

Sunland Group Limited

ABN 65 063 429 532

Annual Report - 30 June 2019

Sunland Group Limited
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30 June 2019

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Directors	Mr Soheil Abedian Executive Director (Chairman)
	Mr Sahba Abedian Managing Director
	Mr Ron Eames Non- Executive Director
	Mr Craig Carracher Non- Executive Director
	Mr Christopher Freeman Non-Executive Director
	Mrs Rebecca Frizelle Non-Executive Director
Secretary	Mr Grant Harrison
Principal registered office	140A Alice Street Brisbane QLD 4000 Australia Telephone 07 3456 5700
Principal place of business	Brisbane 140A Alice Street Brisbane QLD 4000 Telephone 07 3456 5700
	Gold Coast Royal Pines Marina Precinct Benowa QLD 4217 Telephone 07 5564 3700
	Sydney Suite 9.03, Level 9 25 Bligh Street Sydney NSW 2000 Telephone 02 9210 2100
	Melbourne Ground Floor 15-17 Queen Street Melbourne VIC 3000 Telephone 03 9825 4700
Share register	Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 1300 655 149 (Australia) (+612) 8280 7917 Overseas
Auditor	Ernst & Young Level 51 111 Eagle Street Brisbane QLD 4000

Solicitors	Holding Redlich Level 1 300 Queen Street Brisbane QLD 4000
Bankers	ANZ Banking Group Limited Level 20 111 Eagle Street Brisbane QLD 4000 Westpac Banking Corporation Limited 260 Queen Street Brisbane QLD 4000
Website	www.sunlandgroup.com.au

The Directors present their report together with the financial report of Sunland Group Limited and its controlled entities (Sunland or the Group), for the year ended 30 June 2019 and the independent audit report thereon.

Directors

The names and details of the Company's Directors in office during the year and until the date of this report are as follows. Directors were in the office for the entire period unless otherwise stated.

Soheil Abedian

Chairman (Executive Director) - Director since March 1994.

Dip Arch Masters
Degree in Architecture with Honours (University of Graz, Austria)
Honorary Professor Griffith University (Business School - Gold Coast)
Adjunct Professor Bond University (Architecture School) Doctorate of Bond University

Mr Soheil Abedian was educated in Graz, Austria and moved to Queensland's Gold Coast in 1983 where he co-founded Sunland Group to develop luxury housing projects. He has over 35 years' experience in architectural design, construction, and project management across a wide range of developments.

Sahba Abedian

Managing Director - Director since January 2001

LLB (Bond University)

Mr Sahba Abedian is a qualified lawyer and was admitted into the Supreme Court of Queensland in 1998 as a solicitor. He joined Sunland Group in April 1998 as legal counsel/company secretary. In January 2000, he established the Group's Victorian operations and was appointed Joint Managing Director in 2002 alongside the Group's founder, Soheil Abedian. In 2006, Sahba assumed the role of Managing Director.

Ron Eames

Non-Executive Director - Director since March 2006.

LLB (Queensland University of Technology)

Mr Eames is a partner in the Brisbane offices of law firm Holding Redlich and brings to the role more than 25 years' experience in the legal sector, specialising in front-end project work and project structured financing in the energy, resource, construction, and tourism industries. Mr Eames is a member of the Australian Institute of Company Directors. Mr Eames is the chair of Sunland's Audit and Risk Committee.

Craig Carracher

Non-Executive Director - Director since July 2010.

LLB (Sydney), University Medal; BCL, Oxon, 1st Class Hons.

Craig Carracher has extensive transactional and management experience, having spent much of the past decade living, working, and investing in Asia as Managing Partner of a leading Australian law firm, Group General Counsel for Consolidated Press Holdings Limited, and CEO of its Asian private equity interests. Craig is a founding Director of Scape Australia (a leading international student accommodation group) and a Director of the Australian Olympic Committee and the Australian Olympic Foundation. Mr Carracher is a member of Sunland's Audit and Risk Committee.

Chris Freeman AM FAICD

Non-Executive Director - Director since January 2015.

Bachelor of Commerce (University of Queensland) FAICD

Mr Freeman has significant company directorship experience in Australia and abroad in the property and finance sectors. His former roles include Director and Chair of Watpac Limited from 2011 until 2014.

Mr Freeman previously held the positions of Executive Chair United Arab Emirates and United Kingdom and Chief Executive Queensland for the Mirvac Group Limited. He has held executive roles in the finance sector, particularly in the property, corporate and agribusiness markets. He is a Director of Brisbane Airport Corporation Limited and Chair of the Queensland Symphony Orchestra. Mr Freeman is a member of Sunland's Audit and Risk Committee.

Rebecca Frizelle

Non-Executive Director - Director since January 2018.

Member of the AICD

Mrs Frizelle is the Chief Operating Officer of Frizelle Prestige and has extensive experience in executive management. In 2015, Mrs Frizelle was appointed to the Board of the Gold Coast Titans National Rugby League ("NRL") team and became the first female Chair in the NRL code.

Mrs Frizelle is a Director of the Griffith University Advisory Board, Audi Australia Foundation Board, and St Hilda's School Foundation. Mrs Frizelle is a member of Sunland's Audit and Risk Committee.

Company secretary

Grant Harrison

Company Secretary - Secretary since December 2003.

Associate Diploma Business (Accounting), GAICD.

Mr Harrison joined Sunland Group in 2000, following 16 years in the banking sector with Westpac specialising in commercial, property and corporate finance transactions. Mr Harrison was appointed Chief Financial Officer in December 2004. Mr Harrison is a Graduate of the Australian Institute of Company Directors.

Director's Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
Mr Sahba Abedian	4	4	-	-
Mr Soheil Abedian	4	4	-	-
Mr Ron Eames	4	4	2	2
Mr Craig Carracher	4	*3	2	2
Mr Chris Freeman	4	4	2	2
Mrs Rebecca Frizelle	4	4	2	2

* Mr Carracher was unable to attend a Board meeting during the year but participated in the preparatory exchanges between committee members and Company officers in accordance with the governance processes outlined in the Corporate Governance Statement.

Principal Activities

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

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

Consolidated Result

The consolidated profit after tax for the year attributable to members of Sunland Group Limited was \$17.7 million (2019: \$34.7 million). The result includes a \$9.0 million after tax net realisable value (NRV) adjustment following a strategic review of the Group's Bayside project in Townsville and reflecting a change in strategy to redeploy capital from regional areas to the Group's core operating markets.

The full year operations excluding the NRV adjustment contributed an after tax result of \$26.7 million. This is attributable to the performance of Sunland's residential developments in South East Queensland and Sydney. Sunland's multi-storey segment also contributed to the result through settlements at Marina Concourse on the Gold Coast.

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

This result reflects the application of the new revenue accounting standard, which recognises property sales revenue on settlement. Comparative financial information within this report has been adjusted to retrospectively apply this accounting policy. Refer to Note 2 of the financial statements for further information.

Operational and Financial Review

Operating and Financial Highlights

- Net profit after tax of \$17.7 million following an NRV adjustment of Bayside project, Townsville totalling \$9.0 million after tax.
- Earnings per share based on the number of consolidated shares on issue as at the balance date was 13 cents (2018: 23 cents).
- The Group declared a fully franked final dividend of 4 cents per share, bringing the full year dividend payment to 8 cents per share. This represents a dividend payout ratio of 62% of consolidated earnings after NRV adjustment.
- Strong balance sheet capacity, with \$19.8 million in cash and \$185.4 million in undrawn working capital lines.
- Surplus cash generated by the Group's operations has supported the share buyback program announced in December 2018. Over the past 10 years, the Company has reduced its issued capital by 58% at an average price of 99 cents per share, representing a significant discount to the Group's net asset base.
- During this period the Group has acquired 11.1 million shares for value of \$17.7 million under the current buyback program. Average price paid in acquiring 58% of issued capital over the combined programs is 99 cents per share
- The Group acquired a site in Melbourne for \$13.0 million and committed an additional \$6.8 million for another site in Sydney, each for medium-density residential development.
- Overall gearing remains at manageable levels, with 24% debt to assets and 36% debt to equity. A higher leverage is utilised to finance multistorey developments, while the land and housing segment is typically leveraged at approximately 35% (debt to inventory value).
- The Group achieved a 25% development margin, exceeding the target of 20% return on costs (excluding the NRV adjustment).
- Strong forecast cash flow generated from existing projects.
- Net tangible assets per share increased to \$2.56 (2018: \$2.47).

Group Development Portfolio

Sunland's development pipeline comprises 4,292 land, housing and multi-storey products with a total end value of \$2.9 billion (based upon obtaining certain development approvals), providing a portfolio of quality projects to be delivered primarily over the next three to five years. Sunland's emerging retail and commercial portfolio is being delivered through the Group's mixed-use projects and has an estimated end value of \$163 million on completion, bringing the total portfolio value to 3.0 billion.

The Group continues to review opportunities to replenish its development portfolio with a new housing site acquired in Melbourne for \$13 million (Carrum Downs). This site adds 187 lots to the portfolio with an estimated end value of \$99 million. The Group is committed to acquire a further site for \$6.8 million in Sydney (Maraylya) which will deliver 15 houses with a gross realisation of \$14.3 million. Capacity is held to complete further acquisitions that meet Sunland's return profile.

As at the date of this report, Sunland had 13 active projects in Queensland, New South Wales and Victoria. These projects include land, housing and multi-storey projects at various points in their delivery cycle. Projects including The Lakes Residences, Marina Concourse, Arbour Residences, Shea Residences, and The Heights (QLD); 18 Macpherson Street (NSW); and The Gardens (VIC), have contributed to revenue during this period.

The Group's multi-storey portfolio continued to contribute to Sunland's results during this period, with settlements commencing in Marina Concourse, the final development within Sunland's master planned community at Royal Pines on the Gold Coast, which has been contributing to the Group's development revenues for some eight years. Sunland anticipates a continued contribution from this segment with the ongoing settlement of Marina Concourse through 2020. Expansion of this business segment continues with the commencement of construction at 272 Hedges in Mermaid Beach (high-rise) and Magnoli Apartments in Palm Beach (medium-rise). These projects are expected to contribute revenue over a number of years from financial year 2020.

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

Sunland awaits clarity from the local authority regarding the recently released (May 2019) Queensland State Government Gold Coast Spit master plan and its impact on the Gold Coast planning scheme before determining the approach for the redevelopment of Mariners' Cove. In the meantime, the property continues as an operating retail and marina precinct, generating holding income for the Group. The Greenmount site also contributes a holding income as an operating hotel whilst other projects are being delivered and design is finalised for this project.

