Peet Limited

ABN 56 008 665 834

Appendix 4D and Consolidated Financial Statements for the half-year ended 31 December 2019

Results for announcement to the market

Entity:	Peet Limited and its controlled entities
Reporting Period:	31 December 2019
Previous Corresponding Period:	31 December 2018

				$'million
Revenue	Down	19.2%	to	$87.7
Statutory profit after tax attributable to owners of Peet Limited	Down	77.9%	to	$5.1
Basic and diluted earnings per share (cents)	Down	77.8%	to	1.05c

Dividends	Cents per security	% Franked per security
Current Year		
Interim dividend 2020	0.5	Fully franked
Previous Year		
Final dividend 2019	3.0	Fully franked
Interim dividend 2019	2.0	Fully franked

Results Commentary

Key Results[1]

- **Operating profit[2] and statutory profit[3] after tax of $5.1 million, down 78%**
- **Earnings per share of 1.05 cents, down 78%**
- **1,012 lots[4] sold, up 5% on 1H19 and 52% on 2H19**
- **773 lots[4] settled, down 45%**
- **1,496 contracts on hand[4] as at 31 December 2019, up 19% since 30 June 2019**
- **Gearing[5] of 28.1%**
- **Fully franked interim dividend of 0.5 cents per share**

Financial commentary

The Peet Group achieved an operating profit[2] and statutory profit[3] after tax of $5.1 million for the half-year ended 31 December 2019, which represents a decrease of 78% compared with the previous corresponding period, on the back of reduced settlements and in line with expectations.

The performance has resulted in earnings per share of 1.05 cents, representing a decrease of 78% compared with the previous corresponding period.

While there are signs of recovery in residential housing demand, it will take time to reflect in the Group's financial results. As previously announced to the market, the Group's lower contracts on hand as at 30 June 2019 will impact lot settlements in FY20 and result in FY20 earnings being significantly weighted towards the second half of the year.

Operational commentary

The Group achieved sales of 1,012 lots[4] (up 5% on the corresponding period) and settlements of 773 lots[4] (down 45%) during 1H20. Pleasingly, the number of lots[4] sold during 1H20 was 52% higher than the second half of FY19.

The uplift in sales has followed a period of increasing enquiries and improvement in conversions, generally being driven by improved market conditions across the Group's east coast markets and early signs that access to credit is improving for owner occupiers and investors. The WA market remains challenging, however we are seeing early signs of modest sales volume growth, albeit off a low base, as we move into the second half of FY20.

At 31 December 2019, there were 1,496 contracts on hand[4], with a gross value of $390.2 million, compared with 1,257 contracts on hand[4] as at 30 June 2019, with a gross value of $335.5 million. This 19% increase in the number of contracts on hand, and 16% increase in their value, provides some positive momentum as the Group moves into the second half of the year.

1 Comparative period is half year ended 31 December 2018 unless stated otherwise. The non-IFRS measures have not been audited.

2 Operating profit is a non-IFRS measure that is determined to present the ongoing activities of the Group in a way that reflects its operating performance. Operating profit excludes unrealised fair value gains/(losses) arising from the effect of revaluing assets and liabilities and adjustments for realised transactions outside the core ongoing business activities.

3 Statutory profit after tax means net profit measured in accordance with Australian Accounting Standards, attributable to the owners of Peet Limited.

4 Includes equivalent lots.

5 Calculated as (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets less cash, less intangible assets).

Funds Management projects

The Group's Funds Management business was impacted by lower settlements in Victoria and Queensland resulting in lower performance fees and share of net profits, offsetting the impact of higher project management and selling fees on the back of increased sales.

- 566 lots[6] sold for a gross value of $126.0 million, compared with 474 lots[6] ($103.9 million) in 1H19.
- 408 lots[6] settled for a gross value of $94.1 million, compared with 938 lots[6] ($220.8 million) in 1H19.
- 843 contracts on hand[6] as at 31 December 2019 with a total value of $181.0 million.
- EBITDA[7] of $5.8 million compared with $14.4 million in the previous corresponding period.
- EBITDA[7] margin of 50%, compared with 69% in the previous corresponding period.

