

ASX and Media release

15 February 2016

HALF YEAR RESULTS TO 31 DECEMBER 2015

The Board of Desane Group Holdings Limited today announced the half year results for the six months ended 31 December 2015.

The Group's six months operational results, when compared to the previous corresponding period, can be summarised as follows:

- Net profit after tax (NPAT) **increased** to \$2.9 million from \$1.1 million
- Earnings per share (EPS) **to 7.93 cents** from 3.79 cents
- Earnings before interest and tax (EBIT) **increased** to \$4.5 million
- NTA per security **80 cents**
- Completion and sale of the Easton Rozelle residential apartments
- \$12 million reduction of Group's debt

Dividend

The Directors have recommended a **fully franked interim dividend of 2.25 cents per share**. The record date for the interim dividend will be 17 March 2016, with the payment date being 31 March 2016.

Appendix 4D

The interim financial report for the year ended 31 December 2015 has been released today. This report is provided to the Australian Securities Exchange Limited (ASX) under ASX Listing Rule 4.2A.

The financial data prepared by the Company upon which the attached report is based are drawn up in accordance with applicable Accounting Standards AASB134 Interim Financial Reporting and the Corporations Regulations 2001.

Half Yearly Report of

**Desane Group Holdings Limited
and Controlled Entities**

ABN 61 003 184 932

for the Six Months Ended 31 December 2015

This Half Yearly Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.

Current Reporting Period: Half year ended 31 December 2015

Previous Corresponding Period: Half year ended 31 December 2014

Desane Group Holdings Limited

APPENDIX 4D – Half Yearly Report

for the period ended 31 December 2015

Details of the reporting period

Current Period: 1 July 2015 to 31 December 2015
 Previous Corresponding Period: 1 July 2014 to 31 December 2014

Results for announcement to the market

	Dec 2015 \$'000	Dec 2014 \$'000	Change %
Revenue from property investment - rental	1,110	1,123	(1.1%)
Revenue from property services	30	39	(23.0%)
Revenue from property and project management	162	346	(53.2%)
Revenue from property development sales	25,629	-	100.0%
Profit (loss) from ordinary activities after tax attributable to members	2,902	1,144	153.7%
Net profit (loss) for the period attributable to members	2,902	1,144	153.7%
Dividends	Amount per security	Franked amount per security	
Interim Dividend	2.25 cents	2.25 cents	
Previous Corresponding Period	2.00 cents	2.00 cents	
Interim Dividend Dates:			
Ex-dividend Date	15 March 2016		
Record Date	17 March 2016		
Payment Date	31 March 2016		
The Dividend Reinvestment Plan (DRP) will operate in respect of the interim dividend and will be available to eligible shareholders with no discount applied. The DRP Election date will be Monday, 21 March 2016. Please refer to separate announcement regarding the final dividend and the DRP within the next few days.			

Desane Group Holdings Limited
APPENDIX 4D – Half Yearly Report
for the period ended 31 December 2015

Earnings per security (EPS)

	Current period	Previous corresponding period
Basic EPS	7.93 cents	3.79 cents
Diluted EPS	7.93 cents	3.79 cents

Net tangible assets per security

	Current period	Previous corresponding period
Net tangible asset backing per Ordinary Share	80 cents	86 cents

Amount per Security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Interim dividend:			
Current reporting period	2.25 cents	2.25 cents	NIL
Previous corresponding period	2.00 cents	2.00 cents	NIL

Desane Group Holdings Limited
APPENDIX 4D – Half Yearly Report
for the period ended 31 December 2015

Details of aggregate share of profits/(losses) of associates and joint venture entities

Group's share of associates and joint venture entities:	Current period \$A'000	Previous corresponding period - \$A'000
Profit (loss) from ordinary activities before tax	216	367
Income tax on ordinary activities	-	60
Profit (loss) from ordinary activities after tax	216	307
Extraordinary items net of tax	-	-
Net profit (loss)	216	307
Adjustments	-	-
Share of net profit (loss) of associates and joint venture entities	216	307

Desane Group Holdings Limited
APPENDIX 4D – Half Yearly Report
for the period ended 31 December 2015

Material interests in entities which are not controlled entities

The Group has an interest (that is material to it) in the following entities.

<i>Name of entity</i>	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss)	
	Current period	Previous corresponding period	Current period \$A'000	Previous corresponding period - \$A'000
Samvoni Pty Ltd / Tuta Properties Pty Ltd	-%	50%	-	140
Lilyfield Road Joint Venture	70%	70%	216	167
Total			216	307

Desane Group Holdings Limited
APPENDIX 4D – Half Yearly Report
for the period ended 31 December 2015

Commentary on results

	Current Period	Previous corresponding period
Earnings per share	7.93 cents	3.79 cents
Net tangible asset backing per Ordinary Share	80 cents	86 cents
Interim dividend per Ordinary Share	2.25 cents	2.00 cents

Audit Review

The accounts were reviewed by the Company's auditors whose report is attached as part of the Half Yearly Financial Report for the half year ended 31 December 2015.