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

Group operating activities

Development Activities

Sunland's development activities continued to generate strong underlying earnings for the Group despite the NRV adjustment incurred this period. Projects in South East Queensland and New South Wales have contributed significant revenue. Both the Gardens (Melbourne) and 18 MacPherson Street (Sydney) are nearly fully settled, with further projects in the pipeline at both locations.

The Group has experienced a shift in market conditions, with a significant reduction in foreign purchasers and local investors. This change in the market reflects several factors, including prudential regulation tightening bank lending criteria, reduced ability for transfer of capital into Australia, state taxes on foreign investors, and pricing of investor lending. Sales volume has reduced as a consequence of these market conditions. The Group has responded to the changes in demand and buyer demographic by placing a higher emphasis on designing for the owner-occupier market. Contracted presales for projects released across the development portfolio total 177 lots as at 30 June 2019 with a combined value of \$192.4 million.

Settlements of the twin six-storey, medium-rise apartment buildings at Marina Concourse, located adjacent to the Royal Pines Marina on the Gold Coast, commenced this half year and will continue through 2020 financial year. Multi-storey projects under construction include 272 Hedges Avenue (high-rise) and Magnoli Apartments (medium-rise). Projects with development applications submitted during the half year and subject to local authority approval include The Lanes Residences in Mermaid Waters (medium-rise) and 180 Marine Parade in Labrador (medium-rise). Those in the preliminary design and approval stages include Greenmount Residences in Coolangatta (medium-rise), Grace on Coronation in Toowong (high-rise) and future stages at The Lakes in Mermaid Waters (medium-rise).

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

The Group generated revenue from property sales of \$277.6 million (2018: \$321.6 million) during the period. This was generated from settlements of 382 lots (2018: 487). Major revenue contributors were from the Residential Housing and Urban Development segment and include Shea Residences, The Lakes Residences, The Heights, and Arbour Residences (QLD); 18 Macpherson Street (NSW); and The Gardens (VIC). Sunland's multi-storey segment generated revenue from the settlement of Marina Concourse.

The Group achieved a return on cost (excluding the NRV adjustment) of 25% across its residential development portfolio, exceeding its targeted development margin of 20% (excluding marketing costs, which are expensed ahead of recognising revenue - refer Segment Report). The Residential Housing and Urban Development segment achieved a return (excluding the NRV adjustment) of 28%, and the multi-storey portfolio achieved a return of 9%. The lower margin on the multi storey segment reflects some unanticipated cost and time over runs incurred at Marina Concourse. The development is now complete and balance stock is anticipated to settle over the ensuing 9 to 12 months. The issues experienced with this project has resulted in the Group strategically engaging with third party builders to deliver the current multi storey projects 272 Hedges Avenue and Magnoli which have now commenced.

Other Group Activities

Other revenues include net holding incomes generated by various sites until approvals are granted and development commences. These include Mariner's Cove and Greenmount Resort on the Gold Coast. Investment properties held by the Group also generate ongoing investment income and include retail assets at Royal Pines Marina and The Lakes, both located on the Gold Coast. During August the Group settled the sale of The Lakes for \$20.0 million which will contribute \$6.4 million after tax for the financial year 2020.

The Royal Pines Marina is occupied by Sunland's Gold Coast office, as well as other retail and commercial tenants, generating annual net revenue of some \$0.3 million. The Group is currently negotiating with a childcare operator to lease space that will have capacity for some 100 children, greatly enhancing the revenue for the asset. The Group has submitted a development application to deliver some 15,000 square metres of retail and commercial space at "The Lanes", Gold Coast which has the potential to diversify the Group's earnings profile further.

Capital Management and Dividends

Sunland has undertaken a series of share buy-back programs over the past 10 years, reducing consolidated shares on issue by 58%. During this period the Group has acquired 11.1 million shares for value of \$17.7 million. Over the combined buyback programs, the Group has purchased shares at an average price of 99 cents which is a significant discount to the Group's net tangible assets per share. The buyback programs have also contributed to the Group's increase in earnings per share and net asset value per share, delivering significant long-term benefit and value to shareholders.

Directors have previously stated that the Group intends to pay fully franked dividends of between 40% and 50% of net operating earnings as a dividend payment policy. A final fully franked dividend of 4 cents per share brings the total dividends for the 2018 financial year to 8 cents per share (fully franked), representing a payout ratio of 62%. Whilst the payout ratio seems high, this is after the non cash NRV adjustment undertaken at the half year for the Group's Bayside project at Townsville.

Sunland utilises debt facilities to assist in the funding of its development projects. The approach differs between operational segments. The Residential Housing and Urban Development segment is generally leveraged to around 35% of inventory value. A greater leverage is sought for Multistorey projects as the

development programs are longer and equity can be retained to pursue other opportunities. The Group has access to other sources of funding that provide a longer dated and alternative form of debt capital that complements the senior debt funding of the Group's development portfolio.

Group Vision and Future Outlook

Sunland's vision is to create long-term, sustainable value for its shareholders and residential communities by continuously striving for excellence and innovation in the design and delivery of its portfolio. The Group's enduring commitment to architectural excellence, partnered with forward thinking urban design and fundamental human values, is widely recognised and has received industry accolades for its contribution to Australia's architectural landscape. Importantly, it has also left an enduring legacy for future generations - the creation of vibrant communities and unique, enriched environments. Sunland remains in an excellent position to achieve this vision.

Following a long period of expansion, the Australian property market has entered a phase of consolidation and adjustment as a natural consequence of the cyclical nature of our industry. This is evidenced by a reduction in the volume of property sales, a reduction in foreign investment, a tightening of the lending environment, and softening economic conditions. Accordingly, Sunland Group's strategy is focused on establishing the Company for the next phase of the cycle, whilst maintaining a conservative balance sheet and will evaluate all future project releases in line with this approach.

In line with our counter-cyclical approach, this new phase provides opportunities to replenish our portfolio and strategically position the Company for the next growth period. In the 2020 financial year the Group will continue to actively monitor the market for new opportunities to increase its development pipeline in strong performing markets that continue to offer value for off-market, infill acquisitions where Sunland's quality home designs and craftsmanship generally offers a premium alternative to our competitors. We expect the market sentiment will also strengthen and lending policies of the major lenders ease which will bode well for an improving selling environment.

The Group's portfolio provides strong earnings visibility through strategic diversification across its core activities of medium density housing, urban development, and staged multistorey projects in its core markets of South-East Queensland, Sydney and Melbourne. South East Queensland has a continuing development pipeline, particularly in respect to medium density housing and multi storey projects. Whilst we currently have no active projects in Sydney and Melbourne, we await development approval for Mt Annan (Sydney) and Carrum Downs (Melbourne). The Sydney portfolio also has a continual pipeline with development land situated at Wilga Wilson Rd Ingleside awaiting rezoning. Another site situated Mona Vale Rd Ingleside was recently sold and settled, contributing \$4.9 million after tax in the 2020 financial year.

The Group's development returns are supported by its emerging investment property portfolio which seeks to form a baseline of income to diversify the Group's earnings profile. The Group recently sold its Lakeview Retail Centre at Mermaid Waters for \$20 million and the after tax contribution of \$6.4 million will also fall into 2020 financial year. Whilst the asset was earmarked as a long term hold to enhance investment property income, the proceeds of the sale will enable the deployment of capital to assist in the development of The Lanes retail precinct. The Lanes, together with other investment properties owned and to be developed by the Group, will diversify the development revenues with recurring income streams.

Significant Changes in the State of Affairs

In the opinion of Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the year under review not otherwise disclosed in this report or the consolidated financial report.

Environmental Regulation and Performance

The consolidated entity's operations are subject to environmental regulations under both Commonwealth and State legislation in relation to its property development activities. The Directors are not aware of any significant breaches during the period covered by this report.

Likely Developments and Expected Results

Directors continue to be mindful of enhancing shareholder return and the Group's dividend payment policy will assist in achieving that goal. The Company must continue with its strategy of replenishing the portfolio across key locations in target growth markets. Existing projects will be delivered and the cash generated from these, together with the capacity provided by the Group's debt lines, will support this strategy.

Sunland has a number of projects and other opportunities in hand which provide the foundation for the future operations of the Group.

Directors Interests

The relevant interest of each Director in the shares and options over such shares of the Company, as notified by the Directors to the Australian Securities Exchange in accordance with S205G (1) of the Corporations Act 2001, at the date of this report is presented below. The table below also include the relevant interest of each Director and their related parties in the unsecured note issue by the Group:

Director	Ordinary shares	Unsecured notes
Mr Soheil Abedian	50,000,000 *	5,000,000
Mr Sahba Abedian	8,500,000 *	180,000
Mr Craig Carracher	14,000	-
Mr Ron Eames	30,000	-
Mr Chris Freeman	100,000	-

* In addition to this holding, parties related to Soheil Abedian hold 1,103,000 shares and parties related to Sahba Abedian hold 70,000 shares.

There are no options held by Directors over unissued ordinary shares of the Company.

Indemnification and Insurance of Officers

Since the end of the previous year the Company has paid insurance premiums in respect of Directors and Officers Liability and Company Reimbursement insurance, for all Directors, officers and certain employees, Directors of subsidiary companies, Directors and officers who have retired or relinquished their position prior to the inception of or during the policy period, and Directors who may be appointed during the policy period. The insurance cover also extends to outside directorships held by insured persons for the purpose of representing Sunland.

Under Sunland's constitution, Directors and officers are entitled to be indemnified out of the assets of the Company against certain losses incurred in relation to the completion of their duties. During the period certain costs incurred by various Directors and officers in respect to claims have been paid on behalf of those Directors and officers under the Constitution's indemnity provisions.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit. No payment has been made to indemnify Ernst & Young during or since the financial year.

Remuneration Report (Audited)

This Remuneration Report sets out the Group's remuneration framework for key management personnel. It demonstrates the links between the performance of the Group and the individuals' remuneration and discloses the remuneration arrangements, any equity holdings, loans and other transactions for key management personnel. This report meets the disclosure requirements of the Corporations Act 2001.

Remuneration Philosophy

The objective of Sunland's Executive Remuneration practices is to attract, retain and appropriately reward the executive talent required to achieve both short-term and long-term success.

The maintenance of a strong, talented and stable Executive Management Team is a high priority for Sunland. Each executive has been personally selected due to their proven abilities and many have worked closely with the Group in the past.

Sunland has undertaken to reward the Executive Management Team through a remuneration framework consisting of a fixed annual remuneration package complemented by long-term incentive programs provided through discretionary trusts operated independently of Sunland's Board of Directors. The long-term incentive programs extend to all eligible employees of the company as detailed below.

There is no short-term incentive program in place as this is not consistent with Sunland's long-term focus or its normal business cycle. The principles of the framework incorporate:

- Providing competitive remuneration packages relative to market;
- Linking executive remuneration to shareholder value;
- Establishing objectives for regional, divisional and individual performance;
- Maintaining a strong focus on both teamwork and individual performance; and
- Encouraging long-term tenures with Sunland.