As at 31 December 2019, approximately 54% of the Group's landbank comprised Funds Management projects.

Development projects

1H20 revenue and EBITDA were significantly lower than the previous corresponding period, on the back of lower settlements. The EBITDA margin was also significantly lower than the previous corresponding period due to the mix of product settling in the first half of the year, with timing of settlements from the latest stage of development at the Company's Aston (VIC) project pushed into the second half of the year. The settlement of these lots is expected to improve the full-year EBITDA margin from Development projects.

As at 31 December 2019, approximately 24% of the Group's landbank comprised Development projects.

- 252 lots[6] sold for a gross value of $67.0 million, compared with 285 lots[6] ($39.2 million) in 1H19.
- 168 lots[6] settled for a gross value of $41.6 million, compared with 217 lots[6] ($68.8 million) in 1H19.
- 295 contracts on hand[6] as at 31 December 2019, with a total value of $81.4 million.
- EBITDA[7] of $7.2 million compared with $21.6 million in the previous corresponding period.
- EBITDA[7] margin of 13%, compared with 29% in the previous corresponding period.

Joint Ventures

As at 31 December, approximately 22% of the Group's landbank comprised Joint Venture projects, with major projects located in QLD, NSW, WA and SA and during the 1H20 contributed approximately 28% of the Group's EBITDA[7]. The number of settlements were down compared to the previous corresponding period on the back of restrictive lending conditions and moderating east coast markets during FY19.

- 194 lots[6] sold for a gross value of $40.9 million, compared with 205 lots[6] ($43.8 million) in 1H19.
- 197 lots[6] settled for a gross value of $43.6 million, compared with 262 lots[6] ($57.5 million) in 1H19.
- 358 contracts on hand[6] as at 31 December 2019 with a total value of $127.8 million.
- EBITDA[7] of $5.0 million compared with $5.9 million in the previous corresponding period.
- EBITDA[7] margin of 24% compared with 28% in the previous corresponding period.

6 Includes equivalent lots.

7 EBITDA is a non-IFRS measure that includes effects of non-cash movements in investments in associates and joint ventures.

Land portfolio metrics

		1H20	1H19	Change Up/(down)
Lot sales[8]		1,012	964	5%
Lot settlements[8]		773	1,417	(45%)
Contracts on hand[8] (comparison as at 30 June 2019)	Number	1,496	1,257	
	Value	$390.2m	$335.5m	

Capital management

The Group continues to apply a prudent focus on capital management and as at 31 December 2019, the Group's gearing[9] was 28.1%, compared to 24.6% at 30 June 2019. Gearing remains within the Group's target range of 20% to 30% and is expected to trend lower during 1H21.

At the end of the period, the Group had net interest-bearing debt (including Peet Bonds) of $246.7 million, compared with $211.6 million at 30 June 2019. Approximately 92% of the Group's interest-bearing debt was hedged as at 31 December 2019, compared with 91% at 30 June 2019.

The first half of the year saw significant investment in the creation of medium density product in the improving Victoria and Queensland markets, with this expected to continue in the second half of FY20. Substantial settlements and the recycling of capital from medium density projects are expected to commence in FY21.

Peet enters 2H20 with cash and debt facility headroom of approximately $126.2 million as at 31 December 2019 and a weighted average debt maturity of two and half years.

The Group continues to take a cautious view into 2H20 and continues to apply a disciplined and conservative approach to the deployment of capital. The Group has the capacity to accelerate delivery of product into improving markets.

During 1H20 Peet Limited extended its on-market share buy-back of up to 5% of its issued ordinary shares. As at 31 December 2019, the Company had acquired 6.7 million of its ordinary shares, representing approximately 27% of the total shares to be acquired.

Dividend payments

Subsequent to 31 December 2019, the Directors have declared an interim dividend of 0.5 cents per share, fully franked, in respect of the year ending 30 June 2020. This dividend is in line with Peet's dividend pay-out policy of 50% and compares to a 2 cents per share, fully franked, interim dividend for the year ended 30 June 2019. The dividend is to be paid on Thursday, 9 April 2020, with a record date of Friday, 20 March 2020.