Attachment

The Half Yearly Financial Report for the period ended 31 December 2015 is attached.

Signed



John Bartholomew
Company Secretary
15 February 2016



ABN 61 003 184 932

HALF YEAR FINANCIAL REPORT

FOR THE SIX MONTHS ENDED

31 DECEMBER 2015

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DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Directors' Report
For the six months ended 31 December 2015

The Directors present their report on the company and its controlled entities for the half year ended 31 December 2015.

Directors

The names of directors in office at any time during or since the end of the half year are:

Phil Montrone
John Blair Sheehan
John William Bartholomew
Rick Montrone (appointed 4 November 2015)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of company secretary for all of the reporting period:

Mr John W Bartholomew

Principal Activities

The principal activities of the economic entity during the financial year to 31 December 2015 were:

- Property investment
- Property development
- Property project management and resale
- Property services

There were no significant changes in the nature of the economic entity's principal activities during the period.

Operating Results

	31 Dec 2015	31 Dec 2014
	\$'000	\$'000
The consolidated profit of the economic entity, after providing for income tax amounted to	<u>2,902</u>	<u>1,144</u>

Dividends Paid or Recommended

Dividends paid or declared for payment are as follows:

Ordinary dividend of \$0.02 per share, franked, paid on 26 November 2014, recommended in the 2014 report		\$ 604
Ordinary special dividend of \$0.02 per share, franked, paid on 22 July 2014, recommended in the 2014 report		\$ 604
Ordinary dividend of \$0.02 per share, franked, paid on 26 November 2015, recommended in the 2015 report	\$ 725	
Interim dividend of \$0.0225 per share, franked, payable on 31 March 2016, recommended in the 2015 half yearly report	\$ 823	

Dividend Reinvestment Plan (DRP)

The DRP will continue to operate in respect of the final dividend recommended. Please refer to separate announcement regarding the DRP program.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Directors' Report (continued)
For the six months ended 31 December 2015

Review of Operations

The Directors report a half year profit, after tax, of \$2,902,003. The operating profit for the half year ended 31 December 2014 was \$1,143,769.

A summary of consolidated revenues and results by significant industry segments is set out below:

	Revenue		Segment Result	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Property development sales	25,629	-	25,629	-
Property development cost base	-	-	(21,723)	-
Property investment – rental	1,110	1,123	565	626
Property services	24	25	24	25
Property management	79	103	79	103
Property investment – net revaluations	-	950	-	950
Interest income	41	26	41	26
Project management	83	244	83	244
Other	<u>6</u>	<u>14</u>	<u>6</u>	<u>14</u>
	<u>26,972</u>	<u>2,485</u>	<u>4,704</u>	<u>1,988</u>
Share of net profits/(loss) of associates			-	140
Unallocated expenses			<u>(547)</u>	<u>(553)</u>
Operating profit			4,157	1,575
Income tax attributable to operating profit			(179)	-
Deferred tax attributable to operating profit			<u>(1,076)</u>	<u>(431)</u>
Operating profit after income tax attributable to members of Desane Group Holdings Limited			<u>2,902</u>	<u>1,144</u>

Operations

For the six months ended 31 December 2015, the Group's achieved all of the Directors' stated objectives, namely:

1. The completion and sale of the Easton Rozelle residential apartments;
2. \$12 million reduction of the Group's debt; and
3. Maintain 100% occupancy across all of the Group's property investment portfolio.

The 100% occupancy rate for all the properties owned by the Group validates the strategic decision Desane's management has made in working closely with existing clients and potential future clients operating in the growing medical and health services related sector.

i. 7-9 Orion Road, Lane Cove

The Orion Road industrial complex comprises a multi unit industrial estate totalling approximately **6,000m² of office and high clearance warehouse**. Onsite parking is provided for 106 cars.

The well maintained business park is **100% leased** on a medium to long term **WALE of 3.4 years**.

It is situated on the eastern side of Orion Road, within the high tech industrial precinct of Lane Cove West. Lane Cove West is approximately 10km from Sydney's CBD.

The property is performing well and is continuing to contribute to the Group's profit result through its increased income and strong leasing profile.

ii. 13 Sirius Road, Lane Cove

The Sirius Road property comprises approximately **2,200m² of high tech commercial office/industrial building** and is located approximately 100 metres from the other two Lane Cove West properties owned by Desane in the high tech industrial precinct. Onsite parking is provided for 52 cars in an underground basement car park.

The property is **fully leased** on a **WALE of 3.1 years** to two large Australian companies.

The property is performing well and is continuing to show rental and capital appreciation growth for the Group.

iii. 7 Sirius Road, Lane Cove

This **2,700m² commercial office and industrial warehouse building** is also located within the Lane Cove West high tech industrial precinct. Onsite parking is provided for 38 cars.

