DEC 2017

APPENDIX 4D

HALF-YEAR REPORT

Harvey Norman®

HOLDINGS LIMITED

Harvey Norman®

DOMAYNE®

JOYCE MAYNE®

KEY DATES:

28 February 2018	Announcement of Half-Year Profit to 31 December 2017 Announcement of Interim 2018 Dividend
6 April 2018	Record date for Determining Entitlement to Interim 2018 Dividend
1 May 2018	Payment of Interim 2018 Dividend
31 August 2018	Announcement of Full-Year Profit to 30 June 2018 Announcement of Final 2018 Dividend

COMPANY INFORMATION

Registered Office:
A1 Richmond Road, Homebush West NSW 2140
Ph: 02 9201 6111
Fax: 02 9201 6250

Share Registry:
Boardroom Pty Limited
Level 12, 225 George Street, Sydney NSW 2000
Ph: 02 9290 9600

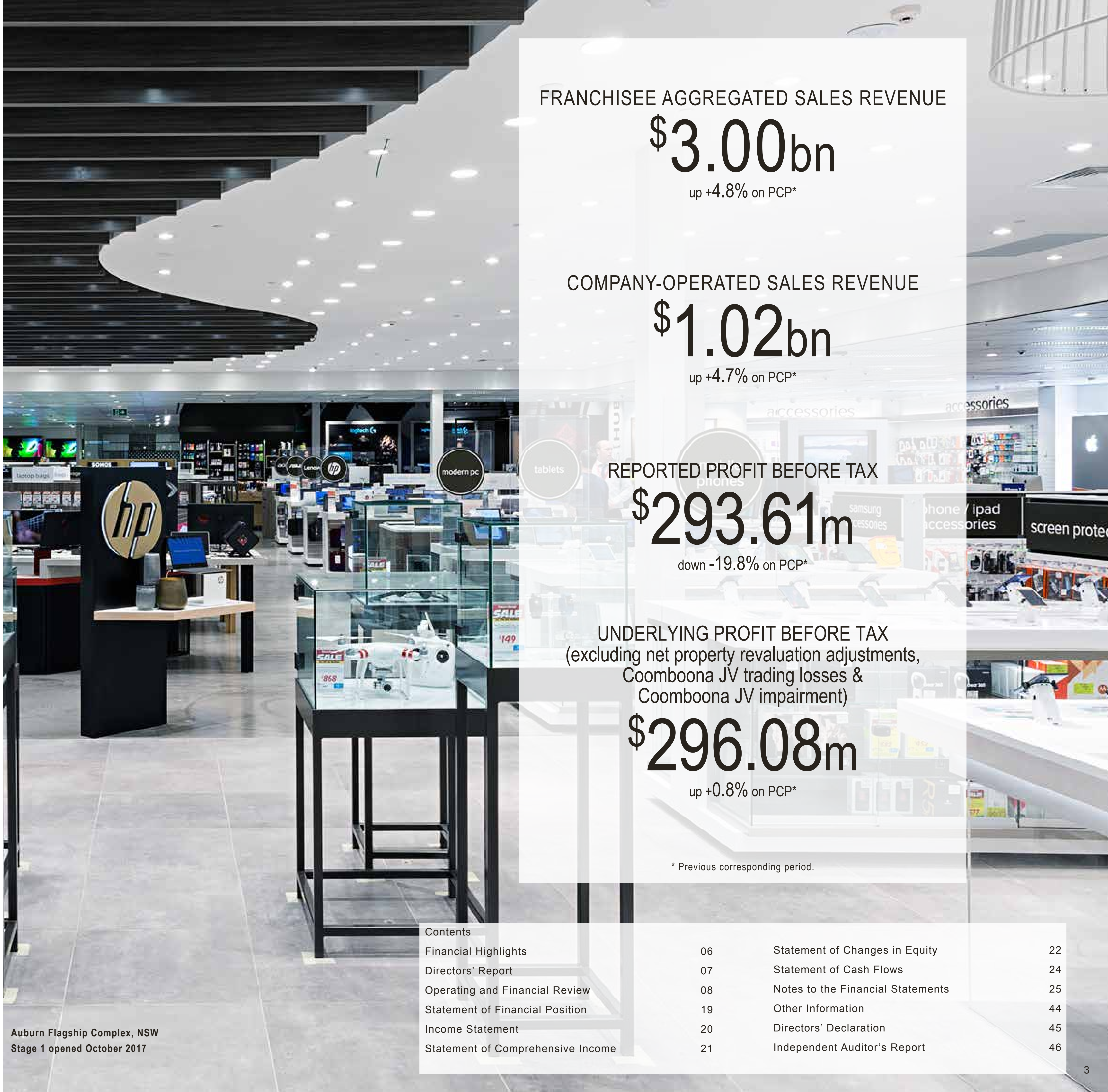
Auditors:
Ernst & Young

Stock Exchange Listing:
Harvey Norman Holdings Limited shares are quoted on the Australian Securities Exchange Limited ("ASX")

Solicitors:
Brown Wright Stein

Company Secretary:
Mr Chris Mentis

HARVEY NORMAN HOLDINGS LIMITED
ABN 54 003 237 545



Auburn Flagship Complex, NSW
Stage 1 opened October 2017

FRANCHISEE AGGREGATED SALES REVENUE
$3.00bn
up +4.8% on PCP*

COMPANY-OPERATED SALES REVENUE
$1.02bn
up +4.7% on PCP*

REPORTED PROFIT BEFORE TAX
$293.61m
down -19.8% on PCP*

UNDERLYING PROFIT BEFORE TAX
(excluding net property revaluation adjustments, Coomboona JV trading losses & Coomboona JV impairment)
$296.08m
up +0.8% on PCP*

* Previous corresponding period.

Contents

FLAGSHIP STRATEGY: LEADING THE WAY AHEAD

In launching our Flagship strategy, our desire was to create a physical space that sets the tone of the brand for each territory in which we operate. In doing so, we were raising the bar for what we felt a retail experience both could and should be. These Flagship complexes and stores would feature the latest innovations and designs, with the biggest range of quality brands and products. They would offer a level of customer service – both before and after sale – that is unsurpassed in the industry.

The development and implementation of our first Flagship stores – at Millenia Walk in Singapore, at Boucher Road in South Belfast, at Tallaght in Dublin, and at Ljubljana in Slovenia – proved to be an immediate success, validating our strategy in identifying and developing Flagship stores that provide some of the finest shopping experiences in those regions.

Since then it's been full-steam ahead in preparing the rest of our Flagship complexes and stores for launch. October/November saw the completion of the first of two stages of the Flagship complex at Auburn in Sydney and the Flagship store at Wairau Park in Auckland, with the transformation of the Computers and Electrical categories. November then saw the upgrade and reinvigoration of the Flagship store at Ikano in Kuala Lumpur.

With the relaunch of the Flagship store at Zagreb in Croatia currently in progress, and with the second stage of reformatting in Auburn and Wairau Park also on the way to completion, our Flagship strategy will be fully realised by the end of June 2018 – ready for the start of the new financial year.

These Flagship complexes and stores represent the best of the Harvey Norman® brand, and are setting the course for our future.

Images: Ikano Flagship Store, Malaysia

The information contained in the half year report is to be read in conjunction with the last annual report and any announcements to the market by Harvey Norman Holdings Limited during the period.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 December		Movement	
	2017	2016	$	%
Number of franchised complexes in Australia[1]	195	193		
Number of franchisees in Australia	543	531		
Number of company-operated stores[2]	89	87		
Franchisee headline aggregated sales revenue[1]	$3.00bn	$2.86bn	+$138.27m	+4.8%
Company-operated sales revenue[2]	$1,022.24m	$976.28m	+$45.96m	+4.7%
Other revenues and other income items	$650.37m	$699.71m	-$49.34m	-7.1%
Earnings before interest, tax, depreciation, impairment & amortisation	$377.77m	$430.11m	-$52.33m	-12.2%
Earnings before interest & tax (EBIT)	$306.15m	$375.84m	-$69.69m	-18.5%
Net property revaluation increment	$22.76m	$75.74m	-$52.98m	-69.9%
Reported profit before tax (a)	$293.61m	$366.23m	-$72.62m	-19.8%
Underlying profit before tax excluding net property revaluation adjustments, Coomboona JV trading losses and Coomboona JV impairment	*$296.08m*	*$293.75m*	*+$2.33m*	*+0.8%*
Reported profit after tax & non-controlling interests (PAT&NCI) (b)	$207.69m	$257.29m	-$49.60m	-19.3%
Underlying PAT&NCI excluding net property revaluation adjustments, Coomboona JV trading losses and Coomboona JV impairment	*$209.42m*	*$206.56m*	*+$2.87m*	*+1.4%*
Net cash flows from operating activities	$262.61m	$279.50m	-$16.90m	-6.0%
Basic earnings per share	18.65c	23.13c	-4.48c	-19.4%
Dividends per share (fully-franked)	12.0c	14.0c	-2.0c	-14.3%
Net debt to equity ratio	24.16%	19.91%		

[1] Sales made by franchisees in Australia do not form part of the financial results of the consolidated entity.
[2] Includes the Harvey Norman® branded company-operated stores in New Zealand, Singapore, Malaysia, Ireland, Northern Ireland, Slovenia and Croatia.

Reconciliation of Reported Profit to Underlying Profit

	31 December	
	2017	2016
(a) Reported profit before tax	$293.61m	$366.23m
Less: Net property revaluation increment	*($22.76m)*	*($75.74m)*
Profit before tax excluding net property revaluation increment	$270.85m	$290.49m
Add back: Coomboona JV impairment losses	*$20.67m*	-
Add back: Coomboona JV trading losses	*$4.57m*	*$3.26m*
Underlying profit before tax	**$296.08m**	$293.75m
(b) Reported profit after tax & non-controlling interests	$207.69m	$257.29m
Less: Net property revaluation increment (after tax)	*($15.93m)*	*($53.02m)*
Profit after tax excluding net property revaluation increment (after tax)	$191.76m	$204.27m
Add back: Coomboona JV impairment losses (after tax)	*$14.47m*	-
Add back: Coomboona JV trading losses (after tax)	*$3.20m*	*$2.28m*
Underlying profit after tax & non-controlling interests	**$209.42m**	$206.56m

DIRECTORS' REPORT

The directors of Harvey Norman Holdings Limited (the "Company") submit their report for the half-year ended 31 December 2017. Unless otherwise indicated, all directors (collectively termed "the Board") held their position as a director throughout the entire period and up to the date of this report.

Directors

- **Gerald Harvey**
  Executive Chairman
- **Kay Lesley Page**
  Executive Director and CEO
- **Chris Mentis**
  B.Bus., FCA, FGIA, Grad Dip App Fin
  Executive Director, CFO & Company Secretary
- **John Evyn Slack-Smith**
  Executive Director and COO
- **David Matthew Ackery**
  Executive Director
- **Michael John Harvey**
  B.Com.
  Non-Executive Director
- **Christopher Herbert Brown**
  OAM, LL.M., FAICD, CTA
  Non-Executive Director
- **Kenneth William Gunderson-Briggs**
  B.Bus., FCA, MAICD
  Non- Executive Director (Independent)
- **Graham Charles Paton**
  AM, B.Ec., FCPA, MAICD
  Non-Executive Director (Independent)

Corporate Governance

The Company is committed to good corporate governance and disclosure. The Company has substantially adopted the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" for the entire period, unless otherwise stated.

Significant Events After Balance Date

HNM Galaxy Pty Limited, acting in its capacity as trustee of the HNM Galaxy Unit Trust (**HN JV Entity**), holds 49.9% of the issued shares in Coomboona Holdings Pty Limited. Eternal Sound Limited, acting in its capacity as trustee for the AAA Settlement Trust (**Eternal Sound JV Entity**), holds 50.1% of the issued shares in Coomboona Holdings Pty Limited. Coomboona Holdings Pty Limited holds all of the issued shares in companies which carry on the business of dairy farm operations, land ownership and a pedigree breeding and genetics division in Northern Victoria (**Coomboona JV**). The 49.9% interest of the consolidated entity in the Coomboona JV is equity-accounted. The Coomboona JV commenced trading in September 2015 and the equity-accounted trading losses were $4.57 million for the half-year ended 31 December 2017 compared to equity-accounted trading losses of $3.26 million for the previous corresponding period.

Subsequent to balance date, a dispute has arisen between the HN JV Entity and the Eternal Sound JV Entity in relation to a number of matters, including the future direction of the Coomboona JV. On 27 February 2018, the HN JV Entity demanded that the Coomboona JV repay outstanding indebtedness due by the Coomboona JV to the HN JV Entity in the sum of $18.51 million. Refer to further information provided on Page 13 in the Other Segment section.

Other than the above, there have been no circumstances arising since balance date which have significantly affected or may significantly affect:

- the operations;
- the results of those operations; or
- the state of affairs of the entity or consolidated entity in future financial years.

Principal Activities

The principal activities of the consolidated entity are that of an integrated retail, franchise, property and digital system including:

- Franchisor;
- Sale of furniture, bedding, computers, communications and consumer electrical products in New Zealand, Singapore, Malaysia, Slovenia, Ireland, Northern Ireland and Croatia;
- Property investment;
- Lessor of premises to Harvey Norman®, Domayne® and Joyce Mayne® franchisees and other third parties;
- Media placement; and
- Provision of consumer finance and other commercial loans and advances.

Capital Management Policy

The consolidated entity's capital management policy objectives are to: create long-term sustainable value for shareholders; maintain optimal returns to shareholders and benefits to other stakeholders; source the lowest cost available capital; and prevent the adverse outcomes that can result from short-term decision making. The Capital Management Policy stipulates a net debt to equity target for the consolidated entity of less than 50%.

The capital structure of the consolidated entity consists of: debt, which includes interest-bearing loans and borrowings as disclosed in Notes 18 and 21 of this report; cash and cash equivalents; and, equity attributable to equity holders of the parent, comprising issued capital, retained earnings and reserves as disclosed in Notes 24, 25 and 27 respectively.

The consolidated entity's borrowings consist primarily of bank debt provided by a syndicate of ten banks (three of which are the "Big 4" Australian Banks). Concentration risk is minimised by staggering facility renewals and utilising a range of maturities over 2 and 3 years.

Dividends

The directors recommend a fully franked interim dividend of 12.0 cents per share. This interim dividend will be paid on 1 May 2018 to shareholders registered at 5:00pm on 6 April 2018. No provision has been made in the Statement of Financial Position for this recommended interim dividend. The Dividend Policy of the Company is to pay such dividends as do not compromise the capability of the Company to execute strategic objectives and is based on net profit excluding non-cash items.

Significant Changes in the State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the half-year ended 31 December 2017.

OPERATING AND FINANCIAL REVIEW

The Operating and Financial Review (OFR) in this report provides shareholders with an overview of the consolidated entity's results, financial position, dividends and the progress of key operational efficiency measures for the first half of the 2018 financial year. This OFR is not a full and comprehensive OFR, such as normally forms part of the Directors' Report in the Annual Report.

