

1. Company details

Name of entity:	Sunland Group Limited
ABN:	65 063 429 532
Reporting period:	For the half-year ended 31 December 2018
Previous period:	For the half-year ended 31 December 2017

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	down	17.0% to	206,041
Profit from ordinary activities after tax attributable to the shareholders of Sunland Group Limited	down	57.0% to	11,473
Profit for the half-year attributable to the shareholders of Sunland Group Limited	down	57.0% to	11,473

The result includes a \$9 million after tax net realisable value (NRV) adjustment following a strategic review of the Group's Bayside project in Townsville.

	31 December 2018 Cents	31 December 2017 Cents
Earnings per security (EPS)		
Basic earnings per share	7.7	17.5
Diluted earnings per share	7.7	17.5

Dividend information

To be paid:

Interim dividend declared 20 February 2019 fully franked at 30%	4.0	4.0
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Record date for determining entitlements to the dividend: 7 March 2019
Dividend payment date: 21 March 2019

Paid this period:

FY18 final dividend paid 21 September 2018 fully franked at 30%	6.0	6.0
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3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>248</u>	<u>247</u>

4. Details of associates and joint venture entities

	Share of profit 31 December 2018	31 December 2017
8500 Pty Ltd (25%)	-	-
Capital Crt Pty Ltd (25%)	-	-
Varsity Development Trust (25%)	-	-

Sunland Group Limited

ABN 65 063 429 532

**Consolidated interim financial report for the half year
ended 31 December 2018**

Directors' Report

The Directors present their report together with the financial report of Sunland Group Limited and its controlled entities (Sunland or the Group), for the half-year ended 31 December 2018 ("1H19") and the independent auditor's review report thereon.

Comparative results are referenced through the Directors' Report as "1H18" for the half year ended 31 December 2017; and "2018" being for the year ended 30 June 2018.

Directors

The following persons were Directors of Sunland Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Soheil Abedian, Executive Chairman
Mr Sahba Abedian, Managing Director
Mr Ron Eames, Non Executive Director
Mr Craig Carracher, Non Executive Director
Mr Chris Freeman AM, Non Executive Director
Ms Rebecca Frizelle, Non Executive Director

Principal Activities

Sunland Group Limited is a company limited by shares that is incorporated and domiciled in Australia. The principal activities of the consolidated entity are residential property development and construction. The Group conducts these activities through its two core business segments of "Residential Housing and Urban Development" and "Multi-Storey" developments. The Residential Housing and Urban Development segment comprises medium-density integrated housing developments and land subdivision. The Multi-Storey segment comprises medium-rise apartment projects generally between five and 15 storeys, and high-rise developments above 15 storeys. The delivery of Sunland's projects is completed by specialist in-house teams experienced in land acquisition and project feasibility analysis, design, project management, construction, and sales and marketing. The vertically integrated structure of the Group ensures the efficient delivery and management of external parties who may also be engaged in the delivery of projects to achieve Sunland's desired project returns.

There was no significant change in the principal activities of the Group.

Consolidated Result

The consolidated profit after tax for the year attributable to members of Sunland Group Limited was \$11.5 million (1H18: \$26.6 million). The result includes a \$9 million after tax net realisable value (NRV) adjustment following a strategic review of the Group's Bayside project in Townsville, reflecting a change in strategy to redeploy capital from regional areas to the Group's core operating markets.

The 1H19 operations excluding the NRV adjustment contributed an after tax result of \$20.5 million. This is attributable to the performance of Sunland's residential developments in South East Queensland and Sydney. Sunland's multi-storey segment also contributed to the result through settlements at Marina Concourse on the Gold Coast.

The Group is focused on delivering consistent underlying performance during a challenging phase of the market cycle. This includes a strategic approach to appropriate geographic and portfolio diversification for the Group,

This result reflects the application of the new revenue accounting standard, which recognises property sales revenue on settlement. Comparative financial information within this report has been adjusted to retrospectively apply this accounting policy. Refer to Note 3 of the financial statements for further information.