The property comprises approximately 460m² of high tech office and 2,240m² of high clearance warehouse and is **fully leased** on a **WALE of 4.8 years** to a large Australian medical supply company.

The property is performing well and is continuing to show rental and capital appreciation growth for the Group.

iv. 68-72 Lilyfield Road, Rozelle

This **6,000m² high tech multimedia centre** includes approximately 2,800m² of high clearance warehouse. It is located in the highly sought after inner Sydney suburb of Rozelle and is **100% leased** on a medium term **WALE of 0.5 years**. Onsite parking is provided for 85 cars over three levels.

Negotiations to extend the existing lease are progressing with the major existing tenant.

Due to the increased demand in Sydney for well designed modern apartment complexes located close to the Central Business District, Desane is also in the process of obtaining approval from the NSW Department of Planning to rezone the property to a mixed use development.

The property is located 750 metres from the Anzac Bridge with easy access to the CBD, Cross City Tunnel, Harbour Bridge and Harbour Tunnel, closely linking the property to the eastern, northern and southern suburbs of Sydney. Desane has a 70% interest in this property.

Developments

Desane's senior management will continue to use its property development expertise to review, rezone and redevelop some of its existing property holdings.

Desane is currently working on the following development projects:

- Completing the realisation of the Easton Rozelle residential project which has generated significant returns for the Group; and
- The rezoning, to high rise residential, of the high tech multimedia centre located in the Sydney suburb Rozelle. The rezoning of this property should provide a significant value-add opportunity for Desane's shareholders in the near future.

i. Easton Rozelle Apartments

Strata registration of the residential apartments and 3 commercial suites was achieved in November 2015, with the settlement of 30 apartments completed in December 2015. At the date of this report, Desane has realised \$27.8 million (including GST) gross in sales revenue, with an additional \$3.6 million (including GST) gross sales revenue expected before 30 June 2016.

Outlook

Desane expects the Australian commercial and industrial property market to continue to strengthen over the next three to four years, both in rental returns and capital growth. It is anticipated that there will be a tightening in property yields across the sector as vacancy rates fall and Sydney's commercial and industrial property availability continues to be absorbed by rezoning to residential redevelopment.

Desane's existing industrial and commercial property portfolio is under continual review, in order that the Group and its shareholders benefit from the strength of the Sydney residential market. Where appropriate, Desane will seek rezoning approval for some of its strategically well placed properties, in order to take advantage of these market conditions. **Desane's well cashed up balance sheet will allow the Group to take advantage of future property investment opportunities.**

It is intended that the Group will not only deal directly in properties but will also continue to be involved in joint venture projects with local and overseas corporations and institutions and may acquire equity in established enterprises which are considered to be of sound potential.

Desane has not engaged in any speculative investment or in any activities outside its expertise of property investment and property services. The Group continues to develop its skills and systems to meet its long-term objectives.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Directors' Report (continued)
For the six months ended 31 December 2015

Financial Position

The directors believe the Group is in a strong and stable financial position to grow its existing property investment portfolio. This is largely due to the following factors:

- Sale of the Easton Rozelle residential apartments, generating approximately \$13.0 million of net funds;
- Continued payment of fully franked interim and final dividends;
- Net profit after tax (NPAT) **increased by 154%** to \$2.9 million on the previous corresponding period;
- Earnings before interest and tax (EBIT) **increased by 127%** to \$4.5 million on the previous corresponding period;
- Group's total borrowings decreased by 29% to \$16.5 million on the previous corresponding period;
- Financing costs reduced by 16% on the previous corresponding period; and
- Capital management strategy operating via the Dividend Reinvestment Plan.

Significant Changes in State of Affairs

There was no significant change in the state of affairs of the Group.

Events after the Reporting Period

Other than the above, at the date of this report and in the opinion of the directors, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Environmental Issues

The consolidated group complies with all relevant legislation and regulations in respect to environmental matters. No matters have arisen during the year in connection with Desane's obligations pursuant to Commonwealth and State environmental regulations.

Occupational Health and Safety Regulations

The consolidated group complies with all relevant legislation and regulations in respect to occupational health and safety matters. No matters have arisen during the year in connection with Desane's obligations pursuant to Commonwealth and State occupational health and safety regulations.

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and accordingly, amounts contained in this financial report and the directors' report, have been rounded to the nearest thousand dollar, where rounding is applicable.

Auditor's Declaration

The lead auditor's declaration under Section 307C of the Corporations Act 2001 is set out on page 6 for the half year ended 31 December 2015.

Signed in accordance with a resolution of the Board of Directors, at Sydney, this 15th day of February, 2016.