RESULTS FOR HALF-YEAR ENDED 31 DECEMBER 2017

UNDERLYING NET PROFIT BEFORE TAX* $296.08m | UP BY +0.8%

(*Excluding net property revaluations, Coomboona JV trading losses and Coomboona JV impairment)

HIGHLIGHTS: UNDERLYING PROFIT

The consolidated entity has built on the record-breaking comparative base for HY17 to deliver a new record underlying profit result (excluding net property revaluations, Coomboona trading losses and Coomboona impairment) for HY18.

$296.08 million underlying net profit before tax up by +0.8% from $293.75 million in HY17 (excluding net property revaluation adjustments, Coomboona trading losses and Coomboona impairment)

Including:

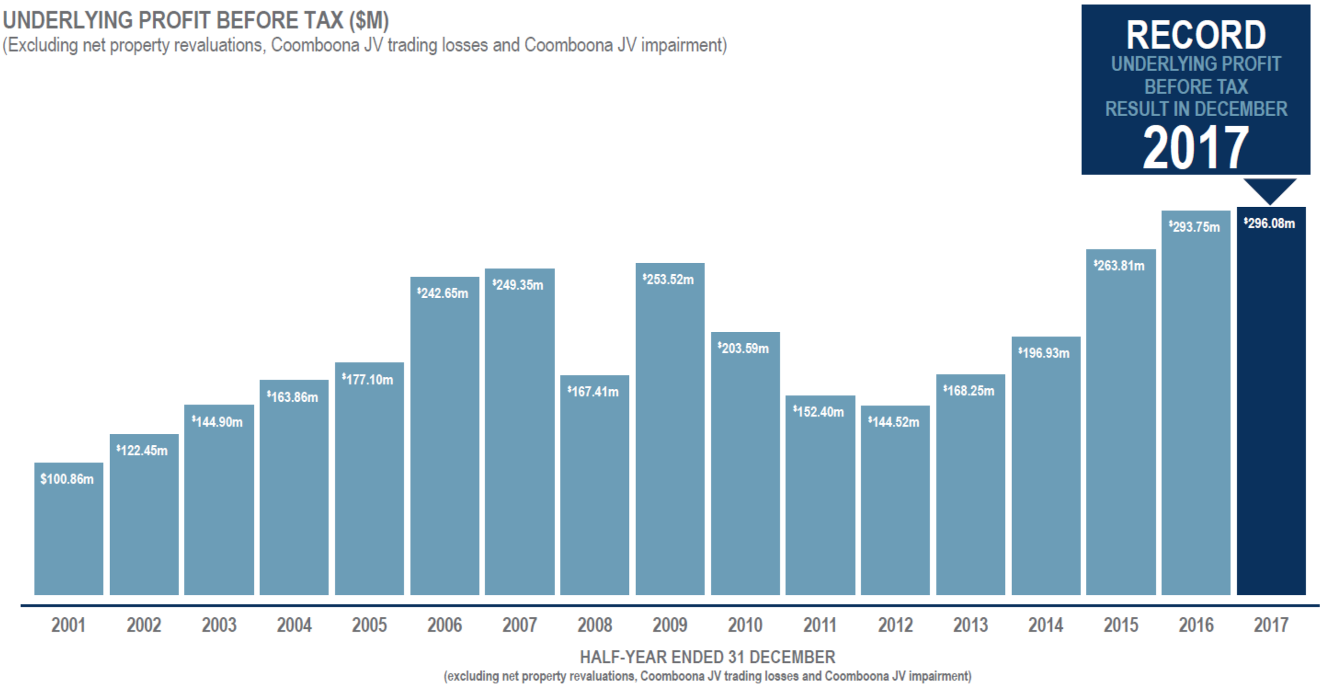
> **$61.82 million profit from the company-operated offshore retail operations, up +8.4%** from $57.04 million in HY17;

> **$167.21 million franchising operations segment profit result**, **down -2.9%** from $172.13 million in HY17, a solid performance from the franchisees in Australia given the increased competitive landscape and the franchisees' additional investment in wages of their staff following the one additional weekend trading day in Dec'17 compared to Dec'16;

> **$68.52 million profit from the property segments (excluding net property revaluation adjustments), down -3.4%** from $70.94 million in HY17 primarily due to increased borrowing costs for acquisition of property assets as rents and outgoings remained strong;

> **$2.34 million profit from the equity investments segment, down -51.4%** from $4.81 million in HY17, reflecting a reduction in the market value of the listed securities portfolio; and

> **($3.82) million net loss from non-core joint ventures included in the other segment and other non-franchised retail segment (excluding Coomboona JV trading losses and Coomboona JV impairment), an improvement of +65.8%** from the net loss of ($11.16) million in HY17 mainly due to lower impairment losses recognised on commercial loans to non-core businesses by $1.87 million and the impairment loss of $4.62 million recognised in the prior period relating to the estimated shortfall on the repayment of an external finance facility for a mining camp accommodation joint venture.



REPORTED NET PROFIT BEFORE TAX

RESULTS FOR HALF-YEAR ENDED 31 DECEMBER 2017

NET PROFIT BEFORE TAX $293.61m DOWN BY -19.8%

IMPACTED BY DECREASE IN NET PROPERTY REVALUATION ADJUSTMENTS DOWN -69.9% TO $22.76m

HIGHLIGHTS: REPORTED PROFIT

Profit before tax for the half-year ended 31 December 2017 was negatively impacted by a reduction in the net property revaluation increment for Australian investment properties by $52.98 million, down from $75.74 million in HY17 to $22.76 million in HY18 and the recognition of a $20.67 million impairment loss for the write-down of the equity-accounted investment in the Coomboona Holdings joint venture.

The property portfolio of the consolidated entity remains robust, with property segment assets totalling $2.81 billion as at 31 December 2017, up from $2.60 billion in HY17. The strength, stability and flexibility of the expansive, high-quality retail developments continue to be an integral point of difference. Property ownership allows the consolidated entity to maximise the physical retail offering potential to provide a complete interactive customer experience. Property values within the large-format retail sector remain strong resulting in a net property revaluation increment of $22.76 million in HY18. The prior period figure of $75.74 million had included the impact of rezoning potential to medium-density residential for property in NSW.

$293.61 million net profit before tax for HY18 compared to $366.23 million for HY17, a decrease of $72.62 million or -19.8% from PCP

Main factors contributing to the result:

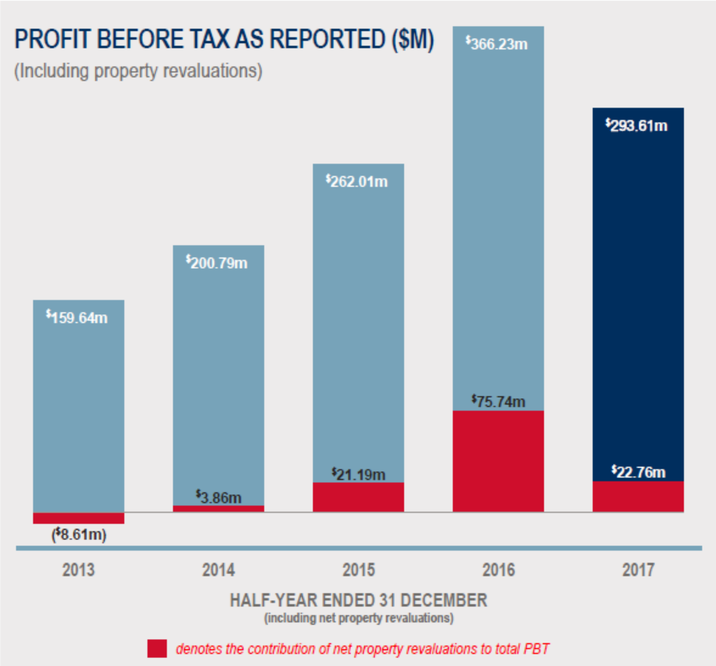
> **$4.79 million increase in the profitability of the overseas company-operated retail locations to $61.82 million, up +8.4%** from $57.04 million in HY17. The increased contribution from each region included: **Slovenia & Croatia +$2.11 million (+87%)**; **Ireland & Northern Ireland +$1.00 million (+34%)** mainly due to the opening of the Flagship store in Tallaght, Dublin in July 2017 and the continued dominance of the Boucher Road Flagship store in South Belfast; **New Zealand +$0.93 million (+2.3%)** due to modest sales and market share growth in HY18 amidst a slowdown in the NZ economy and a cooling housing market in Auckland; and **Singapore & Malaysia +$0.75 million (+6.4%)** due to the opening of the new Flagship store at Ikano, Malaysia in November 2017, the opening of the Viva City Factory Outlet (Singapore) in July 2017 and the expansion to full-format stores of the Parkway Parade and North Point stores in Singapore;

> **($55.40) million decrease in the overall property segment profit result to $91.28 million**, **down -37.8%** from $146.68 million in HY17, a mainly attributable to a ($52.98) million or -69.9% decrease in the net property revaluation increment from $75.74 million in HY17 to $22.76 million in HY18 and higher borrowing costs (due to the increased utilisation of debt facilities for property acquisitions) offset by higher rent and outgoings collected from property segment assets;

> **($14.63) million deterioration in the net loss from non-core joint ventures included in the other segment and other non-franchised retail segment to a net loss of ($29.05) million,** from the net loss of ($14.42) million in HY17. This is mainly due to higher impairment losses by $14.18 million for the write-down of the equity-accounted investment in the Coomboona JV of $20.67 million in HY18 offset by lower impairment losses recognised on commercial loans to non-core businesses by $1.87 million and the $4.62 million impairment loss on the expected shortfall on repayment of a finance facility in PCP;

> **($4.91) million decrease in the franchising operations segment profit result to $167.21 million**, **down -2.9%** from $172.13 million in HY17. Franchisees performed solidly during the period despite the increased competitive landscape and the franchisees' additional investment in wages of their staff following the one additional weekend trading day in Dec'17 compared to Dec'16. The previous half-year period was the strongest on record and the franchisees have built on their momentum gained over the past few years to deliver an unprecedented, aggregated franchisee sales revenue this half, breaking the $3 billion barrier for HY18, a 4.8% increase on a very strong comparative period. This led to an increase in franchise fee revenue by $1.42 million for the period offset by higher tactical support payments by $2.83 million to continue to enhance, promote and protect the brand; and

> **($2.47) million decrease in the equity investments segment result to $2.34 million**, **down -51.4%** from $4.81 million in HY17 reflecting a reduction in the market value of listed securities held by the consolidated entity during the period.



This table shows the reported profit before tax figure for the last five (5) December half-year periods and the component of PBT relating to the net property revaluation adjustments recorded in the Income Statement.

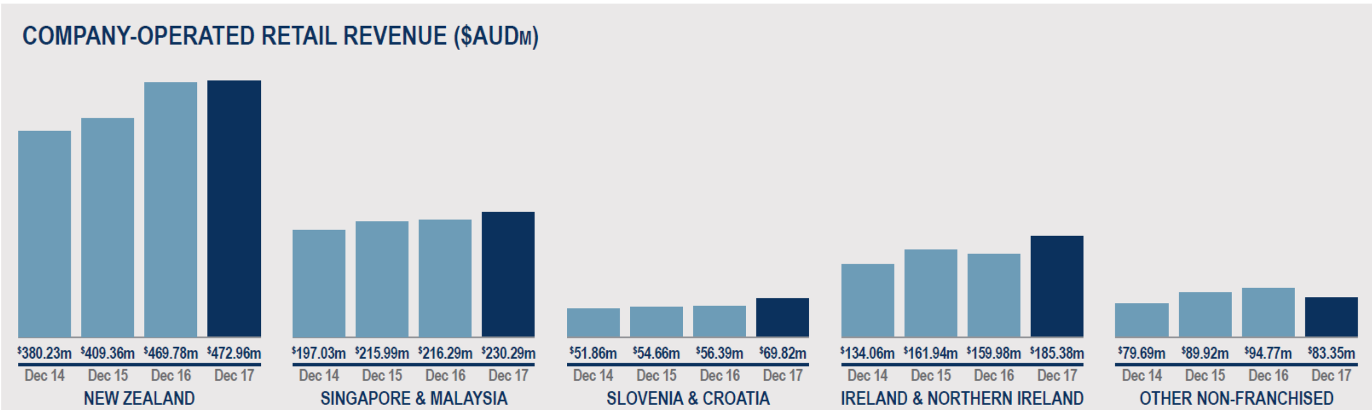
NET PROFIT AFTER TAX & NCI

Net profit after tax and non-controlling interests (NCI) **decreased by 19.3%, or $49.60 million, to $207.69 million** for the half-year ended 31 December 2017, from $257.29 million in the previous half. The effective income tax rate for the half-year ended 31 December 2017 was 28.55% compared to an effective income tax rate of 29.00% for the half-year ended 31 December 2016.

Excluding the after tax net property revaluation increments and other significant items such as the Coomboona JV trading losses and the Coomboona JV impairment loss from the result, underlying net profit after tax and non-controlling interests for the December 2017 half year **increased by 1.4%, or $2.87 million, to $209.42 million**, from $206.56 million in the previous corresponding period.

REVIEW & RESULTS OF KEY OPERATING SEGMENTS

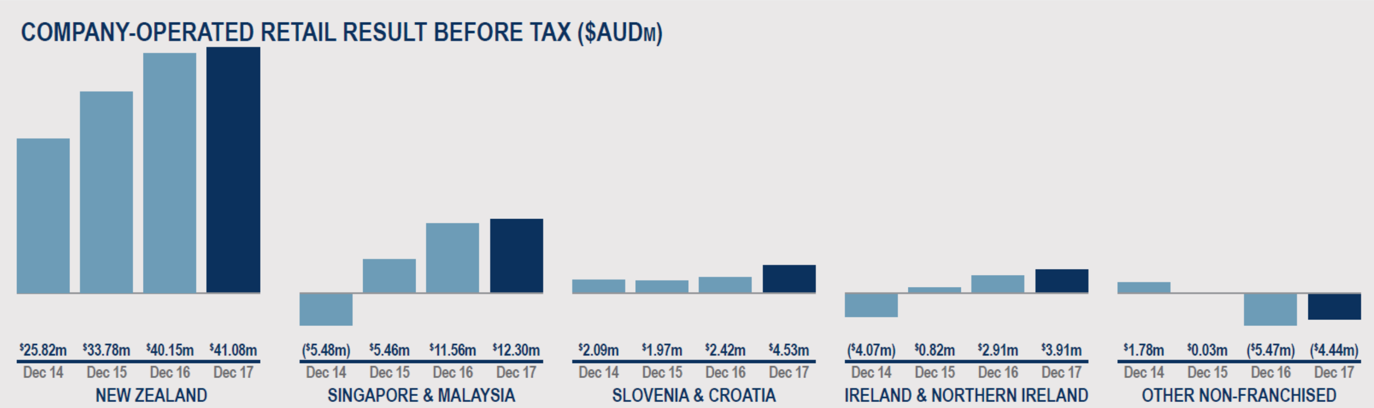
THE COMPANY-OPERATED RETAIL SEGMENT



The company-operated retail segment includes the retail trading operations of the Harvey Norman® branded company-operated stores in New Zealand (39 stores), Singapore (13 stores), Malaysia (16 stores), Ireland (13 stores), Northern Ireland (2 stores), Slovenia (5 stores) and Croatia (1 store) and the Space Furniture branded stores in Singapore, Malaysia and Australia. This segment also includes the retail operations of other non-franchised retail brands in Australia.