Operational and Financial Review

Operating and Financial Highlights

- Net profit after tax of \$11.5 million following an NRV adjustment of Bayside project, Townsville totalling \$9.0 million after tax.
- The Group declared a fully franked interim dividend of 4 cents per share.
- Given the NRV adjustment, Sunland will not achieve its full year FY19 guidance previously provided.
- Strong balance sheet capacity, with \$33.6 million in cash and \$192.9 million in undrawn working capital lines.
- Surplus cash generated by project settlements have reduced the Group's debt by \$60.0 million since June 2018.
- Surplus cash generated by the Group's operations is supporting the continued share buyback program announced in December 2018. Over the past 10 years, the Company has reduced its issued capital by 54% at an average price of \$0.95 per share, representing a significant discount to the Group's net asset base.
- The Group acquired a site in Melbourne for \$13.0 million for a medium-density, residential development.
- Earnings per share based on the number of consolidated shares on issue as at the balance date was 7.7 cents (1H18: 17.5 cents).
- Overall gearing has reduced from the first half and remains at manageable levels, with 22% debt to assets and 32% debt to equity. A higher leverage is utilised to finance multistorey developments, while the land and housing segment is typically leveraged at approximately 35% (debt to inventory value).
- The Group achieved a 23% development margin, exceeding the target of 20% return on costs (excluding the NRV adjustment).
- Strong forecast cash flow generated from existing projects.
- Net tangible assets per share increased to \$2.48 (2018: \$2.47).

Group Development Portfolio

Sunland's development pipeline comprises 4,421 land, housing and multi-storey products with a total end value of \$3.0 billion (based upon obtaining certain development approvals), providing a portfolio of quality projects to be delivered primarily over the next three to five years. Sunland's emerging retail and commercial portfolio is being delivered through the Group's mixed-use projects and has an estimated end value of \$212 million on completion, bringing the total portfolio value to \$3.2 billion.

The Group continues to review opportunities to replenish its development portfolio with a new housing site acquired in Melbourne for \$13 million (Carrum Downs). This site adds 187 lots to the portfolio with an estimated end value of \$99 million. Capacity is held to complete further acquisitions that meet Sunland's return profile.

As at the date of this report, Sunland had 10 active projects in Queensland, New South Wales and Victoria. These projects include land, housing and multi-storey projects at various points in their delivery cycle. Projects including The Lakes Residences, Marina Concourse, Arbour Residences, Shea Residences, and The Heights (QLD); 18 Macpherson Street (NSW); and The Gardens (VIC), have contributed to revenue during this period.

The Group's multi-storey portfolio continued to contribute to Sunland's results during this period, with settlements commencing in Marina Concourse, the final development within Sunland's master planned community at Royal Pines on the Gold Coast, which has been contributing to the Group's development revenues for some eight years. Sunland anticipates a continued contribution from this segment with the ongoing settlement of Marina Concourse through 2019. Expansion of this business segment continues with the commencement of construction at 272 Hedges in Mermaid Beach (high-rise) and Magnoli Apartments in Palm Beach (medium-rise). These projects are expected to contribute revenue over a number of years from FY2020.

With Sunland focused on enhancing returns from this segment, development applications for multi-storey projects at The Lakes (Mermaid Waters), and 180 Marine Parade (Labrador) have been lodged during this half year. Additionally, Greenmount Residences (Coolangatta), Grace on Coronation (Toowong), and future stages of The Lakes (Mermaid Waters) can be anticipated to also contribute in the future as concept designs and approvals are finalised, projects are launched and financed, and delivery commenced.

Sunland awaits clarity from the local authority and Queensland government on the Gold Coast Spit master plan before determining the approach for the redevelopment of Mariners' Cove, which continues as an operating retail and marina precinct, generating holding income for the Group.