J B Sheehan
Director



P Montrone
Director

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF DESANE GROUP HOLDINGS LIMITED AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the half year ended 31 December 2015, there have been:

- (i) No contraventions of the auditor's independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the review.

GCC Business + Assurance Pty Ltd.

GCC BUSINESS & ASSURANCE PTY LTD
(Authorised Audit Company)

Graeme Green

GRAEME GREEN
Director

Signed in Sydney, 15 February 2016

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the six months ended 31 December 2015

	Consolidated Group	
	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Revenue from property investment - rental	1,110	1,123
Revenue from property services	30	39
Revenue from property and project management	162	346
Revenue from property development sales	25,629	-
Property development cost base	(21,723)	-
Interest income	41	26
Employee benefits expense	(413)	(366)
Depreciation and amortisation expense	(5)	(4)
Gain/(loss) on revaluation of investment properties	-	950
Finance costs	(338)	(403)
Other expenses from ordinary activities	(336)	(276)
Share of net profits and revaluation gains of associates	-	140
	<u>-</u>	<u>140</u>
Profit before income tax	4,157	1,575
Income tax expense - current	(179)	-
Deferred income tax expense	(1,076)	(431)
	<u>(1,076)</u>	<u>(431)</u>
Profit from continuing operations	<u>2,902</u>	<u>1,144</u>
Other Comprehensive Income		
Total comprehensive Income for the period	<u>-</u>	<u>-</u>
Profit attributable to minority equity interest	<u>-</u>	<u>-</u>
Profit attributable to members of the parent entity	<u>2,902</u>	<u>1,144</u>
Earnings per Share		
Basic earnings per share (cents per share)	7.93	3.79
Diluted earnings per share (cents per share)	7.93	3.79

The accompanying notes form part of these financial statements.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Condensed Consolidated Statement of Financial Position as at 31 December 2015

	Consolidated Group	
	31 Dec 2015	31 Dec 2014
	\$'000	\$'000
Current Assets		
Cash and cash equivalents	16,717	5,340
Trade and other receivables	964	2,406
Other current assets	54	155
Development property held for sale	2,455	16,188
Investments accounted for using the equity method	<u>-</u>	<u>75</u>
Total Current Assets	<u>20,190</u>	<u>24,164</u>
Non-current Assets		
Trade and other receivables	2	2
Investment properties	32,646	30,257
Property, plant and equipment	45	40
Rental Incentives	<u>19</u>	<u>84</u>
Total Non-current Assets	<u>32,712</u>	<u>30,383</u>
Total Assets	<u>52,902</u>	<u>54,547</u>
Current Liabilities		
Trade and other payables	2,615	954
Deferred revenue development property	-	2,060
Borrowings	16,590	-
Provisions	<u>1,036</u>	<u>620</u>
Total Current Liabilities	<u>20,241</u>	<u>3,634</u>
Non-current Liabilities		
Trade and other payables	103	25
Borrowings	-	23,300
Deferred tax liability	3,547	1,532
Provisions	<u>12</u>	<u>4</u>
Total Non-current Liabilities	<u>3,662</u>	<u>24,861</u>
Total Liabilities	<u>23,903</u>	<u>28,495</u>
Net Assets	<u>28,999</u>	<u>26,052</u>
Equity		
Issued capital	16,860	12,097
Retained earnings	<u>12,139</u>	<u>13,955</u>
Total Equity	<u>28,999</u>	<u>26,052</u>

The accompanying notes form part of these financial statements.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Condensed Consolidated Statement of Changes in Equity
for the six months ended 31 December 2015

	Issued Capital \$'000	Retained Earnings \$'000	Asset Revaluation Reserve \$'000	Total \$'000
Balance at 1 July 2014	12,097	13,415	-	25,512
Shares issued during the year	-	-	-	-
Profit attributable to members of parent entity	<u>-</u>	<u>1,144</u>	<u>-</u>	<u>1,144</u>
Dividends paid	<u>-</u>	<u>(604)</u>	<u>-</u>	<u>(604)</u>
Balance at 31 Dec 2014	<u>12,097</u>	<u>13,955</u>	<u>-</u>	<u>26,052</u>
Balance at 1 July 2015	16,627	10,060	-	26,687
Shares issued during the year	233	-	-	233
Profit attributable to members of parent entity	<u>-</u>	<u>2,902</u>	<u>-</u>	<u>2,902</u>
Dividends provided for	<u>-</u>	<u>(823)</u>	<u>-</u>	<u>(823)</u>
Balance at 31 Dec 2015	<u>16,860</u>	<u>12,139</u>	<u>-</u>	<u>28,999</u>

The accompanying notes form part of these financial statements.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Condensed Consolidated Statement of Cash Flows
for the six months ended 31 December 2015