Company-operated retail sales revenue broke the $1 billion barrier in the current half, the strongest-ever sales performance for a 6-month period, growing by $43.73 million, or 4.5%, to $1.02 billion relative to the previous half. In aggregate, each offshore region reported stronger sales growth and market share gains during the period with the Flagship stores in each country leading the way and providing increased brand awareness and consumer traction to existing or new stores in the region. The commendable performance of the company-operated retail segment affirms the concerted focus on developing and enhancing the Flagship strategy. The aim of the consolidated entity is nothing short of creating the best Home and Lifestyle retail destinations in the world, with Harvey Norman® being the 'go to' brand for an aspirational and interactive shopping experience.

The result before tax for the company-operated retail segment **increased $5.82 million, or 11.3%, to $57.38 million** for HY18, from $51.56 million in HY17. This is an excellent result considering the overseas company-operated stores grew from a record base in the preceding half-year period.



NEW ZEALAND: *39 stores*

Average FX rate: NZD vs. AUD down -3.73% to 1.0926

The Harvey Norman® brand in New Zealand is the market leader across all key product categories. Market share grew over the current half-year despite the headwinds faced by the New Zealand economy during the period.

Sales revenue from the thirty-nine (39) company-operated stores in New Zealand **increased by 4.5%, or $NZ21.64 million, to $NZ504.94 million** in HY18, up from $NZ483.29 million in HY17. This was assisted by a full 6-month's trading of the Queenstown store which opened in October 2016 and is performing well. Overall, sales growth was pleasing in New Zealand as it was achieved in light of a slowdown in the New Zealand economy driven by a cooling housing market in Auckland and anticipation surrounding the New Zealand election. Translated into Australian dollars, sales revenue **increased 0.6%, or $2.69 million, to $462.14 million**.

Coupled with the continued approach of closely monitoring and controlling operating costs, the retail result in New Zealand **increased by $0.93 million, or 2.3%, to $41.08 million** for the half-year ended 31 December 2017, up from $40.15 million in the prior period.

SINGAPORE: *13 stores*
MALAYSIA: *16 stores*

Average FX rate: SGD vs. AUD down -1.53% to 1.0578

This segment is comprised of 13 Harvey Norman® stores in Singapore, 16 Harvey Norman® stores in Malaysia and the specialist design stores of Space Furniture in Singapore and Malaysia.

The premium positioning of the Millenia Walk Flagship store in Singapore has raised the bar for the Harvey Norman® brand in Asia, providing the inspiration for the upgrade and redevelopment of the Flagship store in Malaysia at Ikano, Kuala Lumpur during the period. The reinvigorated Flagship store at Ikano re-opened in November 2017 and has set a new benchmark for large-format, aspirational stores in Malaysia.

Sales revenue from the 13 Harvey Norman® branded stores in Singapore increased in local currency by $S24.79 million, or 17.9%, to **$S163.58 million for HY18, from $S138.78 million in HY17** due to the opening of the new Viva City Factory Outlet in July 2017 and the expansion of the existing stores located at Parkway Parade (in August 2017) and North Point City (in December 2017) to incorporate full-concept stores during the current period. The strength of the Flagship Millenia Walk store continued to bolster sales during the period, increasing the appeal of the Harvey Norman® brand in Singapore.

Sales revenue from the 16 Harvey Norman® branded stores in Malaysia remained consistent with the previous half, at $S68 million for both periods, despite the temporary closure of the Ikano Flagship store for renovations for a large part of the half. During the closure of the Ikano site, an interim site was sourced to mitigate the negative impact on sales. The relaunched Ikano Flagship store in November 2017 is performing above expectations and has provided a boost to sales late in the current half, in addition to a full 6-months trading of the Sunway Velocity store which had opened in the previous year.

Sales revenue for the Space Furniture brand in Singapore was lower by $S7.39 million in the current period due to the lack of project sales resulting from softer market sentiment in the high-end property and retail furniture markets in Singapore.

Across the Harvey Norman® and Space Furniture brands, operating costs were contained through a stringent control of all expenses.

The segment profit result of the two brands in Asia was $12.30 million for the half-year ended 31 December 2017 compared to a segment result of $11.56 million in the previous period, an increase of 6.4%.

IRELAND: *13 stores*
NORTHERN IRELAND: *2 stores*

Average FX rate: EUR vs. AUD up 3.73% to 0.6625
Average FX rate: GBP vs. AUD down -0.15% to 0.5914

Ireland:

In Ireland, sales revenue from the 13 company-operated stores **increased €12.90 million, or 12.8%, to €113.39 million** for HY18, up from €100.48 million in HY17. Comparable store sales growth was also good, increasing by €4.77 million or 4.7% during the period. Translated into Australian dollars, sales revenue **increased by $24.93 million, or 17.1%, to $171.15 million from $146.22 million** in the previous half year due to a 3.73% appreciation in the Euro relative to the Australian dollar during the period. Retail sales increased across all key product categories.

The 60,000 sq feet Flagship store situated in the Airton Retail Park in Tallaght has bolstered the Harvey Norman® brand in Ireland and has set a new standard in Irish technology and interiors retailing. The Tallaght Flagship store, which opened in July 2017, incorporates the latest shop-fitout and interior design concepts and is a fresh and vibrant Home and Lifestyle centre showcasing the best of what the brand has to offer across all product categories. It has enhanced brand recognition in the region leading to positive flow-on effects to the existing store base.

The retail segment result in Ireland generated a **profit of $4.65 million for the December 2017 half year, up by $1.0M or 27.3%** from a profit of $3.65 million in the previous corresponding period.

Northern Ireland:

Sales revenue from the two company operated stores in Northern Ireland increased **£0.11 million, or 1.8%, to £5.82 million** for HY18, from £5.72 million in HY17. Translated into Australian dollars, sales **increased by $0.16 million, or 1.7%, to $9.84 million** due to a slight devaluation in the British Pound Sterling relative to the Australian dollar during the period.

The Flagship store on the iconic Boucher Road in South Belfast has now been trading for over 18 months and continues to perform strongly leading the Harvey Norman® brand in Northern Ireland alongside the newly-renovated second store at Holywood.

The 2 company-operated stores in Northern Ireland incurred a trading loss of $0.74 million for HY18, a slight improvement from the trading loss incurred in HY17 of $0.739 million.

SLOVENIA: *5 stores*
CROATIA: *1 store*

Average FX rate: EUR vs. AUD up 3.73% to 0.6625

Sales revenue from the 5 company-operated stores in Slovenia **increased €6.63 million, or 23.0%, to €35.46 million** for HY18, up from €28.83 million in HY17. Translated into Australian dollars, sales revenue **increased $11.58 million, or 27.6%, to $53.53 million.**

The Flagship store at BTC City, Ljubljana was redeveloped, renovated and relaunched in two stages and was completed by June 2017. The Ljubljana Flagship store provides an unparalleled, all-encompassing and interactive shopping experience in Slovenia and the greater Central European region. The repositioning of the Harvey Norman® brand in Slovenia has had the positive impact of driving sales growth in all stores across all key product categories.

The retail result in Slovenia was a **profit of $4.36 million** for the December 2017 half year, **an increase of $1.98 million, or 83.3%**, from $2.38 million profit in the previous half.

Sales revenue for the Zagreb, Croatia store **increased €0.66 million, or 7.0%, to €10.03 million** for HY18, from €9.37 million in HY17. Translated into Australian dollars, sales revenue **increased 11.0%, or $1.50 million, to $15.14 million.**

The renovation of the Zagreb Flagship store is due to commence shortly with the relaunch of the store expected by June 2018.

Croatia had reported its first full-year profit in June 2017. This profitable trend continued during the period with a profit of $0.17 million for the 6-months to 31 December 2017. We expect this trend to continue after the relaunch of the reinvigorated Zagreb Flagship store later this year.

OTHER NON-FRANCHISED RETAIL

The non-franchised retail segment consists primarily of retail and wholesale trading operations in Australia which are wholly-owned, controlled or jointly-controlled by the consolidated entity and does not include the operations of any Harvey Norman®, Domayne® and Joyce Mayne® franchisee.

Total revenue for the other non-franchised retail segment decreased by $11.42 million, or 12.0%, to $83.35 million for the half-year ended 31 December 2017, from $94.77 million in the previous half year.

The result for the non-franchised retail segment was a loss of $4.44 million for the December 2017 half year, compared with a loss of $5.47 million for the previous half. The segment loss for the current period included a $9.19 million write-down in commercial loans made to a retail joint venture in Australia compared to a write-down of $11.05 million in the previous corresponding period.

OTHER SEGMENT

The Other segment is primarily comprised of credit facilities provided to related and unrelated parties, other unallocated income and expense items and the equity-accounted joint venture investment in Coomboona Holdings Pty Limited.

The Other segment recorded a loss of $24.60 million in the December 2017 half year compared to a loss of $8.95 million in the previous half year, a deterioration in the losses incurred by $15.66 million.

HNM Galaxy Pty Limited, acting in its capacity as trustee of the HNM Galaxy Unit Trust (**HN JV Entity**), holds 49.9% of the issued shares in Coomboona Holdings Pty Limited. Eternal Sound Limited, acting in its capacity as trustee for the AAA Settlement Trust (**Eternal Sound JV Entity**), holds 50.1% of the issued shares in Coomboona Holdings Pty Limited. Coomboona Holdings Pty Limited holds all of the issued shares in companies which carry on the business of dairy farm operations, land ownership and a pedigree breeding and genetics division in Northern Victoria (**Coomboona JV**). The 49.9% interest of the consolidated entity in the Coomboona JV is equity-accounted. The Coomboona JV commenced trading in September 2015 and the equity-accounted trading losses were $4.57 million for the half-year ended 31 December 2017 compared to equity-accounted trading losses of $3.26 million for the previous corresponding period.

Subsequent to balance date, a dispute has arisen between the HN JV Entity and the Eternal Sound JV Entity in relation to a number of matters, including the future direction of the Coomboona JV. On 27 February 2018, the HN JV Entity demanded that the Coomboona JV repay outstanding indebtedness due by the Coomboona JV to the HN JV Entity in the sum of $18.51 million.

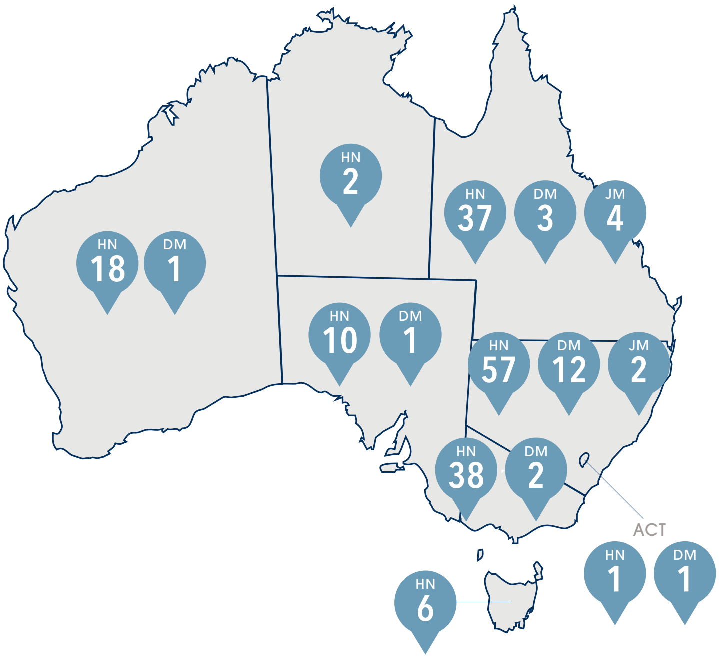
The poor trading performance of the Coomboona JV to date, the notice provided by the HN JV Entity to the Coomboona JV to demand repayment of the outstanding indebtedness due to the HN JV Entity of $18.51 million, in addition to the dispute between the HN JV Entity and the Eternal Sound JV Entity regarding the future direction of the Coomboona JV, are indicators of impairment during this review period. This resulted in an assessment of the recoverable amount of the non-current assets held by the consolidated entity in relation to the Coomboona JV totalling $49.42 million as at balance date comprising:

- the total value of commercial loans granted to the Coomboona JV by the HN JV Entity of $28.76 million, of which $10.25 million is repayable by the 2020 financial year and $18.51 million is repayable on demand; and
- the equity-accounted investment by the HN JV Entity of $20.67 million, comprised of capital contributions of $33.88 million less the HN JV Entity's share of cumulative Coomboona JV losses of $13.21 million up to 31 December 2017.

The recoverable amount of the outstanding commercial debt due by the Coomboona JV to the HN JV Entity and the equity-accounted investment held by the HN JV Entity were assessed as at balance date. The resulting assessment has estimated that the total value of the equity-accounted investment of $20.67 million is impaired and should be written-down. This resulted in the recognition of an impairment loss of $20.67 million to write-down the Coomboona JV equity-accounted investment to nil as at 31 December 2017. The total value of indebtedness by the Coomboona JV to the HN JV Entity of $28.76 million was not impaired but will be subject to ongoing review and assessment. Each of the key assumptions in the impairment assessment was subject to significant judgement about future economic conditions and the expected proceeds from the realisation of assets of the Coomboona JV. Judgement has been applied, based on the available information, to each of these variables to assess the recoverable amount of the equity-accounted investment and the outstanding indebtedness due by the Coomboona JV to the HN JV Entity.

Combined, the Coomboona JV equity-accounted trading losses and the Coomboona JV impairment totalled $25.23 million for the current period compared to $3.26 million for the previous period, an increased loss contribution by $21.97 million.

The loss for the previous half year had included an impairment loss of $4.62 million in respect of an estimated shortfall in the repayment of an external finance facility for a mining camp accommodation joint venture.



THE FRANCHISED OPERATIONS SEGMENT IN AUSTRALIA

Harvey Norman Holdings Limited (HNHL) and subsidiaries of HNHL own valuable intellectual property rights, including the trade marks Harvey Norman®, Domayne® and Joyce Mayne®, software and other confidential information to promote and enhance the brands.

A subsidiary of HNHL (a franchisor) grants separate franchises to independent franchisees to use the Harvey Norman®, Domayne® or Joyce Mayne® trade marks in Australia and to conduct the retail business of the franchisee at or from a store within a particular branded complex, pursuant to the terms of a franchise agreement.

Each franchisee owns and controls the franchisee business of that franchisee. Each franchisee has control over the day-to-day operations of the franchisee business and has the discretion and power to make the decisions necessary to drive sales, control floor margins and contain operating costs to maximise profitability of the franchisee business.