Review of Remuneration Framework

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the Executive Management Team. Directors assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions and the remuneration framework with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive Management Team.

Details of Key Management Personnel

Key management personnel including Directors and Executives have authority and responsibility for planning, directing, and controlling the activities of the Company and Group. These are the following personnel as at 30 June 2019:

Mr Sahba Abedian, Managing Director
Mr Soheil Abedian, Chairman (executive)
Mr Ron Eames, Director (non-executive)
Mr Craig Carracher, Director (non-executive)
Mr Christopher Freeman, Director (non-executive)
Mrs Rebecca Frizelle (non-executive)

Officers

Mr Grant Harrison, Company Secretary and Chief Financial Officer

An Executive Management Team, which includes Executive Directors and the Chief Financial Officer, is tasked with executing the Group's strategies and objectives set by the Board. Only those members disclosed above are considered to meet the key management personnel criteria. There were no changes of key management personnel after reporting date and the date the financial report was authorised for issue.

Long-Term Incentives ('LTI')

Objectives

The objective of the LTI plan is to reward personnel in a manner that:

- Aligns remuneration with the creation of shareholder wealth;
- Encourages long-term tenures with the Group;
- Provides for the future retirement benefit of employees; and
- Allows the Group to retain executives and other personnel.

A LTI plan was approved by Directors on 15 June 2011. The Program has been established through a discretionary trust deed and is known as the Sunland Employee Investment Fund (SEIF). The Fund is operated independently from Sunland's Board by a Trustee appointed by the Eligible Employees. The purpose of the SEIF is to provide eligible termination payments to Eligible Employees. Eligible Employees are not restricted to senior management personnel and include Executive Directors. An employee's eligibility to participate in the Program is tested periodically and various criteria must be met, such as minimum continuous service (generally three years) and satisfactory employment performance. Funds are contributed to the discretionary trust annually at the discretion of Sunland's Board and are invested by the Trustee of the discretionary trust on behalf of the Eligible Employees. The investment earnings of the discretionary trust are distributed to eligible employees annually. Distributions to Eligible Employees are also made at the discretion of the Trustee. Directors have historically assessed Sunland's contribution to the SEIF in September each year and have paid up to 1% of net profit after tax. A contribution of \$156,345 was made by Sunland during the period (FY18: \$352,770).

During the 2014 Annual General Meeting, the members of Sunland voted in favour of issuing 3,500,000 shares (issue price \$1.70), funded through an interest free loan provided by Sunland, to establish an additional LTI for certain core employees who have contributed significantly to the Company during the course of their employment. The plan is known as the Sunland Employee Retirement Fund (SERF), which is a discretionary trust that holds the issued shares for the benefit of Eligible Employees. Directors may nominate Eligible Employees who maybe full-time or part-time employees, however Directors are excluded. Under the rules of the Fund, the Trustee may nominate an Eligible Employee for a payment from the SERF upon their retirement from the Company and having been an employee of the Company for a period of 10 years. Where the SERF is to make a payment to an Eligible Employee upon their retirement, the SERF will sell Sunland shares and apply the proceeds firstly to repay the interest free loan and surplus funds (above the original issue price per share) will be paid to the retiring employee as a trust distribution. If, at the time, the market price of the shares do not exceed the issue price, then there would be no distribution.

Non-Executive Director Remuneration

Objective

The Board seeks to remunerate Directors at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate level of remuneration shall be determined by a meeting of members. The latest determination was at the Annual General Meeting held on 28 November 2005 when shareholders approved an aggregate remuneration for non-executive Directors of \$500,000.

In accordance with the Constitution, the aggregate remuneration sum is to be divided among them in such proportion and manner as the Directors agree and, in default of agreement, equally. If a director performs extra services or makes special exertions in relation to the affairs of the Company, they may be entitled to a special remuneration, either in addition to or as a substitution for that director's remuneration. In addition to this, the Directors may decide to pay a pension or lump sum payment in respect of past services, for those Directors who have died or otherwise have ceased to hold office.

Executive Director Remuneration

Objective

Remuneration for the Managing Director (Mr Sahba Abedian) and the Executive Chairman (Mr Soheil Abedian) is designed to:

- Ensure the pursuit of the Group's long-term growth within an appropriate control framework;
- Demonstrate a clear relationship between executive director performance and remuneration; and
- Ensure total remuneration is competitive by market standards and provides sufficient and reasonable rewards for the time and effort required in these roles.

Structure

The remuneration structure for the Managing Director and Executive Chairman consists of:

- A base salary; and
- The grant of long-term incentives through the LTI plan where eligibility criteria are met.

No bonuses or other short-term incentives are paid to Executive Directors as these are not consistent with the Group's long-term growth focus and the Group's business cycle. The terms of employment of Executive Directors are consistent with those of the Executive and details are advised below.

Executive Remuneration

Objective

The Group's executive reward structure is designed to:

- Ensure the pursuit of the Group's long-term growth within an appropriate control framework;
- Demonstrate a clear relationship between key executive performance and remuneration; and
- Provide sufficient and reasonable rewards to ensure the Group attracts and retains suitably qualified and experienced people for key roles.

Structure

The remuneration structure for the Executive consists of:

- A base salary; and
- The grant of long-term incentives through the LTI plan.

No salary bonuses or other short-term salary incentives are generally paid to Executives as these are not consistent with the Group's long-term growth focus and the Group's business cycle.

All Executives, including the Executive Directors, have employment contracts with no fixed end date. Any executive may resign from their position and thus terminate their contract by giving 4 weeks written notice. The Company may terminate the employment agreement by giving 4 weeks written notice or providing payment in lieu of the notice period. The Company may terminate the contract at any time if serious misconduct has occurred. On termination, any eligibility to the LTI plan will immediately be forfeited. None of the Executives are employed under a contract linked to the performance of the Company.

Compensation of Key Management Personnel (KMP)

Remuneration of KMP is detailed in the following table:

	Short-term benefits	Post- employment benefits	
	Salary & Fees \$	Super- annuation \$	Total \$
30 June 2019			
<i>Non-Executive Directors:</i>			
Ron Eames	73,059	6,941	80,000
Craig Carracher	73,059	6,941	80,000
Chris Freeman	73,059	6,941	80,000
Rebecca Frizelle	73,059	6,941	80,000
<i>Executive Directors:</i>			
Sahba Abedian	723,611	20,531	744,142
Soheil Abedian	729,469	20,531	750,000
<i>Other Key Management Personnel:</i>			
Grant Harrison	300,384	20,531	320,915
	<u>2,045,700</u>	<u>89,357</u>	<u>2,135,057</u>

	Short-term benefits	Post- employment benefits	
	Salary & fees \$	Super- annuation \$	Total \$
30 June 2018			
<i>Non-Executive Directors:</i>			
Ron Eames	73,059	6,941	80,000
Craig Carracher	73,059	6,941	80,000
Chris Freeman	73,059	6,941	80,000
Rebecca Frizelle	33,882	3,219	37,101
<i>Executive Directors:</i>			
Sahba Abedian	684,749	20,049	704,798
Soheil Abedian	730,384	20,049	750,433
<i>Other Key Management Personnel:</i>			
Grant Harrison	300,384	20,049	320,433
	<u>1,968,576</u>	<u>84,189</u>	<u>2,052,765</u>

In addition to the remuneration stated in the 30 June 2019 table above, Mr Soheil Abedian, Mr Sahba Abedian and Mr Grant Harrison each received other short-term employee benefits in the form of income distributions of \$23,447 (2018: \$23,228) from the Sunland Employee Investment Fund (SEIF) representing a share of the SEIF's annual investment earnings on the accumulated capital held by the SEIF.

Mr Soheil Abedian salary sacrificed his salary to the Abedian Foundation in 2019 and 2018.

Shareholdings of Key Management Personnel

Shares held by key management personnel and their related parties in Sunland Group Limited is as follows. No shares have been granted as part of remuneration and no options have been issued or exercised.

	Balance 1 July 2018	Net changes	Balance 30 June 2019
Directors			
Ron Eames	30,000	-	30,000
Soheil Abedian *	51,103,000	-	51,103,000
Sahba Abedian *	8,570,000	-	8,570,000
Craig Carracher	14,000	-	14,000
Chris Freeman	100,000	-	100,000
Officers			
Grant Harrison	659,178	-	659,178
Total	60,476,178	-	60,476,178

* These balances include shares of parties related to Soheil Abedian of 1,103,000 shares and parties related to Sahba Abedian of 70,000 shares.

Group Performance

In considering the Group's performance and benefits for shareholder wealth, the Directors have regard to the following indices in respect of the current financial year and the previous four financial years:

	2019	2018	2017	2016	2015
Basic Earnings Per Share	\$0.12	\$0.21	\$0.22	\$0.19	\$0.17
Earnings Per Share growth (%)	-42.5%	-7.6%	19.1%	11.2%	111.0%
Security price - at 30 June	\$1.70	\$1.82	\$1.78	\$1.42	\$1.79
Change in security price (%)	-6.6%	2.20%	25.40%	-20.70%	14.70%
Dividend per share declared (fully franked)	\$0.08	\$0.11	\$0.10	\$0.08	\$0.10
Dividend per share growth (%)	-27.3%	10.00%	25.00%	-20.00%	150.00%
Net Tangible Assets per share	\$2.56	\$2.50	\$2.39	\$2.22	\$2.01

The information in the table above reflects accounting standards applicable in the relevant year and is not retrospectively restated for changes in accounting standards as management's performance is measured against the information reported in the relevant year.

The Group continues to focus its energies on strengthening its financial position, enhancing shareholder value and growing its development revenue streams.

Compensation options

During this financial year no options over the share capital of Sunland Group Limited were granted as equity compensation to any Directors or Executives.

Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors Reports) Instrument 2016/191. In accordance with this legislative instrument, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Non-Audit Services

Non-audit services were provided by the entity's auditor, Ernst & Young, as disclosed in note 28 to the financial statements. In accordance with a resolution of the Audit and Risk committee, the Directors are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that audit independence was not compromised.

Audit Independence and Non-Audit Services

The Directors received the following declaration from the auditor of Sunland Group Limited and forms part of the Directors' Report for the financial year ended 30 June 2019.

Signed in accordance with a resolution of the Directors.



Mr Sahba Abedian
Managing Director

20 August 2019



**Building a better
working world**

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

As lead auditor for the audit of the financial report of Sunland Group Limited for the financial year ended 30 June 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sunland Group Limited and the entities it controlled during the financial year.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

Ernst & Young

A handwritten signature in black ink that reads 'Wade Hansen' in a cursive script.

