DEC 2019

APPENDIX 4D | HALF-YEAR REPORT

Harvey Norman®
Brand Ambassador
Ariarne Titmus

World Champion Swimmer

Harvey Norman®

HOLDINGS LIMITED | ACN 003 237 545

EBITDIA

$443.43m

up by **$60.06 million** (▲ 15.7%) from $383.37 million

REPORTED PROFIT BEFORE TAX

$301.15m

down by **$14.53 million** (▼ 4.6%) from $315.68 million

PROFIT BEFORE TAX

Excluding AASB 16 net impact and net property revaluations

$285.87m

up by **$6.74 million** (▲ 2.4%) from $279.12 million

REPORTED PAT & NCI

$213.59m

down by **$9.18 million** (▼ 4.1%) from $222.77 million

PAT & NCI

Excluding AASB 16 net impact and net property revaluations

$203.04m

up by **$5.88 million** (▲ 3.0%) from $197.17 million

NET ASSETS

$3.3 billion

up by **$132.5 million** (▲ 4.2%)

Contents

Harvey Norman® DOMAYNE® JOYCE MAYNE®

KEY DATES:

28 February 2020: Announcement of Half-Year Profit to 31 December 2019 & Announcement of Interim 2020 Dividend | **3 April 2020:** Record date for Determining Entitlement to Interim 2020 Dividend | **4 May 2020:** Payment of Interim 2020 Dividend | **31 August 2020:** Announcement of Full-Year Profit to 30 June 2020 & Announcement of Final 2020 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 (EY) | **Securities Exchange Listing:** Shares in Harvey Norman Holdings Limited (HVN) are quoted on the Australian Securities Exchange Limited (ASX) | **Solicitors:** Brown Wright Stein | **Company Secretary:** Mr. Chris Mentis

RESULTS FOR ANNOUNCEMENT TO THE MARKET

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.

REPORTED PBT
$301.15m
DOWN $14.53m (▼ 4.6%) FROM $315.68m IN DEC 2018

REPORTED PROFIT AFTER TAX & NCI
$213.59m
DOWN $9.18m (▼ 4.1%) FROM $222.77m IN DEC 2018

PBT
Excluding AASB 16 net impact and net property revaluations
$285.87m
UP $6.74m (▲ 2.4%) FROM $279.12m IN DEC 2018

PROFIT AFTER TAX & NCI
Excluding AASB 16 net impact and net property revaluations
$203.04m
UP $5.88m (▲ 3.0%) FROM $197.17m IN DEC 2018

EBITDIA
up **$60.06 million** ▲ 15.7%

EBIT
up **$1.78 million** ▲ 0.5%

REPORTED PBT
down **$14.53 million** ▼ 4.6%

PBT
Excluding AASB 16 net impact and net property revaluations
up **$6.74 million** ▲ 2.4%

COMPANY-OPERATED SALES REVENUE
$1.24 billion
up **$63.84 million** (▲ 5.4%)
from $1.18 billion

REVENUE RECEIVED FROM FRANCHISEES
$497.84m
down **$21.92 million** (▼ 4.2%)
from $519.76 million

REVENUES AND OTHER INCOME ITEMS
$106.02m
down **$7.98 million** (▼ 7.0%)
from $114.00 million

BASIC EARNINGS PER SHARE
17.70c
down from **19.12c** in PCP

DIVIDENDS PER SHARE (Fully-Franked)
12.0c
equal to **12.0c** in PCP

FLAGSHIP / PREMIUM GLOBAL STRATEGY UPDATE

2019 delivered the completion of our 8-country Flagship Strategy.
Our premium strategy has been underway overseas for the past 3 years.
We have started to rollout the premium strategy in Australia and NZ this financial year.

544 FRANCHISEES IN AUSTRALIA

194 FRANCHISED COMPLEXES IN AUSTRALIA

95 OFFSHORE COMPANY OPERATED STORES

OFFSHORE ACHIEVEMENTS FOR HY20

27%
OF TOTAL CONSOLIDATED PBT NOW COMES FROM OVERSEAS COMPANY-OPERATED STORES

RECORD HY20 OFFSHORE RETAIL REVENUE
$1.15 billion
up by **$73.69 million** (▲ 6.9%)

RECORD OFFSHORE RETAIL PBT OF
$81.69m
up by **$4.16 million** (▲ 5.4%)

Excluding AASB 16 net impact
$83.65m up by $6.12m (▲ 7.9%)

OPENED 5 NEW STORES IN MALAYSIA IN HY20:

- **Mid Valley Southkey, Johor Bahru**
  Opened July 2019 44,165 sq.ft
- **AEON Mall, Kota Bahru**
  Opened October 2019 42,289 sq.ft
- **IPC Toppen, Johor Bahru**
  Opened November 2019 53,003 sq.ft
- **Ipoh Parade, Ipoh**
  Opened November 2019 42,072 sq.ft
- **Batu Kawan, Penang**
  Opened December 2019, 49,482 sq.ft

Mid Valley Southkey, Johor Bahru

AEON Mall, Kota Bharu

IPC Toppen, Johor Bahru


Ipoh Parade, Ipoh

Batu Kawan, Penang

OPERATING and FINANCIAL REVIEW

The Operating and Financial Review (**OFR**) in this report provides shareholders with an overview of the consolidated entity's results, operating segments, financial position and dividends for the first half of the 2020 financial year. This OFR is not a full and comprehensive OFR, such as normally forms part of the Directors' Report in the Annual Report.

Reported Profit Before Tax (**PBT**) and Profit After Tax (**PAT**)

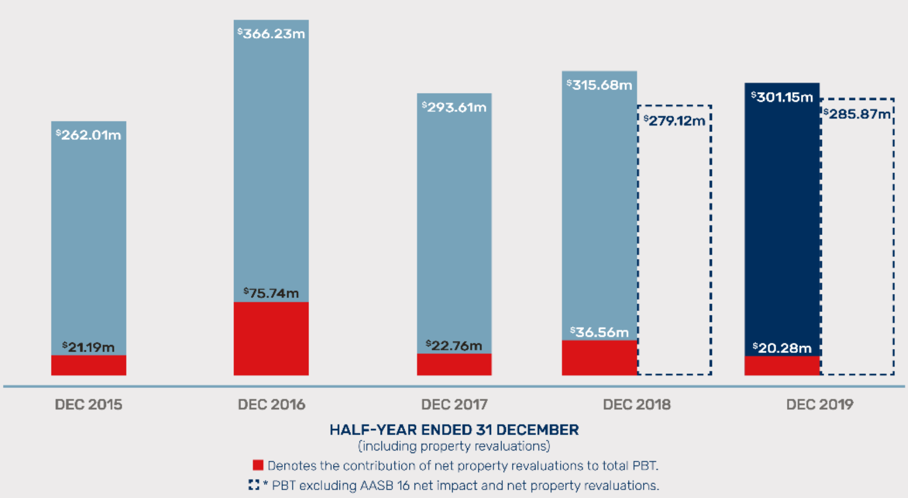
HALF-YEAR ENDED 31 DECEMBER 2019

REPORTED PROFIT BEFORE TAX	PBT excluding AASB 16 net impact and net property revaluations
$301.15m	**$285.87m**
▼ 4.6% ON PCP	▲ 2.4% ON PCP

- Reported PBT for HY20 was impacted by a decrease in the net property revaluation increment by $16.28 million or -44.5% from $36.56 million in HY19 to $20.28 million in HY20. The majority of the decrease related to a net decrement for a residential zoned property in NSW, with no flow-on impact to the rest of the portfolio.
- Reported PBT for HY20 was also impacted by the first-time application of AASB 16 Leases from 1 July 2019 which resulted in higher expenses recognised under the new leases standard by $5 million.
- Excluding net property revaluation adjustments and the incremental higher expenses resulting from the first-time adoption of AASB 16 Leases, profit before tax would have been $285.87 million for HY20 compared to $279.12 million for HY19, an increase of $6.74 million or 2.4% from PCP.

PCP = previous corresponding period

PROFIT BEFORE TAX AS REPORTED ($M)



REPORTED PBT
$301.15m
DOWN BY 4.6% ON PCP

PBT*
$285.87m
UP BY 2.4% ON PCP

HALF-YEAR ENDED 31 DECEMBER 2019

REPORTED PROFIT AFTER TAX & NCI	PAT & NCI excluding AASB 16 net impact and net property revaluations
$213.59m	**$203.04m**
▼ 4.1% ON PCP	▲ 3.0% ON PCP

OPERATING and FINANCIAL REVIEW

HIGHLIGHTS: REPORTED PROFIT BEFORE TAX

Reported PBT was $301.15 million for the half-year ended 31 December 2019 (HY20) compared to $315.68 million for the half-year ended 31 December 2018 (HY19), a decrease of $14.53 million or -4.6% due to the following main factors:

- **($34.61) million or -21.8% decrease in the profitability of the franchising operations segment in Australia to a profit of $123.86 million for HY20**, from $158.47 million in HY19. ($3.81) million of this decrease relates to the incremental impact of adopting AASB 16 in the franchising operations segment this half. The decrease excluding the net AASB 16 impact would have been ($30.80) million or -19.4%.

  Revenue from franchisees decreased by $21.92 million, or -4.2%, to $497.84 million in HY20, from $519.76 million in HY19, due to a reduction in franchise fees received from franchisees, coupled with a rise in tactical support to promote and protect the brand. The costs of running the franchising operations segment have increased as the franchisor has invested in technology and infrastructure assets and in the brand, to equip franchisees with the necessary tools to seamlessly serve their customers and deliver an immersive end-to-end retail experience. Additionally, the adoption of AASB 16 *Leases* saw leasing expenses increase by $3.81 million in the franchising operations segment.

- **($10.19) million or -9.9% decrease in the overall property segment profit result to $93.05 million for HY20**, from $103.24 million in HY19, mainly attributable to a ($16.28 million) or -44.5% decrease in the net property revaluation increment from $36.56 million in HY19 to $20.28 million in HY20, offset by higher rent and outgoings collected from property segment assets and lower borrowing costs due to the decreased utilisation of debt facilities for property acquisitions.

- **+$4.16 million or +5.4% increase in the profitability of the overseas company-operated retail stores to $81.69 million for HY20**, from $77.53 million in HY19 and an improved offshore contribution to 27% of overall consolidated PBT. The first-time application of AASB 16 *Leases* resulted in higher leasing costs recognised by the offshore businesses by $1.96 million. Excluding the incremental AASB 16 impact on the combined offshore result, offshore PBT would have been $83.65 million, an increase of $6.12 million or +7.9% for the half.

  New Zealand up by +$6.51 million (+15.5%), a record half with strong sales toppling over half-a-billion in Australian dollars for the first time. NZ sales soared to $503.90 million, up +6.3%, an excellent result in light of the headwinds that continue to dampen the NZ economy.

  Ireland & Northern Ireland up by +$2.10 million (+20.3%) due to the solid performance of the 13 company-operated stores in Ireland achieving double-digit growth in aggregate, outperforming the discretionary retail market in Ireland. The consolidated entity is the market leader in the TV category in Ireland and, pleasingly, has seen substantial growth in the technology and connected health categories. The consolidated entity is on track to open the new store at Galway in April 2020, with another store in Sligo expected to open at the beginning of August 2020. The 2 stores in Northern Ireland continued to perform well in a difficult trading environment.

  Slovenia & Croatia up by +$1.15 million (+26.0%) an outstanding result achieved through positive sales growth across all stores and across all key product categories. This period marks Croatia's 4th year of profitable trading and the enhanced brand awareness in Croatia is expected to bolster the expansion opportunities in the region, including the proposed store opening at Pula in the first half of FY21.

  Singapore & Malaysia reduced by ($5.60) million (-27.0%) of which ($2.08) million can be attributed to the first-time application of AASB 16 as all Harvey Norman® stores are leased from external landlords in Southeast Asia. There are now 23 Harvey Norman® stores in Malaysia, with the opening of 5 new stores during HY20 located at Mid Valley Southkey, Johor Bahru (July 2019), AEON Mall, Kota Bharu (October 2019), IPC Toppen, Johor Bahru and Ipoh Parade, Ipoh (both in November 2019) and Batu Kawan, Penang (December 2019). The consolidated entity is on track to open a further 2 new stores in the second half of FY20. Sales and profitability increased in Malaysia as the brand and retail footprint were enhanced throughout the region. This was offset by the softer retail conditions in Singapore, which saw sales and profitability decline due to the subdued macroeconomic climate negatively impacting consumer and business confidence in Singapore.

- **+$5.63 million improvement in the market value and dividends received from the equity investments segment to a net profit of $2.85 million in HY20**, from a net loss of ($2.78) million in HY19.

- **+$20.48 million reduction in the losses incurred by the non-core joint ventures included in the other segment and other non-franchised retail segment to a net loss of ($0.30) million for HY20**, from a net loss of ($20.78) million in HY19. The comparative for the PCP included an $8.25 million impairment loss recognised for the expected shortfall on loans advanced to Coomboona following the completion of the Administrator Sale and a $9.67 million loss on the restructure and consolidation of the KEH Partnership Pty Limited (KEH) effective 1 July 2018.

Offshore Company-Operated Retail Segment

Overseas businesses continue to deliver strong results & are well-poised for future growth

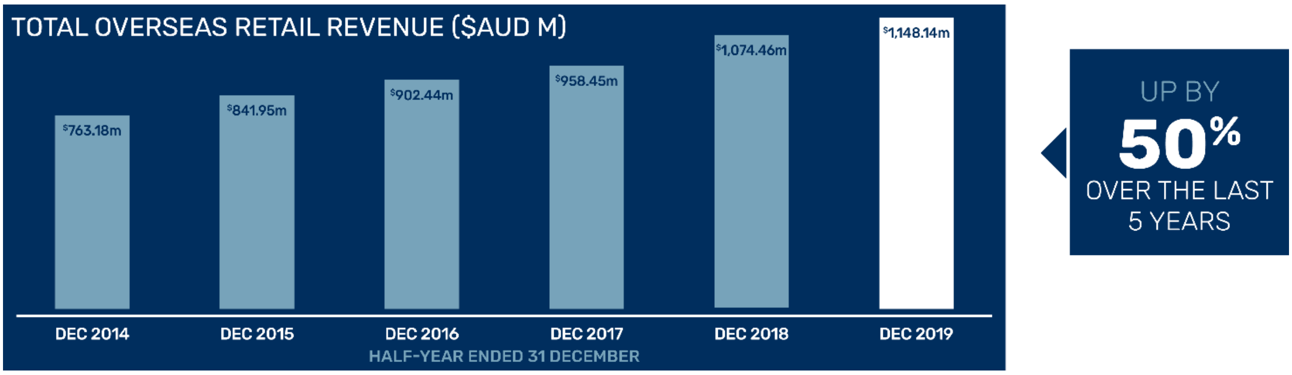
RECORD HY20 OFFSHORE RETAIL REVENUE **$1.15 billion** | OFFSHORE PROFIT **27%** OF TOTAL PROFIT BEFORE TAX

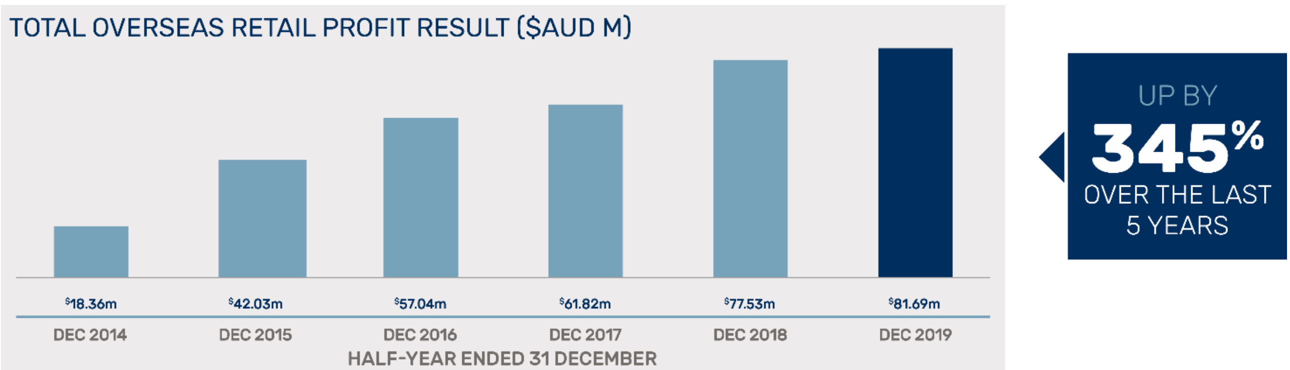
The Harvey Norman® brand successfully operates under a traditional retail model overseas, with 95 company-operated stores in 7 countries outside of the Australian market. **Offshore revenue has risen to nearly $1.15 billion, representing over 60% of the total consolidated revenue. Offshore profitability has increased to $81.69 million for this half, now representing 27% of total consolidated profit before tax.**

Organic growth has already been delivered in Malaysia this half with the opening of 5 new stores during HY20. The consolidated entity is on track to open another 2 new stores in Malaysia in the second half of the FY20 financial year. Two new leases have been signed in Singapore and the consolidated entity expects to open 2 new stores by the end of FY20. Expansion plans have resumed in Ireland with the proposed opening of the Galway store in April 2020 and the Sligo store in August 2020. In New Zealand, the consolidated entity continues to explore avenues to grow the NZ business and capitalise on retail opportunities within the existing store base. The opportunities for expansion and growth in Croatia are exciting, leading with the proposed opening of the new store at Pula, Croatia in the first half of FY21.