Each franchisee pays franchise fees to a franchisor pursuant to a franchise agreement between that franchisee and that franchisor.

Harvey Norman®
169 FRANCHISE COMPLEXES

DOMAYNE®
20 FRANCHISE COMPLEXES

JOYCE MAYNE®
6 FRANCHISE COMPLEXES

195

Franchised complexes in Australia trading under the Harvey Norman®, Domayne® and Joyce Mayne® brand names.

543

Number of franchisees who are responsible for the day-to-day management and control of their respective franchisee business entities.

The franchising operations segment in Australia captures and records the franchisee fees received from franchisees including franchise fees, rent and outgoings for the use of a branded complex and interest on the financial accommodation facility that is made available to each franchisee.

The franchising operations segment also encompasses the costs of operating the franchised system and monitoring and evaluating the performance and compliance of franchisees with their franchise agreements.

FRANCHISING OPERATIONS SEGMENT

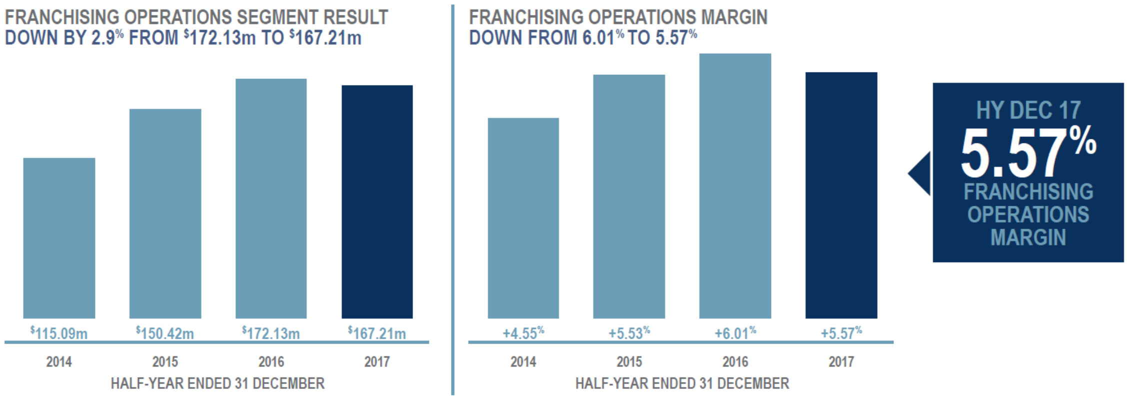
The Franchising Operations Margin (%)

The franchising operations margin is calculated as the segment result before tax of the franchising operations segment over Australian franchisee aggregated sales revenue.

The franchising operations segment result decreased by $4.91 million, or 2.9%, **to $167.21 million in the half-year ended 31 December 2017 from $172.13 million in the prior half year period**. This is a solid performance from the franchisees in Australia given the increased competitive landscape and the franchisees' additional investment in wages of their staff following the one additional weekend trading day in Dec'17 compared to Dec'16. Despite these challenges, the Australian consumer has remained resilient and a strong labour market and the consumers' passion for the latest technology and a connected lifestyle have buoyed retail sentiment during the current half. Franchisees have built on their momentum gained over the past few years to deliver unprecedented, aggregated franchisee sales revenue this half, breaking the $3 billion barrier for HY18, a 4.8% increase on a very strong comparative period.

Strong aggregated franchisee sales revenue has led to an increase in franchise fee revenue collected by the Franchisor by $1.42 million, or 0.3%, to $420.43 million for HY18 up from $419.01 million in HY17. Overall revenue from the franchising operations segment increased by $0.79 million, from $500.14 million in HY17 to $500.92 million in HY18. The costs to operate the franchising operations segment, including tactical support payments, have seen a minimal increase in quantum relative to the growth in franchisee sales revenue and were necessary to protect, promote and enhance the Harvey Norman® brand during the period.

Combined, the factors above have resulted in a reduction in the franchising operations margin from 6.01% for the half-year ended 31 December 2016 to 5.57% for the half-year ended 31 December 2017.



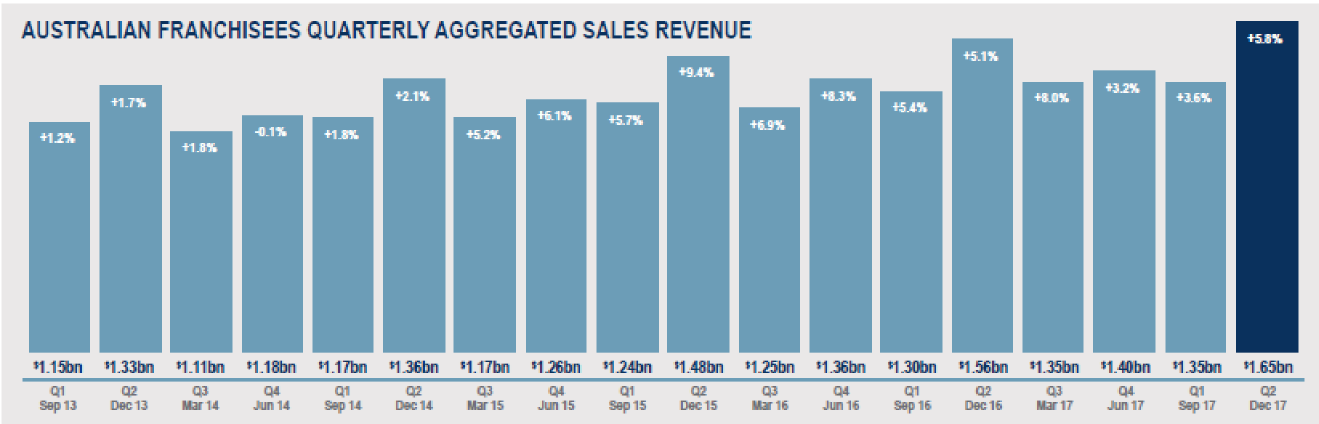
Franchisee Sales Revenue Underpins the Franchising Operations Segment

Headline Australian franchisee aggregated sales revenue increased 4.8%, or $138.27 million, to $3.00 billion for the half-year ended 31 December 2017 from $2.86 billion in the previous half year. Comparable Australian franchisee aggregated sales revenue increased 4.1% to $2.97 billion for HY18. Sales made by franchisees in Australia do not form part of the financial results of the consolidated entity. Retail sales in Harvey Norman®, Domayne® and Joyce Mayne® in Australia are made by independently owned franchised businesses that are not consolidated with the consolidated entity's results. Australian franchisee aggregated sales revenue is reported to the market as it is a key indicator of the performance of the franchising operations segment due to its direct correlation with franchise fee revenue.

AGGREGATED FRANCHISEE SALES REVENUE

TOTAL FRANCHISEE SALES
DECEMBER 2017
$3.00bn UP BY 4.8%

COMPARABLE FRANCHISEE SALES
DECEMBER 2017
$2.97bn UP BY 4.1%



Harvey Norman®, Domayne® and Joyce Mayne® franchisees have capitalised on the growing Connected Home category. Encompassing smartphones, computers, security systems, home entertainment, and health & lifestyle devices – this category is expected to continue to grow in the future. Franchisees are well positioned to be market leaders.

The implementation of the Flagship complex strategy in Australia has driven innovation – leading to a flow-on effect for all franchised complexes. Having dynamic, large-format complexes with flexible floorspace allows franchisees to provide a premium showcase that can continually adapt to the ever-expanding growth in product range – positioning the Harvey Norman® brand as the leading destination for consumers to experience the latest innovations in a tactile and interactive environment in store.

PROPERTY SEGMENTS:
Retail Property, Retail Property Under Construction & Property Developments for Resale

The property portfolio has gone from strength-to-strength and was valued at $2.81 billion at 31 December 2017. As at balance date, total property assets amounted to over 62% of the consolidated entity's total asset base of $4.51 billion. Growth in the property portfolio was mainly due to the continued solid market conditions in the large-format retail sector delivering capital appreciation during the period, the concerted focus on completing the Flagship strategy of the consolidated entity by the end of the 2018 financial year and the acquisition and refurbishment of other investment properties in Australia. The following tables represent the composition of property segment assets at each balance date and the number of owned and leased retail use properties as at 31 December 2017.

TOTAL PROPERTY SEGMENT ASSETS as at 31 DECEMBER	2015	2016	2017
Investment properties	$1.986bn	$2.203bn	$2.385bn
Owned land & buildings in New Zealand, Singapore, Slovenia, Ireland & Australia	$380.52m	$396.43m	$417.51m
Joint venture assets	$2.59m	$2.71m	$2.91m
TOTAL PROPERTY SEGMENT ASSETS	$2.37bn	$2.60bn	$2.81bn

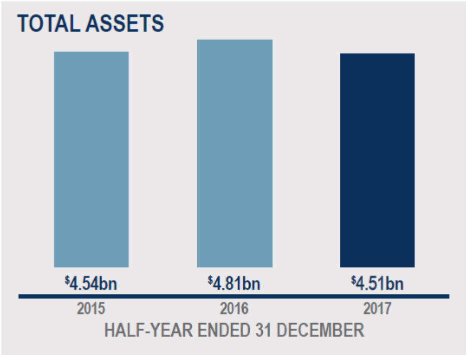
OWNED & LEASED RETAIL USE PROPERTIES as at 31 DECEMBER 2017	# of owned retail use properties	# of leased retail use properties	Total
Australia: Franchised complexes	95	100	195
New Zealand	18	21	39
Slovenia	5	-	5
Croatia	-	1	1
Ireland	1	12	13
Northern Ireland	-	2	2
Singapore	-	13	13
Malaysia	-	16	16
TOTAL	119	165	284

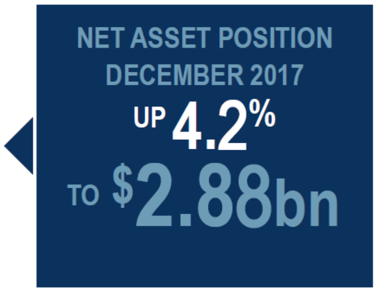
The investment property portfolio in Australia and properties held in joint venture entities are subject to a semi-annual review to fair market value. At each reporting period, one-sixth of the investment property portfolio is independently valued with the remaining five-sixths reviewed for fair value by Directors. The entire portfolio is independently valued every three years.

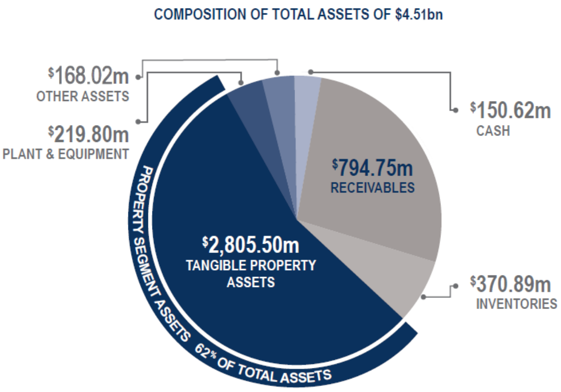
During the half-year ended 31 December 2017, nineteen (19) sites within the investment property portfolio in Australia were independently valued, representing 14.6% of the total number of sites and 9.6% of the fair value of the investment property portfolio in Australia. The balance of the portfolio was reviewed for comparability resulting in the preparation of internal valuations for eight (8) additional sites. The valuation for the current half-year resulted in a net increase of $22.76 million relating to investment properties in Australia compared to a net increase of $75.74 million in the previous period. The prior period figure had included the impact of rezoning potential to medium-density residential for property in NSW.

NET PROPERTY REVALUATION ADJUSTMENTS AS AT 31 DECEMBER ($ million)	RECORDED IN THE INCOME STATEMENT (Net Property Revaluation Increment)			RECORDED IN EQUITY (Asset Revaluation Reserve)		
	2015	2016	2017	2015	2016	2017
AUSTRALIA	$20.63m	$75.74m	$22.76m	-	-	-
NEW ZEALAND	$0.56m	-	-	$2.24m	$8.11m	$7.17m
SLOVENIA	-	-	-	-	($0.22m)	$0.04m
SINGAPORE	-	-	-	$1.26m	-	-
TOTAL	$21.19m	$75.74m	$22.76m	$3.50m	$7.89m	$7.21m

REVIEW OF THE FINANCIAL POSITION OF THE CONSOLIDATED ENTITY



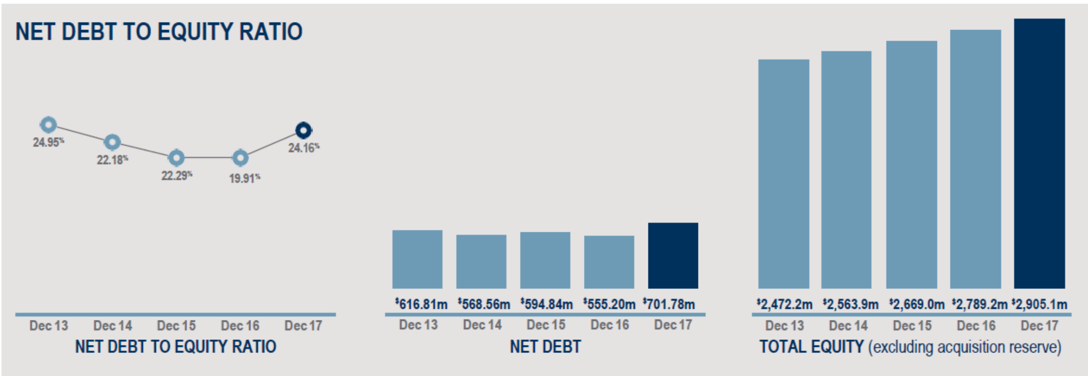


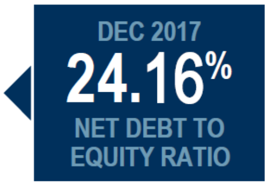


The net assets of the consolidated entity remains strong, with **a solid 4.2% growth, or an increase of $115.96 million, to $2.88 billion** as at 31 December 2017 from $2.77 billion as at 31 December 2016.

Total assets decreased by 6.2%, or $296.93 million, to $4.51 billion as at 31 December 2017, from $4.81 billion in the prior corresponding period. Receivables from franchisees decreased by $590.26 million in December 2017 relative to the previous balance date in December 2016. This decrease was primarily due to there being, as at 31 December 2017, no constructive obligation to any supplier to any franchisee and no committed commercial advances to any franchisee. Refer to Note 7. Trade and Other Receivables (Current). The value of the Australian investment property portfolio increased by $182.52 million, or 8.3%, to $2.39 billion as at 31 December 2017 primarily due to the net property revaluation increment of $22.76 million during the current period and the acquisition of other investment property assets during the current period. Property plant and equipment assets increased by $40.31 million, or 6.8%, to $637.30 million due to the acquisition of properties in New Zealand, development of the Flagship store at Tallaght, Dublin and the refurbishment of company-operated Flagship stores and Flagship complexes during the past 12 months to realise and deliver the consolidated entity's Flagship strategy. Cash and cash equivalents increased by $96.11 million due to increased borrowings from the Syndicated Facility to fund the acquisition of investment properties and property, plant and equipment assets.

