Harvey Norman®

HOLDINGS LIMITED | ACN 003 237 545

2020
ANNUAL REPORT

Australia | Singapore | Ireland | Malaysia
New Zealand | Slovenia | Northern Ireland | Croatia

2020
ANNUAL REPORT

Contents

Harvey Norman® DOMAYNE® JOYCE MAYNE®

KEY DATES:

28 August 2020: Announcement of Full-Year Profit to 30 June 2020 & Announcement of Final 2020 Dividend | **12 October 2020:** Record date for Determining Entitlement to Final 2020 Dividend | **2 November 2020:** Payment of Final 2020 Dividend | **25 November 2020 at 11:00am:** Annual General Meeting of Shareholders | **26 February 2021:** Announcement of Half-Year Profit to 31 December 2020 & Announcement of Interim 2021 Dividend | **1 April 2021:** Record date for Determining Entitlement to Interim 2021 Dividend | **4 May 2021:** Payment of Interim 2021 Dividend

COMPANY INFORMATION

Registered Office: A1 Richmond Road, Homebush West NSW 2140. Ph: 02 9201 6111 Fax: 02 9201 6250 | **Share Registry:** Boardroom Pty Limited, Level 12, 225 George Street, Sydney NSW 2000. Ph: 02 9290 9600 | **Auditors:** Ernst & Young (EY) | **Securities Exchange Listing:** Shares in Harvey Norman Holdings Limited (HVN) are quoted on the Australian Securities Exchange Limited (ASX) | **Solicitors:** Brown Wright Stein | **Company Secretary:** Mr. Chris Mentis

RESULTS FOR ANNOUNCEMENT TO THE MARKET

HARVEY NORMAN® HOLDINGS LIMITED

REPORTED PBT

$661.29m

↑ $86.73m (↑ 15.1%) FROM $574.56m IN 2019

PBT
Excluding AASB 16 net impact and net property revaluations

$635.60m

↑ $131.35m (↑ 26.0%) FROM $504.26m IN 2019

REPORTED PROFIT AFTER TAX & NCI

$480.54m

↑ $78.22m (↑ 19.4%) FROM $402.32m IN 2019

PROFIT AFTER TAX & NCI
Excluding AASB 16 net impact and net property revaluations

$462.16m

↑ $109.08m (↑ 30.9%) FROM $353.09m IN 2019

EBITDA

$944.67m

↑ $256.07m (↑ 37.2%) FROM $688.60m IN 2019

EBITDA
Excluding AASB 16 net impact and net property revaluations

$742.47m

↑ $124.18m (↑ 20.1%) FROM $618.30m IN 2019

EBIT

$721.08m

↑ $117.74m (↑ 19.5%) FROM $603.34m IN 2019

EBIT
Excluding AASB 16 net impact and net property revaluations

$654.86m

↑ $121.82m (↑ 22.9%) FROM $533.04m IN 2019

NET DEBT TO EQUITY: NIL

NET CASH OF **$15.35m** vs NET DEBT OF **$626.47m** in FY19
AN IMPROVEMENT OF **$641.83m**

UNUSED, AVAILABLE FINANCING FACILITIES OF
$685m
AS AT 30 JUNE 2020

TOTAL SYSTEM SALES REVENUE

$8.46 billion

AGGREGATED HEADLINE FRANCHISEE SALES REVENUE*	**$6.16bn**
COMPANY-OPERATED SALES REVENUE	**$2.29bn**

* Sales made by franchisees in Australia do not form part of the financial results of the consolidated entity.

HNHL CONSOLIDATED REVENUES

$3.55 billion

SALES OF PRODUCTS TO CUSTOMERS	**$2.29bn**
REVENUE RECEIVED FROM FRANCHISEES	**$1,055.87m**
REVENUES AND OTHER INCOME ITEMS	**$195.00m**

BASIC EARNINGS PER SHARE
39.19c
↑ from **33.94c** in 2019

DIVIDENDS PER SHARE (FULLY-FRANKED)
24.0c

539 FRANCHISEES IN AUSTRALIA	**194** FRANCHISED COMPLEXES IN AUSTRALIA	**96** OFFSHORE COMPANY OPERATED STORES

CHAIRMAN and CEO's REPORT

Dear Shareholder,

Globally, the 2020 financial year was a year of unique challenges.

The drought and bushfires last summer, followed by COVID-19, had a significant impact in the 8 countries where we, or our franchisees, trade.

In Australia, with the 'Shop Smart' and 'Shop Safe' guidelines, the Harvey Norman®, Domayne® and Joyce Mayne® franchisees bolstered their ability to safely service their customers. With the exception of the mandatory closure of two franchised complexes in Tasmania for a 2-week period, the 194 franchised complexes throughout Australia have remained open during the year.

Overseas in the 7 countries in which we operate, the respective governments mandated temporary closures of between 4 to 10 weeks, and staggered re-opening dates. As our company-operated stores overseas began to re-open to the public, sales improved quickly.

Pleasingly, customers continued to engage strongly with our brands and importantly, as we are in the lifestyle / home retail space, the customer was appreciative of the shopping experience, spaciousness and easy parking at the physical franchised complexes and stores, whilst embracing the ease of connection to our brands digitally and the important convenience of home delivery and click and collect.

The results achieved in 2020, are a testament to the strength of our model.

Record Financial Results

- Reported earnings before interest, tax, depreciation & amortisation (**EBITDA**) of $944.67m, up by $256.07m or +37.2%.
- Record EBITDA (excluding AASB 16 impact and net property revaluations) of $742.47m, up by $124.18m or +20.1%.
- Reported earnings before interest & tax (**EBIT**) of $721.08m, up by $117.74m or +19.5%.
- Record EBIT (excluding AASB 16 impact and net property revaluations) of $654.86m, up by $121.82m or +22.9%.
- Reported profit before tax (**PBT**) of $661.29m, up by $86.73m or +15.1% from prior year, our highest ever PBT on record.
- PBT (excluding AASB 16 net impact and net property revaluations) of $635.60m, up by $131.35m or +26.0%, our highest ever since inception.
- Reported net profit after tax (**NPAT**) and non-controlling interests of $480.54m, up by $78.22m or +19.4%.
- NPAT (excluding AASB 16 net impact and net property revaluations) of $462.16m, up by $109.08m or +30.9%.
- Very strong balance sheet with total assets of $5.83 billion, including tangible freehold property assets of over $3 billion.
- Positive net cash position of $15.35m (cash net of interest-bearing loans and borrowings) at the end of FY20, compared to a net debt position of $626.47m at the end of FY19. This equates to a net debt to equity ratio of nil as at 30 June 2020 compared to a net debt to equity ratio of 19.46% as at 30 June 2019. This was achieved through the stronger cash receipts and the stringent measures implemented during FY20 to preserve cash and reduce external debt. As at 30 June 2020, the consolidated entity had $685 million of unused, available financing facilities, and is therefore well-placed to respond to challenges that may arise.
- Net Assets of $3.5 billion, up by 8.7% from $3.2 billion.

CHAIRMAN and CEO's REPORT (continued)

Record Financial Results (continued)

- Net cash flows from operating activities of $1.1 billion for FY20, up $684.12 million or +183%, from $372.85 million in FY19.
- Earnings per share (EPS) of 39.19 cents, up by 15.5% from 33.94 cents.
- PBT return on net assets of 19.02% for FY20, up from 18.0% in FY19.

Property

- 30 June 2020: 194 franchised complexes in Australia and 96 company-operated stores overseas.
- Robust $3 billion property portfolio, consisting of freehold investment properties in Australia, owner-occupied land and buildings in New Zealand, Singapore, Slovenia, Ireland and Australia and joint venture assets.
- 6 new company-operated stores opened during FY20 – 5 in Malaysia during HY20 at Mid Valley Southkey, Johor Bahru (July 2019), AEON Mall, Kota Bahru (October 2019), IPC Toppen, Johor Bahru (November 2019), Ipoh Parade, Ipoh (November 2019) and Batu Kawan, Penang (December 2019); and 1 in New Zealand at Takanini in South Auckland (March 2020).
- The remaining 5 stores that were due to open in the second half of FY20 in Malaysia (2), Singapore (1), and Ireland (2) did not occur as planned due to the government lockdowns and business closures in response to COVID-19.
- We intend to open up to 12 new stores overseas during FY21.

In last year's report, we had disclosed our international expansion plans and our intention to open up to 21 new stores overseas by the end of the 2021 financial year, with 17 of those new stores in Singapore and Malaysia. Of those 21 new stores, 10 stores were planned to open in FY20 and 11 stores were planned for FY21. We were on track with our offshore store opening program in Malaysia and had opened 5 new stores prior to 31 December 2019, in line with our schedule. In addition, we opened an electrical outlet store at Takanini, South Auckland in March 2020. The COVID-19 pandemic halted our overseas expansion plans, and the remaining 5 stores slated for the second half of this year were delayed due to government mandated lockdowns and business closures.

We have revised our plans, and we now intend to open up to 12 new stores overseas during the 2021 financial year. We have already opened the Galway City store in Ireland on 22 July 2020, only 3 months behind schedule and the Sligo store is anticipated to open in October 2020. Our second store in the town of Pula in Croatia is on track to open in November 2020, and we intend to open 3 new stores/outlets in New Zealand by December 2020. The remaining 6 stores will be in Southeast Asia, which remains our fastest growing offshore region, with 3 new stores in Singapore to open before December 2020, and 3 new stores in Malaysia to open between October 2020 and May 2021.

Our 'premium refit plan' announced last year continued throughout FY20, but was scaled back to those refits that were necessary for the safety, comfort and security of customers and for the protection of our brands. We anticipate recommencing the premium refit plan in FY21.

COVID-19 Update

The coronavirus pandemic (COVID-19) presented different challenges in each of the 8 countries in which we, or our franchisees, operate.