The Group's Residential Housing and Urban Development segment continues to deliver through various stages of each project, supporting underlying earnings and cash flow. Sunland is actively monitoring the market for opportunities to further increase its portfolio, with a specific focus on emerging growth markets in south-east Queensland, and in Sydney and Melbourne where there are still favourable off market opportunities available, providing they meet Sunland's development criteria.

Group operating activities

Development Activities

Sunland's development activities continued to generate strong underlying earnings for the Group despite the NRV adjustment incurred this period. Projects in South East Queensland and New South Wales have contributed significant revenue during the first half of 2019 financial year. The Gardens project in Melbourne is presold and delivery continues. Both the Gardens and 18 MacPherson Street (Sydney) are anticipated to fully settle by 30 June 2019, with further projects in the pipeline at both locations.

The Group has experienced a shift in market conditions, with a significant reduction in foreign purchasers and local investors. This change in the market reflects several factors, including prudential regulation tightening bank lending criteria, reduced ability for transfer of capital into Australia, state taxes on foreign investors, and pricing of investor lending. Sales volume has reduced as a consequence of these market conditions. The Group has responded to the changes in demand and buyer demographic by placing a higher emphasis on designing for the owner-occupier market. Contracted presales for projects released across the development portfolio total 211 lots as at 31 December 2018 with a combined value of \$214.3 million.

Settlements of the twin six-storey, medium-rise apartment buildings at Marina Concourse, located adjacent to the Royal Pines Marina on the Gold Coast, commenced this half year and will continue through 2019. Multi-storey projects under construction include 272 Hedges Avenue (high-rise) and Magnoli Apartments (medium-rise). Projects with development applications submitted during the half year and subject to local authority approval include The Lanes Residences in Mermaid Waters (medium-rise) and 180 Marine Parade in Labrador (medium-rise). Those in the preliminary design and approval stages include Greenmount Residences in Coolangatta (medium-rise), Grace on Coronation in Toowong (high-rise) and future stages at The Lakes in Mermaid Waters (medium-rise).

Those multi-storey projects in the planning phase will not generate revenue until the projects are completed and settled. Sunland is focused on finalising the design and approvals for these projects to release them to the market at strategic points in the market cycle and achieve the presales required for funding and commencement of construction. In the meantime, Mariner's Cove and Greenmount Resort continue to generate revenue streams that cover the holding costs of these development sites.

The Group generated revenue from property sales of \$203.7 million (1H18: \$244.2 million) during the period. This was generated from settlements of 270 lots (1H18: 336). Major revenue contributors were from the Residential Housing and Urban Development segment and include Shea Residences, The Lakes Residences, The Heights, and Arbour Residences (QLD); 18 Macpherson Street (NSW); and The Gardens (VIC). Sunland's multi-storey segment generated revenue from the settlement of Marina Concourse.

The Group achieved a return on cost (excluding the NRV adjustment) of 23% across its residential development portfolio, exceeding its targeted development margin of 20% (excluding marketing costs, which are expensed ahead of recognising revenue - refer Segment Report). The Residential Housing and Urban Development segment achieved a return (excluding the NRV adjustment) of 26%, and the multi-storey portfolio achieved a return of 10%. The lower margin on the multi storey segment reflects some unanticipated cost and time over runs incurred at Marina Concourse. The development is now complete and balance stock is anticipated to settle over the ensuing 12 months. The issues experienced with this project has resulted in the Group strategically engaging with third party builders to deliver the current multi storey projects 272 Hedges Avenue and Magnoli which have now commenced.

Other Group Activities

Other revenues include net holding incomes generated by various sites until approvals are granted and development commences. These include Mariner's Cove and Greenmount Resort on the Gold Coast. Investment properties held by the Group also generate ongoing investment income and include retail assets at Royal Pines Marina and The Lakes, both located on the Gold Coast.