	Consolidated Group	
	31 Dec 2015	31 Dec 2014
	Inflows	Inflows
	(Outflows)	(Outflows)
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	1,457	1,864
Payments to suppliers and employees	(836)	(712)
Proceeds from sale of development property	25,629	-
Property development expenditure	(3,490)	(4,855)
Dividend from associate entity	-	8,773
Interest received	41	26
Finance costs	(338)	(403)
Net cash provided by (used in) operating activities	22,463	4,693
Cash flows from investing activities		
Proceeds from the sale of plant and equipment	-	-
Purchase of plant and equipment	(1)	-
Purchase of property and investments	-	-
Purchase of other non-current assets (capital expenditure)	(14)	(48)
Net cash provided by (used in) investing activities	(15)	(48)
Cash flows from financing activities		
Proceeds from issue of shares	233	-
Dividends paid by parent entity	(725)	(1,208)
Loans from related parties/(repaid)	-	(4,147)
Proceeds from borrowings	1,859	3,660
Repayment of borrowings	(11,703)	(22)
Retention held repaid	(212)	-
Rental bonds received	79	-
Net cash provided by (used in) financing activities	(10,469)	(1,717)
Net increase/(decrease) in cash held	11,979	2,928
Cash at beginning of the half year	4,738	2,412
Cash at end of the half year	16,717	5,340

The accompanying notes form part of these financial statements.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Notes to the Condensed Consolidated Financial Statements
for the six months ended 31 December 2015

1. Summary of Significant Accounting Policies

These general purpose financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

These half-year financial statements do not include all the notes of the type normally included in annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2015 and any public announcements made by Desane Group Holdings Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Basis of Preparation of Half-year Financial Report

The condensed consolidated financial statements have been prepared on the basis of historical costs, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies, which are consistent with Australian Accounting Standards and with International Reporting Financial Standards, have been adopted in the preparation of the half-year financial report and are consistent with those adopted and disclosed in the company's 2015 annual financial report for the financial year ended 30 June 2015, except for the impact of the adoption of any new and revised accounting policy.

Comparative figures are shown for 31 December 2014 in addition to 30 June 2015 in the statement of financial position due to the seasonality of the business and the impact this has on working capital. There has been no restatement of figures in prior periods.

The Group has considered all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

No new Standards and amendments to Standards that are mandatory for the first time for the financial year beginning 1 July 2015 affected any of the amounts recognised in the current year or any prior year and are not likely to affect future periods.

Investment Properties

Investment properties, comprising freehold office and industrial complexes, are held to generate long-term rental yields. All tenant leases are on an arm's length basis. The fair value model is applied to all investment property and each property is reviewed at each reporting date. The fair value is defined as the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Each property is independently valued every three years by registered valuers who have recognised and appropriate professional qualifications and recent experience in the location and category of investment property being valued. Changes to fair value are recorded in the statement of profit and loss as revenue from non operating activities. Investment properties under construction are measured at the lower of fair value and net realisable value.

Cost includes the cost of acquisition, development and interest on financing during development. Interest and other holding charges after practical completion are expensed as incurred. Investment properties are maintained at a high standard and, as permitted by accounting standards, the properties are not depreciated. Rental revenue from the leasing of investment properties is recognised in the statement of profit and loss and other comprehensive income in the periods in which it is receivable, as this represents the pattern of service rendered through the provision of the properties. All tenant leases are on an arm's length basis.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Notes to the Condensed Consolidated Financial Statements
for the six months ended 31 December 2015

1. Summary of Significant Accounting Policies (continued)

Borrowings

Borrowings consist of first mortgage finance secured over the investment properties. Covenants imposed by mortgagor require total debt not to exceed 65% of the property value and the net rental is required to exceed interest expense by at least 1.5 times. All covenants imposed on secured loan agreements have been met.

2. Profit for the Period

Consolidated Group	
31 Dec 2015	31 Dec 2014
\$'000	\$'000

The following revenue and expense items are relevant in explaining the financial performance for the interim period:

Property development net profit	3,906	-
Auditors' remuneration	41	32
Depreciation of plant and equipment	5	4
Finance costs:		
- Other persons and/or corporations	338	403
- Associated companies	-	-
Rental expenses relating to operating leases	34	33

3. Dividend Paid

	Consolidated Group			
	31 Dec 2015		31 Dec 2014	
	Cents per Share	\$'000	Cents per Share	\$'000

Ordinary final dividend, franked, paid 26 November 2014, recommended in the 2014 Financial Report			2.00	604
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Ordinary special dividend, franked, paid 22 July 2014, recommended in the 2014 Financial Report			2.00	604
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Ordinary final dividend, franked, paid 26 November 2015, recommended in the 2015 Financial Report	2.00	725		
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In respect of the half-year ended 31 December 2015, the directors have recommended the payment of an interim dividend, franked, of 2.25 cents per share payable on 31 March 2016	2.25	823		
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DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
Notes to the Condensed Consolidated Financial Statements
for the six months ended 31 December 2015

4. Operating Segments

Segment Information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar to the operations and or services provided by the segment.