Wade Hansen
Partner
Brisbane
20 August 2019

Sunland Group Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2019

	Note	Consolidated	
		2019	2018
		\$'000	\$'000
Revenue from the sale of properties		277,600	321,639
Revenue from project services		-	483
Other revenue from operations	3	5,096	6,212
Share of profits of associates accounted for using the equity method		-	241
Other income / (expense)		(23)	1,396
Expenses			
Cost of goods sold - Property development	4	(239,621)	(266,703)
Administration and other expenses		(4,061)	(3,240)
Cost of project services		-	(157)
Cost of other operations		(1,609)	(1,189)
Employee benefits expense		(10,071)	(8,903)
Depreciation and amortisation expense		(1,911)	(1,602)
Profit before income tax expense		25,400	48,177
Income tax expense	5	(7,720)	(13,522)
Profit after income tax expense for the year attributable to the shareholders of Sunland Group Limited		17,680	34,655
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the shareholders of Sunland Group Limited		<u>17,680</u>	<u>34,655</u>
		Cents	Cents
Basic earnings per share (cents)	7	11.9	23.0
Diluted earnings per share (cents)	7	11.9	23.0

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

Sunland Group Limited
Consolidated statement of financial position
As at 30 June 2019

Sunland Group

ESTABLISHED
1981

	Note	Consolidated 2019 \$'000	2018 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	19,803	10,604
Trade and other receivables	10	4,970	7,607
Inventories	11	109,843	222,228
Derivative financial instruments		646	-
Other current assets		1,959	1,414
Total current assets		<u>137,221</u>	<u>241,853</u>
Non-current assets			
Inventories	12	348,819	320,493
Investments accounted for using the equity method		745	242
Derivative financial instruments		333	-
Investment properties	13	29,960	26,507
Property, plant and equipment		10,444	8,548
Total non-current assets		<u>390,301</u>	<u>355,790</u>
Total assets		<u>527,522</u>	<u>597,643</u>
Liabilities			
Current liabilities			
Trade and other payables	14	11,774	7,951
Interest bearing liabilities	19	5,843	21,565
Current tax liabilities		4,686	8,384
Provisions	15	3,312	3,790
Other current liabilities		568	1,500
Total current liabilities		<u>26,183</u>	<u>43,190</u>
Non-current liabilities			
Interest bearing liabilities	20	121,611	155,839
Deferred tax	6	27,745	31,445
Provisions	16	384	446
Other non-current liabilities		-	27
Total non-current liabilities		<u>149,740</u>	<u>187,757</u>
Total liabilities		<u>175,923</u>	<u>230,947</u>
Net assets		<u>351,599</u>	<u>366,696</u>
Equity			
Contributed equity	24	130,102	147,762
Retained earnings		221,497	218,934
Total equity		<u>351,599</u>	<u>366,696</u>

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

Sunland Group Limited
Consolidated statement of cash flows
For the year ended 30 June 2019

Sunland Group

ESTABLISHED
1981

	Note	Consolidated	
		2019	2018
		\$'000	\$'000
Cash flows from operating activities			
Cash receipts from operations		301,812	356,851
Cash payments to suppliers and employees		<u>(181,973)</u>	<u>(276,572)</u>
		119,839	80,279
Interest received		1,075	1,358
Interest and other finance costs paid		(11,692)	(11,967)
Income taxes refunded / (paid)		<u>(15,117)</u>	<u>(5,799)</u>
Net cash from operating activities	9	<u>94,105</u>	<u>63,871</u>
Cash flows from investing activities			
Payments for investments in associates		(503)	-
Payments for investment property		(2,308)	(1,931)
Cash paid on acquisition of property, plant and equipment		(2,169)	(1,099)
Repayments of loans by third parties		3,464	-
Advances to Associates		(265)	-
Proceeds from disposal of investment property		65	-
Proceeds from disposal of property, plant and equipment		<u>100</u>	<u>30</u>
Net cash used in investing activities		<u>(1,616)</u>	<u>(3,000)</u>
Cash flows from financing activities			
Proceeds from borrowings		-	21,565
Purchase of shares through share buy-backs		(17,628)	(6,653)
Payment of share buy-back costs		(32)	(7)
Dividends paid to company's shareholders	23	(15,118)	(17,007)
Repayment of borrowings		<u>(50,512)</u>	<u>(62,782)</u>
Net cash used in financing activities		<u>(83,290)</u>	<u>(64,884)</u>
Net increase/(decrease) in cash and cash equivalents		9,199	(4,013)
Cash and cash equivalents at the beginning of the financial year		<u>10,604</u>	<u>14,617</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>19,803</u></u>	<u><u>10,604</u></u>

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

Sunland Group Limited
Consolidated statement of changes in equity
For the year ended 30 June 2019

Consolidated	Issued capital \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017	154,421	209,418	363,839
Effect of adoption of new accounting standards	-	(8,132)	(8,132)
Balance at 1 July 2017 - restated	154,421	201,286	355,707
Profit after income tax expense for the year	-	34,655	34,655
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	34,655	34,655
<i>Transactions with shareholders in their capacity as shareholders:</i>			
Share buy-back	(6,659)	-	(6,659)
Dividends paid (note 23)	-	(17,007)	(17,007)
Balance at 30 June 2018	<u>147,762</u>	<u>218,934</u>	<u>366,696</u>
	Issued capital \$'000	Retained profits \$'000	Total equity \$'000
Consolidated			
Balance at 1 July 2018	147,762	218,934	366,696
Profit after income tax expense for the year	-	17,680	17,680
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	-	17,680	17,680
<i>Transactions with shareholders in their capacity as shareholders:</i>			
Share buy-back	(17,660)	-	(17,660)
Dividends paid (note 23)	-	(15,117)	(15,117)
Balance at 30 June 2019	<u>130,102</u>	<u>221,497</u>	<u>351,599</u>

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

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Note 1. Operating segments

30 June 2019

	Land & Housing \$'000	Multistorey \$'000	Other \$'000	Total \$'000
Revenue				
Revenue Recognised from Operations	234,344	43,256	4,021	281,621
Development Costs Incurred in Delivery				
Finance Costs Expensed	(10,056)	(892)	-	(10,948)
Other Development Costs Expensed	(172,763)	(38,789)	(2,330)	(213,882)
Total Development Costs	<u>(182,819)</u>	<u>(39,681)</u>	<u>(2,330)</u>	<u>(224,830)</u>
Segment Result - Development Return				
Return on Development Costs	51,525	3,575	1,691	56,791
Return on Costs	28%	9%	-	-
Overall Return for Combined Development Operations	25%			
Other Transactions During the year				
Marketing	(1,336)	(1,567)	(169)	(3,072)
Inventory Net Realisable value and Warranty Adjustment	(13,701)	(355)	-	(14,056)
Interest revenue	-	-	-	1,075
Unallocated Corporate Expenses	-	-	-	(15,338)
Profit from Ordinary Activities before Tax				25,400
Income Tax Expense / (Benefit)				<u>(7,720)</u>
Net Profit for the Year				<u><u>17,680</u></u>

30 June 2019

Assets

Segment Assets	200,856	252,542	32,727	486,125
Unallocated Corporate Assets	-	-	-	41,397
Consolidated Total Assets	<u>200,856</u>	<u>252,542</u>	<u>32,727</u>	<u>527,522</u>

Note 1. Operating segments (continued)

30 June 2018

	Land & Housing \$'000	Multistorey \$'000	Other \$'000	Total \$'000
Revenue				
Revenue recognised from operations	223,212	100,493	4,908	328,613
Development costs incurred in delivery				
Finance costs expensed	(5,569)	(2,174)	-	(7,743)
Other development costs expensed	(175,361)	(80,028)	(1,978)	(257,367)
	<u>(180,930)</u>	<u>(82,202)</u>	<u>(1,978)</u>	<u>(265,110)</u>
Segment result				
Development return	42,282	18,291	2,930	65,503
Return on development costs	23%	22%	-	-
Overall return for combined development operations	23%			
Other transactions during the year				
Marketing	(1,529)	(1,144)	-	(2,673)
Inventory net realisable value and warranty adjustment	(473)	(580)	-	(1,053)
Interest revenue	-	-	-	1,358
Unallocated corporate expenses	-	-	-	(12,958)
Profit from ordinary activities				48,177
Income tax expense / (benefit)				(13,522)
Net profit for the Year				<u>34,655</u>

30 June 2018

Assets

Segment Assets	262,540	236,863	29,420	528,823
Unallocated corporate assets	-	-	-	68,820
	<u>262,540</u>	<u>236,863</u>	<u>29,420</u>	<u>597,643</u>

Note 1. Operating segments (continued)

The consolidated entity comprises the following main segments:

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

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

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

Segment reporting accounting policy

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same group), whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The Group will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of Directors.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Managing Director (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The operating segments are identified based on the manner in which the product is sold and the nature of the services provided. Discrete financial information about each of these operating segments is reported to the Managing Director on at least a monthly basis.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the development and construction processes,
- Type or class of customer for the products and services, and
- Methods used to distribute the products or provide the services.

Land and housing operations and multistorey operations each meet the aggregation criteria and are reported as one segment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “other segments”. It is the Group's policy that if items of revenue and expense are not allocated to operating segments, then any associated assets are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believes would be inconsistent.

Note 1. Operating segments (continued)

The following items and associated assets are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Legal fees
- Employee benefits expenses
- Assets excluding inventory and investment properties
- Group corporate marketing expenses
- Accounting and audit fees
- Administration expenses and depreciation
- Tax balances

Inter-segment pricing is determined on an arm's length basis in a manner similar to transactions to third parties.

Segment results, being development return and assets include items directly attributed to a segment as well as those that can be allocated on a reasonable basis. Segment revenue, expenses and results include transfers between business segments, these are eliminated on consolidation. Unallocated items mainly comprise corporate assets and expenses.

Note 2. Basis of preparation

The financial statements of Sunland Group Limited are the consolidated financial statements of the parent and its controlled entities ("Group") for the year ended 30 June 2019. The Directors have the power to amend and reissue the financial statements.

Sunland Group Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The Group's registered office and principal place of business is:

Sunland Group Limited
140A Alice Street
Brisbane QLD 4000

Note 2. Basis of preparation (continued)

The notes include information which is required to understand the financial statements and is material and relevant to the operations and the financial position and performance of the Group. Information is considered relevant and material if:

- It is significant in size or nature;
- It is important in understanding the results of the Group;
- It helps to explain the impact of significant changes in the Group's business; or
- It is important to the Group's future performance.

The notes are organised into the following sections:

- Financial Performance;
- Financial Position;
- Capital structure; and
- Other notes.

The nature of the operations and principal activities of the Group are described in the Directors' Report. The Group is a for profit entity.