The Flagship stores in each of the 7 overseas territories continue to deliver an immersive retail experience for customers. The store reinvigoration strategy has continued during HY20, where key elements of the Flagships have been adapted and implemented in a selection of smaller, full-format stores in Singapore, Malaysia, Slovenia and Ireland. There will be further transformations of selected stores around the globe – with locations in Australia, New Zealand and Ireland already earmarked for reinvigoration.

Total aggregated company-operated retail sales and other revenue for the 95 Harvey Norman® branded stores overseas and the 2 Space Furniture® branded stores in Asia **grew by $73.69 million, or 6.9%, to $1.15 billion for HY20**, relative to $1.07 billion in HY19.

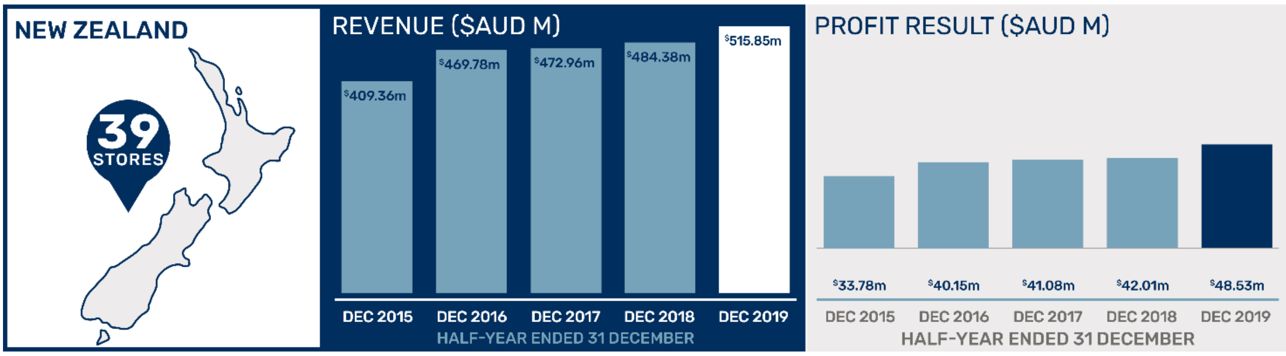




The result before tax for the overseas company-operated retail segment **increased by $4.16 million, or 5.4%, to $81.69 million for HY20**, from $77.53 million in HY19. The first-time application of AASB 16 Leases reduced the profitability of offshore operations by $1.96 million for the current half. Excluding the incremental impact of AASB 16, the **offshore profit result, in aggregate, would have been $83.65 million, an increase of $6.12 million or +7.9%.**

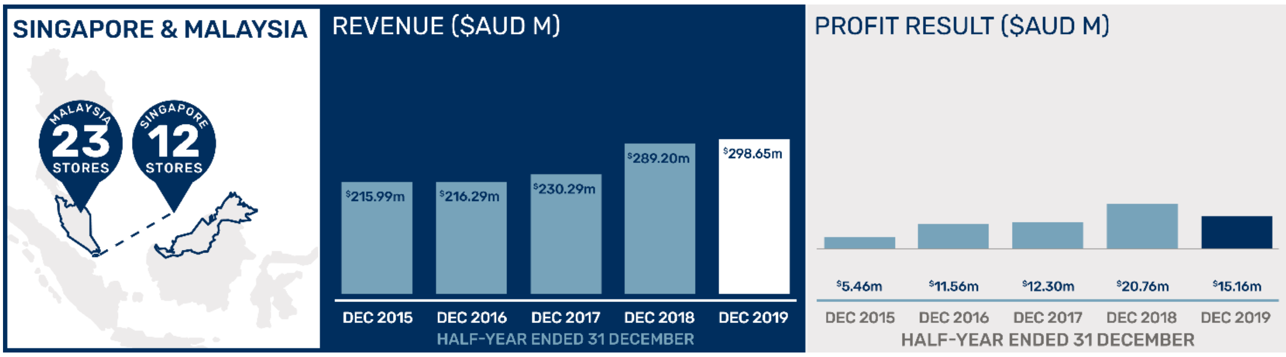
OPERATING and FINANCIAL REVIEW

Offshore Company-Operated Retail Segment (continued)



The 39 Harvey Norman® company-operated stores continued to dominate and remained market leaders, with growth recorded across all key product categories. It was another record half, with **sales revenue toppling over half-a-billion dollars in both local currency and on translation to Australian dollars**. Sales in local currency soared to $NZ533.83 million, up by $NZ20.61 million or +4.0% for HY20, from $NZ513.22 million in HY19. A 2.19% appreciation in the New Zealand dollar relative to the Australian dollar during HY20 saw sales increase to $503.90 million, up by $29.83 million or +6.3%, from $474.07 million in HY19. It is particularly pleasing to report solid sales growth amid the headwinds that continue to dampen the New Zealand economy. Whilst there has been signs of improving consumer sentiment, propelled by signs of improvements in the Auckland housing market, business confidence remains low or cautious at best.

It was the second year of trade for the reinvigorated Flagship store at Wairau Park, North Auckland, and sales remain strong, albeit off a higher base last year due to store opening promotions. Capitalising on the momentum generated by the Wairau Park Flagship, the New Zealand segment continues to exhibit a noteworthy 'halo-effect' throughout its existing store base. Improved margins, accentuated by exclusive product lines and strong supplier alliances, and an ongoing focus on cost control measures, has resulted in an increase in the retail result in New Zealand by $6.51 million, or +15.5%, to $48.53 million for HY20, up from $42.01 million in HY19. The application of AASB 16 *Leases* to the retail result in New Zealand reduced the retail segment result by $0.28 million.



This segment is comprised of 12 Harvey Norman® stores in Singapore, 23 Harvey Norman® stores in Malaysia and the Space Furniture® branded lifestyle stores in Singapore and Malaysia.

This half marks the single biggest period of organic expansion overseas, with the opening of 5 Harvey Norman® stores in Malaysia from July to December 2019. Malaysia is the fastest growing country for Harvey Norman® and represents the largest platform for future growth. The brand in Southeast Asia is now well-established, and the consolidated entity continues to develop a solid market presence throughout key regions. The consolidated entity recognises the upward trajectory of the Malaysian economy throughout the past decade, and its importance in creating an environment that is conducive to building a solid retail footprint – including robust population growth and its effect of increasing the average household size, solid forecasted GDP growth indicators and an emerging global middle class. The consolidated entity remains on track with its expansion plans in Malaysia. There is an intention to open a further 2 new stores in the 2nd half of the 2020 financial year and a further 6 new stores are expected to open in Malaysia in the 2021 financial year. The aspirational target is to have 50 Harvey Norman® stores in Malaysia within the next 5 years.

Aggregated sales revenue for the Harvey Norman® and Space Furniture® brands in Asia totalled $S273.76 million in local currency for HY20, down by 2.7%, or $S7.53 million, from $S281.30 million in HY19. Sales growth in Malaysia, attributable to new stores and improved performance of existing stores, was offset by dampened sales in Singapore and the Space Furniture® brand in Asia.
On translation to Australian dollars, the 6.03% appreciation of the Singapore dollar during HY20 resulted in an aggregate **increase in Asian sales revenue to $292.05 million, up by $9.02 million or 3.2%,** from $283.02 million in HY19.

In Malaysia, sales revenue for the 23 Harvey Norman® company-operated stores amounted to $S112.27 million, an increase of $S13.67 million or 13.9%, from $S98.60 million in HY19. **Translated to Australian dollars, the sales increase was $20.56 million, or 20.7%, to $119.77 million.** Sales growth in Malaysia was mainly attributable to 5 new store openings during HY20 - Mid Valley Southkey, Johor Bahru (July 2019); AEON Mall, Kota Bharu (October 2019); IPC Toppen, Johor Bahru and Ipoh Parade, Ipoh (both in November 2019) and Batu Kawan, Penang (December 2019) – and the sales contribution of the store at Miri, Sarawak that opened in April 2019.

Offshore Company-Operated Retail Segment (continued)

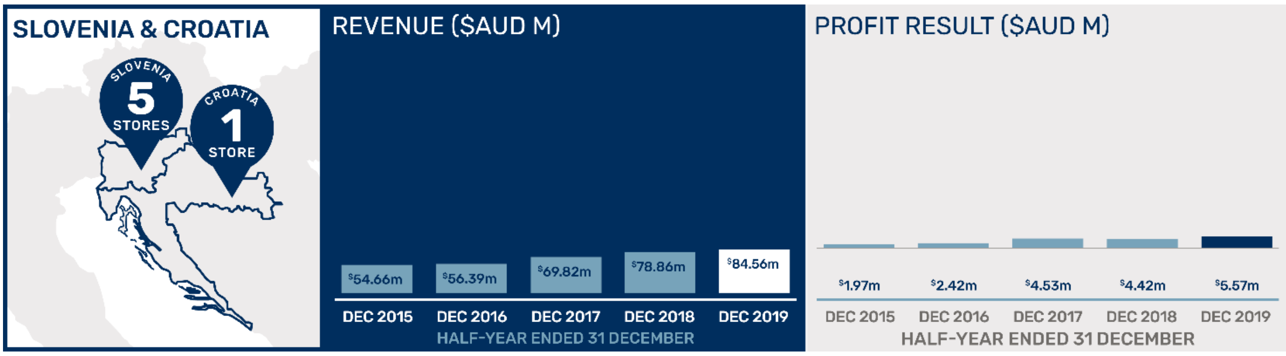
Existing stores in Malaysia, including the Ikano Flagship at Kuala Lumpur, continued to perform solidly and trade profitably, however, growth was coming off a higher sales base in preceding reporting periods due to the temporary reprieve from GST obligations introduced by the Malaysian government for part of FY19 and other incentives employed by retailers to further ride the retail momentum in the region.

The solid performance in Malaysia and its positive outlook for the years ahead lies in stark contrast to the weaker retailer environment in Singapore, where there are 12 Harvey Norman® stores as at 31 December 2019. Sales in local currency reduced by $S20.72 million or -11.9% to $S153.55 million for HY20, down from $S174.27 million in HY19. Translated to Australian dollars, the reduction in sales was $11.53 million, or -6.6%, to $163.80 million. The effect of the closure of the Square Two store in December 2018 was felt during this half, and sales moderated across most Harvey Norman® stores in Singapore, reflective of the subdued consumer, business and retail sentiment. The protracted trade war between the United States and China has impacted retail trade in Singapore and, whilst the full impact of the Coronavirus was not felt during HY20, the potentially long-lasting threat of exposure to the Coronavirus is expected to further dampen sales for the remainder of FY20.

Sales revenue for the Space Furniture® brand in Singapore and Malaysia combined remained consistent with the previous half year, impacted by the slow recovery of the high-end property market and the slow-down of contract and project sales.

The segment profit result of the two brands in Asia was $15.16 million for HY20 compared to a segment result of $20.76 million in HY19, a decrease of $5.60 million, or -27.0%. $2.08 million of this reduction can be attributed to the application of AASB 16 from 1 July 2019 as all Harvey Norman® branded stores in Southeast Asia are leased from external landlords.

Profitability has improved in Malaysia, assisted by new store openings and a geographically well-represented retail footprint to further enhance the brand in Malaysia to pave the way for future growth. Profitability reduced in Singapore due to lower sales and its effect on tightening margins. The consolidated entity has signed two new leases in Singapore for two new store openings slated for the last quarter of the 2020 financial year.



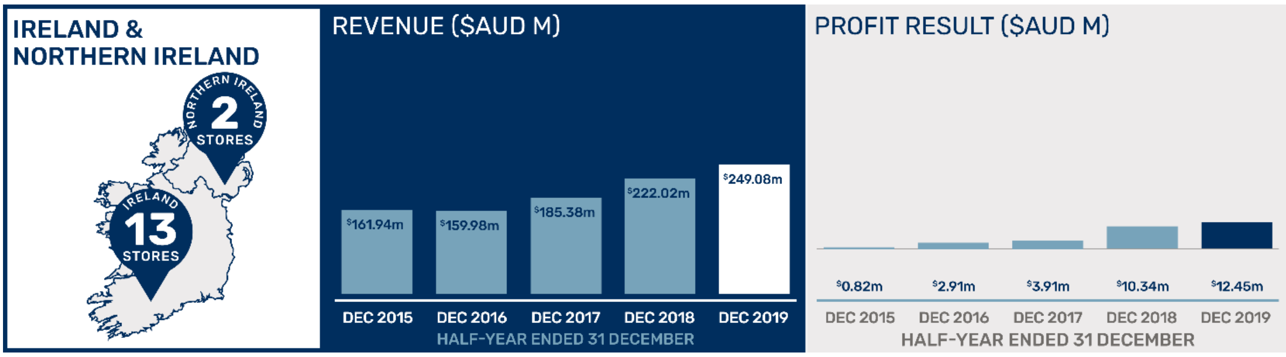
Sales revenue from the 5 company-operated stores in Slovenia **increased €1.65 million, or +4.3%, to €39.82 million for HY20**, up from €38.17 million in HY19. Positive sales growth was achieved across all stores and across all key product categories. Translated into Australian dollars, sales revenue **increased $3.87 million, or +6.4%, to $64.55 million**, assisted by a 1.96% appreciation of the Euro relative to the Australian dollar during HY20.

The retail result in Slovenia was a **profit of $5.24 million for HY20, an increase of $1.11 million, or +26.90%**, from $4.13 million profit in HY19. This is a record result for Slovenia and its strongest growth since inception.

The relaunch of the Zagreb store in Croatia as a Flagship opened in October 2018. HY20 has a full 6-months' contribution from the reinvigorated Flagship driving sales up by €1.13 million, or +10.9%, to €11.56 million for HY20, from €10.43 million in HY19. Translated into Australian dollars, sales revenue increased +13.0%, or $2.16 million, to $18.74 million.

This period marks Croatia's 4th year of profitable trading, with a profit of $0.33 million for HY20, a modest increase from a profit of $0.29 million in HY19. The Zagreb Flagship is expected to continue on its upward trajectory of solid market share growth. Enhanced brand awareness throughout Croatia will bolster the store expansion opportunities of the consolidated entity, including the proposed store opening at Pula in the first half of FY21.

Offshore Company-Operated Retail Segment (continued)



Ireland:

The Irish economy has continued to perform strongly throughout HY20. Key economic indicators remain stable, with low unemployment, solid GDP growth forecasts and signs of momentum in the housing market.

The 13 Harvey Norman® company-operated stores in Ireland have achieved double-digit growth for the half, outperforming the discretionary retail market in Ireland with associated market share gains across all of its main product categories. In Ireland, sales revenue **increased €13.07 million, or +10.0%, to €143.94 million for HY20**, up from €130.87 million in HY19. Translated into Australian dollars, **sales revenue increased by $25.27 million, or +12.1%, to $233.33 million**, from $208.07 million in HY19, assisted by a 1.96% appreciation in the Euro relative to the Australian dollar during the period.

The Harvey Norman® brand is seen to be a market leader in the TV category, particularly in the 55 to 60+ inch ranges. It is pleasing to see significant growth in the technology category, with strong performance in connected health and wearables, accessories, hardware, connected home and mobile handsets. The Irish business has also seen substantial growth in their digital strategy, with both digital traffic and online sales growing at an impressive rate.

The ongoing success of the Tallaght Flagship has continued to have a positive impact on the existing store base with each of the stores in Ireland growing sales during the year. The Irish business has continued to invest in its store network with the relocation of the Dublin metropolitan warehouse to a new, modern state-of-the-art facility to support the electrical category for 7 stores in the Dublin area.

The consolidated entity is on track with the plan to open a new store at Galway in April 2020, a 60,000 sq. ft. store which will anchor the second phase of the Gateway Retail Park in Knocknacarra on the west side of Galway city. The store will trade over two levels and will include a modern and vibrant restaurant with stunning views towards Galway Bay. The Sligo store is expected to open at the beginning of August 2020, a 43,600 sq. ft. store located at Sligo Retail Park, Carraroe, Sligo. Both stores will provide the large, full-format offering to customers.

The retail segment result in Ireland generated a **profit of $12.36 million for HY20**, compared to $10.60 million in HY19, **a significant improvement of $1.76 million or +16.6%** on the previous period.

Northern Ireland:

Sales revenue from the two company operated stores in Northern Ireland **increased by £0.55 million, or +9.8%, to £6.13 million** for HY20, from £5.58 million in HY19. Translated into Australian dollars, sales **increased by $1.30 million, or +13.0%, to $11.27 million**.

The Flagship store on the iconic Boucher Road has gone from strength-to-strength, continuing to report double-digit sales growth in a very difficult trading environment. The March 2019 launch of the new Premium Bedding Gallery in the Flagship has further enhanced the reputation of the Flagship as the number one furniture and bedding destination in Northern Ireland.

The 2 company-operated stores in Northern Ireland made a profit of $0.09 million for the current period, an improvement from the trading loss incurred in the previous year of $0.26 million.

Other Non-Franchised Retail

The Other 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 was $117.15 million for HY20, a reduction of $6.16 million, or -5.0%, from segment revenue of $123.31 million in HY19.

The result for the non-franchised retail segment was a loss of $1.73 million for HY20, compared with a loss of $12.14 million in HY19, a turnaround or reduction in the loss by $10.41 million from the loss recorded in the previous half.