In our 8 countries, the primary concern for respective governments was, and is, keeping workers in jobs and businesses in business – building a bridge to recovery on the other side post the pandemic.

COVID-19 has been a fast evolving and a significant challenge globally, and governments have supported their economies during this extraordinary time. In our overseas territories, the respective governments mandated temporary closures of between 4 to 10 weeks, and staggered re-opening dates. The temporary closures resulted

CHAIRMAN and CEO's REPORT (continued)

COVID-19 Update (continued)

in a significant decline in turnover for each of our overseas businesses, and based on the eligibility criteria of the COVID-19 support and assistance offered by the respective governments, each of our offshore subsidiaries applied for, and were eligible to receive, wages support and assistance of $22.28 million in aggregate. All of the support and assistance was passed onto our employees, and we did not terminate the employment of any employee as a result of the pandemic. Our offshore businesses also received property-related support and assistance (including rent abatements from landlords) of $9.81 million in aggregate.

The assistance received from governments and landlords ensured businesses could survive and thrive after the lifting of mandated lockdowns. Importantly, it ensured workers continued to get paid and have been able to meet their personal obligations even though businesses were in hibernation.

		Government Mandated Temporary Closure Dates			Government Wage Support & Assistance	Property Support & Assistance
		Affected Product Category	Date Closed	Date Re-opened		
New Zealand	40 Retail Stores	All product categories	26/03/20	14/05/20	$12.04m	$0.95m
	Online trade	Online trade (Essential Products)	26/03/20	31/03/20		
		Online trade (excluding Essential Products)	26/03/20	28/04/20		
Malaysia	23 Retail Stores	Electrical & Computer product categories	18/03/20	Staggered store re-openings from: 18/04/20 to 12/05/20	$0.13m	$1.50m
		Furniture & Bedding product categories	18/03/20	Staggered store re-openings from: 04/05/20 to 12/05/20		
	Online trade	No online trade for Electrical & Computers	18/03/20	18/04/20		
		No online trade for Furniture & Bedding	18/03/20	04/05/20		
Singapore	12 Retail Stores	All product categories	07/04/20	19/06/20	$5.62m	$5.89m
	Online trade	Online permitted - all product categories	n/a	n/a		
Republic of Ireland	13 Retail Stores	Electrical & Computer product categories	28/03/20	18/05/20	$3.35m	$1.06m
		Furniture & Bedding product categories	25/03/20	08/06/20		
	Online trade	Online permitted - all product categories	n/a	n/a		
Northern Ireland	2 Retail Stores	No retail & no online trade	24/03/20	08/06/20	$0.38m	$0.29m
Slovenia	5 Retail Stores	All product categories	16/03/20	20/04/20	$0.48m	$0.05m
	Online trade	Online permitted - all product categories	n/a	n/a		
Croatia	1 Retail Store	All product categories	19/03/20	27/04/20	$0.28m	$0.07m
	Online trade	Online permitted - all product categories	n/a	n/a		
					$22.28m	$9.81m

We own or control other non-franchised retail and wholesale operations under various brand names in Australia (outside of the Harvey Norman®, Domayne® and Joyce Mayne® brands). These other non-franchised businesses applied for, and were eligible to receive, $2.39 million of wages support and assistance during 4Q20, all of which was passed on in order to retain employees. In addition, they received $0.33 million in rent abatements from their landlords.

CHAIRMAN and CEO's REPORT (continued)

COVID-19 Update (continued):

In Australia, certain franchisees were eligible for the government COVID-19 JobKeeper support for the retention of the employees of the respective franchisees. In aggregate, this amounted to $7.6 million.

Outlook

The continued impact globally because of the fast evolving COVID-19, remains unknown.

To date, the biggest consumer change we have seen in our 8 countries, is the elevated importance of family, home, work and study from home, cooking and entertainment from home. Our brands are well placed to take advantage of this trend.

The sales uptick we saw in the last quarter in Australia accelerated in July and has continued in August and September - notwithstanding the metropolitan Melbourne Government mandated Stage 4 lockdown.

Within our company-operated stores overseas, sales improved quickly as they re-opened to the public following government mandated closures. This improvement continued into the September quarter, notwithstanding the New Zealand Government lockdown of metropolitan Auckland from 11th August 2020 to 30th August 2020.

We'd like to thank all our staff for their loyalty and commitment to our vision, and pay tribute to the commendable efforts of our franchisees throughout the year. We value and appreciate the continued support and confidence of our shareholders in the leadership and future direction of our business.

G. HARVEY
Chairman
Sydney
30 September 2020

K.L. PAGE
Chief Executive Officer
Sydney
30 September 2020

SHOP SMART

SHOP SAFE

We've always taken pride in being the place where customers can 'Shop with 'Confidence', and in the current climate, that's more important than ever.

Our stores overseas and our Australian franchisee complexes are spacious, with an open-plan configuration. We're following social distancing guidelines and have increased cleaning measures to help keep everyone safe.

Options are available to allow customers to plan their shop from home with contactless delivery and Click & Collect options available.

There is a dedication to providing access to everything customers may need for their homes – fridges, washing machines, air purifiers, food preparation and cooking appliances, laptops, home office accessories, entertainment, audio, lounge & dining furniture, mattresses, sofa beds and much more.

We're doing our part to help everyone stay safe.

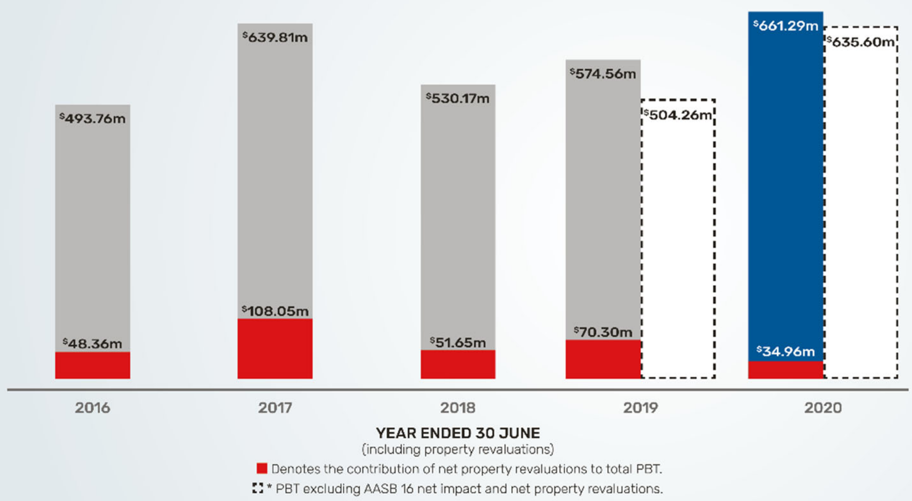
OPERATING and FINANCIAL REVIEW

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

YEAR ENDED 30 JUNE 2020

REPORTED PROFIT BEFORE TAX	PBT excluding AASB 16 net impact and net property revaluations
$661.29m	$635.60m
▲ 15.1% ON 2019	▲ 26.0% ON 2019

PROFIT BEFORE TAX AS REPORTED ($M)



REPORTED PBT
$661.29m
UP BY 15.1% ON 2019

PBT*
$635.60m
UP BY 26.0% ON 2019

Reported profit before tax (**PBT**) for FY20 was $661.29 million, an increase of $86.73 million or +15.1%, from $574.56 million in FY19. Excluding the incremental impact of the first-time application of AASB 16 *Leases* and the net property revaluation adjustments, there was a solid 26.0% or $131.35 million increase in PBT to $635.60 million in FY20, from $504.26 million in FY19.

AN INTEGRATED RETAIL, FRANCHISE, PROPERTY AND DIGITAL STRATEGY

PBT COMPOSITION BY OPERATING SEGMENT		
Franchising Operations	$348.59m	52.7%
Offshore Company-Operated Retail	$152.08m	23.0%
	$500.67m	75.7%
Property Investment	$173.19m	26.2%
Other	($12.57m)	(-1.9)%
	$661.29m	100.00%

During FY20, the franchising operations segment was the largest contributor to PBT comprising 52.7% of PBT compared to 43.2% of PBT in FY19. Profitability of the franchising operations segment increased by $100.19 million or +40.3%, directly attributable to the growth in aggregated franchisee sales revenue to $6.16 billion in FY20, an increase of $505.65 million or +8.9%, fuelled by growth in the 2nd half of FY20, particularly in 4Q20.

The offshore company-operated retail segment delivered solid sales for FY20 of $2.08 billion, up by $71.17 million or +3.5%, despite government-mandated lockdowns and business closures in all of the 7 overseas countries for a 4 to 10 week period, with staggered re-opening dates in 4Q20. Profitability of the offshore company-operated retail segment rose by $22.38 million or +17.3%, to $152.08 million in FY20, from $129.70 million in FY19. NZ was the largest contributor to this growth, increasing by $21.76 million or +28.1% from FY19. The retail result for Ireland and Northern Ireland combined was $16.87 million for FY20, an increase of $9.08 million or +116%, from $7.80 million in FY19.