The Dividend Reinvestment Plan remains deactivated.

8 Includes equivalent lots.

9 Calculated as (Total interest-bearing liabilities (including land vendor liabilities) less cash) / (Total assets less cash, less intangible assets).

Group strategy

The Group continues to deliver against its strategy and is well positioned for positive medium to long term growth and value creation.

The Group will continue to focus on:

- investing in high quality land in strategic locations across Australia;
- enhancing, planning and creating communities and homes targeting the low to middle market segment;
- expanding product offerings and geographic presence to appeal to a wider variety of customers; and
- maintaining strong capital management.

Outlook

While broader market fundamentals such as continuing low interest rates, east-coast population growth, low unemployment and high investment in infrastructure by Government are positive factors, market conditions remain varied across the country. The east coast is generally improving while the west coast remains challenging, although we are seeing signs of stabilisation. Restrictive lending conditions are easing, however, consumer confidence remains low and wages growth remains modest.

Notwithstanding the early indications of a market recovery, we continue to expect FY20 earnings to be down on FY19. However, our pipeline of projects and the underlying fundamentals of the residential property sector means that Peet is well positioned to respond to increasing demand as market conditions improve and lending conditions continue to normalise.

Brendan Gore
Managing Director and Chief Executive Officer
25 February 2020

Directors report

Your Directors present their report on the Consolidated Entity consisting of Peet Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were Directors of Peet Limited during the half-year and up to the date of this report:

Tony Lennon (Chairman)

Brendan Gore

Anthony Lennon

Trevor Allen

Vicki Krause

Robert McKinnon

Review of operations

Net profit after tax for the half-year ended 31 December 2019 attributable to owners of Peet Limited was $5.1 million (2018: $23.1 million). The review of operations for the Group for the half-year ended 31 December 2019 and the results of those operations are covered in the Results Commentary section on pages 2 to 5.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

On 19 February 2019, the Board granted approval under section 324DAA of the Corporations Act 2001 for Mr Geoff Lotter to continue as lead auditor, to play a significant role in the audit of the company for two additional successive financial years, being the financial year ending 30 June 2020 and 30 June 2021. The approval was granted in accordance with a recommendation from the Audit and Risk Management Committee which was satisfied the approval:

- is consistent with maintaining the quality of the audit provided to the company; and
- would not give rise to a conflict of interest situation (as defined in section 324CD of the Corporations Act 2001).

Reasons supporting this decision include:

- the benefits associated with the continued retention of knowledge regarding key audit matters and significant judgements, in light of the changes in residential property markets and bank lending policies;
- the Audit and Risk Management Committee has been satisfied with the quality of Ernst & Young and Mr Lotter's work as auditor; and
- the Audit and Risk Management Committee is satisfied with the introduction of a new engagement quality review partner on the completion of the 30 June 2019 audit.

The company maintains, and will continue to maintain, robust auditor independence policies and controls to ensure the independence of the auditor is maintained. A copy of the Board resolution granting approval was lodged with ASIC in accordance with section 324DAC of the Corporations Act 2001.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/91, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the directors’ report and financial report. Amounts in the directors ‘report and financial report have been rounded off to the nearest thousand dollars in accordance with that legislative instrument.

Signed for, and on behalf of the Board in accordance with a resolution of the Board of Directors.

Brendan Gore
Managing Director and Chief Executive Officer
25 February 2020

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Auditor's independence declaration to the directors of Peet Limited

As lead auditor for the review of the half-year financial report of Peet Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

This declaration is in respect of Peet Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

G Lotter
Partner
25 February 2020

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GL:JG:PEET:005

	Notes	December 2019 $'000	December 2018 $'000
Revenue	4	87,723	108,509
Expenses	5	(81,527)	(85,944)
Finance costs (net of capitalised borrowing costs)	5	(2,349)	(3,015)
Share of net profit of associates and joint ventures		2,769	8,622
Profit before income tax		**6,616**	**28,172**
Income tax expense	6	(1,715)	(5,128)
Profit for the period		**4,901**	**23,044**
Attributable to:			
Owners of Peet Limited		5,059	23,109
Non-controlling interests		(158)	(65)
		4,901	**23,044**
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss:			
Realised losses on cash flow hedges transferred to profit or loss		532	617
Unrealised losses on cash flow hedges		(146)	(729)
Income tax relating to components of other comprehensive income		(116)	34
Other comprehensive income/(losses) for the period, net of tax		**270**	**(78)**
Total comprehensive income for the period		**5,171**	**22,966**
Attributable to:			
Owners of Peet Limited		5,329	23,031
Non-controlling interests		(158)	(65)
		5,171	**22,966**

