. Investment property

(a) Reconciliation of carrying amount

	31 Dec 2015 $'000	31 Dec 2014 $'000
Opening balance	235,000	-
Transfer from properties held for development and resale, at cost	2,621	167,797
Additions	755	-
Amortisation of lease incentives	(1,497)	-
Gain on fair value	48,121	67,203
Closing balance	**285,000**	**235,000**

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

(b) Fair value hierarchy

At 31 December 2015, the directors determined the fair value of its investment property to be $285 million. This value is consistent with an independent valuation obtained from M3 Property dated 1st December 2015.

The fair value measurement for investment property of $285 million has been categorised as a Level 3 fair value based on the inputs to the valuation technique used. The key long term assumptions adopted in the basis of valuation at the reporting date including discount rate of 8.00% for both Retail and Commercial, while a capitalisation rate of 5.50% was used for both Retail and Commercial.

<u>Valuation technique and significant unobservable inputs</u>

- Capitalisation Approach: the annual net rental income is capitalised at an appropriate market yield to arrive at a property's market value. Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and the general characteristics of the property.

- Discounted Cash Flow Approach: 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 8. Administration expenses

	31 Dec 2015 $'000	31 Dec 2014 $'000
Depreciation		
Plant and Equipment	411	405
Total depreciation	**411**	**405**
Amortisation		
Lease incentives	1,497	-
Total amortisation	**1,497**	**-**
Employee benefits expense		
Wages and salaries	8,234	2,773
Other associated personnel expenses	271	357
Contributions to superannuation plans	256	209
Movement in employee provisions	48	50
Total employee benefits expense from operations	**8,809**	**3,389**
Other administration and operating expenses	3,825	3,673
Total administration expenses	**14,542**	**7,467**

Note 9. Financial liabilities

	31 Dec 2015 $'000	30 Jun 2015 $'000
Current		
Secured loans	92,673	62,075
Non-current		
Secured loans	264,502	212,658
Secured notes	27,301	48,132
Unsecured loan	15,000	2,500
	306,803	**263,290**

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

As at 31 December 2015 and during the year, all facility covenants have been complied with.

(a) Secured Loans

	Commencement	Maturity	Total Facility $'000	Facility Used $'000
Secured loans established during the current half year				
Cash advance	9 October 2015	8 February 2018	85,500	22,340
Total			**85,500**	**22,340**

Note 9. Financial Liabilities (continued)

(b) Secured Notes

The $50.0 million senior secured notes have a 5 year term, maturing in December 2018, and pay a fixed quarterly coupon at 9.5% per annum. During the current half year $21.8 million senior secured notes were bought back and cancelled.

	31 Dec 2015 $'000	30 Jun 2015 $'000
Notes – issued	50,000	50,000
Notes – cancelled	(21,800)	-
Transaction cost of notes issued	(899)	(1,868)
	27,301	48,132

Interest rate swap contracts

In 2014 the Group entered into swaps to fix its interest rate exposure on its $110 million floating interest rate facility maturing in October 2021. The fixed interest rate on the $110 million facility is 4.875%. The swaps resulted in a fair value loss of $2.4 million for the current half year (31 December 2014: $5.5 million loss).

The carrying amount of the derivative liability was equal to the fair value measurement of $6.9 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 10. Contingent Liabilities

As at balance date there were no contingent liabilities.

Note 11. Subsequent events

On 16 February 2016 the Group, via a subsidiary special purpose vehicle, exchanged agreements to acquire a 4.5 hectare mixed-use zoned development in Melrose Park in the western suburbs of Sydney for a consideration of $160.0 million.

The Group bought back and cancelled $16.2 million senior secured notes subsequent to the reporting period.

No other material subsequent events have occurred between 31 December 2015 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 2015 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 2015 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	C.I. Gabriel
Director	Director

Sydney, New South Wales

19 February 2016

KPMG

Independent auditor's review 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 2015, 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 half-year 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 half-year 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 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard 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:

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Steven Gatt
Partner

Sydney

19 February 2016

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