Total liabilities reduced by $412.89 million, or 20.2%, to $1.63 billion as at 31 December 2017 from $2.04 billion in the previous corresponding period. As at 31 December 2017 there was no constructive obligation by Derni to any supplier to any franchisee. This was offset by higher interest-bearing loans and borrowings due to the higher utilisation of the Syndicated Facility and other external borrowings to fund development and expansion during the current period.





The overall debt levels of the consolidated entity remain low, with a **low net debt to equity ratio of 24.16% as at 31 December 2017** compared to a ratio of 19.91% as at 31 December 2016.

Net cash flows from operating activities marginally decreased by $16.90 million, or 6.0%, to $262.61 million for the half-year ended 31 December 2017, from $279.50 million in the prior corresponding period. Net receipts from franchisees are affected by the movement in the aggregate amount of financial accommodation provided to franchisees for the current period relative to the movement in the previous corresponding period. During the current half year, net receipts from franchisees decreased by $78.87 million as the movement in the aggregate amount of financial accommodation provided to franchisees exceeded the movement in the aggregate amount of financial accommodation provided in the prior corresponding period. This is in line with the increased inventory reserves held by franchisees leading up to the Christmas period in order to drive franchisee sales revenue. This was offset by a $6.43m increase in gross revenue from franchisees.

AUDITOR INDEPENDENCE

The directors received the following declaration from the auditor of Harvey Norman Holdings Limited.

Building a better working world

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GPO Box 2646 Sydney NSW 2001

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Auditor's Independence Declaration to the Directors of Harvey Norman Holdings Limited

As lead auditor for the review of Harvey Norman Holdings Limited for the half-year ended 31 December 2017, 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 Harvey Norman Holdings Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

R Robinson

Renay Robinson
Partner, Sydney
28 February 2018

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

G. HARVEY
Chairman
Sydney
28 February 2018

K.L. Page

K.L. PAGE
Chief Executive Officer
Sydney
28 February 2018

Statement of Financial Position

	Note	CONSOLIDATED December 2017 $000	June 2017 $000	December 2016 $000
Current Assets				
Cash and cash equivalents	28(a)	**150,619**	80,224	54,513
Trade and other receivables	7	**701,003**	640,686	1,296,516
Other financial assets	8	**31,664**	29,191	29,158
Inventories	9	**370,890**	315,968	364,087
Other assets	10	**38,470**	45,878	44,571
Intangible assets	11	**516**	486	683
Total current assets		**1,293,162**	1,112,433	1,789,528
Non-Current Assets				
Trade and other receivables	12	**93,745**	78,777	84,204
Investments accounted for using equity method	29	**4,320**	26,355	23,632
Other financial assets	13	**25,566**	30,076	30,744
Property, plant and equipment	14	**637,300**	625,112	596,991
Investment properties	15	**2,385,079**	2,241,754	2,202,558
Intangible assets	16	**70,393**	75,237	78,842
Total non-current assets		**3,216,403**	3,077,311	3,016,971
Total Assets		**4,509,565**	4,189,744	4,806,499
Current Liabilities				
Trade and other payables	17	**358,840**	238,628	1,024,884
Interest-bearing loans and borrowings	18	**399,022**	386,651	395,046
Income tax payable		**27,773**	42,541	33,921
Other liabilities	19	**50,529**	41,571	43,348
Provisions	20	**35,287**	34,034	41,930
Total current liabilities		**871,451**	743,425	1,539,129
Non-Current Liabilities				
Interest-bearing loans and borrowings	21	**453,375**	333,858	214,672
Provisions	22	**9,810**	13,052	12,349
Deferred income tax liabilities		**272,288**	267,219	252,206
Other liabilities	23	**19,549**	19,283	21,008
Total non-current liabilities		**755,022**	633,412	500,235
Total Liabilities		**1,626,473**	1,376,837	2,039,364
NET ASSETS		**2,883,092**	2,812,907	2,767,135
Equity				
Contributed equity	24	**387,345**	386,309	385,296
Reserves	27	**167,789**	174,950	165,474
Retained profits	25	**2,303,258**	2,229,200	2,193,344
Parent entity interests		**2,858,392**	2,790,459	2,744,114
Non-controlling interests	26	**24,700**	22,448	23,021
TOTAL EQUITY		**2,883,092**	2,812,907	2,767,135

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

INCOME STATEMENT

	Note	CONSOLIDATED December 2017 $000	December 2016 $000
Sales revenue	3	**1,022,239**	976,276
Cost of sales		**(697,280)**	(664,232)
Gross profit		**324,959**	312,044
Revenues and other income items	3	**650,367**	699,710
Distribution expenses		**(19,899)**	(18,193)
Marketing expenses		**(202,672)**	(203,895)
Occupancy expenses	4	**(120,055)**	(114,395)
Administrative expenses	4	**(277,101)**	(249,395)
Other expenses	4	**(50,291)**	(52,021)
Finance costs	4	**(12,539)**	(9,603)
Share of net profit of joint ventures entities	29	**842**	1,980
Profit before income tax		**293,611**	366,232
Income tax expense	5	**(83,836)**	(106,218)
Profit after tax		**209,775**	260,014
Attributable to:			
Owners of the parent		**207,693**	257,292
Non-controlling interests		**2,082**	2,722
		209,775	260,014
Earnings Per Share:			
Basic earnings per share (cents per share)	6	**18.65 cents**	23.13 cents
Diluted earnings per share (cents per share)	6	**18.63 cents**	23.10 cents
Dividends per share (cents per share)	25	**12.0 cents**	14.0 cents

The above Income Statement should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME

	CONSOLIDATED December 2017 $000	CONSOLIDATED December 2016 $000
Profit for the period	**209,775**	260,014
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation	**(11,827)**	(3,987)
Net fair value (losses) / gains on available-for-sale investments	**(2,293)**	4,595
Net movement on cash flow hedges	**(47)**	61
Income tax effect on net movement on cash flow hedges	**14**	(19)
Items that will not be reclassified subsequently to profit or loss:		
Fair value revaluation of land and buildings	**8,089**	9,465
Income tax effect on fair value revaluation of land and buildings	**(882)**	(1,576)
Other comprehensive income for the period (net of tax)	**(6,946)**	8,539
Total comprehensive income for the period (net of tax)	**202,829**	268,553
Total comprehensive income attributable to:		
Owners of the parent	**200,195**	266,873
Non-controlling interests	**2,634**	1,680
	202,829	268,553

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

	Attributable to Equity Holders of the Parent									
	Contributed Equity	Retained Profits	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Available for Sale Reserve	Cash Flow Hedge Reserve	Employee Equity Benefits Reserve	Acquisition Reserve	Non-controlling Interests	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
At 1 July 2017	386,309	2,229,200	131,304	42,374	13,732	(20)	9,611	(22,051)	22,448	**2,812,907**
Other comprehensive income:										
Revaluation of land and buildings	-	-	7,207	-	-	-	-	-	-	**7,207**
Reverse expired or realised cash flow hedge reserves	-	-	-	-	-	20	-	-	-	**20**
Currency translation differences	-	-	-	(12,379)	-	-	-	-	552	**(11,827)**
Fair value of forward foreign exchange contracts	-	-	-	-	-	(53)	-	-	-	**(53)**
Fair value of available for sale financial assets	-	-	-	-	(2,293)	-	-	-	-	**(2,293)**
Other comprehensive income	-	-	7,207	(12,379)	(2,293)	(33)	-	-	552	**(6,946)**
Profit for the period	-	207,693	-	-	-	-	-	-	2,082	**209,775**
Total comprehensive income for the period	**-**	**207,693**	**7,207**	**(12,379)**	**(2,293)**	**(33)**	**-**	**-**	**2,634**	**202,829**
Cost of share based payments	-	-	-	-	-	-	337	-	-	**337**
Shares issued	1,036	-	-	-	-	-	-	-	-	**1,036**
Dividends paid	-	(133,635)	-	-	-	-	-	-	(32)	**(133,667)**
Distribution to members	-	-	-	-	-	-	-	-	(350)	**(350)**
At 31 December 2017	**387,345**	**2,303,258**	**138,511**	**29,995**	**11,439**	**(53)**	**9,948**	**(22,051)**	**24,700**	**2,883,092**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to Equity Holders of the Parent									
	Contributed Equity	Retained Profits	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Available for Sale Reserve	Cash Flow Hedge Reserve	Employee Equity Benefits Reserve	Acquisition Reserve	Non-controlling Interests	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
At 1 July 2016	385,296	2,125,186	111,199	48,021	9,682	(32)	8,995	(22,051)	22,378	**2,688,674**
Other comprehensive income:										
Revaluation of land and buildings	-	-	7,889	-	-	-	-	-	-	**7,889**
Reverse expired or realised cash flow hedge reserves	-	-	-	-	-	32	-	-	-	**32**
Currency translation differences	-	-	-	(2,945)	-	-	-	-	(1,042)	**(3,987)**
Fair value of forward foreign exchange contracts	-	-	-	-	-	10	-	-	-	**10**
Fair value of available for sale financial assets	-	-	-	-	4,595	-	-	-	-	**4,595**
Other comprehensive income	-	-	7,889	(2,945)	4,595	42	-	-	(1,042)	**8,539**
Profit for the period	-	257,292	-	-	-	-	-	-	2,722	**260,014**
Total comprehensive income for the period	**-**	**257,292**	**7,889**	**(2,945)**	**4,595**	**42**	**-**	**-**	**1,680**	**268,553**
Cost of share based payments	-	-	-	-	-	-	79	-	-	**79**
Dividends paid	-	(189,134)	-	-	-	-	-	-	(277)	**(189,411)**
Distribution to members	-	-	-	-	-	-	-	-	(760)	**(760)**
At 31 December 2016	**385,296**	**2,193,344**	**119,088**	**45,076**	**14,277**	**10**	**9,074**	**(22,051)**	**23,021**	**2,767,135**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Note	CONSOLIDATED December 2017 $000	CONSOLIDATED December 2016 $000
Cash Flows from Operating Activities			
Net receipts from franchisees		**500,669**	579,538
Receipts from customers		**1,065,080**	1,020,171
Payments to suppliers and employees		**(1,176,221)**	(1,207,379)
Distributions received from joint ventures		**4,917**	6,296
GST paid		**(31,778)**	(22,871)
Interest received		**2,391**	3,002
Interest and other costs of finance paid		**(12,082)**	(9,572)
Income taxes paid		**(92,116)**	(90,815)
Dividends received		**1,747**	1,134
Net Cash Flows From Operating Activities	28(b)	**262,607**	279,504
Cash Flows from Investing Activities			
Payments for purchases of property, plant and equipment and intangible assets		**(50,962)**	(42,361)
Payments for purchase of investment properties		**(107,493)**	(80,739)
Proceeds from sale of property, plant and equipment		**512**	531
Payments for purchase of units in unit trusts and other investments		**(76)**	(87)
Payments for purchase of equity accounted investments		**(4,163)**	(2,957)
Proceeds from sale of / (payments for purchase of) listed securities		**44**	(6,538)
Loans (granted to) / repaid by joint venture entities, joint venture partners and unrelated entities		**(29,183)**	5,023
Net Cash Flows Used In Investing Activities		**(191,321)**	(127,128)
Cash Flows from Financing Activities			
Proceeds from shares issued		**1,036**	-
Proceeds from / (repayments of) Syndicated Facility		**160,000**	(50,000)
Dividends paid		**(133,635)**	(189,134)
Loans (repaid to) / received from related parties		**(13,316)**	15,910
Repayment of other borrowings		**(2,357)**	(11,835)
Net Cash Flows From / (Used In) Financing Activities		**11,728**	(235,059)
Net Increase / (Decrease) in Cash and Cash Equivalents		**83,014**	(82,683)
Cash and Cash Equivalents at Beginning of the Period		**42,882**	103,631
Cash and Cash Equivalents at End of the Period	28(a)	**125,896**	20,948

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

Harvey Norman Holdings Limited (the "Company") is a for profit company limited by shares incorporated in Australia and operating in Australia, New Zealand, Ireland, Northern Ireland, Singapore, Malaysia, Slovenia and Croatia whose shares are publicly traded on the Australian Securities Exchange ("ASX") trading under the ASX code HVN.

The financial report of Harvey Norman Holdings Limited for the half-year ended 31 December 2017 was authorised for issue in accordance with a resolution of the directors on 28 February 2018.

(b) Basis of Preparation

The half-year financial report does not include all notes of the type normally included within the Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and the operating, financing and investing activities of the consolidated entity as the Annual Financial Report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Harvey Norman Holdings Limited as at 30 June 2017.

It is also recommended that the half-year financial report be considered together with any public announcements made by Harvey Norman Holdings Limited and its controlled entities during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Accounting Standard AASB 134 "Interim Financial Reporting". The financial report has been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments, listed shares held for trading and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges, that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The half-year financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated under the option available to the Company under Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

(c) Statement of Compliance

These consolidated financial statements have been prepared using the same accounting policies as used in the Annual Financial Report for the year ended 30 June 2017, except for the adoption of amended standards mandatory for annual periods beginning on or after 1 July 2017. The adoption of the amending standards did not have a significant impact on the consolidated entity.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the half-year reporting period ended 31 December 2017.

During the half-year ended 31 December 2017, certain comparatives have been restated in the Income Statement for consistency with policies adopted in the current period, which are not material for disclosure purposes.

(d) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Harvey Norman Holdings Limited and its controlled entities. Control is achieved when the consolidated entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the consolidated entity controls an investee if and only if the consolidated entity has all of the following:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the consolidated entity has less than a majority of the voting or similar rights of an investee, the consolidated entity considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The consolidated entity's voting rights and potential voting rights

The consolidated entity re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the consolidated entity obtains control over the subsidiary and ceases when the consolidated entity loses control of the subsidiary.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Financial statements of foreign controlled entities presented in accordance with overseas accounting principles are, for consolidation purposes, adjusted to comply with the consolidated entity's policy and generally accepted accounting principles in Australia.

Non-controlling interests are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the Parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as an equity transaction.