Earnings per share for profit attributable to the ordinary equity holders of the Company

	Notes	Cents	Cents
Basic and diluted earnings per share	7	1.05	4.74

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

	Notes	December 2019 $'000	June 2019 $'000
Current assets			
Cash and cash equivalents		29,160	33,606
Receivables		16,615	18,999
Contract assets		4,769	6,234
Inventories		115,546	105,750
Total current assets		**166,090**	**164,589**
Non-current assets			
Receivables		92,872	95,970
Contract assets		6,396	4,037
Inventories		418,007	412,919
Investments accounted for using the equity method		234,748	233,668
Property, plant and equipment		5,084	5,237
Right-of-use assets	2	5,859	-
Intangible assets		5,249	5,704
Total non-current assets		**768,215**	**757,535**
Total assets		**934,305**	**922,124**
Current liabilities			
Payables		53,846	65,715
Land vendor liabilities		6,350	6,350
Borrowings	8	23,481	5,083
Lease liabilities	2	1,517	-
Derivative financial instruments		-	221
Current tax liabilities		2,523	8,915
Provisions		5,346	6,047
Total current liabilities		**93,063**	**92,331**
Non-current liabilities			
Borrowings	8	252,347	240,103
Lease liabilities	2	6,347	-
Derivative financial instruments		4,534	5,310
Deferred tax liabilities		27,270	24,213
Provisions		268	216
Total non-current liabilities		**290,766**	**269,842**
Total liabilities		**383,829**	**362,173**
Net assets		**550,476**	**559,951**
Equity			
Contributed equity	9	378,916	378,916
Reserves		(4,928)	(5,051)
Retained profits		159,282	168,722
Capital and reserves attributable to owners of Peet Limited		**533,270**	**542,587**
Non-controlling interests		17,206	17,364
Total equity		**550,476**	**559,951**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	Notes	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2018 as previously stated		**385,955**	**3,397**	**150,871**	**540,223**	**11,220**	**551,443**
Effect of adoption of new accounting standards		-	-	(2,508)	(2,508)	-	(2,508)
Balance at 1 July 2018 (restated)		**385,955**	**3,397**	**148,363**	**537,715**	**11,220**	**548,935**
Profit for the period		-	-	23,109	23,109	(65)	23,044
Other comprehensive income		-	(78)	-	(78)	-	(78)
Total comprehensive income for the period		**-**	**(78)**	**23,109**	**23,031**	**(65)**	**22,966**
Dividends paid		-	-	(14,699)	(14,699)	-	(14,699)
Share buyback, including transaction costs		(6,795)	-	-	(6,795)	-	(6,795)
Vesting of performance rights		-	(2,085)	-	(2,085)	-	(2,085)
Share based payments		-	896	-	896	-	896
Balance at 31 December 2018		**379,160**	**2,130**	**156,773**	**538,063**	**11,155**	**549,218**
Balance at 1 July 2019		**378,916**	**(5,051)**	**168,722**	**542,587**	**17,364**	**559,951**
Profit for the period		-	-	5,059	5,059	(158)	4,901
Other comprehensive income		-	270	-	270	-	270
Total comprehensive income for the period		**-**	**270**	**5,059**	**5,329**	**(158)**	**5,171**
Dividends paid	11	-	-	(14,499)	(14,499)	-	(14,499)
Vesting of performance rights		-	(647)	-	(647)	-	(647)
Share based payments		-	500	-	500	-	500
Balance at 31 December 2019		**378,916**	**(4,928)**	**159,282**	**533,270**	**17,206**	**550,476**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	December 2019 $'000	December 2018 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	90,758	120,666
Payments to suppliers and employees (inclusive of GST)	(89,282)	(94,934)
Payments for purchase of land	(11,340)	(25,425)
Interest and other finance costs paid	(10,719)	(7,145)
Distributions and dividends received from associates and joint ventures	984	5,275
Interest received	34	285
Income tax paid	(5,166)	(9,017)
Net cash outflow from operating activities	**(24,731)**	**(10,295)**
Cash flows from investing activities		
Payments for property, plant and equipment	(407)	(1,150)
Payments for investment in associates and JVs	-	(4,782)
Proceeds from capital returns from associates and JVs	705	567
Loans to associates and JVs	(3,010)	(13,400)
Repayment of loans by associates and JVs	7,345	1,000
Net cash inflow/(outflow) from investing activities	**4,633**	**(17,765)**
Cash flows from financing activities		
Dividends paid	(14,499)	(14,699)
Proceeds from borrowings	30,151	20,823
Share buyback (including transaction costs)	-	(6,795)
Net cash inflow/(outflow) from financing activities	**15,652**	**(671)**
Net decrease in cash and cash equivalents	(4,446)	(28,731)
Cash and cash equivalents at the beginning of the period	33,606	76,749
Cash and cash equivalents at end of the period	**29,160**	**48,018**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Basis of preparation of consolidated financial statements