During HY19, the consolidated entity recorded a loss on restructure and consolidation of KEH Partnership Pty Limited (KEH) amounting to $9.67 million. KEH was previously accounted for as an equity-accounted joint venture entity. Effective 1 July 2018, a wholly-owned subsidiary of Harvey Norman Holdings Limited acquired all of the inventory assets of KEH. Subsequently, there was a restructure of the KEH business where, by unanimous agreement in writing, each partner in the Partnership agreed to vary the interest of the respective partners in the Partnership, with the consolidated entity increasing its partnership interest in the Partnership to 99.02%. The recognition of the loss of $9.67 million in HY19 represented the difference in the carrying amount of the loan receivable from KEH in the consolidated entity's financial statements of $40.14 million and the fair value of the loan payable in KEH's financial statements of $30.47 million as at the consolidation date of 1 July 2018.

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 (CHPL), that was the subject of the Administrator Sale during the 2019 financial year and was sold and subsequently settled and finalised prior to June 2019.

The Other segment recorded a profit of $1.43 million for HY20 compared to a loss of $8.64 million in HY19, a turnaround or improvement by $10.07 million. This was mainly due to the recognition of a further impairment loss relating to expected shortfall in the repayment of funds advanced to the Coomboona joint venture in December 2018.

On 16 January 2019, the Administrator Sale was completed and the Contract for Sale settled. The secured creditors received net proceeds on sale of $40.50 million for the full discharge of the NCF receivables and the partial discharge of the HN JV Entity receivables. After taking into account the net sales proceeds, a further impairment expense of $8.25 million was recognised in December 2018 to reduce the value of the HN JV Entity receivables to its estimated recoverable amount.

There were no further material transactions pertaining to the Coomboona JV subsequent to the completion of the Administrator Sale. There were no further costs incurred in respect of the Coomboona joint venture during HY20.

Equity Investments

This segment includes the investment in, and trading of, equity investments, including listed securities in Australia and New Zealand that are held at fair value.

There was an increase in the profitability of the equity investments segment, growing by $5.63 million to a profit of $2.85 million in HY20, up from a loss of $2.78 million in HY19.

Auburn, Sydney
(Australia Flagship complex)

THE FRANCHISING 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.

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

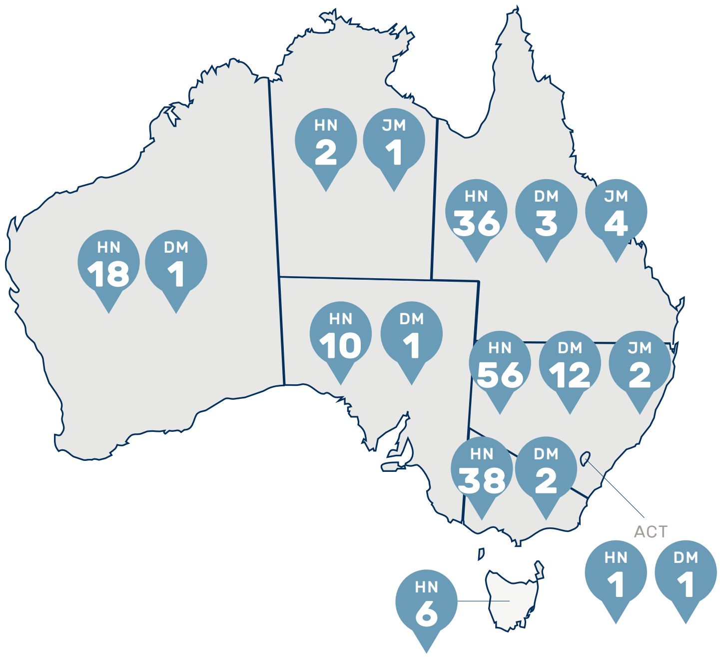
Each franchisee owns and controls the franchisee business of that franchisee. Each franchisee has control over the day-to-day operations of the franchisee business and has the discretion and power to make the decisions necessary to drive sales, control floor margins and contain operating costs to maximise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

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

The franchising operations segment in Australia captures and records the franchisee fees received from franchisees including gross 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.

544 Number of independent franchisees carrying on their business under Harvey Norman®, Domayne® and Joyce Mayne® brands.

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

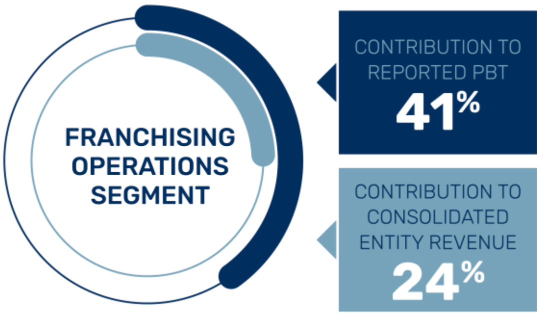


Harvey Norman®
167 FRANCHISED COMPLEXES

DOMAYNE®
20 FRANCHISED COMPLEXES

JOYCE MAYNE®
7 FRANCHISED COMPLEXES

Franchising Operations Segment



The franchising operations segment generated revenues of $443.81 million for HY20, down by $24.82 million, or -5.3%, from $468.64 million in HY19.

The franchising operations segment result was $123.86 million for HY20, down by $34.61 million, or -21.8%, from $158.47 million in HY19. Excluding the incremental impact of applying AASB 16 *Leases* of $3.81 million, the franchising operations segment result would have been $127.67 million for HY20, a reduction of $30.80 million, or -19.4%, relative to HY19.

The deterioration in the franchising operations segment result can be attributed to two main factors:

(1) A reduction in revenue received from franchisees:
Revenue received from franchisees decreased by -4.2%, or $21.92 million, to $497.84 million in HY20 from $519.76 million in HY19 due to the following:

- a reduction in franchise fees received from franchisees by $23.67 million, incorporating a rise in tactical support payments, both of which were adversely affected by the unprecedented, severe natural disasters endured by franchisees during this half that further exacerbated the subdued retail sentiment;
- offset by a rise in rent, outgoings and interest received from franchisees by $1.75 million.

Tactical support payments were made, where necessary, to protect, enhance and preserve the brand to assist franchisees to effectively compete in their local markets. In the previous reporting period, AASB 15 Revenue from Contracts with Customers was first applied, which required revenue received from franchisees to be recognised based on the amount a franchisor expects to receive in exchange for the provision of franchising operations' activities to a franchisee, pursuant to a franchise agreement. For presentation purposes, tactical support payments have been netted off against franchisee fees received in both reporting periods presented in this report.

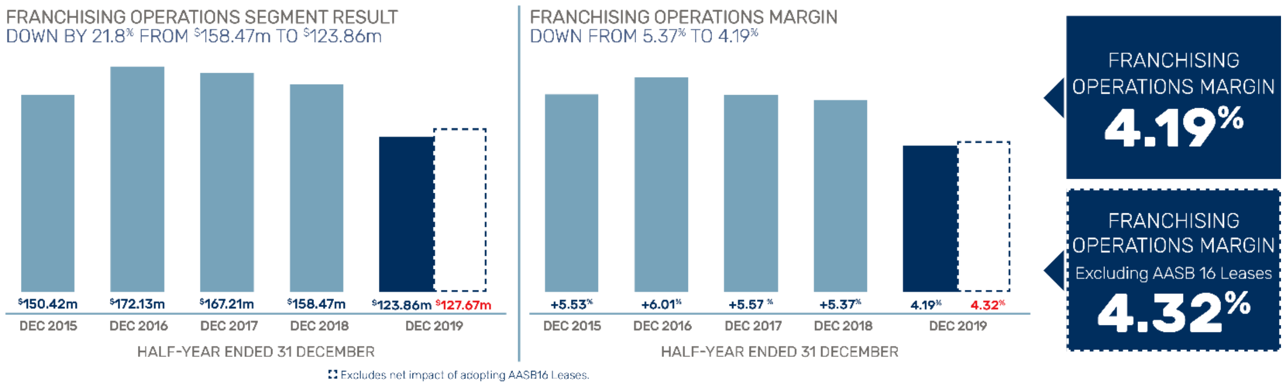
(2) An increase in the costs of the running the franchising operations segment, including:

- an increase in operating costs as the franchisor has invested in technology and infrastructure assets and in the brand, to equip franchisees with the necessary tools to seamlessly serve their customers and deliver an immersive end-to-end retail experience; and
- the adoption of AASB 16 *Leases* that resulted in a net increase in leasing expenses by $3.81 million for HY20.

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 margin moderated from 5.37% in HY19 to 4.19% in HY20, a reduction of 118 basis points. Excluding the incremental impact of applying AASB 16 *Leases*, the franchising operations margin would have been 4.32% for HY20, a reduction of 105 basis points.



Franchisee Sales Revenue Underpins the Franchising Operations Segment

Headline Australian franchisee aggregated sales revenue grew modestly by 0.11%, or $3.16 million, to $2.953 billion for HY20, from $2.95 billion in HY19. Comparable Australian franchisee aggregated sales revenue improved by 0.03% to $2.934 billion for HY20 compared to $2.933 billion in HY19.

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 franchisee businesses that are not consolidated with the consolidated entity's results. Australian franchisee aggregated sales revenue are reported to the market as it is a key indicator of the performance of the franchising operations segment.

Franchisee Sales Revenue Underpins the Franchising Operations Segment (continued)

FRANCHISEE SALES REVENUE HY20

TOTAL FRANCHISEE SALES	COMPARABLE FRANCHISEE SALES
HY DECEMBER 2019 $2.95bn UP BY 0.11%	HY DECEMBER 2019 $2.93bn UP BY 0.03%

Growth in aggregated franchisee sales revenue has moderated in HY20, within a challenging economic environment that has been influenced by a cautious consumer, changing promotional cycles and unforeseen, unprecedented natural disasters. Understandably, the ongoing bushfire crisis in Australia has had an adverse effect on franchisees throughout the peak December trading period. The conditions have had adverse impacts on franchisees and their staff, with temporary store closures due to local conditions and a redirection of business investment towards a focus on relief and charitable activities.

Franchisee sales were stable in the lead-up to key promotional periods in early December, with the Black Friday and Cyber Monday trade exceptionally strong. The Black Friday to Cyber Monday 4 days fell one week later in early December compared to the previous year. The computer franchisees in particular were unable to replenish stock holdings following stronger than expected sales and lack of stock being held by manufacturers. This trend can be seen in a reduction in the aggregate amount of financial accommodation provided to franchisees during HY20 compared to HY19, primarily due to a reduction in franchisee inventory levels, and the corresponding increase in cash reserves of the franchisor as at the end of this half relative to last half. Replenishment was slow going into January 2020 because of the Christmas break.

The positive momentum in retail trade was expected to continue throughout December 2019, but unforeseen natural disasters struck, significantly impacting December sales. Franchisees worked tirelessly under extenuating circumstances as the disastrous combination of the prolonged drought, the severe smoke haze and fire-ravaged communities affected regional areas that represent a large geographical proportion of the franchised complexes. The consolidated entity has always been proud of its regional presence and the franchisees' support of their local communities. Approximately 65% of the franchised complexes are located in open-air, standalone large-format centres in regional areas that have been adversely impacted by these unprecedented natural disasters.

Franchisees in metropolitan locations were also negatively impacted by the severe reduction in air quality and bushfire threats in Queensland in early November followed by New South Wales and Victoria throughout late November and December impacting sales in the Christmas peak trading period. Anecdotally, it can be seen that Australian consumers opted to shop in closed-in environment shopping centres to escape the heat and smoke haze, rather than in open-air, standalone large-format centres. Uncertainty surrounding the magnitude and tenure of the summer bushfire season was also a contributing factor that dampened consumer sentiment, further exacerbating the subdued sentiment as the recent macroeconomic initiatives to stimulate the economy did not generate the desired effect on retail spend.

The consolidated entity is proud of the contributions made by each Harvey Norman®, Domayne® and Joyce Mayne® franchisee throughout this challenging half and early into the 2020 calendar year. Individual franchisees are part of a network of over 500 separate small businesses. Each franchisee owns and controls their own business - they are immersed in the communities in which they operate and they take pride in upholding the Harvey Norman®, Domayne® and Joyce Mayne® brands.

Within the franchised stores, the audio-visual category achieved solid growth throughout the half, led by large screen televisions that offered excellent value to consumers at affordable pricing. 8k technology in televisions has set a benchmark for consumers, with outstanding picture quality and colours that is underpinning this important category and continuing to be a strong interest of consumers. Audio products, led by Bluetooth speakers, high-end over ear headphones and the emerging True-Wireless Earbud category, were in demand with premium brands like Apple and Samsung driving strong, incremental sales growth.

Through material growth in smart security products and the launch of the exclusive Connect Smart Home brand, the Smart Living category has expanded further. This growth can also be attributed to important launches of products from companies such as Google and the momentum of categories such as Switches, Lighting and Voice Activation. The telecommunications category, led by franchisees commercial relationship with Optus in Australia, continues to be strategically important as mobile phones are central to a Smart Home environment.

Consumers are continuing towards a home that is a full ecosystem of a connected Smart Home devices in their entertaining, living and kitchen areas. This also has led to increased technical service offerings by franchisees, both in-store and in-home. This is an area of quality growth in the relationship of franchisees with their consumers and is strategically important for the ongoing growth of the Connected Smart Home category.

Promotional activity throughout the half has been highlighted by a competitive, price led environment, particularly in the EOFY and pre-Christmas promotional periods. Franchisees have invested in pricing and their business overall throughout the period to ensure that they are positioned for future growth.

Review of the Property Segment

Composition of the Property Portfolio

CONTRIBUTION TO REPORTED PBT
31%

CONTRIBUTION TO CONSOLIDATED ENTITY REVENUE
9%

The robust property portfolio was valued at $2.97 billion as at 31 December 2019, providing the consolidated entity with a hard, tangible asset base that delivers stable, increasing income streams and ongoing value to stakeholders in the form of the capital appreciation.

Property ownership continues to be the consolidated entity's driving point of difference and competitive advantage in the Australian market. In Australia, 94 franchised complexes (48% of total franchised complexes) are owned and managed by the consolidated entity and 100 franchised complexes (52% of total) are leased by a subsidiary of the consolidated entity from external landlords. All properties in Australia are then sub-leased to external parties, including Harvey Norman®, Domayne® and Joyce Mayne® franchisees pursuant to a licence, terminable upon reasonable notice.

In addition to the numerous financial benefits of property ownership, operationally, ownership and control of a resilient investment property portfolio enables the consolidated entity to swiftly respond to the evolving and dynamic needs of consumers. The properties are maintained to a high-quality standard, synonymous with the strong brand, and the consolidated entity ensures that the layout and floorspace can be quickly adapted to the changes in retail trends and consumer tastes. The consolidated entity mainly operates within 'large-format' retail centres and, in recent years, the trend has shifted towards a mix of food and lifestyle retailers within this space. The consolidated entity has responded by shifting the composition of the tenancy mix towards lifestyle retailers (e.g. gymnasiums, childcare centres, pet retailers and other recreational uses), anchored by a Harvey Norman®, Domayne® and Joyce Mayne® franchisee in each site – to ensure that an optimal tenancy mix is made available to the franchisees. This strategy has proven to be beneficial, resulting in consistently high occupancy rates throughout the entire property portfolio.

Growth in the property portfolio was mainly due to the sustained strong market conditions in the large-format retail sector delivering capital appreciation during the half and the concerted focus on reinvigorating and refurbishing the properties to a high standard 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 2019.

TOTAL PROPERTY SEGMENT ASSETS AS AT 31 DECEMBER	Dec 2017	Dec 2018	Dec 2019
Investment Properties (Freehold) and Assets Held for Sale	$2.385bn	$2.479bn	**$2.574bn**
Owner-Occupied Land & Buildings in New Zealand, Singapore, Slovenia, Ireland & Australia	$417.51m	$448.91m	**$398.91m**
Joint Venture Assets	$2.91m	$2.94m	**$1.85m**
TOTAL PROPERTY SEGMENT ASSETS	$2.81bn	$2.93bn	$2.97bn

OWNED & LEASED RETAIL USE PROPERTIES AS AT 31 DECEMBER 2019	# of owned retail use properties	# of leased retail use properties	Total
Australia: Franchised complexes	94	100	194
New Zealand	19	20	39
Slovenia	5	-	5
Croatia	-	1	1
Ireland	1	12	13
Northern Ireland	-	2	2
Singapore	-	12	12
Malaysia	-	23	23
TOTAL	119	170	289

Net Property Revaluation Adjustments

The freehold 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 freehold 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.

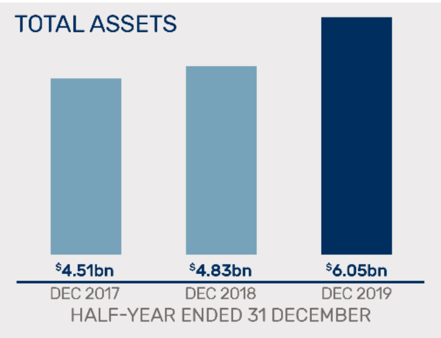
During HY20, twenty-five (25) sites within the freehold investment property portfolio in Australia were independently valued, representing 18.80% of the total number of sites and 17.63% of the fair value of the freehold investment property portfolio in Australia. The balance of the portfolio was reviewed for comparability resulting in the preparation of internal valuations for ten (10) additional sites. The valuation for HY20 resulted in a net increase of $20.28 million relating to freehold investment properties in Australia, compared to a net increase of $35.69 million in HY19, a decrease of $15.41 million. The majority of the decrease was attributable to a net decrement for a residential zoned property in NSW, with no flow-on impact to the rest of the portfolio.