OPERATING and FINANCIAL REVIEW (continued)

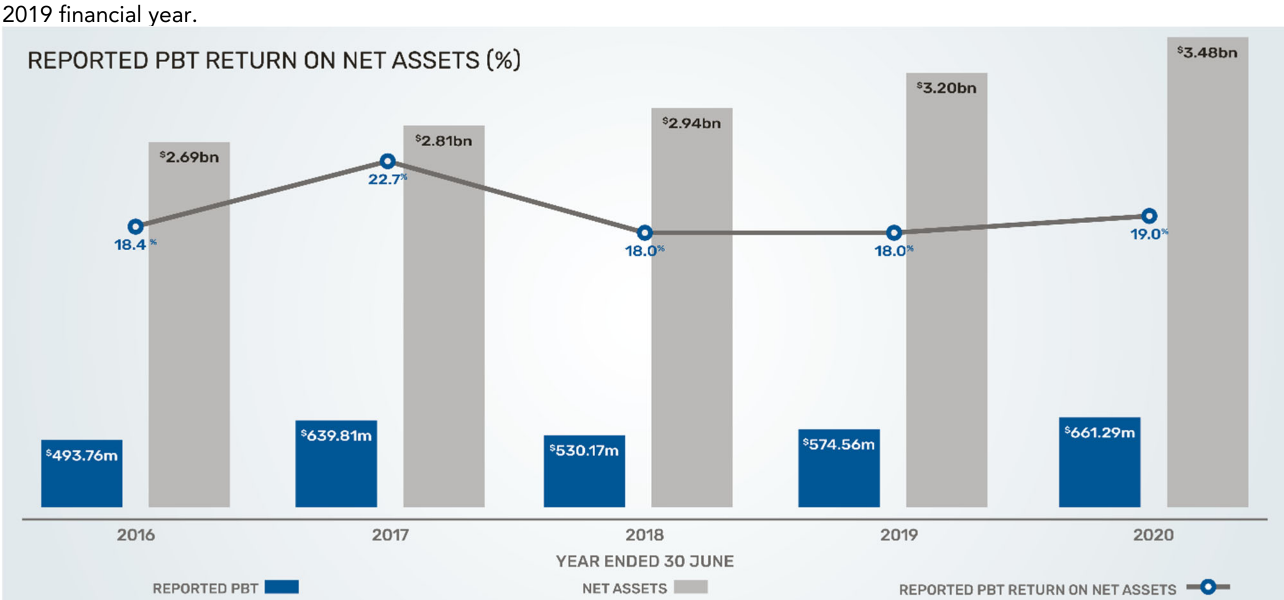
Reported Profit Before Tax (PBT) and Profit After Tax (PAT) (continued)

The retail result for Slovenia and Croatia increased by $0.98 million, or +13.1%, to $8.43 million in FY20. This was offset by a reduction in the retail result for Singapore and Malaysia by $9.44 million, or -25.5%, to $27.62 million in FY20 despite 5 new stores in Malaysia in HY20, due to the temporary closures to control the spread of COVID-19 in Southeast Asia, and the prolonged subdued retail, consumer and business sentiment in Singapore. The offshore retail businesses represent 23% of consolidated PBT.

The retail property segment delivered a result of $173.19 million in FY20 compared to a result of $204.68 million in FY19, a reduction of $31.49 million or -15.4%, mainly due to a lower net property revaluation increment of $34.96 million in FY20 relative to a net increment of $70.30 million in FY19. The lower net property revaluation increment by $35.35 million was offset by higher rent received from franchisees and other external tenants during the year, net of any COVID-19 rent abatements granted in the June 2020 quarter. The consolidated entity owns and manages a robust freehold property portfolio valued at over $3 billion as at 30 June 2020. These large-format retail properties are characterised by larger retail footprints and generous floor layouts, providing a safer, more spacious and comfortable shopping experience. Property values of large-format retail complexes have been more resilient, despite the softening investment values of some traditional, multi-storey shopping centres in Australia.

The ‘Other’ component of PBT, with a loss totalling $12.57 million for the 2020 financial year, is comprised of the remaining operating segments of the consolidated entity. These include the following: Other Non-Franchised Retail segment which incurred a loss of $8.84 million in FY20, compared to a loss of $16.67 million in FY19; Equity Investments which sustained a loss of $2.15 million in FY20 due to the fall in equity prices partially attributable to COVID-19, compared to a profit of $18.40 million in FY19 and the Other Segment which incurred a loss of $1.58 million in FY20, compared to a loss of $9.95 million in FY19.

The PBT return on net assets was 19.02% for the 2020 financial year, compared to a PBT return on net assets of 18.0% for the 2019 financial year.



YEAR ENDED 30 JUNE 2020

REPORTED PROFIT AFTER TAX & NCI	PAT & NCI excluding AASB 16 net impact and net property revaluations
$480.54m ▲ 19.4% ON 2019	$462.16m ▲ 30.9% ON 2019

Net profit after tax (**NPAT**) and non-controlling interests increased by $78.22 million, or +19.4%, to $480.54 million for the 2020 financial year, from $402.32 million in the preceding year. Excluding the AASB 16 net impact and the after tax net property revaluation adjustments, NPAT would have been $462.16 million for FY20, up by $109.08 million or +30.9% relative to FY19. The effective tax rate was 26.50% for the 2020 financial year, compared to an effective tax rate of 28.81% for the 2019 financial year. This was primarily due to the recognition of a large credit to deferred tax expense of $14.77 million in FY20 (FY19: nil) in New Zealand resulting from a legislative change as part of the COVID-19 Act (passed in March 2020) to re-introduce tax deductions in NZ for future building depreciation expenses.

OPERATING and FINANCIAL REVIEW (continued)

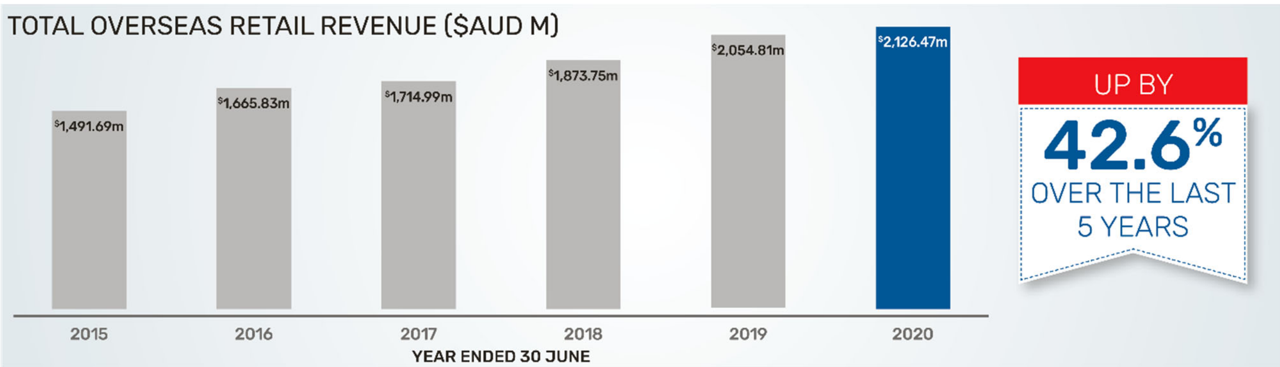
Offshore Company-Operated Retail Segment

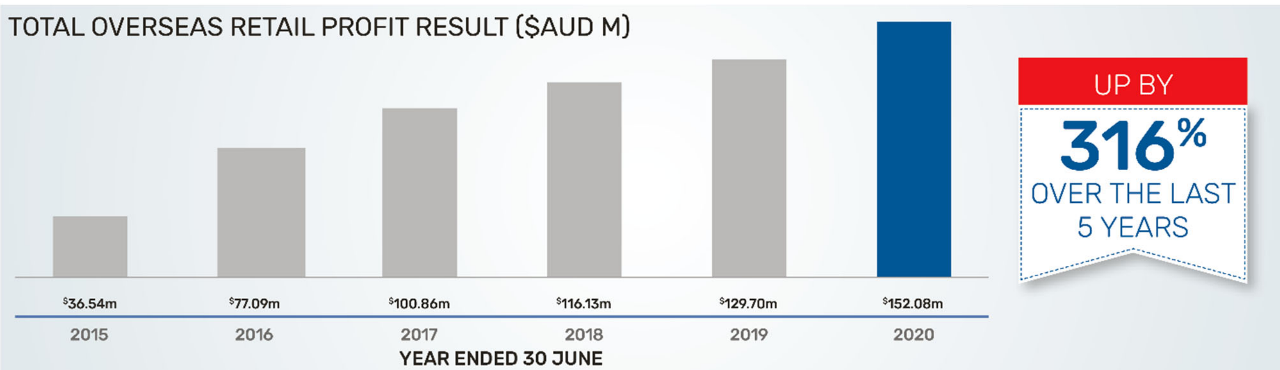
FY20 OFFSHORE RETAIL REVENUE **$2.13 billion** | OFFSHORE PROFIT **23%** OF TOTAL PROFIT BEFORE TAX

The Harvey Norman® brand trades under a company-operated retail model overseas, with 96 Harvey Norman® stores in 7 countries outside of the Australian market. Offshore revenue has risen to $2.13 billion in FY20 compared to $2.05 billion in FY19, up by $71.66 million or +3.5%. Offshore profitability has increased to $152.08 million during FY20, representing 23% of total consolidated profit before tax.

Last year we had reported our overseas expansion plans, with the intention of opening 21 new stores overseas – 10 stores were proposed to open in FY20 and 11 stores in FY21. We were on track with our expansion plans in Southeast Asia up to December 2019, with the opening of 5 new Harvey Norman® stores in Malaysia during HY20. The government-enforced lockdowns and business closures to flatten the COVID-19 curve, coupled with the strategic measures we have taken to preserve cash, put our expansion plans on hold and the remaining 5 stores slated for opening in the second half did not occur. 4 of those stores will now open in HY21 – with the Galway store in Ireland opening its doors on 22 July 2020, the proposed opening of our Sligo store in Ireland in October 2020, and a store in Singapore and Malaysia expected to open in September and November 2020 respectively.

Despite the government mandated temporary closures and staggered re-opening dates, and the prolonged uncertainty around COVID-19, total aggregated company-operated retail sales and other revenue for the 96 Harvey Norman® branded stores overseas and the 2 Space Furniture® branded stores in Asia grew by $71.66 million, or 3.5%, to $2.13 billion for FY20, relative to $2.05 billion in FY19.