The general purpose condensed financial report for the half-year ended 31 December 2019 is for the Consolidated Entity consisting of Peet Limited and its subsidiaries ("Group"). Peet Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Level 7, 200 St Georges Terrace, Perth WA 6000. The financial report was authorised for issue by the Directors on 25 February 2020. The financial report has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

These half-year financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2019 and any public announcements made by Peet Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

2. New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the condensed financial report are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2019, except for the adoption of new standards effective as at 1 July 2019. The Group has early adopted AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform which has not had a material impact on adoption. Other than that, the Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 16 *Leases ("AASB 16")*. The nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time on 1 July 2019, but do not have impact on the condensed financial report of the Group.

AASB 16

AASB 16 replaces AASB 117 *Leases ("AASB 117")* for reporting periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Under AASB 16, both finance leases and operating leases are required to recognise a right-of-use asset and the related lease liability at commencement of the lease, with subsequent recognition of depreciation for the right-of-use asset and interest expense in respect of the lease liability. The operating lease accounting treatment under AASB 117 for lessees is no longer available, except for short-term leases and leases of low-value assets.

The Group adopted AASB 16 as of 1 July 2019 using the modified retrospective approach. Under this approach, the Group has not restated comparative information which continues to be reported under AASB 117. The adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

(a) The Group's leasing activities and how they are accounted for

The Group leases office spaces across Australia, with lease conditions individually negotiated. Rental periods are fixed for up to ten years with renewal options. Previously, these office leases were classified as operating leases under AASB 117, and the full rental charges were recognised in profit or loss on a straight-line basis over the period of the lease (net of any lease incentive amortisation).

On adoption of AASB 16, the Group recognised a lease liability and a right-of-use asset for each contract that has a remaining lease term of more than 12 months on the date of initial application of 1 July 2019. Under the modified retrospective approach, the lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 July 2019, which was 6.75%. The associated right-of-use assets were measured at an amount equal to the lease liability adjusted by any residual lease incentive liability balance immediately before the application date, as permitted under the specific transitional provisions in the standard.

Subsequently, the interest on the lease liability is recognised in profit or loss over the remaining lease term. The associated right-of-use assets are depreciated over the remaining lease term on a straight-line basis.

(b) Impact of adopting AASB 16

The impact to balance sheet line items as at 1 July 2019 (increase/(decrease)) and 31 December 2019 is shown below:

	1 July 2019 ($'000)	31 December 2019 ($'000)
Assets:		
Right-of-use assets (office space)	6,529	5,859
Total Assets:	**6,529**	**5,859**
Liabilities		
Payables	(2,028)	
Lease liability (current)	1,430	1,517
Lease liability (non-current)	7,127	6,347
Total Liabilities	**6,529**	**7,864**

The net impact on the statement of profit or loss (increase/(decrease)) for the six months ended 31 December 2019 is shown below:

	December 2019 ($'000)
Expenses (Depreciation)	670
Expenses (Rent expense)	(848)
Finance costs	279
Profit before income tax	**101**
Income tax expense	(30)
Profit for the period	**71**

The impact on the statement of cash flows (increase/(decrease)) for the six months ended 31 December 2019 is shown below:

	December 2019 ($'000)
Payments to suppliers and employees	973
Interest and other finance costs paid	(279)
Net cash flows from operating activities	**694**
Repayment of borrowings	(694)
Net cash flows from financing activities	**(694)**

There is no material impact on basic and diluted earnings per share.