The Royal Pines Marina is occupied by Sunland's Gold Coast office, as well as other retail and commercial tenants, generating annual net revenue of some \$0.3 million. The Lakes retail precinct currently comprises some 3,800 square metres of lettable area generating \$1.2 million of annual net income. The Group has submitted a development application to deliver a further 15,000 square metres of retail and commercial space at this location called "The Lanes", which has the potential to diversify the Group's earnings profile.

Capital Management and Dividends

Sunland has undertaken a series of share buy-back programs over the past 10 years, reducing consolidated shares on issue by 54%. The shares have been purchased at an average price of \$0.95 over the course of these programs, which is a significant discount to the Group's net tangible assets per share. It has also contributed to the Group's increase in earnings per share and net asset value per share, delivering significant long-term benefit and value to shareholders.

An interim fully franked dividend of 4 cents per share has been declared for 1H19 and is payable 21 March 2019. Directors will announce the final dividend with the annual results.

Sunland utilises debt facilities to assist in the funding of its development projects. The approach differs between operational segments. The Residential Housing and Urban Development segment is generally leveraged to around 35% of inventory value. A greater leverage is sought for Multi-Storey projects as the development programs are longer and equity can be retained to pursue other opportunities. The Group has access to other sources of funding that provide a longer dated and alternative form of debt capital that complements the senior debt funding of its development portfolio.

Cash received from settlements during the period reduced the principle amount of the Group's outstanding debt by \$60 million, which includes repayment of the Marina Concourse project facility from settlements from this project. The reduction in the Group's debt levels has resulted in good capacity to continue the delivery of the existing development portfolio, as well as realising any acquisition opportunities that may arise.

Rounding of amounts

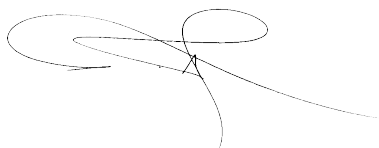
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the Directors



Sahba Abedian
Managing Director


20 February 2019

Auditor's Independence Declaration to the Directors of Sunland Group Limited

As lead auditor for the review of Sunland Group Limited for the half-year ended 31 December 2018, 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 Sunland Group Limited and the entities it controlled during the financial period.



Ernst & Young



Wade Hansen
Partner
Brisbane
20 February 2019

Sunland Group Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2018

Sunland Group
ESTABLISHED
1981

		Consolidated	
		31	31
		December	December
	Note	2018	2017
		\$'000	\$'000
Revenue			
Revenue from the sale of properties		203,705	244,172
Other revenue from operations	4	2,336	3,285
Other income / (expense)		(23)	45
Expenses			
Cost of goods sold - property developments	5	(181,040)	(202,996)
Administration and other expenses		(1,945)	(1,411)
Cost of other operations		(751)	(781)
Employee benefits expense		(5,047)	(3,673)
Depreciation and amortisation expense		(834)	(833)
Profit before income tax expense		16,401	37,808
Income tax expense		(4,928)	(11,188)
Profit after income tax expense for the half-year attributable to the shareholders of Sunland Group Limited		11,473	26,620
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the shareholders of Sunland Group Limited		11,473	26,620
		Cents	Cents
Basic earnings per share		7.7	17.5
Diluted earnings per share		7.7	17.5

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

Sunland Group Limited
Consolidated statement of financial position
As at 31 December 2018