Types of Operations & Services by Segment

Revenue is derived by the industry segments from the following activities:

(i) Property Investment

Rental income from prime real estate investments.

(ii) Property Development

Development projects.

(iii) Property Project Management and Resale

Property project management and resale of commercial, industrial and residential properties, principally in Sydney.

(iv) Property Services

Property and related services.

Accounting Policies Adopted

Unless stated otherwise, all amounts reported to the Board of Directors, with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment Assets

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment Liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
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4. Operating Segments (continued)

Unallocated Items

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

- Net gains on disposal of available for sale investments;
- Impairment of assets and other nonrecurring items of revenue or expenses;
- Income tax expense;
- Deferred tax assets and liabilities;
- Current tax liabilities;
- Other financial liabilities;
- Retirement benefit obligations; and
- Administration expenses.

i) Segment Performance - 31 Dec 2015

	Property Investment \$'000	Property Development \$'000	Property Project Management & Resale \$'000	Property Services \$'000	Other \$'000	Consolidated Group \$'000
Six Months to 31 December 2015						
Revenue						
External sales	1,110	25,629	83	103	47	26,972
Other	-	-	-	-	-	-
Total segment revenue	<u>1,110</u>	<u>25,629</u>	<u>83</u>	<u>103</u>	<u>47</u>	<u>26,972</u>
Segment net profit before tax	<u>565</u>	<u>3,906</u>	<u>83</u>	<u>103</u>	<u>47</u>	4,704
Reconciliation of segment result to group net profit/(loss) before tax						
Share of net profit of associates						-
Unallocated expenses						<u>(547)</u>
Profit/(loss) before income tax						4,157
Income tax expense						(179)
Deferred income tax expense						<u>(1,076)</u>
Profit/(loss) after income tax						<u>2,902</u>

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4. Operating Segments (continued)

a. Other is comprised of:

	Revenue \$'000	Profit \$'000
Interest received	41	41
Other (recovery of administration costs)	<u>6</u>	<u>6</u>
	<u><u>47</u></u>	<u><u>47</u></u>

b. Geographical Segments

The economic entity operates in one geographical segment being New South Wales, Australia.

c. Compilation of Segmental Information

The above segmental information has been compiled in a consistent manner to prior years. The division of the group's results and assets into industry segments (the sole management reporting segment) has been ascertained by reference to direct identification of assets and revenue/cost centres and where interrelated segmental assets and costs exist, an allocation has been calculated on a pro-rata basis of the identifiable assets and/or costs. Intersegmental pricing is on an arms-length basis.

ii) Segment Assets - 31 December 2015

	Property Investment \$'000	Property Development \$'000	Property Project Management & Resale \$'000	Property Services \$'000	Other \$'000	Consolidated Group \$'000
July 2015 opening balance	32,660	20,688	-	-	7,694	61,042
Unallocated Assets						-
Deferred tax assets						-
Segment Asset Increases/ (Decreases) for the Period						
Acquisitions	-	-	-	-	-	-
Proceeds from sale	-	(25,629)	-	-	-	(25,629)
Revaluations/(devaluations)	-	-	-	-	-	-
Capital expenditures	(14)	-	-	-	-	(14)
Development expenditure	-	4,941	-	-	-	4,941
Asset held for sale	-	2,455	-	-	-	2,455
Net movement in other segments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,107</u>	<u>10,107</u>
	32,646	2,455	-	-	17,801	52,902
Unallocated Assets						-
Deferred Tax Assets						-
Total Group Assets						<u><u>52,902</u></u>
Equity accounted associates included in asset held for sale	<u><u>-</u></u>					

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Notes to the Condensed Consolidated Financial Statements
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4. Operating Segments (continued)

iii) Segment Liabilities – 31 December 2015

	Property Investment \$'000	Property Development \$'000	Property Project Management & Resale \$'000	Property Services \$'000	Other \$'000	Consolidated Group \$'000
July 2015 opening balance	16,590	9,844	-	-	5,449	31,883
Unallocated Liabilities						
Deferred tax liabilities						2,472
Segment Liabilities Increases/ (Decreases) for the Period						
Repayments	-	(11,703)				(11,703)
New borrowings	-	1,859				1,859
Repayment of associated company loan	-				-	
Net movement in other segments					(1,684)	(1,684)
	16,590	-	-	-	3,765	22,827
Unallocated Liabilities						
Deferred Tax Liabilities						1,076
Total Group Liabilities						<u>23,903</u>
Equity accounted associates included in segment liabilities						