(c) Judgement in determining the lease term

AASB 16 defines lease term to be the non-cancellable lease period of the lease, together with optional extension periods where the lessee is reasonably certain to extend, or optional termination periods if the lessee is reasonably certain not to exercise the option. As the Group's current office leases (except the exempted short-term leases) have non-cancellable lease periods ending in four to six years, the Group is not certain if the extensions will occur. Therefore, the Group has not included the optional extension periods of all leases in measuring lease liabilities and right-of-use assets.

(d) Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics,
- recognising the lease payments associated with short-term leases (leases with a remaining lease term of 12 months or less as at 1 July 2019) and low value leases as an expense on a straight-line basis over the lease term, and
- relying on the assessment made previously under AASB 117 whether a contract is, or contains, a lease for contracts entered into before the transition date without reassessing at the date of the initial application.

(e) New accounting policy

The Group's new accounting policy for leases is detailed below:

For leases with a lease term greater than 12 months, right-of-use assets and associated lease liabilities are recognised at the commencement of the lease.

Right-of-use assets are measured at cost initially and then depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are subject to impairment.

The lease liability is initially measured at net present value of future lease payments using the Group's incremental borrowing rate. The lease payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate. The lease payments are allocated between repayment of lease liability and interest expense (charged to profit or loss over the lease period). In addition, the carrying amount of lease liabilities is remeasured if there is a modification or a change in the lease term.

For short-term leases and leases of low-value assets, lease payments are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 month or less. Low-value assets are generally small office equipment.

3. Segment information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the executive management group.

The executive management group assesses the performance of the operating segments based on multiple measures including EBITDA[10], EBIT[11] and profit after tax.

The share of profits from associates and joint ventures is included as segment revenue as it is treated a revenue of internal reporting purposes.

The Group operates only in Australia.

The executive management group considers the business to have the following three reportable business segments:

(a) Funds management

Peet enters into asset and funds management agreements with external capital providers. Peet and/or the external capital provider commit equity funds towards the acquisition of land and this is generally supplemented with debt funds either at the time of acquisition or during the development phase of a project. The Group derives fees from underwriting, capital raising and asset identification services. Ongoing project related fees (mainly project

[10] EBITDA: Earnings Before Interest (including interest and finance charges amortised through cost of sales) Tax, Depreciation and Amortisation.
[11] EBIT: Earnings Before Interest (including interest and finance charges amortised through cost of sales) and Tax.

management and selling fees as well as performance fees) are then derived by the Group for the duration of a project.

(b) Company owned projects

The Group acquires parcels of land in Australia, primarily for residential development purposes. Certain land holdings will also produce non-residential blocks of land.

(c) Joint arrangements

Joint arrangements are entered into with government, statutory authorities and private landowners. The form of these arrangements can vary from project to project but generally involves Peet undertaking the development of land on behalf of the landowner or in conjunction with the co-owner. The Group is typically entitled to ongoing fees for management of the development project and also a share of the profits.

Inter-segment eliminations and other unallocated
Segment revenue, expenses and results include transfers between segments. Such transfers are based on an arm's length basis and are eliminated on consolidation.

The adoption of AASB 10 Consolidated Financial Statements from 1 July 2013, resulted in certain property syndicates being consolidated. These entities, however, continue to be managed and reported to the executive management group as part of the funds management business segment. Adjustments are included in "Inter-Segment Eliminations and Other Unallocated" to reconcile reportable business segment information to the Group's consolidated statement of profit or loss.