2. OPERATING SEGMENTS

Operating Segment Revenue: 31 December 2017	December 2017 $000		
	Sales to Customers Outside the Consolidated Entity	Other Revenues from Outside the Consolidated Entity	Segment Revenue
FRANCHISING OPERATIONS	-	500,922	500,922
Retail – New Zealand	462,141	10,816	472,957
Retail – Singapore & Malaysia	225,790	4,502	230,292
Retail – Slovenia & Croatia	68,670	1,147	69,817
Retail – Ireland & Northern Ireland	180,994	4,388	185,382
Other Non-Franchised Retail	82,082	1,272	83,354
TOTAL RETAIL	1,019,677	22,125	1,041,802
Retail Property	51	148,492	148,543
TOTAL PROPERTY	51	148,492	148,543
EQUITY INVESTMENTS	-	2,503	2,503
OTHER	2,511	6,023	8,534
INTER-COMPANY ELIMINATIONS	-	(29,698)	(29,698)
TOTAL SEGMENT REVENUE	1,022,239	650,367	1,672,606

Operating Segment Revenue: 31 December 2016	December 2016 $000		
	Sales to Customers Outside the Consolidated Entity	Other Revenues from Outside the Consolidated Entity	Segment Revenue
FRANCHISING OPERATIONS	-	500,137	500,137
Retail – New Zealand	459,449	10,334	469,783
Retail – Singapore & Malaysia	212,682	3,609	216,291
Retail – Slovenia & Croatia	55,588	803	56,391
Retail – Ireland & Northern Ireland	155,900	4,077	159,977
Other Non-Franchised Retail	92,330	2,441	94,771
TOTAL RETAIL	975,949	21,264	997,213
Retail Property	68	196,176	196,244
Property Developments for Resale	-	30	30
TOTAL PROPERTY	68	196,206	196,274
EQUITY INVESTMENTS	-	1,357	1,357
OTHER	259	8,304	8,563
INTER-COMPANY ELIMINATIONS	-	(27,558)	(27,558)
TOTAL SEGMENT REVENUE	976,276	699,710	1,675,986

2. OPERATING SEGMENTS (CONTINUED)

Operating Segment Result: 31 December 2017	December 2017 $000 Segment Result Before Interest, Taxation, Depreciation, Impairment & Amortisation	Interest Expense	Depreciation Expense	Impairment & Amortisation Expense	Segment Result Before Tax
FRANCHISING OPERATIONS	190,875	(1,404)	(13,766)	(8,491)	**167,214**
Retail – New Zealand	45,550	-	(4,315)	(157)	**41,078**
Retail – Singapore & Malaysia	15,503	6	(2,745)	(462)	**12,302**
Retail – Slovenia & Croatia	5,696	(197)	(871)	(95)	**4,533**
Retail – Ireland & Northern Ireland	7,074	(1,160)	(2,003)	-	**3,911**
Other Non-Franchised Retail	6,389	(756)	(759)	(9,315)	**(4,441)**
TOTAL RETAIL	80,212	(2,107)	(10,693)	(10,029)	**57,383**
Retail Property	105,192	(8,403)	(5,304)	(152)	**91,333**
Property Developments for Resale	(41)	(10)	-	-	**(51)**
TOTAL PROPERTY	105,151	(8,413)	(5,304)	(152)	**91,282**
EQUITY INVESTMENTS	2,460	(124)	-	-	**2,336**
OTHER	(784)	(634)	(2,521)	(20,665)	**(24,604)**
INTER-COMPANY ELIMINATIONS	(143)	143	-	-	**-**
TOTAL SEGMENT RESULT BEFORE TAX	**377,771**	**(12,539)**	**(32,284)**	**(39,337)**	**293,611**

Operating Segment Result: 31 December 2016	December 2016 $000 Segment Result Before Interest, Taxation, Depreciation, Impairment & Amortisation	Interest Expense	Depreciation Expense	Impairment & Amortisation Expense	Segment Result Before Tax
FRANCHISING OPERATIONS	194,442	(1,989)	(12,676)	(7,652)	**172,125**
Retail – New Zealand	44,088	(14)	(3,784)	(145)	**40,145**
Retail – Singapore & Malaysia	14,982	(24)	(2,927)	(474)	**11,557**
Retail – Slovenia & Croatia	3,499	(191)	(808)	(76)	**2,424**
Retail – Ireland & Northern Ireland	5,510	(814)	(1,785)	-	**2,911**
Other Non-Franchised Retail	7,097	(718)	(711)	(11,141)	**(5,473)**
TOTAL RETAIL	75,176	(1,761)	(10,015)	(11,836)	**51,564**
Retail Property	157,474	(5,515)	(4,841)	(152)	**146,966**
Retail Property Under Construction	(10)	(1)	(1)	-	**(12)**
Property Developments for Resale	(206)	(65)	-	-	**(271)**
TOTAL PROPERTY	157,258	(5,581)	(4,842)	(152)	**146,683**
EQUITY INVESTMENTS	4,885	(80)	-	-	**4,805**
OTHER	(1,329)	(519)	(2,479)	(4,618)	**(8,945)**
INTER-COMPANY ELIMINATIONS	(327)	327	-	-	**-**
TOTAL SEGMENT RESULT BEFORE TAX	**430,105**	**(9,603)**	**(30,012)**	**(24,258)**	**366,232**

2. OPERATING SEGMENTS (CONTINUED)

The consolidated entity operates predominantly in eleven (11) operating segments:

Operating Segment	Description of Segment
Franchising Operations	Consists of the franchisor operations of the consolidated entity, but does not include the results, assets, liabilities or operations of any Harvey Norman®, Domayne® and Joyce Mayne® franchisees.
Retail – New Zealand	Consists of the wholly-owned operations of the consolidated entity in the retail trading operations in New Zealand under the Harvey Norman® brand name.
Retail – Singapore & Malaysia	Consists of the controlling interest of the consolidated entity in the retail trading operations in Singapore and Malaysia under the Harvey Norman® and Space brand names.
Retail – Slovenia & Croatia	Consists of the wholly-owned operations of the consolidated entity in the retail trading operations in Slovenia and Croatia under the Harvey Norman® brand name.
Retail – Ireland & Northern Ireland	Consists of the wholly-owned operations of the consolidated entity in the retail trading operations in Ireland and Northern Ireland under the Harvey Norman® brand name.
Other Non-Franchised Retail	Consists of the retail trading operations in Australia which are controlled by the consolidated entity and does not include any operations of Harvey Norman®, Domayne® and Joyce Mayne® franchisees.
Retail Property	Consists of land and buildings for each site that is fully operational or is ready and able to be tenanted. The revenue and results of this segment consists of rental income, outgoings recovered and the net property revaluation increments and/or decrements recognised in the Income Statement for each site that is owned by the consolidated entity which is fully operational (or ready for operations) as at balance date. This segment includes the mining camp accommodation joint ventures.
Retail Property Under Construction	Consists of sites that are currently undergoing construction at balance date intended for retail leasing. It also includes vacant land that has been purchased for the purposes of generating future investment income and facilitating the expansion and operation of the franchising operations.
Property Developments for Resale	Consists of land and buildings acquired by the consolidated entity, to be developed, or currently under development, for the sole purpose of resale at a profit.
Equity Investments	This segment refers to the trading of, and investment in, listed securities.
Other	This segment primarily relates to credit facilities provided to related and unrelated parties, other unallocated income and expense items and the joint venture investment in Coomboona Holdings Pty Limited.

	CONSOLIDATED	
	December 2017 $000	December 2016 $000

3. REVENUES

	December 2017 $000	December 2016 $000
Sales revenue:		
Revenue from the sale of products	**1,022,239**	976,276
Revenues and other income items:		
Gross revenue from franchisees:		
- Franchise fees	**420,433**	419,010
- Rent and outgoings received from franchisees	**120,775**	116,805
- Interest to implement and administer the financial accommodation facility	**15,190**	14,152
Total revenue received from franchisees	**556,398**	549,967
Gross revenue from other unrelated parties:		
- Rent and outgoings received from external tenants	**40,587**	40,412
- Interest received from financial institutions and other parties	**2,870**	3,002
- Dividends received	**1,378**	1,357
Total revenue from other unrelated parties	**44,835**	44,771
Other Income Items:		
- Net property revaluation increment on Australian investment properties	**22,762**	75,743
- Net revaluation increment of equity investments to fair value	**1,125**	3,571
- Net foreign exchange gains	**-**	263
- Other revenue	**25,247**	25,395
Total other income items	**49,134**	104,972
Total revenues and other income items	**650,367**	699,710

4. EXPENSES AND LOSSES

	December 2017 $000	December 2016 $000
Tactical support	**31,667**	28,840

Tactical support may be provided by a franchisor to a franchisee, from time to time, to protect, enhance and promote the Harvey Norman®, Domayne® and Joyce Mayne® brands. Tactical support assists a franchisee to better compete in a market.

	December 2017 $000	December 2016 $000
Employee benefits expense:		
- Wages and salaries	**136,290**	130,493
- Workers' compensation	**661**	624
- Superannuation contributions	**6,791**	6,635
- Payroll tax	**5,613**	4,888
- Share-based payments	**355**	96
- Other employee benefits	**5,461**	5,791
Total employee benefits expense	**155,171**	148,527
Minimum lease payments	**84,713**	80,606
Finance costs:		
- Loans from directors and director-related entities	**407**	454
- Bank interest paid to financial institutions	**11,372**	8,506
- Other	**760**	643
Total finance costs	**12,539**	9,603

4. EXPENSES AND LOSSES (CONTINUED)

	CONSOLIDATED December 2017 $000	CONSOLIDATED December 2016 $000
Depreciation, amortisation and impairment:		
Depreciation of:		
- Buildings	**4,999**	4,524
- Plant and equipment	**27,285**	25,488
Amortisation of:		
- Computer software	**8,965**	8,395
- Net licence property and other intangible assets	**521**	191
Impairment of non-trade debts receivable from related parties (a) (included in administrative expenses line in the Income Statement)	**9,186**	11,054
Impairment of equity-accounted investment (b) (included in administrative expenses line in the Income Statement)	**20,665**	-
Impairment loss on repayment of external finance facility (c) (included in administrative expenses line in the Income Statement)	**-**	4,618
Total depreciation, amortisation and impairment	**71,621**	54,270

(a) As at 31 December 2017, non-trade debts receivable with a carrying value of $140.52 million (Dec 2016: $110.12 million) was assessed for impairment and the consolidated entity recognised an impairment loss of $9.19 million in the Income Statement (Dec 2016: $11.05 million). The non-trade debts receivable relate to several mining camp accommodation joint ventures and other commercial loans in Australia.

(b) The impairment loss incurred in the December 2017 half of $20.67 million related to the write-down of the carrying amount of the equity-accounted investment in the Coomboona JV to its estimated recoverable amount. Refer to further information provided on Page 13 regarding the Other Segment.

(c) The impairment loss incurred in the December 2016 half of $4.62 million related to an estimated shortfall in the repayment of an external finance facility for a mining camp accommodation joint venture.

5. INCOME TAX

	December 2017 $000	December 2016 $000
Income tax recognised in the Income Statement:		
The major components of income tax expense are:		
Current income tax:		
Current income tax charge	**77,226**	79,487
Adjustments in respect of current income tax of previous years	**408**	(668)
Deferred income tax:		
Relating to the origination and reversal of temporary differences	**6,202**	27,399
Total income tax expense reported in the Income Statement	**83,836**	106,218

6. EARNINGS PER SHARE

	December 2017	December 2016
Basic earnings per share (cents per share)	**18.65c**	23.13c
Diluted earnings per share (cents per share)	**18.63c**	23.10c
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Profit after tax	**209,775**	260,014
Less: Profit after tax attributable to non-controlling interests	**(2,082)**	(2,722)
Profit after tax attributable to owners to the parent	**207,693**	257,292

6. EARNINGS PER SHARE (CONTINUED)

	NUMBER OF SHARES December 2017 $000	December 2016 $000
Weighted average number of ordinary shares used in calculating basic earnings per share (a)	**1,113,418,528**	1,112,554,911
Effect of dilutive securities (b)	**1,175,643**	1,483,210
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**1,114,594,171**	1,114,038,121

(a) Weighted Average number of Ordinary Shares

The weighted average number of ordinary shares used in calculating basic earnings per share is inclusive of the new shares totalling 567,000 ordinary shares in the company issued during the period pursuant to the options issued to certain executive directors under the Executive Option Plan granted on 29 November 2012 (the Third Tranche), weighted on a pro-rata basis from issue date to 31 December 2017.

(b) Effect of Dilutive Securities

On 29 November 2012, the consolidated entity issued 3,000,000 unlisted options to certain executive directors (the "Third Tranche"). These options are capable of exercise from 1 January 2016 to 30 June 2018 at an exercise price of $1.83 per option and a fair value of $0.282 per option at grant date. On 14 November 2013, the consolidated entity announced that a total of 1,299,000 options over 1,299,000 shares in respect of the Third Tranche had lapsed and will never be exercisable by the participants. On 14 March 2016, a total of 567,000 options over 567,000 shares in respect of the Third Tranche were exercised reducing the unexercised portion to 1,134,000 options. On 4 September 2017, a total of 567,000 options over 567,000 shares in respect of the Third Tranche were exercised reducing the unexercised portion to 567,000 options.

On 30 November 2015, the consolidated entity issued a total of 400,000 performance rights under Tranche 1 of the 2016 LTI Plan to the executive directors. A performance right is the right to acquire one ordinary share in the Company at nil exercise price. If exercised, each performance right will be converted into one ordinary share in the Company. These performance rights are capable of exercise from 1 January 2019 to 30 June 2021. The performance rights were valued at grant date at $3.52 per entitlement share using a discounted cash flow technique. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche 1 performance rights amounted to $1,408,000 in aggregate.

On 28 November 2016, the consolidated entity issued a total of 400,000 performance rights under Tranche 2 of the 2016 LTI Plan to the executive directors. These performance rights are capable of exercise from 1 January 2020 to 30 June 2022. The performance rights were valued at grant date at $3.87 per entitlement share using a discounted cash flow technique. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche 2 performance rights amounted to $1,548,000 in aggregate.

On 1 December 2017, the consolidated entity issued a total of 400,000 performance rights under Tranche 3 of the 2016 LTI Plan to the executive directors. These performance rights are capable of exercise from 1 January 2021 to 30 June 2023. The performance rights were valued at grant date at $3.34 per entitlement share using a discounted cash flow technique. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche 3 performance rights amounted to $1,336,000 in aggregate.

Options issued pursuant to the Third Tranche and the performance rights issued under Tranche 1, Tranche 2 and Tranche 3 of the 2016 LTI Plan have been included in the calculation of diluted earnings per share. They are considered to be dilutive as their conversion to ordinary shares would decrease the net profit per share. There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date.

7. TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000
Receivables from franchisees (a)	**555,162**	535,448	1,145,418
Trade receivables	**115,853**	81,667	126,720
Consumer finance loans	**2,677**	2,435	2,120
Provision for doubtful debts	**(1,294)**	(1,195)	(1,088)
Receivables from franchisees and trade receivables, net	**672,398**	618,355	1,273,170
Amounts receivable in respect of finance leases	**5,474**	5,548	5,508
Provision for doubtful debts	**(2,458)**	(2,458)	(2,458)
Finance leases, net	**3,016**	3,090	3,050
Non-trade debts receivable from:			
- Related entities (including joint ventures and joint venture partners)	**22,677**	15,678	16,303
- Unrelated entities	**3,063**	3,714	4,143
Provision for doubtful debts	**(151)**	(151)	(150)
Non-trade debts receivable, net	**25,589**	19,241	20,296
Total trade and other receivables (current)	**701,003**	640,686	1,296,516

(a) Receivables from franchisees

Derni Pty Limited (Derni), a wholly-owned subsidiary of Harvey Norman Holdings Limited (HNHL), may, at the request of a franchisee, provide financial accommodation in the form of a revolving line of credit, to that franchisee. The repayment of the indebtedness of that franchisee to Derni is secured by a security interest over all present and after-acquired property of that franchisee, pursuant to a General Security Deed (GSD).