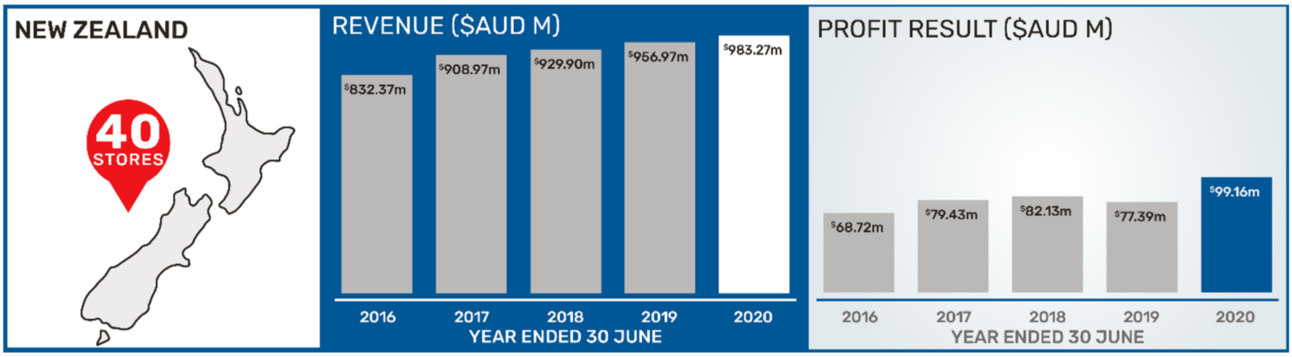




The result before tax for the overseas company-operated retail segment increased by $22.38 million, or +17.3%, to $152.08 million for FY20, from $129.70 million in FY19. The first-time application of AASB 16 *Leases* reduced the profitability of offshore operations by $3.79 million for FY20. Excluding the incremental impact of AASB 16, the offshore profit result, in aggregate, would have been $155.87 million, an increase of $26.17 million or +20.2%.

OPERATING and FINANCIAL REVIEW (continued)

Offshore Company-Operated Retail Segment (continued)



New Zealand | 40 Harvey Norman® Company-Operated Stores

In the December 2019 half-year report, we disclosed the pleasing, solid sales performance of our business in New Zealand. We had reported another record half, with sales revenue topping over half-a-billion dollars in both local currency and on translation to Australian dollars. Sales in local currency soared to $NZ533.83 million, up by $NZ20.61 million or +4.0% for HY20, from $NZ513.22 million in HY19. Sales continued to show modest growth in January and February and we then saw a spike in March 2020 as New Zealand businesses prepared for temporary closures and mobilised their employees to work-from-home. A new electrical outlet located at Takanini in South Auckland was opened in March 2020, bringing the total number of company-operated stores to 40.

In New Zealand, the consolidated entity employs nearly 2,000 full-time and part-time employees across 40 Harvey Norman® company-operated stores. When the pandemic struck in early March, the safety and livelihoods of our New Zealand employees, adherence to the work-safety guidelines and restrictions enforced by the NZ Government, and our dedication to service our loyal customers and support local communities were paramount. Alert Level 3 and 4 restrictions in New Zealand came into effect on the evening of the 25th March 2020, and from 26th March up to the 13th May 2020, each of our 40 stores were closed to the public. When permitted to do so, we concentrated our efforts to our online 'essential-services' offering and we worked hard to ensure that our customers in NZ could purchase their essential needs safely and swiftly, in a contactless manner. Despite our refocus to online trade, sales in NZ suffered a significant decline in local currency during the 7-week Alert Level 3 & 4 lockdown periods, relative to the previous corresponding period.

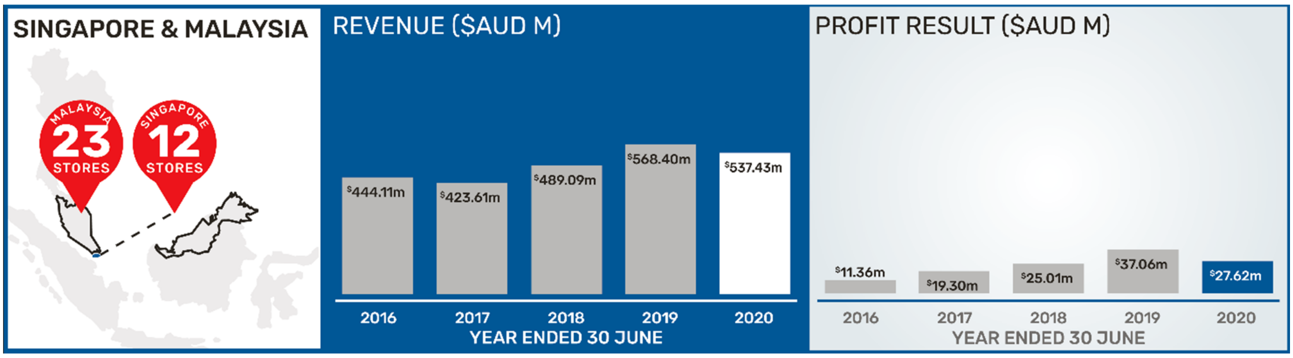
As our NZ operations had suffered a significant decline in turnover of more than 30% as a direct result of COVID-19, our 40 company-operated stores were eligible for the 'Wage Subsidy Scheme' offered by the New Zealand Government. NZ received wages support and assistance of $NZ12.70 million (or $12.04 million when translated into Australian dollars) up to 9th June 2020 (the end date of the subsidy period). The wages support and assistance in New Zealand assisted in sustaining our NZ operations and retaining all our staff during the period that we were not able to trade at normal capacity. All 40 Harvey Norman® stores re-opened to the public from 14th May 2020 and we saw a significant rebound and surge in the sales trend when the Alert Level 3 restrictions were lifted.

In what was a tumultuous year, the New Zealand business generated sales of **$NZ1.01 billion for the year ended 30 June 2020, an increase of $NZ14.96 million or 1.50%** from $NZ998 million in the 2019 financial year. Translated into Australian dollars, sales revenue **increased 2.7%, or $25.09 million, to $960.19 million** in the 2020 financial year. There was a 1.17% appreciation of the New Zealand dollar relative to the Australian dollar during the current year.

Similar to the trend experienced in Australia, with international travel not an option, NZ consumers focussed on the 'home' with home renovations and improvements. The housing market in NZ has remained stable, assisted by supply shortages and lower interest rates. This trend has seen sales and market share growth across all key product categories. Robust sales with strong margins, and an effort to curtail and streamline operating expenses, has resulted in an increase in the retail result in New Zealand **by $21.76 million, or 28.1%, to $99.16 million** for the year ended 30 June 2020, up from $77.39 million in the previous year.

OPERATING and FINANCIAL REVIEW (continued)

Offshore Company-Operated Retail Segment (continued)



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

Malaysia | Sales Revenue | 23 Harvey Norman® Company-Operated Stores

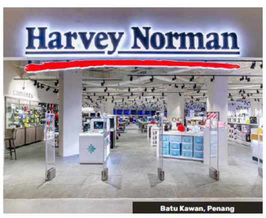
We were on track with our expansion plans in Malaysia in the first half of the 2020 financial year with the opening of 5 Harvey Norman® stores prior to December 2019 located at Mid Valley Southkey, Johor Bahru (July 2019), AEON Mall, Kota Bharu (October 2019), IPC Toppen, Johor Bahru and Ipoh Parade, Ipoh (both in November 2019) and Batu Kawan, Penang (December 2019). The Malaysian economy was growing strongly and we were confident about our aspirational growth target of having 50 Harvey Norman® stores in Malaysia within the next 5 years. HY20 sales in Malaysia were strong at $S112.27 million, an increase of $S13.67 million or 13.9% from $S98.60 million in HY19.

On 18th March 2020, the Malaysian government issued a Movement Control Order (**MCO**) to control the spread of COVID-19, resulting in the temporary closure of all 23 stores, with a phased re-opening from 18th April 2020. Our Malaysian business adhered to the directives of the Malaysian Government and generated nil sales during the temporary full closure of all physical stores and online trade for the period from 18th March to 17th April 2020 inclusive. From 18th April 2020, the Malaysian Government commenced the easing of their restrictions, permitting the staggered re-opening of stores. From the 18th to 30th April 2020, 14 stores re-opened for trade for electrical and computers only. From 1st May to 12th May 2020, the remaining stores and the furniture and bedding categories re-opened. Following the MCO mandated lockdown, sales in Malaysia began to improve.

Amid the challenges of the second half, and the higher sales base in early FY19 due to the temporary reprieve from GST obligations, the Malaysian business recorded sales of $S208.20 million for FY20, an increase of $S15.61 million or 8.1%, from $S192.58 million in FY19. Translated to Australian dollars, the sales increase was $27.11 million, or 13.8%, to $224.23 million.

Last year we announced that we would open 14 new stores in Malaysia, 7 in FY20 and 7 in FY21. We had opened 5 new stores prior to December 2019, however the remaining 2 stores did not open in the second half of the financial year due to the pandemic. We presently anticipate opening 3 new stores in FY21, deferring the remaining 6 stores to FY22.


Ipoh Parade, Ipoh



Batu Kawan, Penang


Mid Valley Southkey, Johor Bahru

AEON Mall, Kota Bharu


IPC Toppen, Johor Bahru

OPERATING and FINANCIAL REVIEW (continued)

Offshore Company-Operated Retail Segment (continued)

Singapore | Sales Revenue | 12 Harvey Norman® Company-Operated Stores

In stark contrast to the stronger retail trading environment in Malaysia, retail, business and consumer sentiment was subdued in Singapore throughout the first half of FY20, which was further exacerbated by the COVID-19 pandemic which saw all 12 Harvey Norman® stores in Singapore closed under the government-enforced "Circuit Breaker" measures from 7th April to 18th June 2020 inclusive.