	Funds management		Company owned projects		Joint arrangements		Inter-segment eliminations and other unallocated		Consolidated	
	December 2019 $'000	December 2018 $'000	December 2019 $'000	December 2018 $'000	December 2019 $'000	December 2018 $'000	December 2019 $'000	December 2018 $'000	December 2019 $'000	December 2018 $'000
Sales to external customers	10,300	10,987	55,075	73,190	19,367	18,647	1,576	1,461	86,318	104,285
Other revenue	197	3,788	1,028	103	159	156	21	177	1,405	4,224
Share of net profit of associates and JVs	1,136	6,076	-	-	1,298	2,418	335	128	2,769	8,622
Total	**11,633**	**20,851**	**56,103**	**73,293**	**20,824**	**21,221**	**1,932**	**1,766**	**90,492**	**117,131**
Corporate overheads							(5,287)	(5,845)	(5,287)	(5,845)
EBITDA	**5,763**	**14,366**	**7,207**	**21,596**	**5,030**	**5,942**	**(5,267)**	**(5,645)**	**12,733**	**36,259**
Depreciation and amortisation	(25)	(50)	(132)	(77)	(92)	(155)	(1,434)	(918)	(1,683)	(1,200)
EBIT	**5,738**	**14,316**	**7,075**	**21,519**	**4,938**	**5,787**	**(6,701)**	**(6,563)**	**11,050**	**35,059**
Financing costs (includes interest and finance costs expensed through cost of sales)									(4,434)	(6,887)
Profit before income tax									**6,616**	**28,172**
Income tax expense									(1,715)	(5,128)
Profit for the period									**4,901**	**23,044**
Loss attributable to non-controlling interests									158	65
Profit attributable to owners of Peet Limited									**5,059**	**23,109**

4. Revenue

	December 2019 $'000	December 2018 $'000
Revenue from contracts with customers		
- Sale of land and built form	69,989	90,355
- Project management and selling services	16,329	13,930
Other revenue	1,405	4,224
	87,723	**108,509**

5. Profit before income tax

	December 2019 $'000	December 2018 $'000
Profit before income tax includes the following specific expenses:		
Expenses		
Land and development cost	47,782	48,550
Amortised interest and finance expense	2,085	3,872
Total land and development cost	**49,867**	**52,422**
Depreciation		
- Right-of-use assets	670	-
- Other assets	467	647
Amortisation	546	553
Total depreciation and amortisation	**1,683**	**1,200**
Employee benefits expense	14,363	15,660
Project management, selling and other operating costs	8,859	7,804
Other expenses	6,755	8,858
Total other expenses	**29,977**	**32,322**
Total expenses	**81,527**	**85,944**
Finance costs		
Interest and finance charges		
- Bank borrowings	2,457	4,142
- Lease liabilities	279	-
Interest on bonds	8,186	5,673
Amount capitalised	(8,573)	(6,800)
Total finance costs	**2,349**	**3,015**

6. Income tax

	December 2019 $'000	December 2018 $'000
Major components of tax expense		
Current tax	-	6,241
Deferred tax	1,678	(1,113)
	1,678	**5,128**
Adjustments for prior period	37	-
	1,715	**5,128**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	6,616	28,172
Tax at Australian tax rate of 30% (2018: 30%)	1,985	8,452
Tax effect of amounts which are not assessable/deductible		
Share of net profit of associates	(358)	(1,036)
Employee benefits	(44)	(357)
Franking rebate	(95)	(1,189)
Other	190	(742)
Under/(over) provision in prior years	37	-
	1,715	**5,128**

7. Earnings per share

	December 2019	December 2018
Profit attributable to the ordinary equity holders of the Company ($'000)	5,059	23,109
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	483,300,489	487,887,999
Basic and diluted earnings per share (cents)	1.05	4.74

There are 1,200,000 options excluded from the calculation of diluted earnings per share as they are anti-dilutive. They could potentially dilute basic earnings per share in the future.