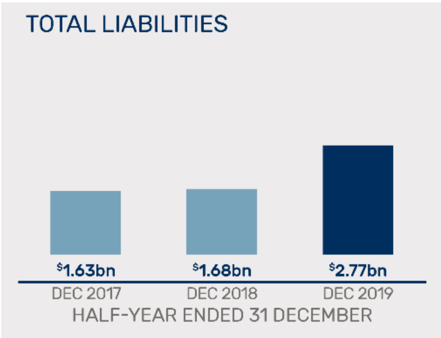
Review of the Property Segment (continued)

NET PROPERTY REVALUATION ADJUSTMENTS AS AT 31 DECEMBER ($ million)	RECORDED IN THE INCOME STATEMENT (Net Property Revaluation Increment) Dec 2017	Dec 2018	Dec 2019	RECORDED IN EQUITY (Asset Revaluation Reserve) Dec 2017	Dec 2018	Dec 2019
Australia	$22.76m	$35.69m	$20.28m	-	-	-
New Zealand	-	$0.87m	-	$7.17m	$5.01m	$10.98m
Slovenia	-	-	-	$0.04m	$0.04m	$0.04m
Singapore (AASB 16 transition adjustments)	-	-	-	-	-	($18.07m)
TOTAL	$22.76m	$36.56m	$20.28m	$7.21m	$5.05m	($7.05m)

Review of the Financial Position of the Consolidated Entity

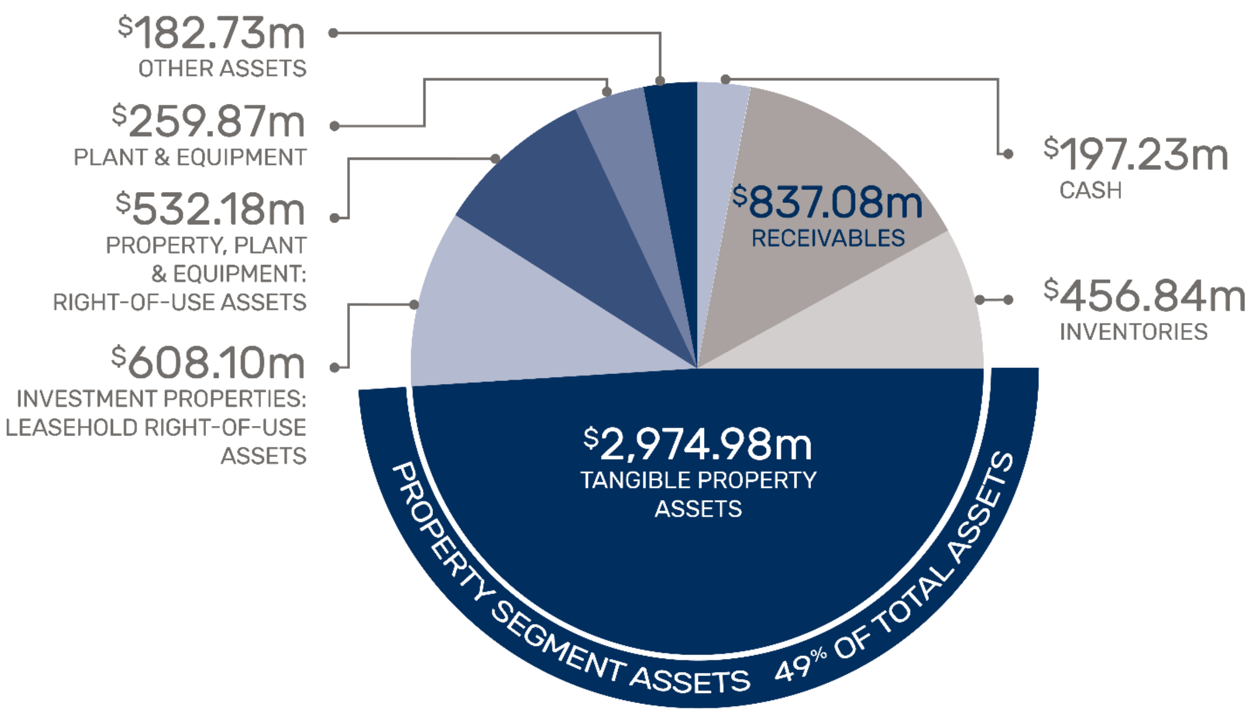
RECORD NET ASSETS EXCEED **$3 billion**





NET ASSET POSITION DECEMBER 2019
UP 4.2%
TO $3.28bn

COMPOSITION OF TOTAL ASSETS OF $6.05bn



Review of the Financial Position of the Consolidated Entity (continued)

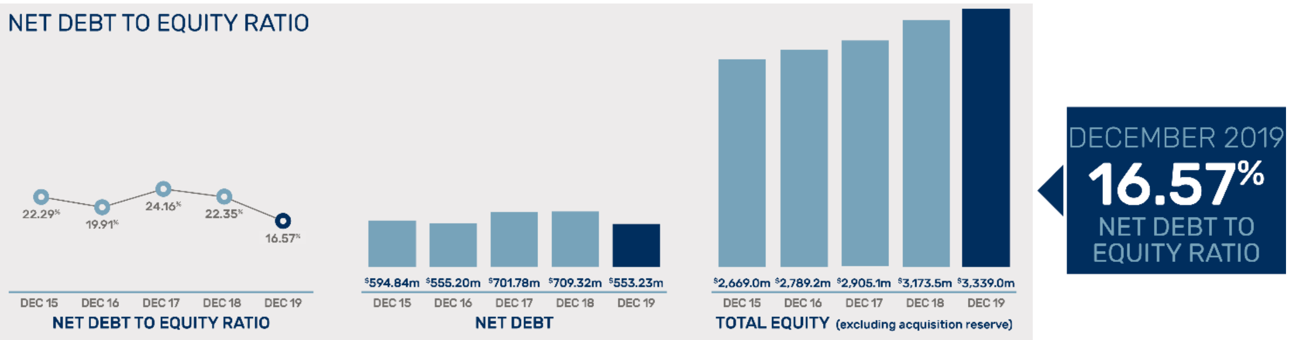
Total assets increased by 25.1%, or $1.21 billion, to $6.05 billion as at 31 December 2019, from $4.83 billion as at 31 December 2018 mainly attributable to the application of AASB 16 *Leases* that resulted in the recognition of right-of-use assets for leases of owner-occupied properties and plant and equipment leases of $532.18 million and investment properties (leasehold): right-of-use assets of $608.10 million relating to leases of properties that are sub-leased to external parties. The value of the freehold investment property portfolio increased by $78.13 million, or 3.2%, to $2.56 billion as at 31 December 2019 primarily due to the net property revaluation increment over the past 12 months and the acquisition and refurbishments of other freehold investment property assets since the previous corresponding period. Cash and cash equivalents increased by $73.93 million relative to prior period due to higher receipts from customers and higher net receipts from franchisees.

The above increases have been offset by a reduction in trade receivables by $76.60 million due to lower receivables from franchisees by $38.78 million and lower receivables from non-trade debts receivable by $22.77 million attributable to the repayment of loans from the Coomboona joint venture following the completion of the Administrator Sale in January 2019. Property, plant and equipment assets decreased by $34.76 million due to $75.16 million reclassification from property, plant and equipment assets to right-of-use assets upon the first-time adoption of AASB 16 *Leases*.

Total liabilities increased by $1.08 billion, or 64.3%, to $2.77 billion as at 31 December 2019 from $1.68 billion as at 31 December 2018 mainly attributable to the recognition of lease liabilities of $1.17 billion resulting from implementing AASB 16 *Leases* this half. The increase was offset by a reduction in interest-bearing loans and borrowings of $82.16 million due to the repayment of the Syndicated Facility by $70 million since the end of the previous corresponding period.

The consolidated entity is very pleased to report another solid net asset base, with **strong growth of 4.2% during the period, or an increase of $132.53 million, to $3.28 billion as at 31 December 2019** from $3.15 billion as at 31 December 2018.

Net Debt to Equity Ratio



The overall debt levels of the consolidated entity remain within an acceptable range, with a **low net debt to equity ratio of 16.59% as at 31 December 2019,** an improvement compared to a ratio of 22.35% as at 31 December 2018. Net debt comprises total interest-bearing loans and borrowings, net of cash and cash equivalents. The calculation of the net debt to equity ratio excludes the right-of-use assets and lease liabilities recognised on adoption of AASB 16 *Leases* as at balance date in order to be comparable to prior periods.

Solid Cash Flows

Cash and cash equivalents, net of bank overdraft, as disclosed in the Statement of Cash Flows on page 27, **increased by $72.87 million or 70.2% to $176.67 million as at 31 December 2019**, compared to $103.80 million in the prior half year.

Cash flows from operating activities increased by $153.41 million to $298.77 million for HY20, from $145.36 million in HY19 primarily attributable to an increase in net receipts from franchisees by $83.21 million and an increase in receipts from customers by $75.53 million. Net receipts from franchisees increased, despite a reduction in gross revenue from franchisees, as net receipts from franchisees were affected by the movement in the aggregate amount of financial accommodation provided to franchisees for HY20 relative to the movement in HY19. During HY20, the movement in the aggregate amount of financial accommodation provided to franchisees decreased compared to the movement in HY19, primarily due to a reduction in the inventory levels held by franchisees during HY20 relative to HY19. The increase in receipts from customers was due to higher sales from company-operated stores. Payments to suppliers and employees decreased by $20.98 million as previous half included lease payments in accordance with the superseded standard AASB 117. Under AASB 16 *Leases*, only variable lease payments and payments for short term and low-value leases form part of payments to suppliers and employees. All other lease payments under AASB 16 are allocated between interest and principal components and classified within operating and financing cash flows respectively.

Net cash investing outflows increased by $21.83 million during HY20 primarily due to an increase in the cash outflows for the purchase and refurbishments of freehold investment properties by $17.57 million and an increase in cash outflows for the purchase of property, plant and equipment and intangible assets by $16.93 million. The increase in outflows was offset by an increase in proceeds from sale of property, plant and equipment and properties held for resale by $21.05 million primarily due to the completion of the sale for the Byron at Byron Bay Resort during HY20.

Net cash financing outflows increased by $119.06 million during HY20 primarily due to the inclusion of the principal component of lease payments of $61.86 million in financing activities upon the first-time adoption of AASB 16 *Leases* in this half. The increase in outflows was also attributable to an increase in net repayment of the Syndicated Facility by $45 million and higher dividend payments by $47.19 million compared to the previous half year. The above increases was offset by a reduction in loans repaid to related parties by $38.64 million.

Outlook

Locally, the economic outlook appeared to be more positive going into calendar 2020 – with record low interest rates, the momentum building up in the residential property market, ongoing spending on infrastructure and a brighter outlook for the resources sector.

However, the first three weeks of January saw bushfire conditions worsen across New South Wales, Victoria and into South Australia, with consumers very cautious and unwilling to spend on discretionary retail until the threat had moderated. This saw a resultant shift in consumer and business focus towards to the immediate priorities of safeguarding homes, flora and fauna, local communities and affected businesses. The community as a whole responded to the devastation by directing their energies into relief efforts and charitable contributions to assist those in need.

With the containment of most fires towards late January, the expectation was to see a change in the retail atmosphere – however the bushfire crisis was immediately followed by extreme rainfall and flooding in some areas – causing a continuing hesitancy towards discretionary retail expenditure.

While the much-needed rainfall brought some relief to drought-stricken communities who haven't seen heavy rainfall in years, and helped extinguish many of the remaining bushfires, the extent of the downpour saw widespread instances of flooding – with south-east Queensland, Sydney and the NSW Central Coast, and areas of eastern Victoria among those areas affected. The surrounding areas also experienced knock-on effects from the storms, with water damage and power outages affecting many in those areas – with retail trade likewise impacted.

On a global scale, many industries worldwide will be adversely affected by the threat and potential widespread reach of the Coronavirus. Consumer and business confidence will take another toll until this threat is understood and mitigated.

Aggregated franchisee sales for the period 1 January 2020 to 27 February 2020 decreased by 3.2% compared to the period 1 January 2019 to 27 February 2019, and decreased by 3.0% on a comparable sales basis.

Total overseas sales revenue and comparable overseas sales revenue increases/(decreases) for each of the overseas controlled entities for the period 1 January 2020 to 25 February 2020 vs 1 January 2019 to 25 February 2019 is as follows;

COUNTRY	$A Total Sales %	$A Comparable Sales %	Constant Local Currencies Total Sales %	Constant Local Currencies Comparable Sales %
New Zealand	1.2	1.2	0.2	0.3
Slovenia & Croatia	7.4	7.4	5.6	5.6
Ireland	17.4	17.4	15.4	15.4
Northern Ireland	4.5	4.5	(-1.6)	(-1.6)
Singapore	(-7.7)	(-7.7)	(-11.5)	(-11.5)
Malaysia	33.8	5.5	27.5	0.6

BOARD OF DIRECTORS

Unless otherwise indicated, all directors (collectively termed "the Board") held their position as a director throughout the entire half-year and up to the date of this report.

Gerald Harvey *Executive Chairman*	Mr. G. Harvey was the co-founder of Harvey Norman Holdings Limited in 1982 with Mr. I.J. Norman. Mr. G. Harvey has overall executive responsibility for the strategic direction of the consolidated entity, and in particular, property investments.
Kay Lesley Page *Executive Director and CEO*	Ms. Page joined Harvey Norman in 1983 and was appointed a director of Harvey Norman Holdings Limited in 1987. Ms. Page became the Chief Executive Officer of the Company in February 1999 and has overall executive responsibility for the consolidated entity. Ms. Page is a Director of the Trustee of the Sydney Cricket and Sports Ground Trust.
Chris Mentis *B.Bus., FCA, FGIA, Grad Dip App Fin* *Executive Director, CFO & Company Secretary*	Mr. Mentis was appointed a director of Harvey Norman Holdings Limited on 30 August 2007. Mr. Mentis joined Harvey Norman as Financial Controller on 15 December 1997. On 20 April 2006, he became Chief Financial Officer and Company Secretary. Mr. Mentis is a Fellow of the Chartered Accountants Australia & New Zealand (CA ANZ) and a Fellow of the Governance Institute of Australia, with extensive experience in financial accounting. Mr. Mentis has overall executive responsibility for the accounting and financial matters of the consolidated entity.
John Evyn Slack-Smith *Executive Director & COO*	Mr. Slack-Smith was a Harvey Norman® computer franchisee between 1993 and 1999. Mr. Slack-Smith became a director of the Company on 5 February 2001. Mr. Slack-Smith has overall executive responsibility for the operations of the consolidated entity. Mr. Slack-Smith was appointed a non-executive director of the Children's Tumour Foundation of Australia on 22 July 2019.
David Matthew Ackery *Executive Director*	Mr. Ackery was appointed a director of Harvey Norman Holdings Limited on 20 December 2005. Mr. Ackery has overall executive responsibility for the relationship between the consolidated entity and Harvey Norman® home appliances, home entertainment and technology franchisees and strategic partners. Mr. Ackery finished his tenure as the Chairman of the public company, St. Joseph's College Foundation Limited, on 30 June 2019.
Michael John Harvey *B.Com* *Non-Executive Director*	Mr. M. Harvey joined Harvey Norman in 1987, having completed a Bachelor of Commerce degree. Mr. M. Harvey gained extensive experience as a Harvey Norman® franchisee from 1989 to 1994. Mr. M. Harvey became a director of the Company in 1993 and was appointed Managing Director in July 1994. Mr. M. Harvey ceased to be an Executive Director and Managing Director on 30 June 1998.
Christopher Herbert Brown *OAM, LL.M, FAICD, CTA* *Non-Executive Director*	Mr. Brown holds the degree of Master of Laws from the University of Sydney. Mr. Brown is the senior partner in Brown Wright Stein Lawyers. Brown Wright Stein Lawyers has acted as lawyers for the consolidated entity since 1982. Mr. Brown was appointed a director of the Company in 1987, when it became a listed public company. Mr. Brown is a member of the Audit, Remuneration and Nomination Committees. Mr. Brown is the Chairman of Windgap Foundation Limited. In 2013 he was awarded the Medal of the Order of Australia (OAM) for service to the community, particularly to people with disability.
Kenneth William Gunderson-Briggs *B.Bus., FCA, MAICD* *Non-Executive Director (Independent)*	Mr. Gunderson-Briggs was appointed a director of Harvey Norman Holdings Limited on 30 June 2003. Mr. Gunderson-Briggs is a chartered accountant and a registered company auditor. Mr. Gunderson-Briggs has been involved in public practice since 1982 and a partner in a chartered accounting firm since 1990. Mr. Gunderson-Briggs' qualifications include a Bachelor of Business from the University of Technology, Sydney and he is a Fellow of the CA ANZ. Mr. Gunderson-Briggs was appointed Chairman of the Remuneration Committee on 16 December 2015 and is a member of the Audit and Nomination Committees. Mr. Gunderson-Briggs is an independent non-executive director of Australian Pharmaceutical Industries Limited, a company listed on the ASX.
Graham Charles Paton *AM, B.Ec, FCPA, MAICD* *Non-Executive Director (Independent)*	Mr. Paton holds a Bachelor of Economics degree from the University of Sydney. During his 23 years as a partner of an international chartered accounting practice, he was involved in the provision of professional services to the retail industry. He retired from public practice in July 2001. Mr. Paton is a Fellow and Life Member of CPA Australia and was the National President of that professional accounting body in 1993/1994. In 2001, Mr. Paton was awarded membership of the General Division of the Order of Australia for his services to the accounting profession and for his services to the deaf community through his chairmanship of the Shepherd Centre for Deaf Children for the decade to 2001. Mr. Paton was appointed a director of Harvey Norman Holdings Limited on 20 June 2005 and was appointed the Senior Independent Director on 16 December 2015. Mr. Paton was appointed Chairman of the Nomination Committee on 16 December 2015, Chairman of the Audit Committee on 9 March 2006 and is a member of the Remuneration Committee. Mr. Paton was an independent non-executive director of Gazal Corporation Limited, and resigned his directorship on 14 May 2019 following the sale of that business to overseas interests.
Maurice John Craven *B.Sc, FAICD* *Non-Executive Director (Independent)*	Mr. Craven was appointed a director of Harvey Norman Holdings Limited on 27 March 2019. Mr. Craven holds a Bachelor of Science degree from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors. Mr. Craven has been actively involved with innovation and growth in technology empowered industries for the past 20 years and prior to that was a partner for 25 years with Andersen Consulting. Mr. Craven is Chair of Specialisterne Australia, and is a board member of Cenitex and a board member of Social Ventures Partners Melbourne.