Sunland Group
ESTABLISHED
1981

	Consolidated	
	31	30 June
Note	December	2018
	2018	2018
	\$'000	\$'000
Assets		
Cash and cash equivalents	33,606	10,604
Inventories	98,945	222,228
Trade and other receivables	6,369	7,607
Financial assets- Interest rate derivatives	207	-
Other	2,420	1,414
Total current assets	<u>141,547</u>	<u>241,853</u>
Non-current assets		
Inventories	354,870	320,493
Investment properties	28,808	26,507
Property, plant and equipment	9,999	8,548
Financial assets- Interest rate derivatives	257	-
Investments accounted for using the equity method	745	242
Total non-current assets	<u>394,679</u>	<u>355,790</u>
Total assets	<u>536,226</u>	<u>597,643</u>
Liabilities		
Current liabilities		
Trade and other payables	9,410	7,951
Borrowings	8 -	21,565
Income tax payable	6,008	8,384
Provisions	3,626	3,790
Other	1,537	1,500
Total current liabilities	<u>20,581</u>	<u>43,190</u>
Non-current liabilities		
Borrowings	8 119,113	155,839
Deferred tax	27,080	31,445
Provisions	410	446
Other	-	27
Total non-current liabilities	<u>146,603</u>	<u>187,757</u>
Total liabilities	<u>167,184</u>	<u>230,947</u>
Net assets	<u>369,042</u>	<u>366,696</u>
Equity		
Issued capital	7 147,762	147,762
Retained earnings	<u>221,280</u>	<u>218,934</u>
Total equity	<u>369,042</u>	<u>366,696</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Sunland Group Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2018

Sunland Group
ESTABLISHED
1981

	Issued capital \$'000	Retained profits \$'000	Total equity \$'000
Consolidated			
Balance at 1 July 2017	154,421	201,286	355,707
Profit after income tax expense for the half-year	-	26,620	26,620
Other comprehensive income for the half-year, net of tax	-	-	-
Total comprehensive income for the half-year	-	26,620	26,620
<i>Transactions with owners in their capacity as owners:</i>			
Dividends provided for or paid	-	(9,341)	(9,341)
Share buy-back	(3,584)	-	(3,584)
Balance at 31 December 2017	<u>150,837</u>	<u>218,565</u>	<u>369,402</u>
Consolidated			
Balance at 1 July 2018	147,762	218,934	366,696
Profit after income tax expense for the half-year	-	11,473	11,473
Other comprehensive income for the half-year, net of tax	-	-	-
Total comprehensive income for the half-year	-	11,473	11,473
<i>Transactions with owners in their capacity as owners:</i>			
Dividends provided for or paid	-	(9,127)	(9,127)
Share buy-back	-	-	-
Balance at 31 December 2018	<u>147,762</u>	<u>221,280</u>	<u>369,042</u>

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

Sunland Group Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2018

Sunland Group
ESTABLISHED
1981

	Consolidated	
	31	31
	December	December
Note	2018	2017
	\$'000	\$'000
Cash flows from operating activities		
Cash receipts from operations	209,506	268,727
Cash payments to suppliers and employees	(98,722)	(158,178)
Interest received	556	794
Interest and other finance costs paid	(6,665)	(6,370)
Income taxes (paid) / refunded	<u>(11,668)</u>	<u>(4,369)</u>
Net cash from operating activities	<u>93,007</u>	<u>100,604</u>
Cash flows from investing activities		
Cash paid on acquisition of property, plant and equipment	(742)	(318)
Payments for construction of investment properties	(1,132)	(1,188)
Repayments of advances to third parties	217	-
Advances to associates	(265)	-
Payment for acquisition of interest in associates	(503)	-
Proceeds from disposal of property, plant and equipment and investment properties	<u>65</u>	<u>66</u>
Net cash used in investing activities	<u>(2,360)</u>	<u>(1,440)</u>
Cash flows from financing activities		
Repayment of borrowings	8 (58,518)	(83,041)
Purchase of shares through share buy-back	7 -	(3,580)
Payment of share buy-back transaction costs	7 -	(4)
Dividends paid to company's shareholders	6 <u>(9,127)</u>	<u>(9,341)</u>
Net cash used in financing activities	<u>(67,645)</u>	<u>(95,966)</u>
Net increase in cash and cash equivalents	23,002	3,198
Cash and cash equivalents at the beginning of the financial half-year	<u>10,604</u>	<u>14,617</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>33,606</u></u>	<u><u>17,815</u></u>