8. Borrowings

	December 2019		June 2019	
	Facility Amount	Utilised Amount[2]	Facility Amount	Utilised Amount[2]
	$'000	$'000	$'000	$'000
Bank loans[1]	**180,750**	**53,481**	**179,000**	**23,187**

	Face value	Carrying amount[3]	Face value	Carrying amount[3]
	$'000	$'000	$'000	$'000
Peet bonds				
Series 1, Tranche 1	100,000	99,240	100,000	99,030
Series 2, Tranche 1	50,000	49,414	50,000	49,348
Peet notes	75,000	73,693	75,000	73,621
	225,000	**222,347**	**225,000**	**221,999**

[1] Secured

[2] Excludes bank guarantees. Refer note 10 for bank guarantees information.

[3] Net of transaction costs.

The borrowings are disclosed as follows in the balance sheet:

	December 2019	June 2019
	$'000	$'000
Borrowings – Current	23,481	5,083
Borrowings – Non-current	252,347	240,103
Total borrowings	275,828	245,186
Cash and cash equivalents	(29,160)	(33,606)
Net debt	246,668	211,580

9. Contributed equity

The number of ordinary shares on issue and contributed equity at 31 December 2019 is 483,300,489 shares and $378.9 million (30 June 2019: 483,300,489 shares and $378.9 million), respectively.

10. Contingencies and commitments

Contingencies

	December 2019	June 2019
	$'000	$'000
Bank guarantees outstanding	17,589	21,128
Insurance bonds outstanding	20,109	20,526
	37,698	**41,654**

The Directors are not aware of any circumstances or information, which would lead them to believe that these contingent liabilities will eventuate and consequently no provisions are included in the accounts in respect of these matters.

Commitments

At 31 December 2019, the Group had commitments of $32.5 million (30 June 2019: $34.0 million) to purchase lots from associates and joint ventures, at arms-length, to be on-sold to third party buyers through the Group's Peet Complete program.

11. Dividends

Dividends paid

The Directors declared a final fully franked dividend of 3.00 cents per share in respect of the year ended 30 June 2019. The dividend of $14.5 million was paid on 7 October 2019.

Dividends not recognised at period end

Subsequent to 31 December 2019, the Directors have declared an interim dividend of 0.5 cents per share fully franked in respect of the year ending 30 June 2020. The dividend is to be paid on Thursday, 9 April 2019, with a record date of Friday, 20 March 2019.

12. Fair value measurements

Measurement

The Group, upon adoption of AASB 9 *Financial Instruments,* have reclassified certain loans to associates and joint ventures from loans and receivables carried at amortised cost to financial assets carried at fair value through profit or loss. The fair values of these financial assets have been estimated using discounted cashflows with significant unobservable inputs at each reporting date. (level 3 of the fair value hierarchy).

At 31 December 2019, the carrying amount and fair value of these loans to associates and joint ventures was $35.8 million and $57.2 million, respectively.

The Group measures its derivative financial liabilities at fair value at each reporting date. These derivatives are measured using significant observable inputs (level 2 of the fair value hierarchy). The fair value at 31 December 2019 was $4.5 million (30 June 2019: $5.5 million).

There have been no transfers between levels during the period.

Disclosure

Except for the Peet bonds, the carrying value of financial assets and liabilities is considered to approximate fair values.

The quoted market value (on ASX) as at 31 December 2019 of a Peet bond Series 1, Tranche 1 was $103.51 and of a Peet bond Series 2, Tranche 1 was $103.45.

The fair value of Peet Notes as at 31 December 2019 was $1,035.00 per note.

At 31 December 2019, the carrying value of Peet bonds and notes was $222.3 million (fair value $232.8 million).

13. Events after the end of the reporting period

No matters or circumstances have arisen since the end of the half-year, which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Directors' declaration

In the Directors' opinion:

(a) the financial statements and notes set out on pages 9 to 20 are in accordance with the *Corporations Act 2001,* including:

  (i) complying with AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

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

This declaration is made in accordance with a resolution of the Directors.

BRENDAN GORE
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER
25 February 2020

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Building a better working world

Independent auditor's review report to the members of Peet Limited and its controlled entities

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Peet Limited (the Company) and its controlled entities (collectively the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and

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

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, anything has come to our attention that causes us to 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 consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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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*.

Ernst & Young

Ernst & Young

G Lotter
Partner
Perth
25 February 2020

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