The operating cycle of the business varies depending on each operating segment of the Group. Once appropriate development approvals are obtained for a project, the delivery cycle may be less than 12 months for housing construction and staged land subdivision projects. Multistorey developments span greater than 12 months and depend upon the construction time of a project, usually between 12 months and 36 months.

These general purpose financial statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and have been prepared:

- In accordance with the Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Boards;
- In accordance with the *Corporations Act 2001*; and
- On a historical cost basis and is presented in Australian dollars.

The principal accounting policies adopted in the preparation of these financial statements are presented throughout the report. The policies adopted are consistent with those of the previous financial year, except for the policies stated below.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has adopted AASB 9, with an initial application date of 1 July 2018.

The full retrospective transition method has been applied with the presented comparative information for the period beginning 1 July 2017 also reflecting the requirements of AASB 9. There were no adjustments to comparative information or opening balances required as part of the Group's transition to AASB 9.

Note 2. Basis of preparation (continued)

AASB 15 Revenue from contracts with customers

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

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

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

(a) Revenue from the sale of properties

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

The recognition of revenue at settlement is on the basis that each individually titled property represents a performance obligation, an enforceable right to payment has occurred and legal title of the property has been transferred. The comparative balances, including opening retained earnings, have been restated for this change. Incremental costs of obtaining a contract, such as sales commissions, are capitalised into inventory and are expensed at settlement as cost of goods sold.

(b) Revenue from project services

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

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

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

(c) Holding income, other revenue and other income

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

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

Note 2. Basis of preparation (continued)

Transition to AASB 15

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

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

Impact on the statement of comprehensive income (increase/(decrease)) for the financial year ended 30 June 2018:

	\$'000
Revenue from the sale of properties	31,238
Cost of goods sold- property developments	(26,401)
Income tax expense	<u>(1,451)</u>
Profit after income tax expense for the year attributable to the shareholders of Sunland Group Limited	<u><u>3,386</u></u>

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

	Cents
Basic earnings per share	2.1
Diluted earnings per share	2.1

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

	\$'000
Trade and other receivables	(40,661)
Inventories	<u>31,871</u>
Total assets	<u><u>(8,790)</u></u>
Trade and other payables	2,988
Provisions	21
Other current liabilities	(1,000)
Deferred tax	<u>2,035</u>
Total liabilities	<u><u>4,044</u></u>
Retained earnings	<u><u>4,746</u></u>

Note 3. Other revenue from operations

	Consolidated	
	2019	2018
	\$'000	\$'000
Investment property revenue (a)	1,949	1,987
Holding income (b)	1,704	2,190
Interest received	1,075	1,358
Other revenue	<u>368</u>	<u>677</u>
	<u><u>5,096</u></u>	<u><u>6,212</u></u>

Note 3. Other revenue from operations (continued)

(a) Investment property revenue

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

(b) Holding income

Holding income represents the net returns generated by pre-existing rental and operating activities from acquired inventory whilst development approvals are being sought and before construction commences on the site.

Revenue from contracts with customers accounting policy

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenues are recognised net of the amount of associated GST.

The specific criteria applied to the Group's major business activities for the recognition of revenue is as follows:

(i) Sale of properties

The Group recognises its revenue from the sale of properties at settlement. This is on the basis that the Group has a legally enforceable right to payment and legal title of the property has been transferred to the purchaser. Each individually titled property represents a performance obligation, with the price per the sales contract representing the transaction price.

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

(ii) Revenue from other operations

Revenue from project services

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

Interest income

Interest income is recognised using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental income

Rental income is accounted for on a straight-line basis over the lease term.

Note 4. Cost of goods sold - Property development

	Consolidated	
	2019	2018
	\$'000	\$'000
Costs of goods sold - property developments	214,932	258,183
Cost of goods sold - Bayside net realisable value adjustment (a)	12,965	-
Finance costs	11,724	8,520
	<u>239,621</u>	<u>266,703</u>

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

Cost of goods sold accounting policy

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised.

Adjustments to the net realisable value of inventory are recorded within the cost of goods sold account in profit and loss. Net realisable value is determined in accordance with the Inventory accounting policy within this report.

Note 5. Income tax expense

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Income tax expense</i>		
Current income tax expense	11,420	9,809
Deferred income tax expense	(3,700)	3,609
Adjustment to current tax of prior periods	-	141
Research and development benefit	-	(37)
	<u>7,720</u>	<u>13,522</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	25,400	48,177
Tax at the statutory tax rate of 30%	7,620	14,453
Adjustment to current tax of prior periods	-	141
Research and development expenditure	-	(37)
Other	100	128
Income tax on the exit of a subsidiary from the tax consolidated group *	-	(72)
Utilisation of tax capital losses not previously brought to account *	-	(1,091)
	<u>7,720</u>	<u>13,522</u>

* During the 2018 year, the consolidated group disposed of 80% of its interest in the Varsity project through the sale of 80% of the share capital of the special purpose vehicle, 8500 Pty Ltd, by the parent. The Group also realised a profit from the sale of an investment property which is included in the statement of comprehensive income statement as *other income / (expense)*. Both of these transactions included an element of capital gain for income tax purposes and therefore utilised a portion of carried forward capital losses held by Sunland Group Limited. As no deferred tax asset has previously been recognised in the statement of financial position for carried forward capital losses, an income tax benefit was realised.

Note 6. Non-current liabilities - Deferred tax

	Statement of financial position		Statement of comprehensive income	
	30 June 19	30 June 18	30 June 19	30 June 18
	\$'000	\$'000	\$'000	\$'000
Deferred tax assets / (liabilities):				
Development costs deductible for tax but capitalised for accounting	(32,274)	(31,536)	(738)	5,019
Income not currently assessable for tax	(108)	(265)	157	510
Other deferred tax liabilities	(498)	(499)	1	(499)
Warranty provision not immediately deductible for tax	308	365	(57)	(129)
Other provisions not immediately deductible for tax	726	793	(67)	(34)
Expenses not immediately deductible for tax	211	(303)	514	(8,476)
Future deductions for the net realisable value of inventory adjustments	3,890	-	3,890	-
	<u>(27,745)</u>	<u>(31,445)</u>	<u>3,700</u>	<u>(3,609)</u>

Unrecognised tax losses carried forward

During the year a capital gains tax event occurred with the sale of one of the Group's investment properties, with the contract settling on 7 August 2019. This resulted in a tax capital gain of \$6,199,000 in June 2019, for which capital losses have been applied resulting in no tax liability. Refer to Subsequent Events Note 35 for further details of this sale.

At the end of the reporting period the Group had available carried forward capital tax losses of \$24,944,751 (2018: \$31,143,142) to offset against future capital gains that the Group may realise. The Group has not elected to recognise these capital tax losses as deferred tax assets on the basis that their recovery is not considered probable.

(a) Tax consolidation

Sunland Group Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. Sunland Group Limited is the head entity of the tax consolidated group.

(b) Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. Current and deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 Income Taxes. Allocations under the tax funding agreement are made at the end of each year. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, Sunland Group Limited. The Group has applied the modified separate taxpayer within a group approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

Note 6. Non-current liabilities - Deferred tax (continued)

(c) Income tax accounting policy

The income tax expense for the period is the tax payable on the current period's taxable income based on the Australian company tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

In this case, the tax is also recognised in other comprehensive income or directly in equity. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Australia where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax is recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Note 7. Earnings per share

	Consolidated	
	2019	2018
	\$'000	\$'000
Profit after income tax attributable to the shareholders of Sunland Group Limited	<u>17,680</u>	<u>34,655</u>
	Number	Number
Weighted average number of shares used as the denominator for the calculation of basic earnings per share	<u>148,301,322</u>	<u>150,804,531</u>
Number used for the calculation of diluted earnings per a share	<u>148,301,322</u>	<u>150,804,531</u>
	Cents	Cents
Basic earnings per share (cents)	11.9	23.0
Diluted earnings per share (cents)	11.9	23.0

Note 7. Earnings per share (continued)

Earnings per share accounting policy

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares, and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the period (nil issued) and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

There were no dilutive interests in the current or comparative periods.

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2019	2018
	\$'000	\$'000
Cash	19,803	10,604

Cash at bank earns interest at fixed or floating rates based on bank deposit rates.

Note 9. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2019	2018
	\$'000	\$'000
Profit after income tax expense for the year	17,680	34,655
Adjustments for:		
Depreciation and amortisation	1,911	1,602
Net loss/ (gain) on disposal of property, plant and equipment	23	-
Fair value gain on initial measurement of investment in associate	-	(241)
Change in operating assets and liabilities:		
(Increase)/ decrease in trade and other receivables	(563)	(2,293)
(Increase)/ decrease in inventories	80,275	38,943
(Decrease)/ increase in trade and other payables	3,406	(15,172)
(Decrease)/ increase in provision for income tax payable	(7,397)	7,724
(Decrease)/ increase in other provisions	(590)	(261)
(Increase)/ decrease in prepayments	(640)	(1,086)
Net cash from operating activities	94,105	63,871

Note 9. Reconciliation of profit after income tax to net cash from operating activities (continued)

(a) Cash and cash equivalents accounting policy

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are presented on a gross basis, with the exception of the working capital facilities that receive settlement deposits, which are available to be drawn down to fund development. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Note 10. Current assets - trade and other receivables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade and other receivables (a)	3,646	3,084
Receivable from an associate	1,324	4,523
	<u>4,970</u>	<u>7,607</u>

(a) Trade and other receivables

Trade receivables generally have 14 to 30 day terms. The Group applies a simplified approach in calculating expected credit losses (ECL). Therefore the Group does not track changes in credit risk but instead recognises a loss allowance based on life-time ECL at each reporting date.

(b) Risk exposure

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of each class of receivable.

Note 11. Current assets - inventories

	Consolidated	
	2019	2018
	\$'000	\$'000
Development costs and land held for development and sale	<u>109,843</u>	<u>222,228</u>

Note 12. Non-current assets - inventories

	Consolidated	
	2019	2018
	\$'000	\$'000
Development costs and land held for development and sale	<u>348,819</u>	<u>320,493</u>

During the period, borrowing costs of \$12,255,000 (2018: \$12,772,000) were capitalised into inventory. At balance date, inventory includes capitalised interest of \$27,997,000 (2018: \$26,689,000).

Accounting policy for inventories

Measurement of inventories

Inventories are measured at the lower of cost and net realisable value. Development costs include land, the costs of acquiring the land, consultants, construction, holding and finance costs incurred from when the land is acquired until the project is fully developed and sold.

Deposits paid for the committed acquisition of inventories are classified as inventories.