The receivables from franchisees balance of $555.16 million as at 31 December 2017 comprises the aggregate of the balances due from each franchisee to Derni. Receivables from franchisees are current and neither past due nor impaired as at 31 December 2017. The indebtedness of each franchisee to Derni is reduced on a daily basis by an electronic funds transfer process. Each franchisee directs the financial institution of that franchisee to transfer the net cash receipts in the bank account of the franchisee to Derni, in reduction of outstanding indebtedness.

As at 31 December 2016, the receivables from franchisees balance also included amounts representing the aggregate value of committed commercial advances to each franchisee, being amounts that Derni had committed to make available to franchisees to be drawn down to pay third party suppliers for inventory purchased and received by each franchisee prior to balance date, which remained unpaid at balance date by that franchisee. Committed commercial advances to franchisees were previously recognised by Derni due to the existence of a constructive obligation deemed to be owed by Derni to suppliers of each franchisee. Derni has no legal obligation to discharge the liabilities of a franchisee to suppliers of that franchisee. However, a constructive obligation arose as:

- it was deemed that by an established pattern of past practice Derni indicated to suppliers of franchisees that Derni would, upon receipt of a payment direction from a franchisee, out of financial accommodation to be provided to that franchisee, pay the debts of that franchisee due to those suppliers; and
- as a result, it was deemed that, Derni had created an expectation on the part of those suppliers that Derni would discharge those debts which remained unpaid as at 31 December 2016.

During the second half of the 2017 financial year, Derni reiterated, reconfirmed and clarified with suppliers to each franchisee the following key principles of the franchised operating model in Australia:

- each franchisee separately contracts with each supplier in respect of the supply of goods by that supplier to that franchisee;
- each franchisee separately orders inventory, has title to the inventory and is responsible for payment of the purchase price to a supplier to acquire inventory;
- each franchisee sells inventory to customers of the business of the respective franchisee;
- HNHL and each subsidiary of HNHL (including Derni) is not the purchaser of any goods supplied by a supplier to a franchisee and is not a party to the standard trading terms between a supplier and a purchasing franchisee;
- HNHL and each subsidiary of HNHL is not responsible for the discharge of any obligations of a franchisee under any contract with a supplier, does not provide any guarantees or otherwise owe any responsibilities to a supplier in respect of any purchase of goods by a franchisee from that supplier and does not, at any time, have possession of or title to any goods supplied by a supplier to a franchisee; and
- Derni may from time to time provide financial accommodation in the form of a revolving line of credit to a franchisee, at the request of a franchisee, to assist the franchisee to acquire inventory from a supplier. Derni receives a payment direction from each franchisee to pay and apply the proceeds of each drawdown of financial accommodation to the supplier, in satisfaction of the debt owed by the franchisee to the supplier for the acquired inventory.

The above reiteration, reconfirmation and clarification measures conveyed to suppliers of each franchisee prior to June 2017 appropriately addressed and rectified any incorrect expectations on the part of a supplier that Derni would discharge any of the debts owed by a franchisee to the supplier. As at 31 December 2017, there was no constructive obligation by Derni to any supplier to any franchisee and no committed commercial advance to any franchisee.

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000

8. OTHER FINANCIAL ASSETS (CURRENT)

Listed shares held for trading at fair value	**29,972**	27,474	27,447
Derivatives receivable	**-**	25	19
Other current financial assets	**1,692**	1,692	1,692
Total other financial assets (current)	**31,664**	29,191	29,158

9. INVENTORIES (CURRENT)

Finished goods at cost	**376,854**	321,142	369,835
Provision for obsolescence	**(5,964)**	(5,174)	(5,748)
Total inventories (current)	**370,890**	315,968	364,087

10. OTHER ASSETS (CURRENT)

Prepayments	**33,189**	28,383	30,096
Other current assets	**5,281**	17,495	14,475
Total other assets (current)	**38,470**	45,878	44,571

11. INTANGIBLE ASSETS (CURRENT)

Net licence property	**516**	486	683

12. TRADE AND OTHER RECEIVABLES (NON-CURRENT)

Trade receivables	**516**	499	483
Consumer finance loans	**565**	513	444
Provision for doubtful debts	**(5)**	(5)	(4)
Trade receivables, net	**1,076**	1,007	923
Amounts receivable in respect of finance leases	**723**	884	1,194
Non-trade debts receivable from:			
- Related entities (including joint ventures)	**138,007**	114,605	110,115
- Unrelated entities	**11,279**	10,435	8,957
Provision for doubtful debts	**(57,340)**	(48,154)	(36,985)
Non-trade debts receivable, net	**91,946**	76,886	82,087
Total trade and other receivables (non-current)	**93,745**	78,777	84,204

13. OTHER FINANCIAL ASSETS (NON-CURRENT)

Listed shares held for trading at fair value	**7,915**	9,331	9,372
Listed shares held as available for sale at fair value	**16,479**	19,650	20,350
Units in unit trusts	**218**	219	225
Other non-current financial assets	**954**	876	797
Total other financial assets (non-current)	**25,566**	30,076	30,744

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000

14. PROPERTY, PLANT AND EQUIPMENT

Land at fair value	**185,121**	182,529	180,128
Buildings at fair value	**232,384**	231,320	216,301
Net land and buildings at fair value	**417,505**	413,849	396,429
Plant and equipment:			
At cost	**796,366**	779,989	783,212
Accumulated depreciation	**(579,517)**	(570,902)	(585,131)
Net plant and equipment	**216,849**	209,087	198,081
Lease make good asset:			
At cost	**6,068**	5,083	5,440
Accumulated depreciation	**(3,122)**	(2,907)	(2,959)
Net lease make good asset	**2,946**	2,176	2,481
Total plant and equipment	**219,795**	211,263	200,562
Total property, plant and equipment:			
Land and buildings at fair value	**417,505**	413,849	396,429
Plant and equipment at cost	**802,434**	785,072	788,652
Total property, plant and equipment	**1,219,939**	1,198,921	1,185,081
Accumulated depreciation and amortisation	**(582,639)**	(573,809)	(588,090)
Total written down amount	**637,300**	625,112	596,991

15. INVESTMENT PROPERTIES

Opening balance at beginning of the year, at fair value	**2,241,754**	2,046,295	2,046,295
Net additions, disposals and transfers	**120,563**	88,077	80,520
Net increase from fair value adjustments	**22,762**	107,382	75,743
Closing balance at end of the period, at fair value	**2,385,079**	2,241,754	2,202,558

Investment Properties

Each investment property is valued at fair value. Each investment property is the subject of a lease or licence in favour of independent third parties, including Harvey Norman®, Domayne® and Joyce Mayne® franchisees ("Franchisees"). The fair value in respect of each investment property has been calculated predominantly using the income capitalisation method of valuation, using the current market rental value, and having regard to, in respect of each property:

- the highest and best use
- quality of construction
- age and condition of improvements
- recent market sales data in respect of comparable properties
- current market rental value, being the amount that could be exchanged between knowledgeable, willing parties in an arm's length transaction
- tenure of franchisees and external tenants
- adaptive reuse of buildings
- the specific circumstances of the property not included in any of the above points
- non-reliance on turnover rent

The investment property portfolio in Australia is subject to a semi-annual review to fair market value at each reporting period. At each reporting period, one-sixth of the portfolio is independently valued with the remaining five-sixths reviewed for fair value by Directors. The whole portfolio is independently valued every three years.

The consolidated entity obtained independent valuations in respect of nineteen (19) sites within the investment property portfolio during the half-year ended 31 December 2017. Based on the results of the independent valuations, and a consideration of other internal and external factors that may impact the fair value of the overall investment property portfolio, a further eight (8) sites within the investment property portfolio were identified by management for further review by management. The eight (8) sites had been similarly affected by the same factors or characteristics of the properties which had been independently valued, particularly in relation to yields and market rentals. The capitalisation method of valuation was used for all valuations. A discounted cash flow valuation was undertaken in respect of all properties for means of comparison. There were no material differences between the capitalisation method result and the discounted cash flow result.

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000

16. INTANGIBLE ASSETS (NON-CURRENT)

	December 2017 $000	June 2017 $000	December 2016 $000
Net licence property	**3,382**	3,549	3,872
Other intangible assets	**360**	334	281
Computer software:			
- At cost	**185,487**	181,188	176,364
- Accumulated amortisation and impairment	**(118,836)**	(109,834)	(101,675)
Net computer software	**66,651**	71,354	74,689
Net intangible assets (non-current)	**70,393**	75,237	78,842

17. TRADE AND OTHER PAYABLES (CURRENT)

	December 2017 $000	June 2017 $000	December 2016 $000
Trade and other creditors (a)	**285,296**	182,917	964,331
Accruals	**73,544**	55,711	60,553
Total trade and other payables (current)	**358,840**	238,628	1,024,884

(a) Trade and other creditors

The balance as at 31 December 2016 included amounts previously recognised as a payable by Derni due to the existence of a constructive obligation deemed to be owed by Derni to suppliers of each franchisee.

During the second half of the 2017 financial year, Derni reiterated, reconfirmed and clarified with suppliers to each franchisee key principles of the franchised operating model in Australia. These measures appropriately addressed and rectified any incorrect expectations on the part of a supplier that Derni would discharge the debts owed by a franchisee to the supplier and effectively removed the existence of any constructive obligation by Derni to that supplier. As at 31 December 2017, there was no constructive obligation due by Derni to any supplier to any franchisee.

Refer to Note 7(a). Receivables from franchisees for further information.

18. INTEREST-BEARING LOANS AND BORROWINGS (CURRENT)

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000
Secured:			
Non-trade amounts owing to:			
- Bank overdraft	**24,723**	37,342	33,565
- Commercial bills payable	**9,750**	9,750	9,750
- Syndicated Facility Agreement (a)	**240,000**	200,000	200,000
- Other short-term borrowings (b)	**85,782**	87,576	90,261
Lease liabilities	**1,323**	1,327	1,278
Unsecured:			
Derivatives payable	**157**	68	3
Non-trade amounts owing to:			
- Directors	**24,382**	36,341	52,360
- Other related parties	**12,679**	14,036	7,616
- Unrelated parties	**226**	211	213
Total interest-bearing loans and borrowings (current)	**399,022**	386,651	395,046

(a) Syndicated Facility Agreement

On 2 December 2009, the Company, a subsidiary of the Company ("Borrower") and certain other subsidiaries of the Company ("Guarantors") entered into a Syndicated Facility Agreement with certain banks ("Financiers" and each a "Financier"). On 1 December 2017, the Amending Deed (No. 5) to the Syndicated Facility Agreement was executed with the effect of extending the repayment date of Tranche A2 of the Facility totalling $200 million to 4 December 2019 and providing an additional Tranche A3 of the Facility totalling $200 million with a repayment date of 4 December 2020.

The aggregate available facility of the Syndicated Facility Agreement increased from $610 million to $810 million. The utilised amount of the Syndicated Facility Agreement as at 31 December 2017 was $690 million, repayable as set out below, $240 million of which was classified as current interest-bearing loans and borrowings and $450 million classified as non-current interest-bearing loans and borrowings. This Facility is secured by:

- fixed and floating charge granted by the Company and each of the Guarantors in favour of a security trustee for the Financiers; and
- real estate mortgages granted by certain Guarantors in favour of the security trustee for the Financiers over various real properties owned by those Guarantors.

Under the terms of the Syndicated Facility Agreement, the Facility is repayable:

- in respect of Tranche A1 totalling $170 million, on 4 December 2019 ($170 million utilised at 31 December 2017);
- in respect of Tranche A2 totalling $200 million, on 4 December 2019 ($200 million utilised at 31 December 2017);
- in respect of Tranche B totalling $240 million, on 4 December 2018 ($240 million utilised at 31 December 2017);
- in respect of Tranche A3 totalling $200 million, on 4 December 2020 ($80 million utilised at 31 December 2017); and
- otherwise on demand by or on behalf of the Financiers upon the occurrence of any one of a number of events (each a "Relevant Event"), including events which are not within the control of the Company, the Borrower or the Guarantors. Each of the following is a Relevant Event:
  - (i) an event occurs which has or is reasonably likely to have a material adverse effect on the business, operation, property, condition (financial or otherwise) or prospects of the Borrower or the Company and the subsidiaries of the Company;
  - (ii) if any change in law or other event makes it illegal or impractical for a Financier to perform its obligations under the Syndicated Facility Agreement or fund or maintain the amount committed by that Financier to the provision of the Increased Facility ("Commitment"), the Financier may by notice to the Borrower, require the Borrower to repay the secured moneys in respect of the Commitment of that Financier, in full on the date which is forty (40) business days after the date of that notice.

(b) Other Short-Term Borrowings

Of the total other short-term borrowings of $85.78 million:

- a total of $45.20 million is secured by the securities given pursuant to the Syndicated Facility Agreement. The facilities are utilised in Slovenia and Croatia and have a maturity date of 4 December 2018.
- a total of $32.33 million is secured by the securities given pursuant to the Syndicated Facility Agreement. The facility is utilised in Singapore and has a maturity date of 4 December 2018.
- a total of $3.64 million relates to a revolving credit facility with ANZ in Singapore. This facility is subject to periodic review and otherwise repayable on demand. The revolving credit facility is secured by the securities given pursuant to the Syndicated Facility Agreement.
- a total of $1.11 million relates to a revolving credit facility with AmBank (M) Berhad in Malaysia which is subject to periodic review and otherwise repayable on demand. The Company has granted a guarantee to AmBank (M) Berhad in Malaysia in respect of the obligations of Space Furniture Collection Sdn Bhd.
- a total of $3.50 million relates to a revolving credit facility with ANZ in Australia which is subject to periodic review and otherwise repayable on demand. The Company has granted a guarantee to ANZ in respect of the obligations of the Lighting Partners Australia partnership.

The Company has not received notice of the occurrence of any Relevant Event from any Financier. During the current and prior half years, there were no defaults or breaches on any of the interest-bearing loans and borrowings referred to in this note and in Note 21 Interest-Bearing Loans and Borrowings (Non-Current).