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

Note 1. Segment information

Operating segments

	Land & Housing \$'000	Multi-storey \$'000	Other segments \$'000	Total \$'000
31 December 2018				
Revenue recognised from operations	161,874	41,831	1,780	205,485
Development costs incurred in delivery				
Finance costs expensed	(6,527)	(857)	-	(7,384)
Other development costs expensed	(121,440)	(37,013)	(1,175)	(159,628)
Total development costs	(127,967)	(37,870)	(1,175)	(167,012)
Segment result – development return				
Return on development costs	33,907	3,961	605	38,473
Return on costs	26%	10%		
Overall return for combined development operations:	23%			
Other transactions during period				
Marketing	(761)	(1,031)	(121)	(1,913)
Net realisable value of inventory adjustments and warranties	(13,242)	(48)	-	(13,290)
Gain on disposal of a subsidiary				-
Interest income				556
Other income / (expense)				(23)
Unallocated expenses				(7,402)
Profit from ordinary activities before tax				16,401
Assets				
Segment assets	225,069	226,867	30,471	482,407
Unallocated corporate assets				53,819
Consolidated total assets				536,226

The consolidated entity comprises the following main segments:

- Land and Housing - development and sale of land (urban development), medium density housing products and project services
- Multistorey - development and sale of medium rise projects (generally between five and fifteen stories) and high rise projects (above fifteen stories)
- Other - Operating results from investment properties and net holding income

Management approaches and manages project acquisitions and feasibilities using primarily a “return on cost” methodology with a target of 20% return on development costs. Development costs include land, consultants, construction costs, statutory charges and finance costs required to deliver the project. These costs are capitalised for accounting and expensed as revenue is generated through the settlements of a project as it is progressively completed, usually on a staged basis.

Marketing costs are managed separately and are generally expensed for accounting, ahead of recognising revenue from a project. This can distort the reported return on projects and each segment, particularly where projects (which are mostly staged) are delivered over multiple reporting periods. Operating segment disclosures therefore separate marketing and other one off costs expensed during a reporting period in order to assess the consistency of returns on development costs associated with the projects and each segment.

Unallocated corporate expenses are generally corporate overhead costs being employee benefits and administration expenses that are not directly attributable to the operating segments.

Note 1. Segment information (continued)

	Land & Housing \$'000	Multi-storey \$'000	Other segments \$'000	Total \$'000
31 December 2017				
Revenue recognised from operations	157,394	86,779	2,490	246,663
Development costs incurred in delivery				
Finance costs expensed	(3,223)	(1,568)	-	(4,791)
Other development costs expensed	(125,678)	(70,423)	(1,121)	(197,222)
Total development costs	(128,901)	(71,991)	(1,121)	(202,013)
Segment result – development return				
Return on development costs	28,493	14,788	1,369	44,650
Return on costs	22%	21%		
Overall return for combined development operations:	22%			
Other transactions during period				
Marketing	(1,002)	(298)	-	(1,300)
Net realisable value of inventory adjustments and warranties	(351)	(534)	-	(885)
Gain on disposal of a subsidiary				45
Interest income				794
Unallocated expenses				(5,496)
Profit from ordinary activities before tax				37,808
Assets				
Segment assets	284,637	219,320	28,935	532,892
Unallocated corporate assets				22,634
Consolidated total assets				555,526

Note 2. Corporate information

These interim financial statements are of the consolidated entity consisting of Sunland Group Limited and its controlled entities (the Group) and are presented in Australian dollars.

Sunland Group Limited is a company limited by shares, incorporated and domiciled in Australia. The Group's principal activities are residential property development and construction. Its registered office and principal place of business is:

Suite 2602, "One One One Eagle Street"
Level 26, 111 Eagle Street
Brisbane Qld 4000

Note 3. Basis of preparation of the half-year financial report

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Note 3. Basis of preparation of the half-year financial report (continued)

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has adopted AASB 9, with an initial application date of 1 July 2018. The full retrospective transition method has been applied with the presented comparative information for the period beginning 1 July 2017 also reflecting the requirements of AASB 9. There were no adjustments to comparative information or opening balances required as part of the Group's transition to AASB 9.