Note 12. Non-current assets - inventories (continued)

Net realisable value of inventories

The Group periodically assesses whether inventory is held at the lower of cost or net realisable value. The Group makes an estimate of net realisable value at least at each reporting period. Where the carrying amount of inventory exceeds its net realisable value, a provision is raised to reduce its value to net realisable value. Items that have a net realisable value provision are tested for possible reversal of the provision whenever events or changes in circumstances indicate that the impairment may have reversed.

The net realisable value is based on estimated selling price (net of selling costs and GST) less costs of inventories, including costs incurred and costs to complete in the ordinary course of business. This assessment reflects current market assessments and previous experience. It is also based on management's intentions in the planned manner of disposal of the asset, either through development and sale or disposal as is.

Note 13. Non-current assets - investment properties

At Cost

	Consolidated	
	2019	2018
	\$'000	\$'000
Gross carrying amount	30,815	27,181
Less: Accumulated depreciation	(855)	(674)
	<u>29,960</u>	<u>26,507</u>
Opening balance	26,507	24,769
Additions through subsequent expenditure	2,380	1,931
Reallocation from inventories	1,353	-
Depreciation	(193)	(193)
Disposals	(87)	-
Closing balance	<u>29,960</u>	<u>26,507</u>

The gross carrying amount and additions to investment properties includes those investment properties which are currently under construction.

Using current prices in an active market for similar properties, the Group used a Director's valuation process to estimate the fair market value of investment properties. The value was determined to be \$36,500,000 (2018: \$28,369,000) (level 3). The Director's valuation considers rental income streams, income capitalisation rates and comparable property values. No independent valuations in respect of investment properties were sought by the Group for this purpose.

Note 13. Non-current assets - investment properties (continued)

Accounting policy for Investment properties

Investment properties are measured initially at cost, which comprises the purchase price and any directly attributable transaction costs. Subsequent to initial recognition, the carrying amount includes additions along with the cost of replacing part of existing investment properties at the time that cost is incurred. Any parts that are replaced are derecognised. Where an investment property is developed, its cost includes the cost of construction incurred up to the point where the asset is complete, which is the point at which it is capable of being operated as intended. The costs of day-to-day servicing of an investment property are recognised as an expense as incurred.

Subsequent to initial recognition, investment properties are held at cost and depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the asset. The useful lives of the Group's investment properties range from five to forty years.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when and only when there is a change in use, evidenced by ending of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Note 14. Current liabilities - trade and other payables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade creditors	9,112	4,370
Other creditor and construction accruals	2,662	3,581
	<u>11,774</u>	<u>7,951</u>

Trade creditors are non-interest bearing and are normally settled on a 7 to 30 day term.

Note 15. Current liabilities - provisions

	Consolidated	
	2019	2018
	\$'000	\$'000
Employee benefits	2,236	2,313
Make good provision	-	47
Warranties (a)	1,026	1,430
Other	50	-
	<u>3,312</u>	<u>3,790</u>

Note 15. Current liabilities - provisions (continued)

(a) Warranties

The Group provides for the estimated warranty claims for those properties which have settled and are still under warranty at the end of the reporting period. In determining the provision required, the Group makes judgements in respect of the expected performance of the product, number of customers expected to make warranty claims and the anticipated costs of fulfilling those claims. Historical claims experience and current knowledge of products has also been used in determining the provision.

	Warranties \$'000
Carrying amount at the beginning of the year	1,430
Additional provisions	853
Unused amounts reversed	(139)
Amounts utilised	<u>(1,118)</u>
Carrying amount at the end of the period	<u><u>1,026</u></u>

(b) Movement in warranties provision

Utilisation of the provisions has primarily been for rectification works associated with defects previously provided for. Unused amounts reversed relate to warranty provisions for projects which were completed more than 2 years ago and have not been materially utilised.

Note 16. Non-current liabilities - provisions

	Consolidated	
	2019	2018
	\$'000	\$'000
Employee benefits	307	254
Make good provision	<u>77</u>	<u>192</u>
	<u><u>384</u></u>	<u><u>446</u></u>

Provisions accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. In the circumstance where the reimbursement will not be received by the Group but will represent a reduction in the Group's liability, the amount receivable is recognised as a reduction in the provision. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the provision.

Warranty provision

The liability for warranty expenses is recognised and measured as the present value of future payments to be made in respect of warranty work in relation to products that have been sold up to reporting date. Consideration is given to expected future costs in fulfilling the performance. Expected future payments are discounted using market yields at the reporting date that closely estimate future cashflows.

Note 16. Non-current liabilities - provisions (continued)

Short-term obligations

Liabilities for wages and salaries, non-monetary benefits, annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period. This is measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is presented as a provision.

Other long-term employee benefits accounting policy

The liabilities which are not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits. It is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on Australian high quality corporate bonds with terms of maturity and currency that match, as closely as possible, the estimated future cash flows.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after reporting date, regardless of when the actual settlement is expected to occur.

Note 17. Contingent liabilities - performance securities

Performance security is provided from time to time to counterparties for maintenance and uncompleted works in support of specific contractual requirements in the course of delivering the Group's projects. Bank guarantee and surety products are utilised generally in favour of local councils and government authorities to fulfil the requirements of the development approvals. In some cases these products are also issued to a Group subsidiary to support internal operations within the Group. The amount of contingent liabilities in the form of performance securities issued to counterparties external to the Group total \$13,346,994 (2018: \$9,778,667).

Note 18. Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide return for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain an optimal capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or adjust leverage against the projects through debt.

The Group has a modest approach to debt against its inventory, historically managing leverage against its land and medium density housing portfolio at around 35% of the inventory value of that segment. Multi-storey projects are typically for a longer term and debt is therefore more fully utilised to develop these projects. The Group mitigates various project risks on a per project basis in order to attain a greater leverage.

Note 19. Current liabilities - interest bearing liabilities

	Consolidated	
	2019	2018
	\$'000	\$'000
Secured Interest bearing bank loans	<u>5,843</u>	<u>21,565</u>

Note 20. Non-current liabilities - Interest bearing liabilities

	Consolidated	
	2019	2018
	\$'000	\$'000
Secured interest bearing bank loans	72,458	106,998
Unsecured note	49,153	48,841
	<u>121,611</u>	<u>155,839</u>

(a) Fair value

The carrying value of the Group's current and non-current interest bearing liabilities approximates their fair value due to the current interest rate approximating the market rate.

(b) Assets pledged as security

Bank loans are secured by first registered mortgages over various development properties and investment properties held by the Group, general security deeds over the assets and undertaking of controlled entities, guarantees by the Group and a guarantee and indemnity of each member of the Sunland Group Master Finance Agreement.

The weighted average effective interest rate at balance date was 5.25% (2018: 5.34%) on facility limits of \$305.2 million (2018: \$335.2 million) and drawn down facilities of \$129.2 million (2018: \$179.4 million).

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated	
	2019	2018
	\$'000	\$'000
Inventories	452,747	491,516
Investment properties and property, plant & equipment	32,727	29,477
	<u>485,474</u>	<u>520,993</u>

(c) Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loan agreements.

(d) Borrowings accounting policy

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Where borrowings are required to be repaid out of specific property settlements, which are not available for redraw, the borrowings are classified as current to the extent settlements are projected to occur within 12 months from reporting date.

Note 20. Non-current liabilities - Interest bearing liabilities (continued)

(e) Finance costs accounting policy

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Inventory and investment properties under construction are qualifying asset and all borrowings are attributable to qualifying assets.

Note 21. Financing arrangements

The Group had access to the following borrowing facilities at the end of the reporting year. The facilities have been split into "working capital" facilities, "project specific" facilities, "corporate facility" and "unsecured notes". The working capital facilities are available to the Group on a come and go basis. The undrawn amount of the project specific facilities are available progressively for the purpose of delivering the projects they are funding:

	Consolidated	
	2019	2018
	\$'000	\$'000
Working capital facilities available	212,200	212,200
Facilities utilised at balance date	(23,200)	(51,835)
Bank guarantees	(3,609)	(4,377)
	<u>185,391</u>	<u>155,988</u>
Project specific facilities available	6,000	36,000
Facilities utilised at balance date	(6,000)	(27,565)
	<u>-</u>	<u>8,435</u>
Corporate facilities available	50,000	50,000
Facilities utilised at balance date	(50,000)	(50,000)
	<u>-</u>	<u>-</u>
Unsecured notes available	50,000	50,000
Facilities utilised at balance date	(50,000)	(50,000)
	<u>-</u>	<u>-</u>

The difference between the accounting carrying value of interest bearing liabilities and the facilities utilised at balance date is attributable to the carrying value of bank loans including prepaid borrowing costs under the effective interest method of measuring the liabilities.

The Group structures its debt funding arrangements to match the development program of its portfolio. The terms of the project specific facilities generally reflect usual project specific terms for facilities of this nature and have a tenor that is sufficient for the programmed delivery of the projects they are funding. The weighted average maturity profile for the Group's debt funding arrangements is 32 months (2018: 26 months) based on facilities limits committed to by financiers as at the date of this report.

The Group's funding terms were consistent with the prior year.

Note 21. Financing arrangements (continued)

(a) Interest Rate Risk

At balance date, the Group had the following exposure to changes in variable interest rates for classes of financial assets and liabilities:

	30 June 2019 \$'000	30 June 2018 \$'000
Financial assets:		
Cash	19,803	10,604
Financial liabilities:		
Interest bearing liabilities	<u>(79,200)</u>	<u>(129,400)</u>
	<u>(59,397)</u>	<u>(118,796)</u>

The Group's policy in regards to interest rate hedging is dependent upon the purpose of the funding for short or long term development projects. The group's policy is weighted to floating rate in the current low interest rate environment. An interest rate swap was entered into on 25 November 2015 in respect of the \$50 million unsecured note swapping the fixed rate interest payments to floating rate interest payments. The term of the swap and interest payment dates match the terms of the unsecured note. At balance date the swap was valued at \$1.0 million in Sunland's favour.

Project specific funding

The project life of residential housing developments and urban development is normally short which limits the exposure the Group has to changes in interest rates. As a result, these exposures are not normally hedged.

The project life for multi-storey developments is longer than residential housing developments however the highest debt exposure on these developments is at completion when settlements are anticipated and repayment sources are known. The Group uses interest rate hedging products to minimise the periods where significant mismatch is predicted.

Note 22. Commitments

(a) Contractual commitments

Sunland has operating lease commitments of \$1,132,000 for offices over a four year period (2018: \$897,000 over a four year period).

Note 23. Equity - dividends

(a) Declared and paid during the year

	2019 Cents per share	2019 \$'000	2018 Cents per share	2018 \$'000
Ordinary shares				
Final fully franked dividend	6	9,127	4	6,227
Interim fully franked dividend	4	5,990	5	7,666
Special fully franked dividend	-	-	2	3,114

All dividends paid on ordinary and preference shares have been fully franked.