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
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4. Operating Segments (continued)

iv) Segment Performance - 31 Dec 2014

	Property Investment \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
Six Months to 31 December 2014						
Revenue						
External sales	2,073	347	25	-	40	2,485
Other	-	-	-	-	-	-
Total segment revenue	<u>2,073</u>	<u>347</u>	<u>25</u>	<u>-</u>	<u>40</u>	<u>2,485</u>
Segment net profit before tax	<u>1,576</u>	<u>347</u>	<u>25</u>	<u>-</u>	<u>40</u>	1,988
Reconciliation of segment result to group net profit/(loss) before tax						
Share of net profit of associates						140
Unallocated expenses						<u>(553)</u>
Profit/(loss) before income tax						1,575
Deferred income tax expense						<u>(431)</u>
Profit/(loss) after income tax						<u>1,144</u>

a. Other is comprised of:

	Revenue \$'000	Profit \$'000
Interest received	26	26
Other (recovery of administration costs)	<u>14</u>	<u>14</u>
	<u>40</u>	<u>40</u>

b. Geographical Segments

The economic entity operates in one geographical segment being New South Wales, Australia.

c. Compilation of Segmental Information

The above segmental information has been compiled in a consistent manner to prior years. The division of the group's results and assets into industry segments (the sole management reporting segment) has been ascertained by reference to direct identification of assets and revenue/cost centres and where interrelated segmental assets and costs exist, an allocation has been calculated on a pro-rata basis of the identifiable assets and/or costs. Intersegment pricing is on an arms-length basis.

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4. Operating Segments (continued)

v) Segment Assets - 31 December 2014

	Property Investment \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
July 2014 opening balance	49,301	-	-	-	2,800	52,101
Unallocated Assets						-
Deferred tax assets						-
Segment Asset Increases/ (Decreases) for the Period						
Acquisitions	-	-	-	-	-	-
Proceeds from sale	-	-	-	-	-	-
Revaluations/(devaluations)	950	-	-	-	-	950
Capital expenditures	48	-	-	-	-	48
Development expenditure	4,855	-	-	-	-	4,855
Asset held for sale	(8,633)	-	-	-	-	(8,633)
Net movement in other segments	-	-	-	-	5,226	5,226
	46,521	-	-	-	8,026	54,547
Unallocated Assets						-
Deferred Tax Assets						-
Total Group Assets						<u>54,547</u>
Equity accounted associates included in asset held for sale	<u>(8,633)</u>					

vi) Segment Liabilities – 31 December 2014

	Property Investment \$'000	Property Project Management and Resale \$'000	Property Services \$'000	Plant and Equipment \$'000	Other \$'000	Consolidated Group \$'000
July 2014 opening balance	23,808	-	-	-	1,679	25,487
Unallocated Liabilities						
Deferred Tax Liabilities						1,101
Segment Liabilities Increases/ (Decreases) for the Period						
Repayments					(22)	(22)
New borrowings	3,660					3,660
Repayment of associated company loan	(4,147)				-	(4,147)
Net movement in other segments	-	-	-	-	1,985	1,985
	23,321	-	-	-	3,642	28,064
Unallocated Liabilities						
Deferred Tax Liabilities						431
Total Group Liabilities						<u>28,495</u>
Equity accounted associates included in segment liabilities	<u>(4,147)</u>					

DESANE GROUP HOLDINGS LIMITED ABN 61 003 184 932 and Controlled Entities
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5. Equity Issued

Issue of ordinary shares during the half year ended 31 December 2015.

	Consolidated Group		Consolidated Group	
	31 Dec 2015	31 Dec 2014	31 Dec 2015	31 Dec 2014
	No	No	\$'000	\$'000
Ordinary Shares Fully Paid				
As at 1 July 2015	36,239,331	30,199,465	16,627	12,097
Shares Issued During the Year				
Dividend reinvestment plan	343,050	-	233	-
Share purchase plan	-	-	-	-
Bonus issue	-	-	-	-
Closing ordinary shares fully paid	<u>36,582,381</u>	<u>30,199,465</u>	<u>16,860</u>	<u>12,097</u>

6. Related Party Transaction

There have been no material related party transactions since the last annual reporting date except Cupara Pty Ltd, a company in which Phil Montrone has a significant interest, has purchased an apartment in the Easton Rozelle development, under normal commercial terms and conditions.

7. Contingent Liabilities

There has been no change in contingent liabilities since the last annual reporting date.

8. Events Subsequent to Reporting Date

There are no events subsequent to the reporting date.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Desane Group Holdings Limited, the directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 19, are in accordance with the *Corporations Act 2001*, including:
 - a. comply with Accounting Standard AASB 134: *Interim Financial Reporting*; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



J B Sheehan
Director



P Montrone
Director

Sydney
15 February 2016

**INDEPENDENT AUDITOR'S REVIEW
REPORT TO THE MEMBERS OF
DESANE GROUP HOLDINGS LIMITED AND CONTROLLED ENTITIES
ABN: 61 003 184 932**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Desane Group Holdings Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2015, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Desane Group Holdings Limited, ASRE 2410 requires that we comply with ethical requirements relevant to the audit of the annual financial report.