AASB 15 Revenue from Contracts with Customers

AASB 15 supersedes AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations. AASB 15 applies to all revenue arising from contracts with customers, unless those contracts are within the scope of another accounting standard. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has undertaken a detailed assessment of the impacts of transitioning to AASB 15 on its sources of revenue. The results of this assessment and any changes in the Group's accounting policies are discussed further below.

(a) Revenue from the sale of properties

The Group's primary activity is the development and sale of residential properties. Under AASB 15, revenue is now recognised upon control of the property being transferred to the customer, rather than the point at which the risks and rewards of ownership have been transferred under the previous accounting standard. This has resulted in revenue now being recognised on settlement, which is approximately 2 - 4 weeks later than under the Group's previous policy.

The recognition of revenue at settlement is on the basis that each individually titled property represents a performance obligation, an enforceable right to payment has occurred and legal title of the property has been transferred. The comparative balances, including opening retained earnings, have been restated for this change.

Incremental costs of obtaining a contract, such as sales commissions, are capitalised into inventory and are expensed at settlement as cost of goods sold.

(b) Revenue from project services

There has been no material change to the measurement of revenue in the comparative period or in opening retained earnings for this source of revenue. Revenue from project services is generally derived from Sunland's management of joint venture projects and other projects that are partially owned. The assessment of revenue recognition will continue to be specific to each arrangement.

Revenue generated from project services is recognised in the period in which the services are rendered. The performance obligations are identified and accounted for individually. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on objective measures such as construction costs to date as a proportion of total expected construction costs.

Estimates of revenues, costs or extent of progress toward completion are reassessed each reporting period and revised in that period.

Note 3. Basis of preparation of the half-year financial report (continued)

(c) Holding income, other revenue and other income

Holding income represents the net returns generated by pre-existing rental and operating activities from acquired inventory whilst development approvals are being sought and before construction commences on the site. Other revenue and income represent individually small sources of revenue and income to the Group.

There was no material change to the measurement of revenue from these categories in the comparative period or opening retained earnings.

Transition to AASB 15

The Group adopted AASB 15 using the full retrospective method of transition, with an initial application date of 1 July 2018. Comparative information has been restated throughout the financial statements.

The quantitative effect of adopting AASB 15 using the full retrospective method is outlined below.

Impact on the statement of profit or loss (increase/(decrease)) for the six months ended 31 December 2017:

Revenue from the sale of properties	52,527
Cost of goods sold- property developments	(43,997)
Income tax expense	(2,560)
Profit after income tax expense for the half-year attributable to the shareholders of Sunland Group Limited	5,970

There is no impact on the statement of cash flows. The impact on basic and diluted EPS is, as follows:

	Cents
Basic earnings per share	3.9
Diluted earnings per share	3.9

Impact on the statement of financial position (increase/(decrease)) as at 30 June 2018:

	Increase / (Decrease)
Assets	
Trade and other receivables	(40,660)
Inventories	31,866
Total current assets	(8,794)
Total assets	(8,794)
Liabilities	
Trade and other payables	(2,988)
Provisions	(21)
Other current liabilities	1,000
Total current liabilities	(2,009)
Deferred tax	(2,035)
Total non-current liabilities	(2,035)
Total liabilities	(4,044)
Equity	
Retained earnings	(4,750)
Total equity	(4,750)

Note 4. Other revenue from operations

	Consolidated	
	31	31
	December	December
	2018	2017
	\$'000	\$'000
Investment property income ⁽¹⁾	935	1,028
Holding income ⁽²⁾	694	1,155
Interest income	556	794
Other revenue	151	308
	<u>2,336</u>	<u>3,285</u>

(1) Investment property income represents the gross revenue generated by rental and operating activities from properties intended to be held as investments for ongoing, non-development revenue.

(2) Holding income represents the net returns generated by rental and operating activities from inventory whilst development approvals are being sought and before construction commences on the site.