OTHER INFORMATION

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.

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 2019.

Significant Events After Balance Date

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.

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.

Dividends

The directors recommend a fully franked interim dividend of 12.0 cents per share. This interim dividend will be paid on 4 May 2020 to shareholders registered at 5:00pm on 3 April 2020. 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.

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%. In this report, the calculation of the net debt to equity ratio excludes the right-of-use assets and lease liabilities recognised under AASB 16 in order to be comparable with ratios calculated in previous periods.

The capital structure of the consolidated entity consists of: debt, which includes interest-bearing loans and borrowings as disclosed in Notes 20 and 24 of this report; cash and cash equivalents; and, equity attributable to equity holders of the parent, comprising ordinary shares, retained profits and reserves as disclosed in Notes 27, 28 and 30 respectively.

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

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

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

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of 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 2020

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Liability limited by a scheme approved under Professional Standards Legislation

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

G. HARVEY
Chairman
Sydney
28 February 2020

K.L. Page

K.L. PAGE
Chief Executive Officer
Sydney
28 February 2020

STATEMENT of FINANCIAL POSITION
as at 31 DECEMBER 2019

	Note	CONSOLIDATED December 2019 $000	June 2019 $000	December 2018 $000
Current Assets				
Cash and cash equivalents	31(a)	197,231	215,048	123,298
Trade and other receivables	7	776,502	741,862	866,082
Other financial assets	8	30,453	28,888	27,797
Inventories	9	456,840	395,965	452,294
Other assets	10	58,004	37,541	53,651
Intangible assets	11	932	370	488
Assets held for sale	33	16,762	36,666	-
Total current assets		1,536,724	1,456,340	1,523,610
Non-Current Assets				
Trade and other receivables	12	60,578	49,391	47,597
Investments accounted for using equity method	32	4,815	3,854	4,953
Other financial assets	13	22,145	19,370	18,162
Property, plant and equipment	14	658,786	696,207	693,551
Property, plant and equipment: Right-of-use assets	15	532,179	-	-
Investment properties: Freehold	16	2,557,460	2,508,951	2,479,335
Investment properties: Leasehold Right-of-use assets	17	608,100	-	-
Intangible assets	18	65,021	64,631	67,225
Deferred tax assets		3,197	-	-
Total non-current assets		4,512,281	3,342,404	3,310,823
Total Assets		6,049,005	4,798,744	4,834,433
Current Liabilities				
Trade and other payables	19	367,439	283,682	385,176
Interest-bearing loans and borrowings	20	310,458	494,579	489,765
Lease liabilities	21	128,240	-	-
Income tax payable		20,442	12,000	20,103
Other liabilities	22	81,715	75,819	83,248
Provisions	23	33,318	33,028	33,418
Total current liabilities		941,612	899,108	1,011,710
Non-Current Liabilities				
Interest-bearing loans and borrowings	24	440,000	346,942	342,851
Lease liabilities	21	1,045,029	-	-
Provisions	25	9,330	13,025	12,173
Deferred income tax liabilities		327,701	330,546	303,298
Other liabilities	26	1,347	11,330	12,942
Total non-current liabilities		1,823,407	701,843	671,264
Total Liabilities		2,765,019	1,600,951	1,682,974
NET ASSETS		3,283,986	3,197,793	3,151,459
Equity				
Contributed equity	27	717,925	552,250	552,250
Reserves	30	215,254	217,724	211,236
Retained profits	28	2,319,392	2,397,436	2,359,460
Parent entity interests		3,252,571	3,167,410	3,122,946
Non-controlling interests	29	31,415	30,383	28,513
TOTAL EQUITY		3,283,986	3,197,793	3,151,459

The above Statement of Financial Position should be read in conjunction with the accompanying notes. The financial position as at 30 June 2019 and 31 December 2018 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(b) for further information.

INCOME STATEMENT
for the half-year ended 31 DECEMBER 2019

	Note	CONSOLIDATED December 2019 $000	CONSOLIDATED December 2018 $000
Sales of products to customers	3	1,239,084	1,175,249
Cost of sales		(835,216)	(799,161)
Gross profit		403,868	376,088
Revenue received from franchisees	3	497,843	519,763
Revenues and other income items	3	106,015	113,999
Distribution expenses		(23,385)	(21,564)
Marketing expenses		(213,458)	(206,406)
Occupancy expenses	1(b)(ii), 4, 15, 17	(124,321)	(127,933)
Administrative expenses	4	(295,909)	(290,859)
Other expenses	4	(22,491)	(37,068)
Finance costs	1(b)(ii), 4, 21	(31,235)	(14,929)
Share of net profit of joint ventures entities	32	4,225	4,592
Profit before income tax		301,152	315,683
Income tax expense	5	(84,035)	(89,477)
Profit after tax		217,117	226,206
Attributable to:			
Owners of the parent		213,593	222,773
Non-controlling interests		3,524	3,433
		217,117	226,206
Earnings Per Share:			
Basic earnings per share (cents per share)	6	17.70 cents	19.12 cents
Diluted earnings per share (cents per share)	6	17.68 cents	19.10 cents
Dividends per share (cents per share)	28	12.0 cents	12.0 cents

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

The Income Statement for the half-year ended 31 December 2018 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(b)(ii) for further information.

STATEMENT of COMPREHENSIVE INCOME
for the half-year ended 31 DECEMBER 2019

	CONSOLIDATED	
	December 2019 $000	December 2018 $000
Profit for the year	217,117	226,206
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation	1,775	22,257
Net movement on cash flow hedges	(44)	68
Income tax effect on net movement on cash flow hedges	13	(21)
Items that will not be reclassified subsequently to profit or loss:		
Fair value revaluation of land and buildings	13,168	6,131
Income tax effect on fair value revaluation of land and buildings	(2,143)	(1,073)
Net fair value gains/(losses) on financial assets at fair value through other comprehensive income	2,622	(848)
Other comprehensive income for the year (net of tax)	15,391	26,514
Total comprehensive income for the year (net of tax)	232,508	252,720
Total comprehensive income attributable to:		
Owners of the parent	228,792	248,395
Non-controlling interests	3,716	4,325
	232,508	252,720

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

The Statement of Comprehensive Income for the half-year ended 31 December 2018 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(b) for further information.

STATEMENT of CHANGES in EQUITY
for the half-year ended 31 DECEMBER 2019

	Attributable to Equity Holders of the Parent									
	Contributed Equity	Retained Profits	Asset Revaluation Reserve	Foreign Currency Translation Reserve	FVOCI 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 2019, as previously reported	552,250	2,397,436	152,850	65,853	10,949	(2)	10,125	(22,051)	30,383	3,197,793
Transition adjustments arising from adoption of AASB 16	-	(43,892)	(18,067)	-	-	-	-	-	80	(61,879)
At 1 July 2019, post transition	552,250	2,353,544	134,783	65,853	10,949	(2)	10,125	(22,051)	30,463	3,135,914
Other comprehensive income:										
Revaluation of land and buildings	-	-	11,025	-	-	-	-	-	-	11,025
Reverse expired or realised cash flow hedge reserves	-	-	-	-	-	2	-	-	-	2
Currency translation differences	-	-	-	1,583	-	-	-	-	192	1,775
Fair value of forward foreign exchange contracts	-	-	-	-	-	(33)	-	-	-	(33)
Fair value of financial assets at fair value through other comprehensive income	-	-	-	-	2,622	-	-	-	-	2,622
Other comprehensive income	-	-	11,025	1,583	2,622	(31)	-	-	192	15,391
Profit for the period	-	213,593	-	-	-	-	-	-	3,524	217,117
Total comprehensive income for the period	-	213,593	11,025	1,583	2,622	(31)	-	-	3,716	232,508
Cost of share based payments	-	-	-	-	-	-	398	-	-	398
Shares issued	165,675	-	-	-	-	-	-	-	-	165,675
Dividends paid	-	(247,745)	-	-	-	-	-	-	(2,326)	(250,071)
Distribution to members	-	-	-	-	-	-	-	-	(438)	(438)
At 31 December 2019	717,925	2,319,392	145,808	67,436	13,571	(33)	10,523	(22,051)	31,415	3,283,986

	Attributable to Equity Holders of the Parent										
	Contributed Equity	Retained Profits	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Available for Sale Reserve	FVOCI Reserve (a)	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	$000
At 1 July 2018	388,381	2,337,241	144,526	40,659	11,902	-	(8)	10,356	(22,051)	26,926	2,937,932
Other comprehensive income:											
Revaluation of land and buildings	-	-	5,058	-	-	-	-	-	-	-	5,058
Reverse expired or realised cash flow hedge reserves	-	-	-	-	-	-	8	-	-	-	8
Currency translation differences	-	-	-	21,365	-	-	-	-	-	892	22,257
Fair value of forward foreign exchange contracts	-	-	-	-	-	-	39	-	-	-	39
Transfer to financial assets at fair value through other comprehensive income	-	-	-	-	(11,902)	11,902	-	-	-	-	-
Fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(848)	-	-	-	-	(848)
Other comprehensive income	-	-	5,058	21,365	(11,902)	11,054	47	-	-	892	26,514
Profit for the period	-	222,773	-	-	-	-	-	-	-	3,433	226,206
Total comprehensive income for the period	-	222,773	5,058	21,365	(11,902)	11,054	47	-	-	4,325	252,720
Cost of share based payments	-	-	-	-	-	-	-	230	-	-	230
Shares issued	163,869	-	-	-	-	-	-	-	-	-	163,869
Dividends paid	-	(200,554)	-	-	-	-	-	-	-	(1,893)	(202,447)
Distribution to members	-	-	-	-	-	-	-	-	-	(845)	(845)
At 31 December 2018	552,250	2,359,460	149,584	62,024	-	11,054	39	10,586	(22,051)	28,513	3,151,459

The Statement of Changes in Equity for the half-year ended 31 December 2018 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(b) for further information.

(a) Upon the application of AASB 9 *Financial Instruments* on 1 July 2018, the consolidated entity has elected to classify equity investments, which were previously classified as available for sale under AASB 139, as financial assets at fair value through other comprehensive income (**FVOCI**).

STATEMENT of CASH FLOWS
for the half-year ended 31 DECEMBER 2019

	Note	CONSOLIDATED December 2019 $000	December 2018 $000
Cash Flows from Operating Activities			
Net receipts from franchisees		486,564	403,352
Receipts from customers		1,304,803	1,229,269
Payments to suppliers and employees		(1,371,440)	(1,392,423)
Distributions received from joint ventures		4,310	4,750
GST paid		(32,180)	(23,574)
Interest received		4,264	3,303
Interest and other costs of finance paid		(10,739)	(14,783)
Interest paid on lease liabilities (a)		(20,727)	-
Income taxes paid		(67,503)	(66,136)
Dividends received		1,417	1,602
Net Cash Flows From Operating Activities	31(b)	298,769	145,360
Cash Flows from Investing Activities			
Payments for purchases of property, plant and equipment and intangible assets		(65,474)	(48,542)
Payments for purchase of freehold investment properties		(30,743)	(13,175)
Proceeds from sale of property, plant and equipment and properties held for resale		21,382	333
Payments for purchase of units in unit trusts and other investments		(70)	(103)
Payments for purchase of equity accounted investments		(411)	(434)
Cash obtained on consolidation of KEH Partnership		-	50
Loans granted to joint venture entities, joint venture partners and related and unrelated entities		(9,666)	(1,281)
Net Cash Flows Used In Investing Activities		(84,982)	(63,152)
Cash Flows from Financing Activities			
Lease Payments (principal component) (a)		(61,860)	-
Proceeds from shares issued – renounceable pro-rata Entitlement Offer		165,675	163,869
Repayments of Syndicated Facility		(75,000)	(30,000)
Dividends paid		(247,745)	(200,554)
Loans repaid to related parties		-	(38,644)
(Repayments of)/proceeds from other borrowings		(3,999)	1,462
Net Cash Flows Used In Financing Activities		(222,929)	(103,867)
Net Decrease in Cash and Cash Equivalents		(9,142)	(21,659)
Cash and Cash Equivalents at Beginning of the Period		185,816	125,463
Cash and Cash Equivalents at End of the Period	31(a)	176,674	103,804

(a) In the previous half year, lease payments formed part of payments to suppliers and employees within operating cash flows. Under AASB 16 Leases, lease payments are allocated between interest and principal components and classified within operating and financing cash flows respectively.

In addition, the consolidated entity recognised rent expense of $14.32 million from short-term leases and variable lease payments during the current period which forms part of payments to suppliers and employees within operating cash flows.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes. The Statement of Cash Flows for the half year ended 31 December 2018 was not restated upon the adoption of AASB 16 Leases. Refer to Note 1(b) for further information.

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 the Company for the half-year ended 31 December 2019 was authorised for issue in accordance with a resolution of the directors on 28 February 2020.

(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 2019.

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 2019 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 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.

(b)(i) New Accounting Standards Adopted by the Consolidated Entity: AASB 16 Leases – application date 1 July 2019

The consolidated entity adopted AASB 16 *Leases* using the modified retrospective transition approach with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Accordingly, the comparative information presented in this report for previous reporting periods was not restated to reflect the adoption of AASB 16 *Leases*.

AASB 16 provides a single lease accounting model for identifying and measuring lease arrangements and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve (12) months, unless the underlying asset is of low value. The consolidated entity, as a lessee, will be required to recognise a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing the present value of future lease payments.

AASB 16 Leases - Transition method: 1 July 2019

a) Leases of Owner-Occupied Properties and Plant and Equipment Leases

Leasehold properties occupied by the consolidated entity primarily include company-operated stores, warehouses and offices that are leased from external landlords. These leasehold properties are primarily located overseas and are occupied by the company-operated stores located in New Zealand, Singapore, Malaysia, Ireland, Northern Ireland, Slovenia and Croatia.

On transition, the right-of-use asset was measured at its carrying amount as if AASB 16 had been applied since the lease commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application and translated at the rates of exchange at the date of transition (1 July 2019). The right-of-use assets in respect of leases of owner-occupied properties are referred to as *Property, plant and equipment: Right-of-use assets* in this report.

On transition, the lease liability was measured at the net present value of future payables under the lease, including option renewal periods, where the consolidated entity assessed that the probability of exercising the renewal was reasonably certain.

The consolidated entity adopted the "modified retrospective" approach as permitted by AASB 16 at the date of transition. Under this approach the cumulative effect of adopting AASB 16 was recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no requirement to restate any comparative information.

The effect of adopting AASB 16 as at 1 July 2019 for leases of owner-occupied properties and property, plant and equipment are as follows:

	1 July 2019 $000 Increase/(Decrease)
Assets	
Property, plant and equipment: Right-of-use assets	524,497
Property, plant and equipment (a)	(74,778)
Impact on Total Assets	449,719

(a) The reclassifications relate to a property which had been previously accounted for under a finance lease arrangement and lease make good assets.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b)(i) New Accounting Standards Adopted by the Consolidated Entity: AASB 16 Leases (continued)

a) Leases of Owner-Occupied Properties and Plant and Equipment Leases (continued)

	1 July 2019 $000 Increase/(Decrease)
Liabilities	
Lease liabilities: Leases of owner-occupied properties and P&E leases	538,146
Trade and other payables (c)	(727)
Interest-bearing loans and borrowings (b)	(3,564)
Other liabilities (c)	(11,950)
Provisions (c)	(1,020)
Deferred tax liabilities	(14,231)
Impact on Total Liabilities	506,654
Impact on Net Assets	(56,935)
Equity	
Retained profits	(38,948)
Reserves	(18,067)
Non-controlling interests	80
Impact on Total Equity	(56,935)

(b) The reclassification of pre-existing balances relates to finance leases previously recognised within interest-bearing loans and borrowings.

(c) The consolidated entity adopted the modified retrospective approach as permitted by AASB 16 on the date of transition. Under the approach, existing lease payables and provisions were recognised as an adjustment to the opening balance of retained earnings at 1 July 2019.

b) Leases of Properties Sub-Leased to External Parties

In addition, the consolidated entity has a portfolio of property leases for competitive retail sites primarily for the purposes of being sub-leased to Harvey Norman®, Domayne® and Joyce Mayne® franchisees in Australia. For these properties, the consolidated entity enters into property leasing arrangements with external landlords and then subsequently subleases these sites to franchisees pursuant to a licence, terminable upon reasonable notice and, as such, is classified as an operating lease.

On transition, the adoption of AASB 16 resulted in the recognition of a right-of-use asset which meets the definition of an investment property. The consolidated entity adopted the fair value model in AASB 140 *Investment Property* and accordingly, the right-of-use asset was measured in accordance with the fair value model in AASB 140. The right-of-use assets in respect of leases of properties sub-leased to external parties are referred to as *Investment properties (Leasehold): Right-of-use assets* in this report.