Earlier this year, we reported lower HY20 sales in Singapore by $S20.72 million in local currency or -11.9% to $S153.55 million, down from $S174.27 million in HY19. This sales trend continued throughout the March 2020 quarter due to the adverse conditions of the protracted trade war between the United States and China, the mounting fears around COVID-19 and the progressive restrictions to contain the spread of COVID-19 in Singapore.

The Circuit Breaker measures of the Singapore Government came into effect on the 6th April 2020, which was a 'stay-at-home' order incorporating the mandatory closure of all non-essential workplaces from 7th April 2020. From 7th April to 18th June 2020, all 12 Harvey Norman® stores in Singapore were closed to the public, however, online trade was permitted to continue. The shift to an online-only model, and the re-positioning of staff to enable contactless online sales and deliveries during Circuit Breaker was insufficient to stem the significant decline in sales, compared to the full-service offering both in-store and online in the previous corresponding period.

All 12 Harvey Norman® stores re-opened on 19th June 2020 pursuant to the Phase 2 "Safe Transitioning" re-opening of the economy in Singapore. Sales quickly rebounded upon the resumption of in-store trade.

The Jobs Support Scheme (JSS) of the Singapore Government was announced as part of the Solidarity Budget handed down on 6th April 2020. Under the JSS, affected industries were granted wages support and assistance to employers to help them retain their local employees (Singapore citizens and permanent residents) during the period of economic uncertainty. Our Harvey Norman® operations in Singapore recognised $S4.73 million (or $5.09 million in Australian dollars) in wages support and assistance pursuant to the JSS from April to June 2020. In addition, property rental waivers and property tax rebates were offered under the Solidarity Budget and following negotiations with landlords, resulting in the recognition of $S5.11 million (or $5.50 million in Australian dollars) in COVID-19 related property support and assistance in FY20. This support and assistance was integral to the viability of the Singaporean operations during Circuit Breaker to enable the business to continue to pay and retain their staff and maintain the payment of operating expenses.

Total sales for the 12 Harvey Norman® stores in Singapore declined by $S66.89 million, or -20.0%, to $S267.21 million in FY20, from $S334.10 million in FY19. Translated to Australian dollars, the reduction in sales was $54.18 million, or -15.8%, to $287.79 million for FY20, from $341.97 million in FY19.

Last year we announced that we would open 3 new stores in Singapore, 1 in FY20 and 2 in FY21. No new stores were opened during FY20, with the proposed FY20 store delayed to September 2020 due to the pandemic. We plan to open a further 2 new stores in FY21, bringing the total new stores in Singapore to 3 for FY21. We have also earmarked another site for possible opening in early FY22.

Retail – Singapore & Malaysia | Sales and Segment Result

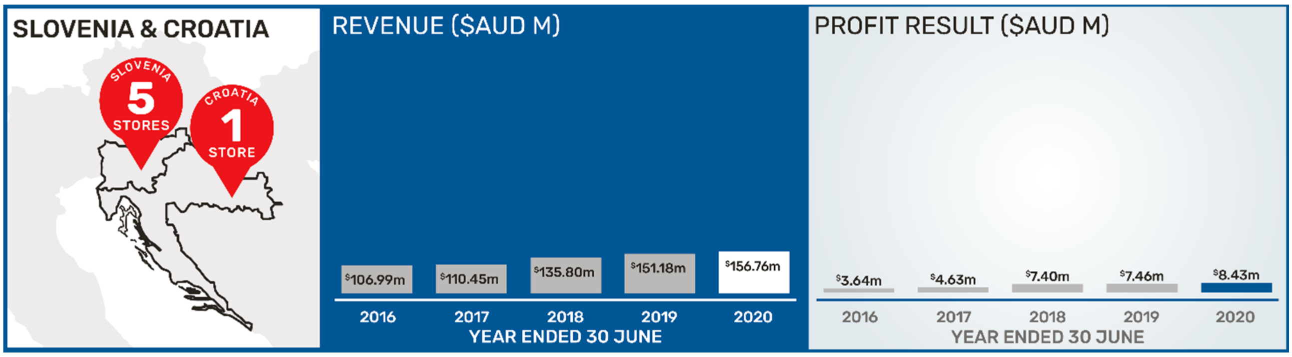
Aggregated sales revenue for the Harvey Norman® and Space Furniture® brands in Asia totalled $S487.01 million in local currency for FY20, down by 10.3%, or $S55.68 million, from $S542.69 million in FY19. Translated to Australian Dollars, the reduction in sales was 5.4% or down $29.72 million to $525.75m, from $555.47 million in FY19. Sales were assisted by a 5.22% appreciation of the Singapore dollar relative to the Australian dollar over the past year.

Sales revenue for the Space Furniture® brand in Singapore and Malaysia combined decreased by $2.66 million, or -16.2%, due to mandatory closure periods and the cautious outlook of consumers.

The segment profit result for the Harvey Norman® and Space Furniture® brands in Asia totalled $27.62 million for FY20, a decrease of $9.44 million or -25.5%, from $37.06 million in FY19. This decrease incorporates the net financial impact of adopting AASB 16 *Leases* from 1 July 2019 which saw expenses increase by $3.93 million as all Harvey Norman® stores in Southeast Asia are leased from external landlords. Excluding the net impact of AASB 16, the segment profit result for FY20 would have been $31.54 million, a decrease of $5.51 million, or -14.9%.

OPERATING and FINANCIAL REVIEW (continued)

Offshore Company-Operated Retail Segment (continued)



Slovenia | 5 Harvey Norman® Company-Operated Stores

In the December 2019 half-year report, we disclosed that sales revenue from the 5 company-operated stores in Slovenia increased to €39.82 million, up by €1.65 million or +4.3%, from €38.17 million in HY19. Translated into Australian Dollars, sales revenue increased +6.4% or $3.87 million to $64.55 million. This sales growth resulted in a record half-year profit of $5.24 million for HY20. Sales growth was solid throughout January and February before the government mandated lockdown.

The COVID-19 pandemic throughout Europe saw the 5 Harvey Norman® stores in Slovenia close by government decree from 16th March to 19th April 2020, with online trade permitted. Upon re-opening from 20th April 2020, sales have grown significantly.

Total sales revenue for FY20 was €73.04 million, up by €0.50 million or +0.7%, from €72.54 million in FY19. Translated into Australian dollars, sales revenue increased $4.66 million, or +4.0%, to $120.35 million, assisted by a 3.31% appreciation of the Euro relative to the Australian dollar during FY20. Retail profit for FY20 was $8.26 million, up by $1.38 million or +20.1%, from $6.88 million in FY19. Similar to the trend experienced in Australia and other offshore locations, the travel restrictions imposed by the COVID-19 pandemic have resulted in people renovating and improving their homes.

Croatia | Flagship Harvey Norman® Store located at Zagreb

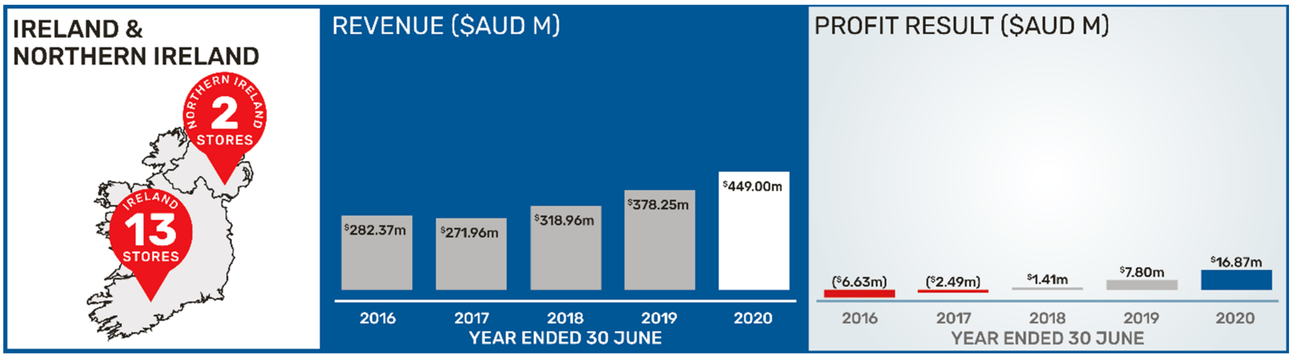
The Zagreb store was relaunched as a Flagship in October 2018. In the December 2019 half-year report, we disclosed that the full 6 month contribution from the reinvigorated Flagship drove sales to €11.56 million in HY20, up by €1.13 million or +10.9%, from €10.43 million in HY19. Translated into Australian dollars, sales revenue increased +13.0% or $2.16 million to $18.74 million. Sales growth was solid throughout January and February before suffering from the government mandated lockdown.

The Zagreb Flagship was closed by government decree from 19th March to 26th April 2020, with online trade permitted. Sales growth has steadily increased upon re-opening the Zagreb Flagship.

Sales revenue increased to $34.01 million in FY20, up $0.78 million or +2.4%, from $33.23 million in FY19. However, profit decreased to $0.17 million in FY20, down $0.41 million or -70.6%, from $0.58 million in FY19. The Croatian economy has a significant tourist sector adversely affected by the travel restrictions imposed by the COVID-19 pandemic. We plan to open our second store in the town of Pula in November 2020.

OPERATING and FINANCIAL REVIEW (continued)

Offshore Company-Operated Retail Segment (continued)



Ireland | 13 Harvey Norman® Company-Operated Stores

In the December 2019 half-year report, we disclosed that sales revenue increased to €143.94 million for HY20, up by €13.07 million or +10.0%, from €130.87 million in HY19. Translated into Australian dollars, sales revenue increased by +12.1% or $25.27 million, to $233.33 million. The retail segment result in Ireland generated a profit of $12.36 million for HY20, a solid improvement of $1.76 million or +16.6% on the $10.60 million profit in HY19. The 13 Harvey Norman® company-operated stores in Ireland outperformed the discretionary retail market, with market share gains across all key product categories.