Note 5. Cost of goods sold – property developments

	Consolidated	
	31	31
	December	December
	2018	2017
	\$'000	\$'000
Cost of goods sold - property developments	160,763	198,205
Cost of goods sold - Bayside net realisable value adjustment	12,893	-
Finance costs – expensed through cost of goods sold	7,384	4,791
	<u>181,040</u>	<u>202,996</u>

The net realisable value adjustment of the Group's Bayside project reflects a change in strategy to redeploy capital from regional areas to the Group's core operating markets.

Note 6. Equity - Dividends

	Consolidated	
	31	31
	December	December
	2018	2017
	\$'000	\$'000
Dividends paid during the financial half-year were as follows:		
Final fully franked dividend for the previous financial year of 6 cents per share	9,127	6,227
Special fully franked dividend paid of 2 cents per share	-	3,114
	<u>9,127</u>	<u>9,341</u>

On 20 February 2019, the directors declared an interim dividend of 4 cents per share (1H 2018: 5 cents), fully franked at a rate of 30%. The total estimated distribution of \$6,06,786 (1H 2018: \$7,683,284) is based on the number of shares outstanding (including treasury shares) as at the date of issue of these financial statements.

Note 7. Equity - issued capital

	Consolidated			
	31 December 2018 Shares	30 June 2018 Shares	31 December 2018 \$'000	30 June 2018 \$'000
Share capital	<u>148,620,700</u>	<u>148,620,700</u>	<u>147,762</u>	<u>147,762</u>

Share buy-back

The Group has made no on market share purchases or cancellations during the half year (1H18: 2,077,209). The average price paid for shares purchased in the corresponding prior period was \$1.72. Although no shares were purchased in the current half year, as disclosed on 12 December 2018, the share buy-back program resumed with buybacks commencing in January 2019.

Note 8. Financing Arrangements

The Group had access to the following borrowing facilities at the end of the reporting period. The facilities have been split into "working capital" facilities and "project specific" facilities. The undrawn amount of the project specific facilities are available progressively for the purpose of delivering the projects they are funding:

	Consolidated	
	31 December 2018 \$'000	30 June 2018 \$'000
Working capital facilities available		
Working capital facilities available	212,200	212,200
Facilities utilised	(14,882)	(51,835)
Bank guarantees	<u>(4,433)</u>	<u>(4,377)</u>
Available working capital facilities not utilised at balance date	<u>192,885</u>	<u>155,988</u>
Project specific facilities available		
Project specific facilities available	6,000	36,000
Facilities utilised	<u>(6,000)</u>	<u>(27,565)</u>
Available project specific facilities not utilised at balance date	<u>-</u>	<u>8,435</u>
Corporate facilities available		
Corporate facilities available	50,000	50,000
Facilities utilised	<u>(50,000)</u>	<u>(50,000)</u>
Available corporate facilities not utilised at balance date	<u>-</u>	<u>-</u>
Unsecured notes available		
Unsecured notes available	50,000	50,000
Facilities utilised	<u>(50,000)</u>	<u>(50,000)</u>
Available unsecured notes not utilised at balance date	<u>-</u>	<u>-</u>

The variance between the facilities utilised at balance date and the carrying value of bank loans is attributable to the inclusion of pre-paid borrowing costs in the carrying value of interest bearing bank loans under the effective interest method.

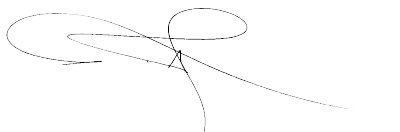
With the exception of interest rate derivatives held to manage interest rate risk, the Group does not have any financial instruments measured at fair value. The fair value of cash, trade and other payables and trade and other receivables approximate their carrying values, largely due to the short-term maturities of these instruments.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Sahba Abedian
Director

20 February 2019

Independent Auditor's Review Report to the Members of Sunland Group Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Sunland Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2018, 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 2018 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 2018 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



Wade Hansen
Partner
Brisbane
20 February 2019