On transition, the lease liability was measured at the net present value of future payables under the lease, including option renewal periods, where the consolidated entity assesses that the probability of exercising the renewal was reasonably certain.

The effect of adopting AASB 16 as at 1 July 2019 for leases of investment properties sub-leased to external tenants are as follows:

	1 July 2019 $000 Increase/(Decrease)
Assets	
Investment properties (leasehold): Right-of-use assets	608,845
Property, plant and equipment	(380)
Impact on Total Assets	608,465
Liabilities	
Lease liabilities: Leases of properties sub-leased to external parties	622,863
Other liabilities (a)	(3,417)
Provisions (a)	(3,919)
Deferred tax liabilities	(2,118)
Impact on Total Liabilities	613,409
Impact on Net Assets	(4,944)
Equity	
Retained profits	(4,944)
Impact on Total Equity	(4,944)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b)(i) New Accounting Standards Adopted by the Consolidated Entity: AASB 16 Leases (continued)

(a) Leases of properties sub-leased to external parties meets the definition of an investment property, and accordingly, the right-of-use asset was measured in accordance with the fair value model under AASB 140. Under the approach, existing lease payables and provisions were recognised as an adjustment to the opening balance of retained earnings at 1 July 2019.

c) Practical Expedients Applied on Transition

The following practical expedients have been applied on transition:

- exclusion of leases with remaining terms of less than 12 months from 1 July 2019;
- exclusion of leases that are considered of low value;
- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term); and
- use of hindsight in determining the lease term where lease contracts include options to extend or terminate the lease.

AASB 16: Reconciliation of operating lease commitments to lease liabilities as at transition date

The following table reconciles the consolidated entity's operating lease commitments at 30 June 2019 disclosed in the consolidated entity's 2019 Annual Report to the lease liabilities recognised upon transition at 1 July 2019.

	$000
Operating lease commitments as at 30 June 2019	693,555
Commitments relating to leases contracted but not commenced	(19,986)
Commitments relating to outgoings and service costs	(29,825)
Commitments relating to short-term leases and other lease payments	(4,102)
Commitments relating to leases previous classified as finance leases	3,564
Optional extension periods not recognised as at 30 June 2019	736,648
Impact of discounting and other adjustments (weighted average rate of 3.39%)	(218,845)
Lease liabilities as at 1 July 2019	1,161,009

AASB 16 Leases: Summary of New Accounting Policy for Leases

The Consolidated Entity as a Lessee

a) Leases of Owner-Occupied Properties and Plant and Equipment Assets

Property, Plant and Equipment: Right-of-Use Assets

The consolidated entity recognises right-of-use assets in respect of leases of property, plant and equipment at the commencement date of the lease (i.e. the date the underlying asset is available for use). The initial measurement of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to an impairment assessment under AASB 136 Impairment of Assets at each reporting date.

Lease Liabilities

At the commencement of a lease, the consolidated entity recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and amounts expected to be paid under residual value guarantees. In determining the lease term, the consolidated entity considers all facts and circumstances that create an economic incentive to exercise a renewal option, or not to exercise a termination option. Renewal options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Outgoings and other variable lease payments that do not depend on an index or a rate are recognised as incurred.

In calculating the present value of lease payments, the consolidated entity uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

b) Leases of Properties Sub-Leased to External Parties

Investment Properties (Leasehold): Right-of-Use Assets

The consolidated entity recognises right-of-use assets in respect of leasehold investment properties at the commencement date of the lease (i.e. the date the underlying asset is available for use). The initial measurement of investment properties (leasehold): right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. The consolidated entity has adopted the fair value model in AASB 140 Investment Property and accordingly the investment property (leasehold): right-of-use asset is measured in accordance with the fair value model in AASB 140.

Lease liabilities

At the commencement of a lease, the consolidated entity recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable. In determining the lease term, the consolidated entity considers all facts and circumstances that

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b)(i) New Accounting Standards Adopted by the Consolidated Entity: AASB 16 Leases (continued)

Lease liabilities (continued)
create an economic incentive to exercise a renewal option. Renewal options are only included in the lease term if the lease is reasonably certain to be extended. Outgoings and other variable lease payments that do not depend on an index or a rate are recognised as incurred.

In calculating the present value of lease payments, the consolidated entity uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The consolidated entity as a lessor
Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Leases in which the consolidated entity does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Short-term leases and lease of low-value assets
The consolidated entity applies a recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies a recognition exemption to leases that are considered of low value.

(b)(ii) New Accounting Standards Adopted by the Consolidated Entity: AASB 16 Leases – Impact on Income Statement for Half-Year Ended 31 December 2019

	31 December 2019		
	Leases of Owner-Occupied Properties $000	Leases of Properties Sub-Leased to External Parties $000	Total Leases $000
Expenses Recognised Under AASB 16 Leases:			
Property, plant and equipment: Right-of-use asset - Depreciation expense	29,624	-	29,624
Investment properties (leasehold): Right-of-use asset - Fair value re-measurement	-	37,639	37,639
Finance costs: Interest on lease liabilities (accretion)	9,284	11,443	20,727
Total Expenses Under AASB 16 Leases	**38,908**	**49,082**	**87,990**
Less: Lease payments made during HY20 (Note 21) excluding variable lease payments (short-term, low-value leases)	*(36,667)*	*(45,368)*	*(82,035)*
Less: Other reclassifications under AASB 16 Leases	*(840)*	-	*(840)*
Less: Foreign currency adjustments	*(117)*	-	*(117)*
Incremental Decrease in Profit Before Tax on Adoption of AASB 16 Leases	*1,284*	*3,714*	*4,998*

(b)(iii) IFRIC Interpretation 23: Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of AASB 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The consolidated entity determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. Since the consolidated entity operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the consolidated entity considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The consolidated entity determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

The Interpretation did not have an impact on the consolidated financial statements of the consolidated entity.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Statement of Compliance

The half-year financial report has been prepared using the same accounting policies as used in the Annual Financial Report for the year ended 30 June 2019, except for the adoption of new and amending standards mandatory for annual periods beginning on or after 1 July 2019.

The consolidated entity has adopted AASB 16 from 1 July 2019. The nature and effect of adopting this standard is outlined in Note 1(b) of this report. The adoption of other amendments and interpretations 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 2019.

(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 2019	December 2019 $000		
	Sales of Products to Customers	Revenues received from franchisees and other income items	Total Revenue by Segment
FRANCHISING OPERATIONS	-	443,814	443,814
Retail – New Zealand	503,899	11,949	515,848
Retail – Singapore & Malaysia	292,046	6,604	298,650
Retail – Slovenia & Croatia	83,291	1,270	84,561
Retail – Ireland & Northern Ireland	244,607	4,475	249,082
Other Non-Franchised Retail	115,087	2,063	117,150
TOTAL RETAIL	1,238,930	26,361	1,265,291
Retail Property	14	156,898	156,912
TOTAL PROPERTY	14	156,898	156,912
EQUITY INVESTMENTS	-	2,968	2,968
OTHER	560	6,564	7,124
INTER-COMPANY ELIMINATIONS	(420)	(32,747)	(33,167)
TOTAL SEGMENT REVENUE	1,239,084	603,858	1,842,942

Operating Segment Revenue: 31 December 2018	December 2018 $000		
	Sales of Products to Customers	Revenues received from franchisees and other income items	Total Revenue by Segment
FRANCHISING OPERATIONS	-	468,637	468,637
Retail – New Zealand	474,065	10,310	484,375
Retail – Singapore & Malaysia	283,024	6,173	289,197
Retail – Slovenia & Croatia	77,262	1,598	78,860
Retail – Ireland & Northern Ireland	218,040	3,984	222,024
Other Non-Franchised Retail	121,851	1,454	123,305
TOTAL RETAIL	1,174,242	23,519	1,197,761
Retail Property	20	164,777	164,797
TOTAL PROPERTY	20	164,777	164,797
EQUITY INVESTMENTS	-	1,210	1,210
OTHER	1,595	5,525	7,120
INTER-COMPANY ELIMINATIONS	(608)	(29,906)	(30,514)
TOTAL SEGMENT REVENUE	1,175,249	633,762	1,809,011

2. OPERATING SEGMENTS (CONTINUED)

Operating Segment Result: 31 December 2019	December 2019 $000					
	Segment Result Before Interest, Taxation, Depreciation, Impairment & Amortisation	Interest Expense	Depreciation Expense	Depreciation & Fair Value Re-measurement of ROU Asset	Impairment & Amortisation Expense	Segment Result Before Tax
FRANCHISING OPERATIONS	197,936	(12,798)	(12,716)	(38,736)	(9,826)	123,860
Retail – New Zealand	58,757	(2,108)	(3,492)	(4,460)	(172)	48,525
Retail – Singapore & Malaysia	37,510	(3,099)	(3,264)	(15,395)	(597)	15,155
Retail – Slovenia & Croatia	8,285	(471)	(1,325)	(846)	(77)	5,566
Retail – Ireland & Northern Ireland	24,897	(3,511)	(2,525)	(6,328)	(87)	12,446
Other Non-Franchised Retail	1,411	(979)	(1,254)	(742)	(161)	(1,725)
TOTAL RETAIL	130,860	(10,168)	(11,860)	(27,771)	(1,094)	79,967
Retail Property	107,091	(7,523)	(5,610)	(756)	(153)	93,049
TOTAL PROPERTY	107,091	(7,523)	(5,610)	(756)	(153)	93,049
EQUITY INVESTMENTS	2,928	(78)	-	-	-	2,850
OTHER	4,699	(755)	(2,518)	-	-	1,426
INTER-COMPANY ELIMINATIONS	(87)	87	-	-	-	-
TOTAL SEGMENT RESULT BEFORE TAX	443,427	(31,235)	(32,704)	(67,263)	(11,073)	301,152

Operating Segment Result: 31 December 2018	December 2018 $000				
	Segment Result Before Interest, Taxation, Depreciation, Impairment & Amortisation	Interest Expense	Depreciation Expense	Impairment & Amortisation Expense	Segment Result Before Tax
FRANCHISING OPERATIONS	182,761	(1,787)	(13,506)	(8,995)	158,473
Retail – New Zealand	46,207	-	(4,024)	(172)	42,011
Retail – Singapore & Malaysia	24,313	282	(3,331)	(506)	20,758
Retail – Slovenia & Croatia	5,880	(214)	(1,166)	(81)	4,419
Retail – Ireland & Northern Ireland	13,936	(1,082)	(2,432)	(80)	10,342
Other Non-Franchised Retail	(9,811)	(877)	(1,158)	(293)	(12,139)
TOTAL RETAIL	80,525	(1,891)	(12,111)	(1,132)	65,391
Retail Property	119,882	(10,325)	(6,125)	(153)	103,279
Property Developments for Resale	(33)	(7)	-	-	(40)
TOTAL PROPERTY	119,849	(10,332)	(6,125)	(153)	103,239
EQUITY INVESTMENTS	(2,680)	(97)	-	-	(2,777)
OTHER	3,056	(961)	(2,490)	(8,248)	(8,643)
INTER-COMPANY ELIMINATIONS	(139)	139	-	-	-
TOTAL SEGMENT RESULT BEFORE TAX	383,372	(14,929)	(34,232)	(18,528)	315,683

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 Furniture® 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 the operations of any Harvey Norman®, Domayne® and Joyce Mayne® franchisees.
Retail Property	Consists of freehold land and buildings that are owned by the consolidated entity for each site that are fully operational or are ready for operations. 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. This segment includes the mining camp accommodation joint ventures.
Retail Property Under Construction	Consists of freehold 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.
Property Developments for Resale	Consists of freehold land and buildings acquired by the consolidated entity, to be developed, or currently under development, for the sole purpose of resale at a profit. This segment includes land and buildings held for sale, which were previously reported in the Retail Property segment.
Equity Investments	This segment refers to the investment in, and trading of, equity investments.
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 2019 $000	December 2018 $000

3. REVENUES

Revenue from contracts with customers and franchisees:		
Sale of products to customers (a)	1,239,084	1,175,249
Services to customers (c) (included in revenues and other income items line in the Income Statement)	14,428	12,997
Franchise fees in accordance with franchise agreements (b) (included in Revenue received from franchisees in the Income Statement)	357,925	381,591
Total revenue from contracts with customers and franchisees	1,611,437	1,569,837

Refer to Table 1 on page 37 for a breakdown of revenues and the relationship to the reported operating segments of the consolidated entity - by Types of Contracts.

Refer to Table 2 on page 38 for a breakdown of revenues and the relationship to the reported operating segments of the consolidated entity - by Primary Geographical Markets.

Other revenue from franchisees:		
- Rent and outgoings received from franchisees	124,593	121,651
- Interest to implement and administer the financial accommodation facilities	15,325	16,521
Total other revenue received from franchisees (b)	139,918	138,172

Gross revenue from other unrelated parties:		
- Rent and outgoings received from external tenants	49,642	47,277
- Interest received from financial institutions and other parties	3,675	2,586
- Dividends received	1,154	1,210
Total revenue from other unrelated parties (c)	54,471	51,073

Other income items:		
- Net property revaluation increment on Australian freehold investment properties	20,283	35,692
- Property revaluation increment for overseas controlled entity	-	868
- Net revaluation increment of equity investments to fair value	1,814	-
- Net gain on sale of assets	366	-
- Other income	14,653	13,369
Total other income items (c)	37,116	49,929

Disclosed in the Income Statement as follows:

(a) Sale of products to customers	1,239,084	1,175,249
(b) Revenue received from franchisees	497,843	519,763
(c) Revenues and other income items	106,015	113,999

3. REVENUES (CONTINUED)

Table 1. Breakdown of Revenues and the relationship to the reported operating segments of the consolidated entity – by Types of Contracts:

	TYPES OF CONTRACTS 31 December 2019 $000			
Operating Segments 31 December 2019	Sale of Products to Customers	Services to Customers	Franchise Fees from Franchisees	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	-	-	357,925	357,925
Retail – New Zealand	503,899	6,857	-	510,756
Retail – Singapore & Malaysia	292,046	2,881	-	294,927
Retail – Slovenia & Croatia	83,291	939	-	84,230
Retail – Ireland & Northern Ireland	244,607	3,492	-	248,099
Other Non-Franchised Retail	115,087	259	-	115,346
TOTAL RETAIL	1,238,930	14,428	-	1,253,358
Retail Property	14	-	-	14
TOTAL PROPERTY	14	-	-	14
EQUITY INVESTMENTS	-	-	-	-
OTHER	560	-	-	560
INTER-COMPANY ELIMINATIONS	(420)	-	-	(420)
TOTAL SEGMENT REVENUE	1,239,084	14,428	357,925	1,611,437

	TYPES OF CONTRACTS 31 December 2018 $000			
Operating Segments 31 December 2018	Sale of Products to Customers	Services to Customers	Franchise Fees from Franchisees	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	-	-	381,591	381,591
Retail – New Zealand	474,065	6,493	-	480,558
Retail – Singapore & Malaysia	283,024	2,557	-	285,581
Retail – Slovenia & Croatia	77,262	929	-	78,191
Retail – Ireland & Northern Ireland	218,040	2,742	-	220,782
Other Non-Franchised Retail	121,851	276	-	122,127
TOTAL RETAIL	1,174,242	12,997	-	1,187,239
Retail Property	20	-	-	20
TOTAL PROPERTY	20	-	-	20
EQUITY INVESTMENTS	-	-	-	-
OTHER	1,595	-	-	1,595
INTER-COMPANY ELIMINATIONS	(608)	-	-	(608)
TOTAL SEGMENT REVENUE	1,175,249	12,997	381,591	1,569,837

3. REVENUES (CONTINUED)

Table 2. Breakdown of Revenues and the relationship to the reported operating segments of the consolidated entity – by Primary Geographical Markets:

Operating Segments 31 December 2019	PRIMARY GEOGRAPHICAL MARKETS 31 December 2019 $000 Australia	New Zealand	Asia	Europe	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	357,925	-	-	-	357,925
Retail – New Zealand	-	510,756	-	-	510,756
Retail – Singapore & Malaysia	-	-	294,927	-	294,927
Retail – Slovenia & Croatia	-	-	-	84,230	84,230
Retail – Ireland & Northern Ireland	-	-	-	248,099	248,099
Other Non-Franchised Retail	115,346	-	-	-	115,346
TOTAL RETAIL	115,346	510,756	294,927	332,329	1,253,358
Retail Property	14	-	-	-	14
TOTAL PROPERTY	14	-	-	-	14
EQUITY INVESTMENTS	-	-	-	-	-
OTHER	560	-	-	-	560
INTER-COMPANY ELIMINATIONS	-	-	(420)	-	(420)
TOTAL SEGMENT REVENUE	473,845	510,756	294,507	332,329	1,611,437

Operating Segments 31 December 2018	PRIMARY GEOGRAPHICAL MARKETS 31 December 2018 $000 Australia	New Zealand	Asia	Europe	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	381,591	-	-	-	381,591
Retail – New Zealand	-	480,558	-	-	480,558
Retail – Singapore & Malaysia	-	-	285,581	-	285,581
Retail – Slovenia & Croatia	-	-	-	78,191	78,191
Retail – Ireland & Northern Ireland	-	-	-	220,782	220,782
Other Non-Franchised Retail	122,127	-	-	-	122,127
TOTAL RETAIL	122,127	480,558	285,581	298,973	1,187,239
Retail Property	20	-	-	-	20
TOTAL PROPERTY	20	-	-	-	20
EQUITY INVESTMENTS	-	-	-	-	-
OTHER	1,595	-	-	-	1,595
INTER-COMPANY ELIMINATIONS	-	-	(608)	-	(608)
TOTAL SEGMENT REVENUE	505,333	480,558	284,973	298,973	1,569,837

4. EXPENSES AND LOSSES

	CONSOLIDATED December 2019 $000	CONSOLIDATED December 2018 $000
Employee benefits expense:		
- Wages and salaries	162,202	155,488
- Workers' compensation	1,611	1,613
- Superannuation contributions	8,256	7,996
- Payroll tax	6,569	6,034
- Share-based payments	405	231
- Other employee benefits	5,654	5,270
Total employee benefits expense	184,697	176,632
Finance costs:		
- Interest on lease liabilities (accretion)	20,727	-
- Loans from directors and director-related entities	-	340
- Bank interest paid to financial institutions	9,920	13,772
- Other	588	817
Total finance costs	31,235	14,929
Occupancy costs:		
Variable lease payments (including short-term and low-value leases)	14,320	90,427
Property, plant and equipment: Right-of-use assets - Depreciation expense	29,624	-
Investment properties (leasehold): Right-of-use assets - Fair value re-measurement	37,639	-
Other occupancy costs	42,738	37,506
Total occupancy costs	124,321	127,933
Depreciation, amortisation and impairment: (included in administrative expenses in the Income Statement)		
Depreciation of: (excluding AASB 16 depreciation in occupancy expenses above)		
- Buildings	4,610	5,837
- Plant and equipment	28,094	28,395
Amortisation of:		
- Computer software	9,842	9,587
- Net licence property and other intangible assets	931	586
Impairment of non-trade debts receivable	-	107
Impairment of non-trade debts receivable from Coomboona JV (a)	-	8,248
Impairment of other financial assets	300	-
Total depreciation, amortisation and impairment	43,777	52,760
Loss on restructure and consolidation of KEH (b)	-	9,665

(a) In the previous half-year, upon exchange of contracts for the Administrator Sale and the subsequent settlement of the Administrator Sale on 16 January 2019, the secured creditors were advised that the expected net proceeds on settlement would be $8.25 million less than the expected recoverable amount to discharge those receivables. The reduced proceeds were due to matters regarding the finalisation of the Administrator Sale that arose during the previous half year.