This sales trajectory continued into 3Q20, with a significant increase in March 2020 as home office and technology sales grew strongly with individuals and businesses looking for home office solutions to work from home. The appliances category grew significantly and, after a strong HY20, the reality of lockdown in Ireland resulted in the swift adaptation to provide an effective online offering. The Irish business continued to innovate, launching contactless Click & Collect and focusing on the online customer experience. The ongoing success of the Tallaght Flagship, complemented by the investment in an effective digital strategy, ensured Harvey Norman® was the first point of call for Irish consumers wanting to set up a home office or reinvigorate their homes.

The Irish Government decree resulted in the closure of all Furniture & Bedding departments across the physical store network from 25th March to 7th June, and Electrical & Computer departments across the physical store network from 28th March to 17th May. Online trade was permitted during this period. The government mandated lockdown resulted in a significant sales decrease over the lockdown period.

Post lockdown, sales for the Irish business rebounded strongly. Sales revenue increased to €256.76 million for FY20, up by €36.31 million or +16.5%, from €220.44 million in FY19. Translated into Australian dollars, sales revenue increased by +20.3% or $71.47 million, to $423.06 million. The retail segment result in Ireland generated a profit of $17.58 million for FY20, an increase of $9.54 million or +119% on the $8.05 million profit in FY19.

The COVID-19 pandemic delayed the opening of new stores at Galway and Sligo. The Galway store opening was initially scheduled for April 2020, but was delayed, and opened on 22nd July 2020. This full-format store is 60,000 sq. ft. and anchors the second phase of the Gateway Retail Park in Knocknacarra on the west side of Galway City. The 43,600 sq. ft. full-format store at Sligo Retail Park, Carraroe, Sligo, was initially expected to open in FY20, but now has been delayed to October 2020.

Northern Ireland | 2 Harvey Norman® Company-Operated Stores

In the December 2019 half-year report, we disclosed that sales revenue increased to £6.13 million for HY20, up by £0.55 million or +9.8%, from £5.58 million in HY19. Translated into Australian dollars, sales revenue increased by +13.0% or $1.30 million, to $11.27 million. The retail segment result in Northern Ireland generated a profit of $0.09 million for HY20, an improvement of $0.35 million on the ($0.26) million loss in HY19. The Flagship store on the iconic Boucher Road has gone from strength-to-strength, recording double digit sales growth during the half in a very difficult trading environment.

The second half of this year should have seen the Northern Ireland business leverage its position as the number one furniture and bedding destination in Northern Ireland. Instead, the UK Government decree resulted in the closure of the 2 stores at Boucher Road & Holywood from 24th March to 7th June. Online trade was not permitted during the lockdown period.

COVID-19, coupled with the existing political challenges in the region, had the impact of decreasing sales revenue to £9.30 million for FY20, down £0.96 million or -9.4%, from £10.26 million in FY19. Translated into Australian dollars, sales revenue decreased by -6.0% or $1.12 million, to $17.45 million. The retail segment result in Northern Ireland generated a loss of ($0.71) million for FY20, a deterioration of $0.46 million on the trading loss of ($0.25) million in FY19.

OPERATING and FINANCIAL REVIEW (continued)

Other Non-Franchised Retail

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

Total revenue for the other non-franchised retail segment was $226.47 million for FY20, a decrease of $0.79 million or -0.3%, from segment revenue of $227.26 million in FY19.

The result for the non-franchised retail segment was a loss of $8.84 million for FY20, compared with a loss of $16.67 million in FY19, a reduction in the loss by $7.83 million from the loss incurred in FY19.

The other non-franchised retail and wholesale businesses in Australia did not close to the public during the second half of FY20. Whilst they remained open throughout, these businesses operate in the retail categories that have been adversely impacted by the COVID-19 pandemic, resulting in significant decreases in turnover, particularly in the months of March and April 2020.

Other Segment

The Other segment is primarily comprised of credit facilities provided to related and unrelated parties and other unallocated income and expense items.

The Other segment incurred a loss of $1.58 million for FY20 compared to a loss of $9.95 million in FY19, a reduction in the loss by $8.37 million.

Equity Investments

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

The equity investments segment incurred a loss of $2.15 million for the 2020 financial year, compared to a profit of $18.40 million in the 2019 financial year.

Auburn, Sydney
(Australia Flagship complex)

THE FRANCHISING OPERATIONS SEGMENT IN AUSTRALIA

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

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

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

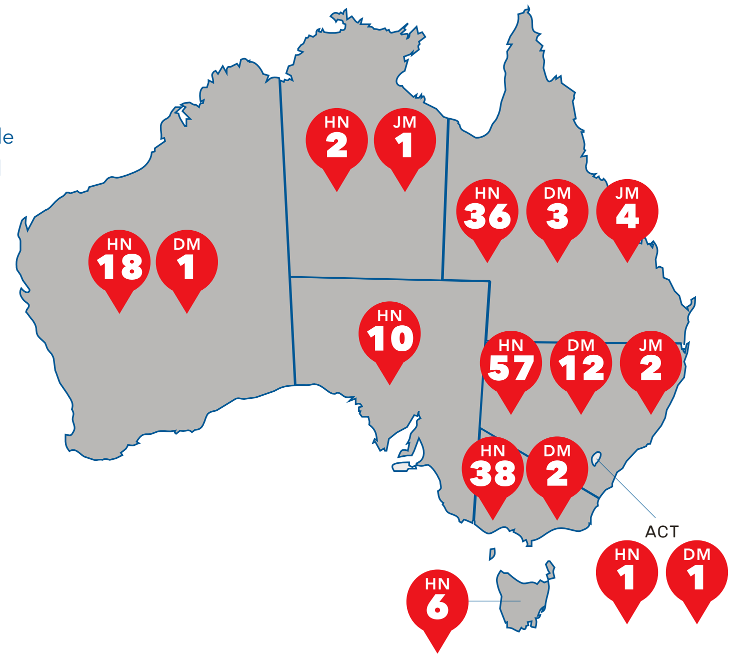
Each franchisee owns and controls the franchisee business of that franchisee. Each franchisee has control over the day-to-day operations of the franchisee business and has the discretion and power to make the decisions necessary to drive sales, control floor margins and contain operating costs to maximise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

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

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

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

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



Harvey Norman®
168 FRANCHISED COMPLEXES

DOMAYNE®
19 FRANCHISED COMPLEXES

JOYCE MAYNE®
7 FRANCHISED COMPLEXES

OPERATING and FINANCIAL REVIEW (continued)

Franchising Operations Segment

FRANCHISING OPERATIONS SEGMENT RESULT (PBT) FOR FY20 OF $348.59m

UP BY **$100.19m** OR **40.3%** FROM $248.40m in FY19

FRANCHISING OPERATIONS SEGMENT BY HALF FY20 vs FY19

		1H	2H	FY
Franchising Operations Segment PBT ($m)	FY20	**$123.86m**	**$224.73m**	**$348.59m**
	FY19	$158.47m	$89.93m	$248.40m
Franchisee Aggregated Sales Revenue* ($bn)	FY20	**$2.953bn**	**$3.21bn**	**$6.16bn**
	FY19	$2.950bn	$2.71bn	$5.66bn
Franchising Operations Margin (%)	FY20	**4.19%**	**7.00%**	**5.66%**
	FY19	5.37%	3.32%	4.39%

2H 20 FRANCHISING OPERATIONS SEGMENT PBT

$224.73m

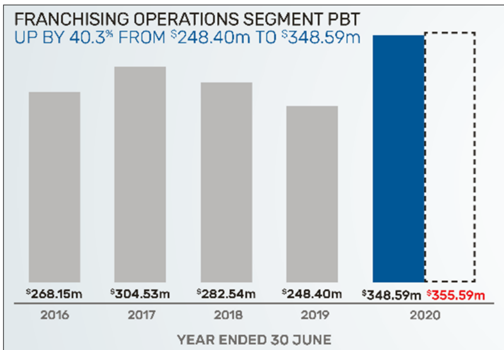
UP BY $134.81m OR 150% ON 2H 19

* Sales made by franchisees in Australia do not form part of the financial results of the consolidated entity.

Earlier this year, we reported a reduction in the revenues and profit result generated by our franchising operations segment in Australia for the half-year ended 31 December 2019. For HY20, franchising operations segment revenues were $443.81 million, down by $24.82 million, or -5.3%, from $468.64 million in HY19. The fall in franchising operations segment revenues was directly attributable to the moderation in aggregated franchisee sales revenue which grew by only +0.1% on a headline basis and +0.03% on a comparable basis for the half. For HY20, we had reported that the sales revenues of our Australian Harvey Norman®, Domayne® and Joyce Mayne® franchisees were adversely affected by the challenging and competitive retail environment and the effects of the unforeseen, unprecedented natural disasters. Accordingly, the franchising operations segment result decreased by $34.61 million, or -21.8%, to $123.86 million for HY20, from $158.47 million in HY19. Included in the HY20 result was the first-time adoption of AASB 16 *Leases* which had an incremental financial impact of increasing expenses by $3.81 million for the half. Excluding AASB 16, the franchising operations segment result would have been $127.67 million for HY20, a reduction of $30.80 million, or -19.4%, relative to HY19. The franchising operations margin fell from 5.37% in HY19 to 4.19% in HY20, a reduction of 118 basis points. Excluding the incremental impact of applying AASB 16 *Leases*, the franchising operations margin would have been 4.32% for HY20, a reduction of 105 basis points.