Note 23. Equity - dividends (continued)

Proposed and not recognised as a liability

On 20 August 2019, the directors declared a fully franked final dividend of 4 cents per fully paid ordinary share (2018: 6 cents) which is presented below based on the number of shares outstanding as at the date of issue of the financial statements.

	Cents per share	\$'000
Final fully franked dividend for the financial year	4	5,639

(c) Franked dividends

The amount of franking credits available for the subsequent financial year are:

	2019 \$'000	2018 \$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2018: 30%)	75,126	66,496
Franking credits that will arise from the payment or reduce with the refund of income tax for amounts on balance sheet as at the end of the financial year	4,686	8,384
Franking credits that will reduce with the payment of dividends declared after balance date but not held as a liability on the balance sheet	<u>(2,417)</u>	<u>(3,912)</u>
	<u><u>77,395</u></u>	<u><u>70,968</u></u>

(d) Dividends accounting policy

Provision is made for the amount of any dividend declared, being appropriately authorised, on or before the end of the reporting period but not distributed at the end of the reporting period.

Note 24. Equity - contributed equity

	Consolidated			
	2019 Shares	2018 Shares	2019 \$'000	2018 \$'000
Share capital	140,977,186	152,120,700	136,052	153,712
Treasury Shares	<u>(3,500,000)</u>	<u>(3,500,000)</u>	<u>(5,950)</u>	<u>(5,950)</u>
	<u><u>137,477,186</u></u>	<u><u>148,620,700</u></u>	<u><u>130,102</u></u>	<u><u>147,762</u></u>
Details			Shares	\$'000
Balance	1 July 2017		152,415,668	154,421
Share buy-back			<u>(3,794,968)</u>	<u>(6,659)</u>
Balance	30 June 2018		148,620,700	147,762
Share buy-back			<u>(11,143,514)</u>	<u>(17,660)</u>
Balance	30 June 2019		<u><u>137,477,186</u></u>	<u><u>130,102</u></u>

Note 24. Equity - contributed equity (continued)

Treasury shares refer to those shares issued to SEIF Pty Limited as trustee for the Sunland Employee Retirement Fund ("SERF") in accordance with shareholders' approval of Item 4 of the Notice of Meeting tabled at Sunland's Annual General Meeting 6 November 2014. The shares are fully paid ordinary shares in the capital of the Company and rank equally with all other existing shares from the date issued.

Under the accounting standards, Sunland is deemed to control SERF and the shares (and associated transactions) are eliminated on consolidation, thereby deducting these issued shares from issued capital whilst held by the Trustee. As these shares are deemed not to have been issued by the consolidated entity, they are not included in Sunland's disclosures associated with net tangible assets, earnings per share, dividend payout ratio and statements regarding the gross value of dividends, unless transacted by SERF outside the group. No gain or loss on treasury shares is recognised in profit and loss. Upon disposal, any gain will be recognised to a component of equity.

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held. Shares have no par value.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll, each share is entitled to one vote.

The Company's Constitution is available on the website.

(c) Options

At 30 June 2019, no options (2018: nil) were outstanding over unissued ordinary shares of the Group.

(d) Share buy-back

During the year, the Group purchased and cancelled 11,143,514 (2018: 3,794,968) ordinary shares on-market. The average price paid per share was \$1.58 (2018: \$1.75). The share buyback is not complete.

(e) Contributed equity accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the Group purchases the Group's equity instruments, for example as the result of a share buy-back or a share based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Sunland Group Limited.

Note 25. Controlled Entities

(a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following material subsidiaries:

Name of entity	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
Abian Residences	Australia	100%	100%
Loxwood Pty Limited	Australia	100%	100%
Mantina Pty Limited	Australia	100%	100%
Sunland Developments No 27 Pty Ltd	Australia	100%	100%
Sunland Developments No 28 Pty Ltd	Australia	100%	100%
Sunland Developments No 32 Pty Ltd	Australia	100%	100%
Sunland Greenmount Pty Ltd	Australia	100%	100%

Note 25. Controlled Entities (continued)

Name of entity	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
Royal Pines Resort Realty Pty Limited	Australia	100%	100%
Sunland Constructions (QLD) Pty Limited	Australia	100%	100%
Sunland Constructions (VIC) Pty Limited	Australia	100%	100%
Sunland Capital Pty Limited	Australia	100%	100%
Sunland Corporate Management Pty Ltd	Australia	100%	100%
Sunland Developments No 5 Pty Limited	Australia	100%	100%
Sunland Developments No 6 Pty Limited	Australia	100%	100%
Sunland Developments No 7 Pty Limited	Australia	100%	100%
Sunland Developments No 8 Pty Limited	Australia	100%	100%
Sunland Developments No 17 Pty Limited	Australia	100%	100%
SDG Constructions Pty Ltd	Australia	100%	100%
Sunland Developments No 21 Pty Limited	Australia	100%	100%
Sunland Developments No 22 Pty Limited	Australia	100%	100%
Sunland Developments No 23 Pty Limited	Australia	100%	100%
Sunland Developments No 26 Pty Limited	Australia	100%	100%
Sunland Group Project Management Pty Limited	Australia	100%	100%
Sunland Homes Pty Limited	Australia	100%	100%
Sunland Resources Pty Limited	Australia	100%	100%
Whittsvilla Pty Limited	Australia	100%	100%
Sunland No. 35 Pty Ltd	Australia	100%	100%
Sunland No. 36 Pty Ltd	Australia	100%	100%
Sunland No. 37 Pty Ltd	Australia	100%	100%
Sunland No. 38 Pty Ltd	Australia	100%	100%
Sunland No. 39 Pty Ltd	Australia	100%	-
The Trustee for the SEIF Discretionary Trust	Australia	-	-
Sunland Constructions (Hedges) Pty Ltd	Australia	100%	100%

Note 25. Controlled Entities (continued)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at the end of the financial year. Control is achieved when the Group has:

- Power over the investee (i.e. existing rights that give it 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 Group has less than a majority of the voting or similar rights of an investee, the Group 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 Group's voting rights and potential voting rights

The Group 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 Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders or the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Note 26. Related party transactions

(a) Key management personnel

The Group had the following transactions with Key Management Personnel KMP and their related entities during the reporting year:

- The Group provided various services to a KMP totalling \$26,242 (2018: \$744,643), of which \$26,242 plus GST remains outstanding at balance date (2018: nil). The contract was completed in August 2019 and all amounts were collected under the contract.
- A KMP signed a contract to purchase an apartment in Magnoli Residences for a total purchase price of \$636,025 (2018: Nil).
- During the prior year an apartment in Abian purchased by a KMP settled for \$3,448,750.

During a previous financial period, key management personnel purchased \$5.18m in the unsecured notes which remains outstanding at balance date. Interest relating to the unsecured notes of \$391,090 (2018: \$391,090) was paid to the key management personnel during the year. The terms and conditions of this related party transaction were the same as those of the other note holders.

As at 30 June 2019, an associate of the Group has a payable to Sunland of \$1,324,000 (2018: \$1,059,000).

Note 26. Related party transactions (continued)

(b) Terms and conditions

Any transactions with Directors, director related entities, other KMP and their related entities, including the acquisition of products and services, are carried out in the ordinary course of business and on terms no more favourable than those which it is reasonable to expect the Group would have adopted in an arms length transaction. All staff, including KMP, are entitled to a 5% discount off the list price of properties. This discount represents a reasonable commission saving that is passed on to the purchaser.

Note 27. Key management personnel disclosures

Directors

The following persons were Directors of Sunland Group Limited during the financial year:

Mr Sahba Abedian	Managing Director
Mr Soheil Abedian	Chairman (Executive)
Mr Ron Eames	Director (Non-Executive)
Mr Craig Carracher	Director (Non-Executive)
Mr Christopher Freeman	Director (Non-Executive)
Mrs Rebecca Frizelle	Director (Non-Executive)

Other key management personnel

Mr Grant Harrison Chief Financial Officer & Company Secretary

Key management personnel Compensation

	2019 \$	2018 \$
Short-term employee benefits (salaries) *	2,116,041	2,038,260
Post-employment benefits (superannuation guarantee)	<u>89,357</u>	<u>84,189</u>
	<u><u>2,205,398</u></u>	<u><u>2,122,449</u></u>

* This includes income distributions from the Sunland Employee Investment Fund. Detailed remuneration disclosures are provided in the remuneration report.

Equity instrument disclosures relating to key management personnel

Share holding of key management personnel

The numbers of shares in the Group held during the financial year by each Director of Sunland Group Limited and other key management personnel of the Group, including their personally related parties, are 60,476,178 (2018: 60,476,178). There were no shares granted during the reporting period (2018: nil) as compensation.

Loans to key management personnel

There were no loans provided to key management personnel during the financial year.

Indemnity payouts to key management personnel

Under the Company's constitution, directors and officers are entitled to be indemnified out of the assets of the Company against certain losses incurred in relation to the execution of their duties. During the period, the Company granted indemnity to various directors and officers and those costs are expensed as incurred. The Company seeks indemnity where available under its insurance policy for these expenses.

Other transactions with key management personnel

There were no other transactions with key management personnel.

Note 28. Remuneration of auditors

	Consolidate d 2019 \$	Consolidate d 2018 \$
Amounts received or due and receivable by Ernst & Young:		
Audit and review of the financial statements	247,620	223,496
Tax compliance services	101,765	54,936
Tax advice	79,080	5,000
Other services	46,093	-
	<u>474,558</u>	<u>283,432</u>

It is the Group practice to employ Ernst & Young on assignments additional to their statutory audit duties where Ernst & Young expertise and experience with the Group are important. These assignments are principally tax advice and accounting advice, or where Ernst & Young is awarded assignments on a competitive basis.

Note 29. Financial risk management

The Group's principal financial instruments comprise receivables, payables, bank loans, unsecured notes and cash.

The Group manages its exposure to key financial risks, including interest rate, liquidity and credit risk, in accordance with the Group's financial risk management framework. The Board has overall responsibility for the establishment and oversight of the risk management framework. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate limits and controls, and to monitor risks and adherence to limits.

The Group's Audit and Risk Committee oversees how management monitors compliance with the Group's risk management framework and reviews the adequacy of the framework in relation to the risks faced by the Group. Management undertakes periodic reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and assessments of market forecasts for interest rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts. Credit risk is managed through thorough due diligence of counterparties and ensuring there is no significant concentration of credit risk.