(b) Up to 30 June 2018, the consolidated entity, through a wholly-owned subsidiary, had a 50% interest in the KEH business (**Partnership**) and had accounted for its interest as an equity-accounted joint venture entity. Effective 1 July 2018, the consolidated entity's interest in the Partnership was 99.02% and, from that date, the consolidated entity ceased equity accounting and consolidated the financial statements of KEH. The loss on the restructure and consolidation of KEH was $9.67 million recognised in the previous half year, being the difference in the carrying amount of the loan receivable from KEH in the consolidated entity's financial statements of $40.14 million and the fair value of the loan payable in KEH's financial statements of $30.47 million.

5. INCOME TAX

	CONSOLIDATED December 2019 $000	CONSOLIDATED December 2018 $000
Income tax recognised in the Income Statement:		
The major components of income tax expense are:		
Current income tax:		
Current income tax charge	77,757	77,960
Adjustments in respect of current income tax of previous years	(163)	91
Deferred income tax:		
Relating to the origination and reversal of temporary differences	6,441	11,426
Total income tax expense reported in the Income Statement	84,035	89,477

6. EARNINGS PER SHARE

	December 2019	December 2018
Basic earnings per share (cents per share)	17.70c	19.12c
Diluted earnings per share (cents per share)	17.68c	19.10c
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Profit after tax	217,117	226,206
Less: Profit after tax attributable to non-controlling interests	(3,524)	(3,433)
Profit after tax attributable to owners of the parent	213,593	222,773

	NUMBER OF SHARES December 2019 Number	NUMBER OF SHARES December 2018 Number
Weighted average number of ordinary shares used in calculating basic earnings per share (a)	1,206,748,268	1,164,894,248
Effect of dilutive securities (b)	1,439,069	1,283,634
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	1,208,187,337	1,166,177,882

(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 66,270,064 ordinary shares in the Company issued on 18 October 2019 pursuant to the pro-rata Entitlement Offer, weighted on a pro-rata basis from issue date to 31 December 2019.

(b) **Effect of Dilutive Securities**
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 31 December 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 31 December 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.

On 4 December 2018, the consolidated entity issued a total of 549,500 performance rights under Tranche FY19 of the 2016 LTI Plan to the executive directors. These performance rights are capable of exercise from 1 January 2022 to 30 June 2024. The performance rights were valued at grant date at $2.59 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 FY19 performance rights amounted to $1,423,205 in aggregate.

6. EARNINGS PER SHARE (CONTINUED)

On 2 December 2019, the consolidated entity issued a total of 549,500 performance rights under Tranche FY20 of the 2016 LTI Plan to the executive directors. These performance rights are capable of exercise from 1 January 2023 to 30 June 2025. The performance rights were valued at grant date at $3.47 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 FY20 performance rights amounted to $1,906,765 in aggregate.

Performance rights issued under Tranche 2, Tranche 3, Tranche FY19 and Tranche FY20 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 2019 $000	June 2019 $000	December 2018 $000
Receivables from franchisees (a)	618,466	607,731	657,247
Trade receivables	119,709	104,359	142,960
Consumer finance loans	3,660	3,199	3,023
Allowance for expected credit loss	(532)	(444)	(1,089)
Trade receivables, net	122,837	107,114	144,894
Amount receivable in respect of finance leases	3,259	3,306	3,285
Non-trade debts receivable from:			
- Related entities (including joint ventures and joint venture partners)	17,362	21,334	89,890
- Unrelated entities	15,107	3,096	2,957
Allowance for expected credit loss	(529)	(719)	(32,191)
Non-trade debts receivable, net	31,940	23,711	60,656
Total trade and other receivables (current)	776,502	741,862	866,082

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 $618.47 million as at 31 December 2019 comprises the aggregate of the balances due from each franchisee to Derni, and is net of uncollectible amounts. 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.

Receivables from franchisees are current and neither past due nor impaired as at 31 December 2019.

8. OTHER FINANCIAL ASSETS (CURRENT)

Equity investments at fair value	30,397	27,483	25,896
Derivatives receivable	56	5	209
Other current financial assets	-	1,400	1,692
Total other financial assets (current)	30,453	28,888	27,797

9. INVENTORIES (CURRENT)

Finished goods at cost	465,243	403,154	461,696
Provision for obsolescence	(8,403)	(7,189)	(9,402)
Total inventories (current)	456,840	395,965	452,294

10. OTHER ASSETS (CURRENT)

	CONSOLIDATED December 2019 $000	June 2019 $000	December 2018 $000
Prepayments	48,988	29,901	47,888
Other current assets	9,016	7,640	5,763
Total other assets (current)	58,004	37,541	53,651

11. INTANGIBLE ASSETS (CURRENT)

Net licence property	932	370	488

12. TRADE AND OTHER RECEIVABLES (NON-CURRENT)

Trade receivables	7,263	546	548
Consumer finance loans	775	677	640
Allowance for expected credit loss	(7)	(6)	(6)
Trade receivables, net	8,031	1,217	1,182
Amounts receivable in respect of finance leases	1,022	820	833
Non-trade debts receivable from:			
- Related entities (including joint ventures and joint venture partners)	54,149	50,939	40,790
- Unrelated entities	25,291	25,968	20,210
Allowance for expected credit loss	(27,915)	(29,553)	(15,418)
Non-trade debts receivable, net	51,525	47,354	45,582
Total trade and other receivables (non-current)	60,578	49,391	47,597

13. OTHER FINANCIAL ASSETS (NON-CURRENT)

Equity investments at fair value	19,564	16,861	16,869
Units in unit trusts	414	414	212
Other non-current financial assets	2,167	2,095	1,081
Total other financial assets (non-current)	22,145	19,370	18,162

14. PROPERTY, PLANT AND EQUIPMENT

Land at fair value	150,645	199,078	204,182
Buildings at fair value	248,269	242,135	244,729
Net land and buildings at fair value	398,914	441,213	448,911
Plant and equipment:			
At cost	837,633	828,962	822,798
Accumulated depreciation	(577,761)	(577,100)	(580,833)
Net plant and equipment	259,872	251,862	241,965
Lease make good asset:			
At cost	-	7,042	6,326
Accumulated depreciation	-	(3,910)	(3,651)
Net lease make good asset (a)	-	3,132	2,675

(a) The lease make good assets have been classified as right-of-use assets upon the adoption of AASB 16 Leases.

Total plant and equipment	259,872	254,994	244,640
Total property, plant and equipment:			
Land and buildings at fair value	398,914	441,213	448,911
Plant and equipment at cost	837,633	836,004	829,124
Total property, plant and equipment	1,236,547	1,277,217	1,278,035
Accumulated depreciation and amortisation	(577,761)	(581,010)	(584,484)
Total written down amount	658,786	696,207	693,551

15. PROPERTY, PLANT AND EQUIPMENT: RIGHT-OF-USE ASSETS

	RIGHT-OF-USE ASSETS		
	Leasehold properties $000 (a)	Plant and equipment $000	Total $000
AASB 16 transition adjustments	447,575	2,144	**449,719**
Reclassification of pre-existing balances (b)	71,330	3,448	**74,778**
As at 1 July 2019, post transition	**518,905**	**5,592**	**524,497**
New, modified and re-measured leases	37,176	194	**37,370**
Depreciation	(28,631)	(993)	**(29,624)**
Foreign currency	(43)	(21)	**(64)**
As at 31 December 2019	**527,407**	**4,772**	**532,179**

(a) The leasehold properties relate to leases of owner-occupied properties.
(b) The reclassifications relate to lease make good assets and a property which was previously accounted for under a finance lease arrangement.

16. INVESTMENT PROPERTIES: FREEHOLD

	CONSOLIDATED		
	December 2019 $000	June 2019 $000	December 2018 $000
Opening balance at beginning of the period, at fair value	**2,508,951**	2,429,397	2,429,397
Net additions, disposals and transfers	**28,226**	9,253	13,378
Net increase from fair value adjustments	**20,283**	70,301	36,560
Closing balance at end of the period, at fair value	**2,557,460**	2,508,951	2,479,335

Valuation of Freehold Investment Properties

Each freehold investment property is valued at fair value. Each freehold 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 freehold 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
- non-reliance on turnover rent
- the specific circumstances of the property not included in any of the above points

As a secondary method, a discounted cash flow valuation or a direct sale comparison valuation is undertaken.

All freehold investment properties are subject to a semi-annual review to fair market value at each reporting period, by the Property Review Committee, subject to review and final determination by the directors of the Company. The aim of the valuation process is to ensure that freehold investment properties are held at fair value and the consolidated entity is compliant with applicable regulations and the consolidated entity's freehold investment property valuation policy.

At each reporting period, approximately one-sixth of the portfolio is independently valued by external valuers with the remaining five-sixths reviewed for fair value by directors of the Company. The whole portfolio is independently valued every three years. The independent valuations are performed by external, professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the properties valued. The balance of the property portfolio is reviewed internally by the Property Review Committee and the directors of the Company, which may result in internal valuations where necessary.

The selection of sites to be independently valued is based on a pre-determined, fixed schedule that is generally geographically representative of the entire portfolio, where possible. If the results of any of the independently valued sites during the period give rise to indicators of potential fair value issues or inconsistencies with the broader property portfolio, then the revaluation review is extended to include those other potentially affected sites. For each similarly affected site, a review of the fair value of that site is undertaken by the Property Review Committee and the directors of the Company. In addition, the consolidated entity gives consideration to issues that may cause other sites to have varied significantly from the previously recorded fair value. For sites where variations exist, a director's valuation is performed and adjustment made to the value accordingly.

The consolidated entity obtained independent valuations in respect of twenty-five (25) sites within the freehold investment property portfolio during the half-year ended 31 December 2019. 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 freehold investment property portfolio, a further ten (10) sites within the freehold investment property portfolio were identified for further review by management. The ten (10) sites had generally 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.

16. INVESTMENT PROPERTIES: FREEHOLD (CONTINUED)

Additionally, the Property Review Committee undertakes a revaluation review of investment properties under construction that are greater than 75% complete. The methodology to value a completed investment property also applies to the investment property under construction. The fair value of the investment property under construction is determined under the income capitalisation valuation method by estimating the fair value of the property at completion date less the remaining costs to complete and allowances for associated risk. As a secondary method, a discounted cash flow valuation is undertaken. The Property Review Committee also performs a valuation for any property less than 75% complete where there is an indication of a substantial change in the risks or benefits to warrant an earlier assessment. In general, direct sale comparison method of valuation is used for properties for future development.

17. INVESTMENT PROPERTIES (LEASEHOLD): RIGHT-OF-USE-ASSETS

	Leasehold Properties 31 December 2019 $000
Opening balance at beginning of the period, at fair value	608,465
Net additions, disposals and transfers	37,274
Net decrease from fair value re-measurements	(37,639)
Closing balance at end of the period, at fair value	608,100

The consolidated entity has a portfolio of property leases for competitive retail sites primarily for the purposes of being sub-leased to Harvey Norman®, Domayne® and Joyce Mayne® franchisees in Australia. For these properties, the consolidated entity enters into property leasing arrangements with external landlords and then subsequently subleases these sites to franchisees pursuant to a licence, terminable upon reasonable notice and, as such, is classified as an operating lease.

Valuation of Investment Properties (Leasehold): Right-Of-Use Assets

The adoption of AASB 16 *Leases* resulted in the recognition of a right-of-use asset which meets the definition of an investment property. The consolidated entity adopted the fair value model in AASB 140 *Investment Property* and accordingly, the investment property (leasehold): right-of-use asset was measured in accordance with the fair value model in AASB 140.

All investment properties (leasehold): right-of-use assets are subject to a semi-annual review to fair market value at each reporting period, by the Property Review Committee, subject to review and final determination by the Directors of the Company. The aim of the valuation process is to ensure that investment properties (leasehold): right-of-use assets are held at fair value.

Each investment property (leasehold): right-of-use asset is the subject of a sub-lease or licence in favour of independent third parties, including Harvey Norman®, Domayne® and Joyce Mayne® franchisees ("Franchisees"). Each investment property (leasehold): right-of-use asset is valued at fair value in accordance with AASB 140 *Investment Property*.

Under this treatment, the present value of the minimum lease payments is determined and carried as a lease liability and the fair value of the lease is recorded each period as an investment property (leasehold): right-of-use asset. Gains or losses arising from re-measurement of the fair value of the investment property (leasehold): right-of-use asset are included in the Income Statement as a fair value increment or decrement in the period in which they arise, including the corresponding tax effect.

Typically, the re-measurement of an investment property (leasehold): right-of-use asset to fair value comprises the following:

1) A reduction in the investment property (leasehold): right-of-use asset to reflect the decrease in its future value due to the usage of the asset during the period, reflecting the passage of time and a reduction in remaining lease tenure. This is typically recognised as a reduction in fair value in the Income Statement.

2) Re-measurement of the investment property (leasehold): right-of-use asset at the prevailing discount rates as at the reporting date. If the discount rates at the end of the period are higher than the discount rates at the beginning of the period, there will be a decrease in the value of the investment property (leasehold): right-of-use asset and a corresponding reduction in fair value in the Income Statement. If the discount rates at the end of the period are lower than the discount rates at the beginning of the period, there will be an increase in the value of the investment property (leasehold): right-of-use asset and a corresponding increase in fair value in the Income Statement.

3) Re-measurement of the investment property (leasehold): right-of-use asset to fair market value by the Property Review Committee, subject to review and final determination by the directors of the Company. An independent, professionally qualified valuer who holds a recognised relevant professional qualification and has specialised expertise in the leasehold investment properties valued, has been engaged to provide independent verification of the key observable inputs to inform the Directors in their determination of fair value. The key observable inputs subject to independent verification include the following:

- the current market rent ranges;
- the annual or periodic rent review;
- the lease term, including any option periods under the lease;
- the location of the underlying leased premises;
- the quality and condition of the underlying leased premises; and
- the specific circumstances of the property not included in any of the above points.

Taking the above factors into consideration, the independent, qualified valuer may provide an acceptable market range, being the amount that could be exchanged between knowledgeable, willing parties in an arm's length transaction, at each reporting period. If the acceptable market range increases, there may be an increase in the value of the investment property (leasehold): right-of-use asset and a corresponding increase in fair value in the Income Statement. If the acceptable market range decreases, there may be a decrease in the value of the investment property (leasehold): right-of-use asset and a corresponding decrease in fair value in the Income Statement.

	CONSOLIDATED		
	December 2019 $000	June 2019 $000	December 2018 $000

18. INTANGIBLE ASSETS (NON-CURRENT)

	December 2019 $000	June 2019 $000	December 2018 $000
Net licence property	2,793	2,469	2,657
Other intangible assets	192	252	297
Computer software:			
- At cost	213,565	204,327	201,714
- Accumulated amortisation and impairment	(151,529)	(142,417)	(137,443)
Net computer software	62,036	61,910	64,271
Net intangible assets (non-current)	65,021	64,631	67,225

19. TRADE AND OTHER PAYABLES (CURRENT)

	December 2019 $000	June 2019 $000	December 2018 $000
Trade and other creditors	290,790	221,323	298,097
Accruals	76,649	62,359	87,079
Total trade and other payables (current)	367,439	283,682	385,176

20. INTEREST-BEARING LOANS AND BORROWINGS (CURRENT)

	December 2019 $000	June 2019 $000	December 2018 $000
Secured:			
Bank overdraft	20,557	29,232	19,494
Commercial bills payable	9,750	9,750	9,750
Syndicated Facility Agreement (a)	200,000	370,000	370,000
Other short-term borrowings (b)	75,463	79,417	84,040
Finance lease liabilities	-	1,622	960
Unsecured:			
Derivatives payable	224	49	27
Non-trade amounts owing to:			
- Related parties	4,239	4,245	5,160
- Unrelated parties	225	264	334
Total interest-bearing loans and borrowings (current)	310,458	494,579	489,765

(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 29 November 2019, the Amending Deed (No. 7) to the Syndicated Facility Agreement was executed with the effect of extending the repayment date of Tranche A1 of the Facility totalling $170 million to 4 December 2021 and Tranche A2 of the Facility totalling $200 million to 4 December 2022.