A review of the half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of *Desane Group Holdings Limited* is not in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- ii. complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

GCC Business & Assurance Pty Ltd,

GCC BUSINESS & ASSURANCE PTY LTD
(Authorised Audit Company)

Graeme Green

GRAEME GREEN
Director

15 February 2016

Operations

For the six months ended 31 December 2015, the Group's achieved all of the Directors' stated objectives, namely:

1. The completion and sale of the Easton Rozelle residential apartments;
2. \$12 million reduction of the Group's debt; and
3. Maintain 100% occupancy across all of the Group's property investment portfolio.

The 100% occupancy rate for all the properties owned by the Group validates the strategic decision Desane's management has made in working closely with existing clients and potential future clients operating in the growing medical and health services related sector.

i. 7-9 Orion Road, Lane Cove

The Orion Road industrial complex comprises a multi unit industrial estate totalling approximately **6,000m² of office and high clearance warehouse**. Onsite parking is provided for 106 cars.

The well maintained business park is **100% leased** on a medium to long term **WALE of 3.4 years**.

It is situated on the eastern side of Orion Road, within the high tech industrial precinct of Lane Cove West. Lane Cove West is approximately 10km from Sydney's CBD.

The property is performing well and is continuing to contribute to the Group's profit result through its increased income and strong leasing profile.

ii. 13 Sirius Road, Lane Cove

The Sirius Road property comprises approximately **2,200m² of high tech commercial office/industrial building** and is located approximately 100 metres from the other two Lane Cove West properties owned by Desane in the high tech industrial precinct. Onsite parking is provided for 52 cars in an underground basement car park.

The property is **fully leased** on a **WALE of 3.1 years** to two large Australian companies.

The property is performing well and is continuing to show rental and capital appreciation growth for the Group.

iii. 7 Sirius Road, Lane Cove

This **2,700m² commercial office and industrial warehouse building** is also located within the Lane Cove West high tech industrial precinct. Onsite parking is provided for 38 cars.

The property comprises approximately 460m² of high tech office and 2,240m² of high clearance warehouse and is **fully leased** on a **WALE of 4.8 years** to a large Australian medical supply company.

The property is performing well and is continuing to show rental and capital appreciation growth for the Group.

iv. 68-72 Lilyfield Road, Rozelle

This **6,000m² high tech multimedia centre** includes approximately 2,800m² of high clearance warehouse. It is located in the highly sought after inner Sydney suburb of Rozelle and is **100% leased** on a medium term **WALE of 0.5 years**. Onsite parking is provided for 85 cars over three levels.

Negotiations to extend the existing lease are progressing with the major existing tenant.

Due to the increased demand in Sydney for well designed modern apartment complexes located close to the Central Business District, Desane is also in the process of obtaining approval from the NSW Department of Planning to rezone the property to a mixed use development.

The property is located 750 metres from the Anzac Bridge with easy access to the CBD, Cross City Tunnel, Harbour Bridge and Harbour Tunnel, closely linking the property to the eastern, northern and southern suburbs of Sydney. Desane has a 70% interest in this property.

Developments

Desane's senior management will continue to use its property development expertise to review, rezone and redevelop some of its existing property holdings.

Desane is currently working on the following development projects:

- Completing the realisation of the Easton Rozelle residential project which has generated significant returns for the Group; and
- The rezoning, to high rise residential, of the high tech multimedia centre located in the Sydney suburb Rozelle. The rezoning of this property should provide a significant value-add opportunity for Desane's shareholders in the near future.

i. Easton Rozelle Apartments

Strata registration of the 32 residential apartments and 3 commercial suites was achieved in November 2015, with the settlement of 30 apartments completed in December 2015. As the date of this report, Desane has realised \$27.8 million gross in sales revenue, with an additional \$3.6 million gross sales revenue expected before 30 June 2016.

Outlook

Desane expects the Australian commercial and industrial property market to continue to strengthen over the next three to four years, both in rental returns and capital growth. It is anticipated that there will be a tightening in property yields across the sector as vacancy rates fall and Sydney's commercial and industrial property availability continues to be absorbed by rezoning to residential redevelopment.

Desane's existing industrial and commercial property portfolio is under continual review, in order that the Group and its shareholders benefit from the strength of the Sydney residential market. Where appropriate, Desane will seek rezoning approval for some of its strategically well placed properties, in order to take advantage of these market conditions. **Desane's well cashed up balance sheet will allow the Group to take advantage of future property investment opportunities.**

It is intended that the Group will not only deal directly in properties but will also continue to be involved in joint venture projects with local and overseas corporations and institutions and may acquire equity in established enterprises which are considered to be of sound potential.

Desane has not engaged in any speculative investment or in any activities outside its expertise of property investment and property services. The Group continues to develop its skills and systems to meet its long-term objectives.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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