In January and February, the franchising operations segment continued to follow the same downward trajectory on the back of declining aggregated franchisee sales revenue which fell by approximately 3% for those months, primarily due to the prolonged severe impacts of the natural disasters. The response to the COVID-19 pandemic in March, and the transition to remote working for many employees and remote learning for students, generated strong essential technology and appliances sales by Harvey Norman®, Domayne® and Joyce Mayne® franchisees, reversing the sales reductions in January and February and closing the March 2020 quarter stronger than the previous corresponding period.

The quarter from April 2020 to June 2020 saw the growth in franchisee sales revenue increase even further as the Australian public invested in their homes, resulting in a substantial rise across all key product categories. Franchisee sales revenue increased by 18.6% on a headline basis, or 18.9% on a comparable sales basis, to $3.21 billion for second half of the 2020 financial year (**2H20**), an increase of $502.49 million from $2.71 billion for the second half of the 2019 financial year (**2H19**). This resulted in a corresponding increase in franchising operations segment revenue which grew by +37% to $505.22 million for 2H20, compared to $370.03 million for 2H19. 2H20 produced significant growth in the franchising operations segment profit result rising by $134.81 million or +150% to $224.73 million, from $89.93 million in 2H19. The franchising operations margin increased to 7.00% for 2H20 compared to 3.32% for 2H19, an increase of 368 basis points. If we excluded the incremental impact of AASB 16, the franchising operations segment result for 2H20 would have been $227.92 million with a franchising operations margin of 7.10%.



Excludes net impact of adopting AASB16 Leases.

FRANCHISING OPERATIONS SEGMENT PBT

$348.59m

UP BY $100.19M OR 40.3% ON 2019

JUNE 2020 FRANCHISING OPERATIONS MARGIN

5.66%

OPERATING and FINANCIAL REVIEW (continued)

Franchising Operations Segment (continued)

For the 2020 financial year, the franchising operations segment generated revenues of $949.04 million, up by $110.37 million, or +13.2%, from $838.67 million in the 2019 financial year. The franchising operations segment result was $348.59 million for FY20, up by $100.19 million, or +40.3%, from $248.40 million in FY19. Excluding the incremental impact of applying AASB 16 *Leases* of $7.00 million, the franchising operations segment result would have been $355.59 million for FY20, an increase of $107.19 million, or +43.2%, relative to FY19. The franchising operations margin grew to 5.66% in FY20, compared to 4.39% in FY19, an increase of 127 basis points. Excluding the incremental impact of applying AASB 16 *Leases*, the franchising operations margin would have been 5.77% for FY20, a rise of 138 basis points.

The growth in the franchising operations segment result can be attributed mainly to an increase in revenue received from franchisees by $112.22 million or +11.9%. Net franchise fees increased by $111.31 million, or+16.6%, primarily driven by the robust aggregated franchisee sales growth in the second half of FY20, particularly the substantial franchisee sales growth in 4Q20 relative to 4Q19.

Offsetting this growth was a net increase in leasing expenses by $7.00 million due to the adoption of AASB 16 *Leases* in FY20.

Franchisee Sales Revenue Underpins the Franchising Operations Segment

FRANCHISEE SALES REVENUE FY2020

TOTAL FRANCHISEE SALES
YEAR ENDED 30 JUNE 2020
$6.16bn UP BY 8.9%

HEADLINE	1H 20	2H 20	FY 20
% CHANGE	0.11%	18.56%	8.94%

COMPARABLE FRANCHISEE SALES
YEAR ENDED 30 JUNE 2020
$6.13bn UP BY 9.1%

COMPARABLE	1H 20	2H 20	FY 20
% CHANGE	0.03%	18.90%	9.05%

Sales made by franchisees in Australia do not form part of the financial results of the consolidated entity. Retail sales in Harvey Norman®, Domayne® and Joyce Mayne® in Australia are made by independently owned franchisee businesses that are not consolidated with the consolidated entity's results. Australian franchisee aggregated sales revenue are reported to the market as it is a key indicator of the performance of the franchising operations segment.

2020 has been a difficult year for Harvey Norman®, Domayne® and Joyce Mayne® franchisees. In the first half of the financial year (1H20), they operated in a challenging and competitive retail environment, influenced by a cautious consumer, changing promotional cycles and unforeseen, unprecedented natural disasters. Aggregated franchisee sales revenue for 1H20 had increased by 0.1% on a headline basis, and 0.03% on a comparable sales basis, relative to 1H19.

In January and February, the subdued retail sentiment and prolonged unprecedented natural disasters continued, with aggregated franchisee sales revenue decreasing by 3% as franchisees focused on supporting and protecting local communities. The "Shop · Support · Rebuild" initiatives in January through to early March saw Harvey Norman®, Domayne® and Joyce Mayne® franchisees assist organisations such as the "BizRebuild – Disaster Relief Initiative" and "Good360" to help rebuild affected communities.

The natural disasters of droughts, bushfires and floods were swiftly followed by the ongoing COVID-19 pandemic. In March, franchisees faced challenges shared across the globe – a unique combination of a panicked consumer vying for household necessities to bunker down and remain at home for an undefined period, and supply shortages due to 'panic-buying' and supply-chain lockdowns. Such challenges were exacerbated by restrictions to domestic and international freight. Strong sales in March 2020 – primarily driven by essential technology and appliance goods – reversed the sales reductions in January and February and closed the March 2020 quarter stronger than the previous corresponding period.

Following the directive of the Australian Government to businesses to "keep Australia running", steps were immediately taken to ensure the Harvey Norman®, Domayne® and Joyce Mayne® franchisees could safely service their customers with the 'Shop Smart' and 'Shop Safe' guidelines. With the exception of the mandatory closure of two franchised complexes in Tasmania for a 2-week period, the 194 franchised complexes throughout Australia have remained open throughout the year. Appropriate social distancing measures and cleaning practices were applied in order to prioritise customer safety and enable trade to continue, and this was assisted by the fact that Harvey Norman®, Domayne® and Joyce Mayne® franchisees operate their businesses in large-format complexes located in stand-alone retail precincts.

OPERATING and FINANCIAL REVIEW (continued)

Franchisee Sales Revenue Underpins the Franchising Operations Segment (continued)

Existing online, Click & Collect and contactless delivery offerings were expanded to provide further options for consumers to shop in a way that's safe for them and their families.

With the international and state borders closed, in addition to the mandatory closures of many leisure, sporting, dining and recreational facilities, the Australian public returned 'home'. From April to June, social interactions were limited, and customers invested in their homes. As an established Home and Lifestyle Retailer, Harvey Norman®, Domayne® and Joyce Mayne® franchisees were well-positioned to service the essential homemaker needs of their customers.

Whilst robust sales of essential whitegoods, technology and home office furnishings continued in the June quarter, franchisees saw a good uptick in the audio-visual category, led by large-screen televisions that offered an unparalleled viewing experience at affordable pricing, with 8K technology in televisions continuing to be a sought-after product by consumers. Connected appliances are a natural growth area within consumer electronics, and demand remained strong throughout the period.

The physical distancing requirements enforced by the government, local businesses and society in general, has resulted in the desire to be more digitally connected than ever. The necessity of virtual meetings for businesses, school or leisure activities has seen growth in online platforms and mediums to virtually connect with colleagues, relatives and friends. The telecommunications category of franchisees has seen corresponding growth in the June quarter, led by strong offers to connect with the Optus network in Australia and outright mobile phone sales in general. The gaming category has seen solid growth in the June quarter as a natural extension of the need for entertainment within the home throughout this unique period.

Technology franchisees have experienced an increased demand for better performance from products and this has driven a faster refresh cycle with consumers choosing to upgrade mid to high end computers. With the strong growth in the setup of home offices, there has also been an increased demand in connected essentials such as monitors, web cams, audio and printers.

The message by franchisees throughout the June quarter was simple and consistent: "We're here for you" and "We're doing our part to help everyone stay safe". Through this consistent messaging, franchisees have built trust with the Australian public. Customers know they can rely on the Harvey Norman®, Domayne® and Joyce Mayne® brands to be there to support each local community – regardless of whether they are located in a remote, regional area or within a large metropolitan city.

Aggregated franchisee sales revenue for the second half of the 2020 financial year (**2H20**) increased by 18.6% on a headline basis, or 18.9% on a comparable sales basis, to $3.21 billion, an increase of $502.49 million from $2.71 billion for the second half of the 2019 financial year (**2H19**).

Amid the difficult and unprecedented events of this year, aggregated franchisee sales revenue for FY20 increased by 8.9% on a headline basis, or 9.1% on a comparable sales basis, to $6.16 billion, an increase of $505.65 million from $5.66 billion for FY19.

OPERATING and FINANCIAL REVIEW (continued)

O2O STRATEGY

The consolidated entity has continued to invest in technology, digital transformation and infrastructure assets. Franchisees have been provided with the necessary tools to enhance their Online-to-Offline (O2O) Strategy and optimise their service offering.

Customers of Harvey Norman®, Domayne® and Joyce Mayne® franchisees are more digitally connected than ever, and are increasingly utilising technology both in-store and in the online marketplaces. Franchisees were agile in adapting to the COVID-19 social distancing requirements, which resulted in a significant increase in the digital expectations of their customers.

There has been a strong franchisee focus on 'contactless' retail and digital connectivity.

1HR CLICK & COLLECT

CONTACTLESS CLICK & COLLECT

1 Hour Click & Collect and 'Contactless' Click & Collect

Franchisees continue to improve the Click & Collect experience, where customers want to be connected to their local store. The 1 Hour Click & Collect service enables customers to connect with franchisee in-store experts via Microsoft Teams. Through integrated notifications, the customer can advise the franchisee that they are on their way to collect their order, allowing the franchisee to be fully prepared when they arrive.