The aggregate available facility of the Syndicated Facility Agreement remained at $810 million. The utilised amount of the Syndicated Facility Agreement as at 31 December 2019 was $640 million, repayable as set out below, $200 million of which was classified as current interest-bearing loans and borrowings and $440 million was 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;
- 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 2021 ($170 million utilised at 31 December 2019);
- in respect of Tranche A2 totalling $200 million, on 4 December 2022 ($200 million utilised at 31 December 2019);
- in respect of Tranche A3 totalling $200 million, on 4 December 2020 ($200 million utilised at 31 December 2019);
- in respect of Tranche B totalling $240 million, on 4 December 2021 ($70 million utilised at 31 December 2019); 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.

20. INTEREST-BEARING LOANS AND BORROWINGS (CURRENT) (CONTINUED)

(b) Other Short-Term Borrowings

Of the total other short-term borrowings of $75.46 million:

- a total of $42.20 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 2020.
- a total of $25.00 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 2020.
- a total of $3.71 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 $1.05 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 HY20 and HY19, there were no defaults or breaches on any of the interest-bearing loans and borrowings referred to in this note and in Note 24. Interest-Bearing Loans and Borrowings (Non-Current).

21. LEASE LIABILITIES

The following table sets out the carrying amounts of lease liabilities and movements during the period:

	$000
AASB 16 transition adjustments	1,157,445
Reclassification of pre-existing balances (a)	3,564
Lease Liabilities as at 1 July 2019	1,161,009
New, modified and re-measured leases	74,220
Interest on lease liabilities (accretion)	20,727
Lease payments	(82,035)
Foreign currency	(652)
Lease liabilities as at 31 December 2019	1,173,269

(a) The reclassification of pre-existing balances relates to finance leases previously recognised within interest-bearing loans and borrowings.

	31 December 2019 $000
Reconciled to:	
Lease liabilities (current)	128,240
Lease liabilities (non-current)	1,045,029
Lease liabilities as at 31 December 2019	1,173,269

	CONSOLIDATED		
	December 2019 $000	June 2019 $000	December 2018 $000

22. OTHER LIABILITIES (CURRENT)

	December 2019 $000	June 2019 $000	December 2018 $000
Lease incentives (refer to Note 26(a))	-	4,101	4,274
Unearned revenue	81,715	71,718	78,974
Total other liabilities (current)	81,715	75,819	83,248

23. PROVISIONS (CURRENT)

	December 2019 $000	June 2019 $000	December 2018 $000
Employee entitlements	33,300	31,902	32,369
Lease make good	18	437	374
Deferred lease expenses (refer to Note 26(a))	-	689	675
Total provisions (current)	33,318	33,028	33,418

	CONSOLIDATED		
	December 2019 $000	June 2019 $000	December 2018 $000

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

	December 2019 $000	June 2019 $000	December 2018 $000
Secured:			
Syndicated Facility Agreement (refer to Note 20(a))	440,000	345,000	340,000
Finance lease liabilities (refer to Note 21)	-	1,942	2,851
Total interest-bearing loans and borrowings (non-current)	440,000	346,942	342,851

25. PROVISIONS (NON-CURRENT)

	December 2019 $000	June 2019 $000	December 2018 $000
Employee entitlements	2,207	2,171	2,096
Lease make good	7,123	6,604	5,952
Deferred lease expenses (refer to Note 26(a))	-	4,250	4,125
Total provisions (non-current)	9,330	13,025	12,173

26. OTHER LIABILITIES (NON-CURRENT)

	December 2019 $000	June 2019 $000	December 2018 $000
Lease incentives (a)	-	11,223	12,657
Unearned revenue	1,347	107	285
Total other liabilities (non-current)	1,347	11,330	12,942

(a) Prior to the first-time adoption of AASB 16 Leases, lease incentive liabilities and provisions for deferred lease were separately recognised in accordance with the superseded AASB 117. On transition, existing lease payables and provisions were recognised as an adjustment to the opening balance of retained earnings.

27. CONTRIBUTED EQUITY

	December 2019 $000	June 2019 $000	December 2018 $000
Ordinary shares	717,925	552,250	552,250
Total contributed equity	717,925	552,250	552,250

	NUMBER OF SHARES		
	December 2019	June 2019	December 2018
Number of ordinary shares issued and fully paid	1,246,006,654	1,179,736,590	1,179,736,590

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Number of shares December 2019	December 2019 $000
Movements in ordinary shares on issue:		
At 1 July 2019	1,179,736,590	552,250
Issue of shares under renounceable pro-rata Entitlement Offer	66,270,064	165,675
At 31 December 2019	1,246,006,654	717,925

28. RETAINED PROFITS AND DIVIDENDS

	CONSOLIDATED December 2019 $000	June 2019 $000	December 2018 $000
Movements in retained profits were as follows:			
Balance at beginning of the period	**2,397,436**	2,337,241	2,337,241
Transition adjustments arising from adoption of AASB 16	**(43,892)**	-	-
Profit for the period	**213,593**	402,317	222,773
Dividends paid	**(247,745)**	(342,122)	(200,554)
Balance at end of the period	**2,319,392**	2,397,436	2,359,460

	December 2019 $000	June 2019 $000	December 2018 $000
Dividends declared and paid:			
Dividends on ordinary shares:			
Final fully-franked dividend for 2019: 21.0 cents (2018: 18.0c)	**247,745**	200,554	200,554
Interim fully-franked dividend for 2019: 12.0 cents	**-**	141,568	-
Total dividends paid	**247,745**	342,122	200,554

The final dividend of $247.74 million, fully-franked, for the year ended 30 June 2019 was paid on 1 November 2019.

The interim dividend of 12.0 cents per share, totalling $149.52 million fully-franked, for the year ended 30 June 2020 will be paid on 4 May 2020.

	December 2019 $000	June 2019 $000	December 2018 $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%	**481,627**	539,191	551,468
- franking credits that will arise from the payment of income tax payable as at the end of the financial period	**11,887**	1,222	11,579
- franking credits that will be utilised in the payment of proposed interim/final dividend	**(64,080)**	(106,176)	(60,672)
The amount of franking credits available for future reporting periods	**429,434**	434,237	502,375

29. NON-CONTROLLING INTERESTS

	December 2019 $000	June 2019 $000	December 2018 $000
Interest in:			
- Ordinary shares	**2,691**	2,691	2,691
- Reserves	**15,234**	15,027	14,740
- Retained profits	**13,490**	12,665	11,082
Total non-controlling interests	**31,415**	30,383	28,513

30. RESERVES

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.
Fair Value through Other Comprehensive Income (FVOCI) Reserve
This reserve is used to record fair value changes on equity investments classified as financial assets at fair value through other comprehensive income.
Available for Sale Reserve
This reserve was previously 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.

30. RESERVES (CONTINUED)

CONSOLIDATED $000	Asset revaluation reserve	Foreign currency translation reserve	Available for sale reserve	FVOCI reserve	Cash flow hedge reserve	Employee equity benefits reserve	Acquisition reserve	Total
At 1 July 2018	144,526	40,659	11,902	-	(8)	10,356	(22,051)	185,384
Revaluation of land and buildings	6,131	-	-	-	-	-	-	6,131
Tax effect of revaluation of land and buildings	(1,073)	-	-	-	-	-	-	(1,073)
Transfer to financial assets at fair value through other comprehensive income (a)	-	-	(11,902)	11,902	-	-	-	-
Unrealised loss on financial assets at fair value through other comprehensive income	-	-	-	(848)	-	-	-	(848)
Reverse expired or realised cash flow hedge reserves	-	-	-	-	8	-	-	8
Net gain on forward foreign exchange contracts	-	-	-	-	56	-	-	56
Tax effect of net gain on forward foreign exchange contracts	-	-	-	-	(17)	-	-	(17)
Currency translation differences	-	21,365	-	-	-	-	-	21,365
Share based payment	-	-	-	-	-	230	-	230
At 31 December 2018	149,584	62,024	-	11,054	39	10,586	(22,051)	211,236
At 1 July 2019	152,850	65,853	-	10,949	(2)	10,125	(22,051)	217,724
Transition adjustments arising from adoption of AASB 16	(18,067)	-	-	-	-	-	-	(18,067)
At 1 July 2019, post transition	134,783	65,853	-	10,949	(2)	10,125	(22,051)	199,657
Revaluation of land and buildings	13,168	-	-	-	-	-	-	13,168
Tax effect of revaluation of land and buildings	(2,143)	-	-	-	-	-	-	(2,143)
Unrealised gain on financial assets at fair value through other comprehensive income	-	-	-	2,622	-	-	-	2,622
Reverse expired or realised cash flow hedge reserves	-	-	-	-	2	-	-	2
Net loss on forward foreign exchange contracts	-	-	-	-	(47)	-	-	(47)
Tax effect of net loss on forward foreign exchange contracts	-	-	-	-	14	-	-	14
Currency translation differences	-	1,583	-	-	-	-	-	1,583
Share based payment	-	-	-	-	-	398	-	398
At 31 December 2019	145,808	67,436	-	13,571	(33)	10,523	(22,051)	215,254

(a) The listed shares held as available for sale at fair value as at 30 June 2018 were classified as listed shares held at fair value through other comprehensive income (FVOCI) upon first-time application of the standard, AASB 9 *Financial Instruments* from 1 July 2018. As such, the amounts previously recognised in the available for sale reserve within equity have been transferred to the financial assets at FVOCI reserve.

31. CASH AND CASH EQUIVALENTS

(a) RECONCILIATION TO CASH FLOW STATEMENT

	CONSOLIDATED December 2019 $000	CONSOLIDATED June 2019 $000	CONSOLIDATED December 2018 $000
Cash and cash equivalents comprise the following at end of the period:			
Cash at bank and on hand	149,644	200,877	89,595
Short term money market deposits	47,587	14,171	33,703
	197,231	215,048	123,298
Bank overdraft (refer to Note 20)	(20,557)	(29,232)	(19,494)
Cash and cash equivalents at end of the period	176,674	185,816	103,804

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

	CONSOLIDATED December 2019 $000	CONSOLIDATED December 2018 $000
Profit after tax	217,117	226,206
Adjustments for:		
Net foreign exchange losses	397	241
Bad and doubtful debts	409	985
Share of net profit from joint venture entities	(4,225)	(4,592)
Depreciation of property, plant and equipment	32,704	34,232
Depreciation of right-of-use assets	29,624	-
Fair value re-measurement of investment properties (leasehold): right-of-use assets	37,639	-
Amortisation	10,773	10,173
Impairment of non-trade debts receivable	-	8,355
Impairment of other financial assets	300	-
Loss on restructure and consolidation of KEH Partnership	-	9,665
Revaluation of Australian investment properties and investment properties of overseas controlled entity	(20,283)	(36,560)
Deferred lease expenses	-	100
Executive remuneration expenses	1,771	1,304
(Profit) / loss on disposal and sale of property, plant and equipment, and the revaluation of listed securities	(2,180)	5,258
Movements in provisions	619	(292)
Changes in assets and liabilities:		
(Increase)/decrease in assets:		
Receivables	(32,773)	(150,657)
Inventories	(62,089)	(83,622)
Other assets	(23,846)	(7,077)
Increase/(decrease) in liabilities:		
Payables and other liabilities	104,370	127,146
Income tax payable	8,442	4,495
Net cash flows from operating activities	298,769	145,360

	CONSOLIDATED		
	December 2019 $000	June 2019 $000	December 2018 $000

32. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Total investments accounted for using equity method	**4,815**	3,854	4,953

	Ownership Interest		Contribution to Profit / (Loss) Before Tax	
	December 2019 %	December 2018 %	December 2019 $000	December 2018 $000
Noarlunga (Shopping complex)	**50%**	50%	**760**	701
Perth City West (Shopping complex)	**50%**	50%	**1,485**	1,426
Warrawong King St (Shopping complex) (a)	**62.5%**	62.5%	**540**	545
Byron Bay (Residential/convention development) (c)	**-**	50%	**(210)**	(379)
Byron Bay – 2 (Resort operations) (c)	**-**	50%	**(256)**	333
Dubbo (Shopping complex)	**50%**	50%	**332**	367
Bundaberg (Land held for investment)	**50%**	50%	**(8)**	7
Gepps Cross (Shopping complex)	**50%**	50%	**1,376**	1,661
QCV (Miners residential complex) (b)	**50%**	50%	**7**	6
Other	**50%**	50%	**199**	(75)
Coomboona Dairy (Dairy farming) (d)	**49.9%**	49.9%	**-**	-
			4,225	4,592

(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 31 January 2020. On 22 January 2020, the maturity date of this finance facility from ANZ was extended to 31 July 2020.
- (ii) finance facilities from Network Consumer Finance Pty Limited ("NCF"), a wholly-owned subsidiary of HNHL, for the amount of $32.69 million plus interest and costs, subject to bi-annual review.

(c) On 9 August 2019, the consolidated entity announced that Harvey Norman Holdings Limited (the Company) and certain of its controlled entities, with certain entities controlled by Gerald Harvey, as owners of the property and business known as The Byron at Byron Bay Resort (**Resort**), have entered into agreements for sale of the Resort (**Sale Contract**) for the sale price of $41,764,000 (ex GST), subject to terms and conditions for completion. The purchasers under the Sale Contract are GAG Byron on Byron Property Co Pty Ltd ACN 635 158 351 and GAG Byron on Byron Business Company Pty Ltd ACN 635 172 333. The Sale Contract was settled during HY20 following the grant of the liquor licence approval by the relevant authority.

(d) In August 2018, the Administrators commenced an orderly sale process for the sale of the Coomboona JV assets (**Administrator Sale**). Expressions of interest were received and reviewed by the Administrator. On 31 October 2018, the Administrators advised the consolidated entity that the property, the subject of the NCF Securities and HN JV Entity Securities in respect of the NCF and HN JV Entity receivables, had been sold for $44.10 million to Australian Fresh Milk Holdings Pty Limited (**AFHM**).

On 16 January 2019, the Administrator Sale was completed and the Contract for Sale settled. The only secured creditors were NCF and the HN JV Entity and both are wholly-owned subsidiaries of HNHL. The secured creditors received net proceeds on sale of $40.50 million for the full discharge of the NCF receivables and the partial discharge of the HN JV Entity receivables. Upon completion of the Administrator Sale, a further impairment expense of $8.25 million was recognised for the year ended 30 June 2019 to reduce the value of the HN JV Entity receivables to its estimated recoverable amount.
Refer to further information provided on Page 11 regarding the Other Segment.

33. ASSETS HELD FOR SALE

As at 31 December 2019, the assets held for sale balance of $16.76 million represents the carrying amount of warehouse in Singapore that is currently held for sale.

As at 30 June 2019, the carrying amounts of two (2) retail property assets were classified as current assets held for sale:

- The carrying amount of the consolidated entity's 50% asset ownership of The Byron at Byron Resort comprising its 50% shareholding of the Byron Bay (residential / convention development) land and building assets and its 50% shareholding of the Byron Bay (resort operations) plant and equipment assets; and
- The carrying amount of a warehouse in Singapore that is currently held for sale.

34. 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)

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 2019, 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	49,961	-	-	49,961
Foreign exchange contracts	-	56	-	56
Other investments	-	-	2,581	2,581
Total Financials Assets	49,961	56	2,581	52,598
Financial Liabilities				
Foreign exchange contracts	-	224	-	224
Total Financial Liabilities	-	224	-	224

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.	NIL

	CONSOLIDATED	
	December 2019	December 2018
Net Tangible Assets Per Security		
Net tangible asset backing per ordinary security	**2.83***	2.85

* The NTA as at 31 December 2019 includes the right-of-use assets in respect of property, plant and equipment leases of $532.18 million and investment properties (leasehold): right-of-use assets of $608.10 million, and the lease liabilities recognised under AASB 16 Leases of $1,173.27 million. If the right-of-use assets were excluded as at 31 December 2019, the NTA calculation would have been 1.90 per ordinary security.

Business Combinations Having Material Effect

Name of business combination	N/A	KEH Partnership Pty Limited
Consolidated profit/(loss) after tax of the business combination since the date in the current year on which control was acquired	N/A	$4.41 million loss
Date from which such profit has been calculated	N/A	1 July 2018
Profit/(loss) after tax of the controlled business combination for the whole of the previous corresponding year	N/A	$6.43 million loss

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 year 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 year	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 2019 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 2019 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 2019.

On behalf of the Board.

G. HARVEY
Chairman
Sydney
28 February 2020

K.L. PAGE
Director / Chief Executive Officer
Sydney
28 February 2020

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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 2019, 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 2019 and of its consolidated financial performance for the half-year ended on that date; and

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

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

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Independence

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

Ernst & Young

Ernst & Young

R Robinson

Renay Robinson
Partner
Sydney
28 February 2020

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