Note 29. Financial risk management (continued)

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of project specific bank loans for the construction of multi storey projects, term facilities for the funding of longer dated projects, and committed revolving credit lines utilised to finance land and medium density development projects. The project specific facilities will operate in line with the development programme of each multistorey project. The revolving credit lines available are as follows:

- A 3-year evergreen facility of \$152.2 million expiring 29 July 2020; and
- A 2-year evergreen facility of \$60 million expiring 30 November 2021.

The term facilities available are as follows:

- A 5-year fixed term facility of \$50 million expiring 8 May 2022; and
- A 5-year unsecured note of \$50 million expiring 25 November 2020.

Facilities are reviewed by the lender annually for compliance with facility terms and covenants.

Maturities of consolidated financial assets and financial liabilities

The tables below analyse the Group's financial assets and liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative instruments.

The amounts disclosed in the table are the contractual undiscounted cash flows. Where the impact of the discounting is not significant on balances due within 12 months, the amounts disclosed equal their carrying balances.

	Less than 1 year \$'000	1 - 2 years \$'000	Between 2 and 5 years \$'000	Total \$'000
At 30 June 2019				
Financial assets				
Cash assets	19,803	-	-	19,803
Receivables	4,970	-	-	4,970
	<u>24,773</u>	<u>-</u>	<u>-</u>	<u>24,773</u>
Financial liabilities				
Payables	12,025	-	-	12,025
Interest bearing liabilities	15,261	72,180	65,011	152,452
	<u>27,286</u>	<u>72,180</u>	<u>65,011</u>	<u>164,477</u>
Net maturity	<u>(2,513)</u>	<u>(72,180)</u>	<u>(65,011)</u>	<u>(139,704)</u>
	Less than 1 year \$'000	1 - 2 years \$'000	Between 2 and 5 years \$'000	Total \$'000
30 June 2018				
Financial assets				
Cash assets	10,604	-	-	10,604
Receivables	5,588	-	-	5,588
	<u>16,192</u>	<u>-</u>	<u>-</u>	<u>16,192</u>

Note 29. Financial risk management (continued)

Financial liabilities

Payables	8,271	-	-	8,271
Interest bearing liabilities	32,526	16,307	159,585	208,418
	<u>40,797</u>	<u>16,307</u>	<u>159,585</u>	<u>216,689</u>
Net maturity	<u>(24,605)</u>	<u>(16,307)</u>	<u>(159,585)</u>	<u>(200,497)</u>

(b) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and receivables. The Group's exposure to credit risk is influenced mainly by the individual characteristic of each customer.

Receivables primarily take the form of:

- Receivables from parties that may be provided in the consideration for development rights over land;
- Contracts over the sale of developed product; and
- Deposits with financial institutions

The Group's exposure to credit risk arises from the potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments. In respect to loans and receivables, the credit risk is mitigated by the Group controlling the development site/product and taking appropriate security to protect its position.

In respect to contracts for the sale of product, purchasers of lots or apartments off-the-plan are required to make a deposit on signing of the contract with the balance to be paid when the lots or land is released to the customer. The deposit held is generally 10% of the contract price for domestic buyers and 20% of the contract price for foreign buyers.

The Group manages risk related to cash deposits with financial institutions by only depositing funds in institutions which have sufficient credit worthiness in line with Group policy.

The Group does not use credit derivatives to offset credit exposures.

Note 30. Parent entity information

(a) Summary financial information

The individual financial statements for the parent entity, Sunland Group Limited, show the following aggregate amounts:

	2019 \$'000	2018 \$'000
Balance Sheet		
Current Assets	54,714	7,715
Non-Current Assets	443,965	442,157
Total Assets	<u>498,679</u>	<u>449,872</u>
Current Liabilities	5,245	5,552
Non-Current Liabilities	498	202
Total Liabilities	<u>5,743</u>	<u>5,754</u>
Net Assets	<u>492,936</u>	<u>444,118</u>

Note 30. Parent entity information (continued)

Shareholders' Equity:

Issued Capital	136,055	153,714
Retained earnings	356,881	290,404
Total Equity	<u>492,936</u>	<u>444,118</u>
Profit or loss for the year	<u>81,594</u>	<u>152,254</u>
Total Comprehensive Income	<u>81,594</u>	<u>152,254</u>

The parent entity has bank guarantees for uncompleted works and contingent liabilities as described in Note 17.

The parent entity profit was derived from intercompany dividends and other transactions with subsidiaries.

Note 31. Fair value measurement

(a) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within 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 (unadjusted) market prices in active markets 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 assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

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

Note 32. Rounding of amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. Amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 33. Impairment of assets accounting policy

At each reporting date, the Group assesses whether there is any indication that a non-financial asset may be impaired. Where an indicator of impairment exists, or when annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Note 34. New accounting standards and interpretations

Australian Accounting Standards and Interpretations that are issued, but are not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new standards and interpretations, when they become effective.

AASB 16 – Leases with an application date for the group of 1 July 2019:

The Group has identified the effects of transitioning to AASB 16 on its existing leases. Sunland is not a significant lessee, and as such the impact on transitioning to AASB 16 is not considered to be material.

Note 35. Events after the reporting period

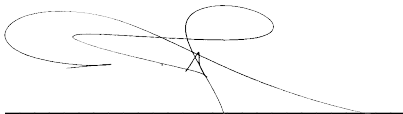
The following events have occurred subsequent to balance date and are not otherwise disclosed in the financial statements:

- On 7 August 2019, the Group completed the sale of the Lakeview retail centre in Mermaid Waters for \$20,000,000, resulting in an after tax profit of \$6.4 million.
- On 12 July 2019, the Group completed the sale of land in Ingleside, NSW for \$16,500,000, resulting in an after tax profit of \$4.9 million.

In accordance with a resolution of the directors of Sunland Group Limited, I state that in the opinion of the Directors:

- the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2;
- there are reasonable grounds to believe that the Company 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 financial year ended 30 June 2019.



Mr Sahba Abedian
Managing Director

20 August 2019



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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Sunland Group Limited (the Company and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is 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 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.



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For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Net Realisable Value of Inventories

Why significant	How our audit addressed the key audit matter
<p>The Group undertakes an assessment to ensure each individual land holding or development project is valued at the lower of cost, or net realisable value (NRV) in accordance with Australian Accounting Standards.</p> <p>NRV is determined based upon assumptions relating to future sale prices, sales rates, construction costs and costs necessary to make the sale.</p> <p>The NRV of the Group's inventory portfolio is influenced by fluctuations in the Australian property market and expected future conditions such as availability of finance for home-owners and investors.</p> <p>The NRV assessment was a key audit matter considering the complexity of the estimation process, and the significant judgments made in the assumptions and estimates.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none">• For a sample of projects, compared the Group's current forecast assumptions to recent actual project performance, covering sales prices, sales rates and margins achieved both during the period and subsequent to year end.• Assessed the effectiveness of relevant controls relating to the Group's review of project feasibilities.• Selected a sample of project feasibilities and assessed whether the estimated costs to complete for the projects were supported.• Enquired of the Group's Development Managers to understand and obtain evidence to support where there were significant changes in key feasibility assumptions for all projects.• For projects considered higher risk due to their location, expected duration or lower forecast margins, we involved our real estate valuation specialists to assess the key assumptions including the sales prices and sales rates.• Considered the financial report disclosures regarding the assumptions that most affect the determination of NRV.

AASB 15 Revenue from Contracts with Customers Transition Adjustments

Why significant

The transition adjustments recorded in respect of the initial application of AASB 15 *Revenue from Contracts with Customers* during the period was a key audit matter because of the significance of the impact on the Group's opening retained earnings and the judgement involved in applying the requirements of AASB 15.

How our audit addressed the key audit matter

Our audit procedures included the following:

- Assessed the Group's processes related to determining the impact of the transition to AASB 15.
- For all significant revenue streams, we considered the Group's assessment of the application of the requirements of AASB 15 and conclusions reached with respect to the impact on revenue recognition.
- Assessed transition adjustments recorded and ensured these were compliant with the requirements of AASB 15.
- Assessed the adequacy of the related financial report disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2019 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.



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In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.



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We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Sunland Group Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

Ernst & Young

A handwritten signature in black ink that reads 'Wade Hansen' in a cursive script.

Wade Hansen
Partner
Brisbane
20 August 2019

The shareholders information set out below was applicable as at 7 August 2019.

Distribution of equitable securities

Analysis of numbers of equity security holders by size of holding:

Holding	Number of holders of ordinary shares	Number ordinary shares
1 to 1,000	828	334,611
1,001 to 5,000	954	2,594,441
5,001 to 10,000	417	3,214,671
10,001 to 100,000	474	12,906,721
100,001 and over	70	121,926,721
	<u>2,743</u>	<u>140,977,181</u>
Holding less than a marketable parcel	<u>395</u>	<u>28,941</u>

There were no options held at 7 August 2019.

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Havannah Pty Limited	29,250,000	20.75
Pacific Development Corporation Pty Limited	20,750,000	14.72
Citicorp Nominees Pty Limited	11,576,544	8.21
J P Morgan Nominees Australia Limited	8,994,588	6.38
HSBC Custody Nominees (Australia) Limited	8,241,896	5.85
National Nominees Limited	4,655,188	3.30
Lloyds & Casanove Investment Partners Limited	4,000,000	2.84
Sahba Abedian	3,657,510	2.59
SEIF PTY LIMITED	3,500,000	2.48
Mr Sahba Abedian	3,245,032	2.30
Rainham Pty Limited	2,821,875	2.00
BNP PARIBAS NOMINEES PTY LTD	1,973,813	1.40
BNP PARIBAS NOMS PTY LTD	1,649,992	1.17
R & M Corporation Pty Ltd	1,103,125	0.78
Mrs Julia Craike	912,296	0.65
Mrs Anne Jamieson	853,000	0.61
Ovens-Brown Pty Ltd	778,800	0.55
BNP PARIBAS NOMINEES PTY LTD	702,381	0.50
ABEDIAN SUPERANNUATION FUND PTY LTD	633,169	0.45
PJR Industries Pty Limited	625,000	0.44
	<u>109,924,209</u>	<u>77.97</u>

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Havannah Pty Limited	29,250,000	20.75
Pacific Development Corporation Pty Ltd	20,750,000	14.72
Citicorp Nominees Pty Limited	11,576,544	8.21
JP Morgan Nominees Australia Limited	8,994,588	6.38
HSBC Custody Nominees (Australia) Limited	9,241,896	6.56

Voting rights

There were 2,743 holders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares are set out in Article 5.8 and 5.9 of The Company's Articles of Association. These articles indicate that:

- (a) at a meeting of members each member entitled to vote may vote in person or by proxy or attorney; and
- (b) on a show of hands every member present has one vote, and on a poll every member present in person or by proxy or attorney has one vote for each ordinary share the member holds.

On-market buy back

During the current year, the Company undertook an on-market share buy-back program which is continuing.