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000

19. OTHER LIABILITIES (CURRENT)

Lease incentives	**3,825**	3,598	3,172
Unearned revenue	**46,704**	37,973	40,176
Total other liabilities (current)	**50,529**	41,571	43,348

20. PROVISIONS (CURRENT)

Employee entitlements	**31,788**	31,513	30,548
Lease make good	**1,652**	792	1,255
Deferred lease expenses	**1,684**	1,200	1,292
Onerous lease costs	**163**	529	835
Other	**-**	-	8,000
Total provisions (current)	**35,287**	34,034	41,930

21. INTEREST-BEARING LOANS AND BORROWINGS (NON-CURRENT)

Secured:			
Syndicated Facility Agreement (Refer to Note 18(a))	**450,000**	330,000	210,000
Lease liabilities	**3,375**	3,858	4,672
Total interest-bearing loans and borrowings (non-current)	**453,375**	333,858	214,672

22. PROVISIONS (NON-CURRENT)

Employee entitlements	**1,877**	4,768	4,089
Lease make good	**4,382**	4,293	4,202
Deferred lease expenses	**3,551**	3,991	4,058
Total provisions (non-current)	**9,810**	13,052	12,349

23. OTHER LIABILITIES (NON-CURRENT)

Lease incentives	**16,510**	16,061	17,119
Unearned revenue	**3,039**	3,222	3,889
Total other liabilities (non-current)	**19,549**	19,283	21,008

24. CONTRIBUTED EQUITY

Ordinary shares	**387,345**	386,309	385,296
Total contributed equity	**387,345**	386,309	385,296

The number of ordinary shares issued and fully paid as at 31 December 2017 was 1,113,621,911 shares (Dec 2016: 1,112,554,911 shares). Fully paid ordinary shares carry one vote per share and carry the right to dividends.

25. RETAINED PROFITS AND DIVIDENDS

	CONSOLIDATED December 2017 $000	June 2017 $000	December 2016 $000
Movements in retained profits were as follows:			
Balance at beginning of the period	**2,229,200**	2,125,186	2,125,186
Profit for the period	**207,693**	448,976	257,292
Dividends paid	**(133,635)**	(344,962)	(189,134)
Balance at end of the period	**2,303,258**	2,229,200	2,193,344
Dividends declared and paid:			
Dividends on ordinary shares:			
Final fully-franked dividend for 2017: 12.0 cents (2016: 17.0 cents)	**133,635**	189,134	189,134
Interim fully-franked dividend for 2017: 14.0 cents (2016: 13.0 cents)	**-**	155,828	-
Total dividends paid	**133,635**	344,962	189,134

The final dividend of $133.64 million, fully-franked, for the year ended 30 June 2017 was paid on 1 December 2017.

The interim dividend of 12.0 cents per share, totalling $133.63 million fully-franked, for the year ended 30 June 2018 will be paid on 1 May 2018.

	December 2017 $000	June 2017 $000	December 2016 $000
Franking Account Balance:			
The amount of franking credits available for the subsequent financial periods are:			
- franking account balance as at the end of the financial period at 30%	**584,585**	564,369	580,129
- franking credits that will arise from the payment of income tax payable as at the end of the financial period	**21,958**	36,008	30,682
- franking credits that will be utilised in the payment of proposed final dividend	**(57,272)**	(57,243)	(66,753)
The amount of franking credits available for future reporting periods	**549,271**	543,134	544,058

26. NON-CONTROLLING INTERESTS

	December 2017 $000	June 2017 $000	December 2016 $000
Interest in:			
- Ordinary shares	**2,691**	2,691	2,691
- Reserves	**13,268**	12,716	12,969
- Retained earnings	**8,741**	7,041	7,361
Total non-controlling interests	**24,700**	22,448	23,021

27. RESERVES

CONSOLIDATED $000	Asset revaluation reserve	Foreign currency translation reserve	Available for sale reserve	Cash flow hedge reserve	Employee equity benefits reserve	Acquisition reserve	Total
At 1 July 2016	111,199	48,021	9,682	(32)	8,995	(22,051)	**155,814**
Revaluation of land and buildings	9,465	-	-	-	-	-	**9,465**
Tax effect of revaluation of land and buildings	(1,576)	-	-	-	-	-	**(1,576)**
Unrealised gain on available-for-sale investments	-	-	4,595	-	-	-	**4,595**
Reverse expired or realised cash flow hedge reserves	-	-	-	32	-	-	**32**
Net gain on forward foreign exchange contracts	-	-	-	15	-	-	**15**
Tax effect of net gain on forward foreign exchange contracts	-	-	-	(5)	-	-	**(5)**
Currency translation differences	-	(2,945)	-	-	-	-	**(2,945)**
Share based payment	-	-	-	-	79	-	**79**
At 31 December 2016	**119,088**	**45,076**	**14,277**	**10**	**9,074**	**(22,051)**	**165,474**
At 1 July 2017	131,304	42,374	13,732	(20)	9,611	(22,051)	**174,950**
Revaluation of land and buildings	8,089	-	-	-	-	-	**8,089**
Tax effect of revaluation of land and buildings	(882)	-	-	-	-	-	**(882)**
Unrealised loss on available-for-sale investments	-	-	(2,293)	-	-	-	**(2,293)**
Reverse expired or realised cash flow hedge reserves	-	-	-	20	-	-	**20**
Net loss on forward foreign exchange contracts	-	-	-	(75)	-	-	**(75)**
Tax effect of net loss on forward foreign exchange contracts	-	-	-	22	-	-	**22**
Currency translation differences	-	(12,379)	-	-	-	-	**(12,379)**
Share based payment	-	-	-	-	337	-	**337**
At 31 December 2017	**138,511**	**29,995**	**11,439**	**(53)**	**9,948**	**(22,051)**	**167,789**

NATURE AND PURPOSE OF RESERVES:

Asset Revaluation Reserve
This reserve is used to record increases in the fair value of “owner occupied” land and buildings and decreases to the extent that such decreases relate to an increase of the same asset previously recognised in equity.

Foreign Currency Translation Reserve
This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Available for Sale Reserve
This reserve is used to record fair value changes on available-for-sale investments.

Cash Flow Hedge Reserve
This reserve is used to record the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Employee Equity Benefits Reserve
This reserve is used to record the value of equity benefits provided to executive directors as part of their remuneration.

Acquisition Reserve
This reserve is used to record the consideration paid in excess of carrying value of non-controlling interests.

28. CASH AND CASH EQUIVALENTS

(a) RECONCILIATION TO CASH FLOW STATEMENT

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000
Cash and cash equivalents comprise the following at end of the period:			
Cash at bank and on hand	**130,769**	65,969	42,319
Short term money market deposits	**19,850**	14,255	12,194
	150,619	80,224	54,513
Bank overdraft (Note 18)	**(24,723)**	(37,342)	(33,565)
Cash and cash equivalents at end of the period	**125,896**	42,882	20,948

(b) RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET OPERATING CASH FLOWS

	CONSOLIDATED	
	December 2017 $000	December 2016 $000
Profit after tax	**209,775**	260,014
Adjustments for:		
Net foreign exchange losses / (gains)	**398**	(263)
Bad and doubtful debts	**281**	2,576
Share of net profit from joint venture entities	**(842)**	(1,980)
Depreciation of property, plant and equipment	**32,284**	30,012
Amortisation	**9,486**	8,586
Impairment of non-trade debts receivable	**9,186**	11,054
Impairment of equity-accounted investments	**20,665**	-
Impairment loss on repayment of external finance facility	**-**	4,618
Revaluation of investment properties	**(22,762)**	(75,743)
Deferred lease expenses	**(262)**	(698)
Provision for onerous leases	**-**	643
Executive remuneration expenses	**2,112**	2,017
Profit on disposal and sale of property, plant and equipment, and the revaluation of listed securities	**(863)**	(3,082)
Movements in provisions	**(2,073)**	564
Changes in assets and liabilities:		
(Increase)/decrease in assets:		
Receivables	**(54,394)**	(218,592)
Inventory	**(55,712)**	(48,527)
Other current assets	**7,408**	(17,868)
Increase/(decrease) in liabilities:		
Payables and other current liabilities	**122,688**	334,963
Income tax payable	**(14,768)**	(8,790)
Net cash flows from operating activities	**262,607**	279,504

29. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	CONSOLIDATED		
	December 2017 $000	June 2017 $000	December 2016 $000
Total joint venture entities accounted for using equity method	**4,320**	26,355	23,632

	Ownership Interest		Contribution to Profit / (Loss) Before Tax	
	December 2017 %	December 2016 %	**December 2017 $000**	December 2016 $000
Noarlunga (Shopping complex)	**50%**	50%	**849**	814
Perth City West (Shopping complex)	**50%**	50%	**1,991**	2,142
Warrawong King St (a) (Shopping complex)	**62.5%**	62.5%	**550**	544
Byron Bay (Residential/convention development)	**50%**	50%	**(368)**	(367)
Byron Bay – 2 (Resort operations)	**50%**	50%	**195**	370
Dubbo (Shopping complex)	**50%**	50%	**317**	338
Bundaberg (Land held for investment)	**50%**	50%	**(5)**	(2)
Gepps Cross (Shopping complex)	**50%**	50%	**1,566**	1,395
QCV (b) (Miners residential complex)	**50%**	50%	**5**	8
KEH Partnership (c) (Retailer)	**50%**	50%	**-**	-
Coomboona Dairy (d) (Dairy farming)	**49.9%**	49.9%	**(4,565)**	(3,262)
Other	**50%**	-	**307**	-
			842	1,980

(a) This joint venture has not been consolidated as the consolidated entity does not have control over operating and financing decisions and all joint venture parties participate equally in decision making.

(b) A number of wholly-owned subsidiaries of Harvey Norman Holdings Limited ("HNHL") have entered into joint ventures with an unrelated party to provide mining camp accommodation. The respective joint ventures have been granted finance facilities as follows:
- (i) a finance facility from ANZ for the amount of $5.15 million plus interest and costs, with a maturity date of 14 June 2018.
- (ii) finance facilities from Network Consumer Finance Pty Limited ("NCF"), a wholly-owned subsidiary of HNHL, for the amount of $32.55 million plus interest and costs, subject to bi-annual review.

(c) The consolidated entity, through a wholly-owned subsidiary, has a 50% interest in KEH Partnership Pty Limited, a retail joint venture in Australia. The KEH Partnership retail joint venture operates two main retail businesses in Australia: (1) Big Buys by Harvey Norman®, primarily an online retailer of a variety of goods; and (2) The School Locker, primarily a retailer of schooling and educational equipment.

The consolidated entity has a commercial loan receivable from the KEH Partnership retail joint venture totalling $76.68 million as at 31 December 2017 (Dec 2016: $68.32 million). The commercial loan was used to assist with the working capital of the retail joint venture. An impairment assessment was conducted resulting in the recognition of an expense of $9.19 million (Dec 2016: $11.05 million) in the December 2017 half as disclosed in Note 4. Expenses.

The KEH Joint Venture partners have determined to wind-up the Big Buys by Harvey Norman® business subsequent to balance date.

(d) HNM Galaxy Pty Limited, acting in its capacity as trustee of the HNM Galaxy Unit Trust (**HN JV Entity**), holds 49.9% of the issued shares in Coomboona Holdings Pty Limited. Eternal Sound Limited, acting in its capacity as trustee for the AAA Settlement Trust (**Eternal Sound JV Entity**), holds 50.1% of the issued shares in Coomboona Holdings Pty Limited. Coomboona Holdings Pty Limited holds all of the issued shares in companies which carry on the business of dairy farm operations, land ownership and a pedigree breeding and genetics division in Northern Victoria (**Coomboona JV**). The 49.9% interest of the consolidated entity in the Coomboona JV is equity-accounted. The Coomboona JV commenced trading in September 2015 and the equity-accounted trading losses were $4.57 million for the half-year ended 31 December 2017 compared to equity-accounted trading losses of $3.26 million for the previous corresponding period. Refer to further information provided on Page 13 regarding the Other Segment.

30. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the consolidated entity as at 31 December 2017:

	Loans and receivables $000	Available-for-sale $000	Fair value Profit or loss $000	Fair value other comprehensive income $000
Current Financial Assets:				
Trade and other receivables (Note 7)	701,003	-	-	-
Other financial assets (Note 8)	-	-	31,664	-
Total current financial assets	**701,003**	**-**	**31,664**	**-**
Non-Current Financial Assets:				
Trade and other receivables (Note 12)	93,745	-	-	-
Other financial assets (Note 13)	-	16,479	9,087	-
Total non-current financial assets	**93,745**	**16,479**	**9,087**	**-**
Total Financials Assets	**794,748**	**16,479**	**40,751**	**-**
Current Financial Liabilities:				
Trade and other payables (Note 17)	358,840	-	-	-
Interest-bearing loans and borrowings (Note 18)	398,865	-	82	75
Total current financial liabilities	**757,705**	**-**	**82**	**75**
Non-Current Financial Liabilities:				
Interest-bearing loans and borrowings (Note 21)	453,375	-	-	-
Total non-current financial liabilities	**453,375**	**-**	**-**	**-**
Total Financial Liabilities	**1,211,080**	**-**	**82**	**75**

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- The fair value of current trade receivables and payables is assessed to equal carrying value due to the short-term nature of the assets. The fair value of interest-bearing loans and borrowings approximates their carrying amounts.
- The fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-option derivatives and option pricing models for option derivatives.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities
- Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)
- Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

30. FINANCIAL INSTRUMENTS (CONTINUED)

For financial instruments that are recognised at fair value on a recurring basis, the consolidated entity determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 31 December 2017, the consolidated entity held the following classes of financial instruments measured at fair value:

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial Assets				
Listed investments	**54,366**	-	-	54,366
Other investments	**-**	-	2,864	2,864
Total Financials Assets	**54,366**	**-**	**2,864**	**57,230**
Financial Liabilities				
Foreign exchange contracts	**-**	157	-	157
Total Financial Liabilities	**-**	**157**	**-**	**157**

Non-Cash Financing and Investing Activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows.	N/A

	CONSOLIDATED	
	December 2017	December 2016
Net Tangible Assets Per Security		
Net tangible asset backing per ordinary security	**2.75**	**2.62**
Business Combinations Having Material Effect		
Name of business combination	N/A	N/A
Consolidated profit/(loss) after tax of the business combination since the date in the current period on which control was acquired	N/A	N/A
Date from which such profit has been calculated	N/A	N/A
Profit/(loss) after tax of the controlled business combination for the whole of the previous corresponding period	N/A	N/A
Loss of Control of Entities Having Material Effect		
Name of entity (or group of entities)	N/A	N/A
Consolidated profit/(loss) from discontinued operations after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	N/A	N/A
Date from which such profit/(loss) has been calculated	N/A	N/A
Profit/(loss) from discontinued operations after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	N/A	N/A

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Harvey Norman Holdings Limited, we state that:

In the opinion of the directors:

(a) the financial statements, notes and the additional disclosures included in the Directors' Report of the consolidated entity for the half-year ended 31 December 2017 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
  (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

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

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the half-year ended 31 December 2017.

On behalf of the Board.

G. HARVEY	**K.L. PAGE**
Chairman	Director / Chief Executive Officer
Sydney	Sydney
28 February 2018	28 February 2018

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Independent Auditor's Review Report to the Members of Harvey Norman Holdings Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Harvey Norman Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and 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 2017 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 2017 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.

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

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Renay Robinson
Partner
Sydney
28 February 2018