COVID-19 has expedited the rollout of the new franchisee 'Contactless In-Car Pickup' option. Once at the franchised complex, customers can press the "I'm Here" button on their app, and a staff member will bring out the purchase to the customer's car, contact-free. This option is currently available at the franchised complexes throughout greater Melbourne and regional Victoria, and in the 13 company-operated stores in Ireland.

trak by Harvey Norman

Trak by Harvey Norman®

Trak by Harvey Norman® logistics technology, optimises route planning for franchisee deliveries and provides automated customer communication with real-time tracking. Franchisees are continuing their rollout of the Trak platform, and customer feedback to date has been very positive.

The Trak platform provides delivery drivers for franchisees with improved capabilities to communicate with the customer. Drivers are equipped with smart devices which enable key events in the delivery process to be monitored and alerts sent to drivers, customers and franchises. This capability is key to providing exceptional service levels at the final stage of the delivery process.

Inbound Logistics Reservations

Franchisees have implemented a reservations system that enables inbound freight providers to "book in" to a franchisee warehouse, ensuring receiving capabilities with the aim of eliminating failed deliveries and re-scheduling. Additionally, the system provides visibility of purchase order receipting information that contributes to fulfilling the customer's delivery of products.

Franchisees intend to continue the deployment of the Inbound Logistics Reservations System throughout FY21.

OPERATING and FINANCIAL REVIEW (continued)

Home Delivery Services

Home delivery service standards provide franchisee customers with the delivery service option that best suits their needs. Delivery services need to be flexible and responsive to customers' needs for a quick 'Store to Door' drop-off service, a 'Delivery Plus' for a basic connection and assembly or a full 'Premium Delivery' for full assembly and trade based services.

Implementation of a customer satisfaction framework for franchisee deliveries has focussed attention on the quality of their delivery services. As the overall customer experience is vital, providing feedback to franchisees is critical to ensure continuous improvements during the delivery process.

LIVE CHAT
HERE TO HELP

Messaging and Chatbots

Franchisee LiveChat continues to be upgraded and enhanced, and is integral in helping answer customer questions online. Franchisees are now moving towards a more sophisticated service solution: "Conversational Commerce that leverages AI-powered Chatbots" and spans a multitude of messaging channels. With over 90% of people's day-to-day conversations happening in digital messaging channels, it is imperative to be where consumers already are, resulting in the launch of messaging and customer service platforms on Apple Business Chat, WhatsApp, Facebook Messenger and SMS. 2020 has seen the introduction of franchisee Chatbots to help automate the customer service for customers who connect with Harvey Norman® 24/7. Chatbots can handle a wide range of basic questions, freeing up Live Chat agents to handle more high-value and sophisticated requests - delivering the expertise Harvey Norman® is known for.

Adobe Analytics

The Adobe Analytics platform provides franchisees with unsampled, real-time data to comprehensively understand the customer journey.

HN STORE

Harvey Norman® Store Location Management System

The Harvey Norman® location management service (LMS) has been enhanced over the past year, and continues to grow and evolve. This service provides a single source of truth across all information services (Website, StoreFinder, Facebook, Google Maps) for franchisees at each franchised complex including: location information, contact details, trading hours, and local events, allowing customers to easily obtain information about their nearest franchised complex. The LMS is integral to the seamless Click & Collect experience, providing accurate information for franchisee store and warehouse customer pickup locations. The LMS also gives context to customers within notification services by advising customers of pickup hours in real-time, ensuring that franchisees are always available to give them a great experience.

Latitude Pay

This year, Harvey Norman® partnered with Latitude Financial Services Australia Holdings Pty Ltd (Latitude) to offer an attractive new buy now pay later (BNPL) finance offering both in-store and online called "LatitudePay". LatitudePay boasts 'no interest payments' as well as the ability to combine multiple purchases into one simple payment plan over ten instalments. LatitudePay has a fast 90-second sign up time which includes a credit and ID check and allows instant approval for spending amounts of between $150 and $1,000.

OPERATING and FINANCIAL REVIEW (continued)

Review of the Property Segment

Our Robust Freehold Property Portfolio

Globally, we operate an integrated retail, franchise, property and digital system – and the ownership of a robust property portfolio has always been our strategic, competitive advantage. Our consolidated balance sheet is anchored by over $3 billion in tangible, freehold property segment assets that has appreciated in fair value by $63.34 million during the 2020 financial year.

In Australia, our franchisees operate in the large-format retail market, characterised by generous retail footprints and spacious floor layouts, as opposed to the traditional retail market which includes multi-storey shopping centres. The majority of our 194 franchised complexes are located in large-format retail centres as the extensive floorspace is necessary to showcase the vast product range of a home and lifestyle retailer. 94 franchised complexes (48% of total) are owned by the consolidated entity and then leased to external parties, including Harvey Norman®, Domayne® and Joyce Mayne® franchisees pursuant to a licence, terminable upon reasonable notice. 100 franchised complexes (52% of total) are leased by separate subsidiaries of the consolidated entity from external landlords, and then sub-leased to Harvey Norman®, Domayne® and Joyce Mayne® franchisees pursuant to a licence, terminable upon reasonable notice.

When the COVID-19 pandemic struck in the March 2020 quarter, these large-format retail centres enabled us to mitigate some of the COVID-19 risks.

- Our franchised complexes are primarily located in stand-alone retail precincts, which are constructed around a carpark, allowing customers immediate and safe access to the shopfront. As there are generally no internal malls or dining and entertainment facilities onsite, social interaction is limited and customers feel comfortable and safe to visit and shop. The large showroom floorspace easily accommodates the strict social distancing requirements.

- The tenancies within our complexes are primarily the Harvey Norman®, Domayne® or Joyce Mayne® franchisees, and other complementary homemaker, lifestyle and hardware retailers. The COVID-19 restrictions in each state, coupled with the limited ability to travel and socialise, resulted in the Australian public investing in their homes. The swift implementation of 'COVID-safe' practices enabled our franchisees to continue to trade to service the significant increase in demand for technology and essential appliances at the commencement of the pandemic, and later, the rising demand in the furniture, bedding and electrical categories as customers sought to refurbish their homes and upgrade their household goods. With the exception of two stores in Tasmania for a two-week period, our franchised complexes remained open throughout, and the composition of the tenancy mix within the home and lifestyle space meant minimal closures and high occupancy rates throughout the June quarter.

- Whilst the COVID-19 pandemic has heightened the uncertainty around property fair values in general, there is evidence that the large-format retail market has steady and more resilient fair values, in contrast to the softening values of some traditional, multi-storey shopping centres in Australia. Our freehold property portfolio has recorded $63.34 million in capital appreciation to fair value over the past 12 months, of which $34.27 million was the net property revaluation increment for investment properties recognised in the income statement, $0.69 million increment for an overseas owner-occupied property recognised in the income statement and $28.38 million was the net increment for owner-occupied properties recognised in equity.

Net Property Revaluation Adjustments

At balance date, the board of directors make an assessment of the fair value of each freehold investment property.
This assessment is informed by:
- the information and advice contained in the last independent external valuation report for that property prepared by an external, professionally qualified valuer who holds a recognised relevant professional qualification and has specialised expertise in the property being valued (**Independent Valuer**);
- the information and advice contained in the last internal valuation report for that property (which was informed by the immediately preceding independent external valuation report for that property);
- the last management review for that property; and
- other information and professional or expert advice given or prepared by reliable and competent persons in relation to that property.

Until 31 December 2019, the entire freehold investment property portfolio in Australia was independently valued at least once every three (3) years, on a rotational basis by an Independent Valuer. Under this approach, approximately one-sixth of the portfolio was independently externally valued at least once every six (6) months. It was determined that for the second half of the 2020 financial year and thereafter, the entire freehold investment property portfolio in Australia will be independently valued by an Independent Valuer at least once every two (2) years on a rotational basis. This means that as at 30 June 2020 approximately one-quarter (25%) of the freehold investment property portfolio was valued by an Independent Valuer.

OPERATING and FINANCIAL REVIEW (continued)

Net Property Revaluation Adjustments (continued)

For the 2020 financial year, sixty-one (61) valuations of freehold investment properties were performed by an Independent Valuer: twenty-five (25) at 31 December 2019 and thirty-six (36) at 30 June 2020. This represents a total of 44.53% of the number of freehold investment properties independently externally valued this year, and 44.72% in terms of the fair value of the freehold investment property portfolio in Australia subject to independent external valuation.

Freehold investment properties not independently externally valued as at balance date are subject to an internal valuation or a management review, performed by persons qualified by relevant education, training or experience. Each internal valuation and management review is informed by the last independent external valuation and reliable market evidence. For the 2020 financial year, 17 freehold investment properties had been affected by the same factors as the properties which had been independently externally valued. As a consequence, internal valuations for these 17 properties were undertaken to determine the effect of these factors.

The below table shows the composition of freehold property segment assets as at 30 June 2020, the number of owned property assets and the increase in fair value recognised in each country.

COMPOSITION OF FREEHOLD PROPERTY SEGMENT ASSETS	2020 ($m)	# OF OWNED RETAIL PROPERTY ASSETS	# OF OWNED OTHER PROPERTY ASSETS	NET INCREASE IN FAIR VALUE (INCOME STATEMENT) ($m)	NET INCREASE IN FAIR VALUE (EQUITY) ($m)
(1) Investment Properties (Freehold) and Assets Held for Sale					
- Australia	$2,583.62	94	43	$34.27 (1)	-
- New Zealand	$9.71	-	2	-	-
- Singapore (Property asset held for sale)	$16.19	-	1	-	-
Total Investment Properties (Freehold) and Assets Held for Sale	**$2,609.52**	**94**	**46**	**$34.27**	-
(2) Owner - Occupied Land & Buildings					
- Australia	$10.05	-	1	-	$0.46
- New Zealand	$288.09	19	1	-	$22.82
- Singapore	$8.09	-	1	-	($0.58)
- Slovenia	$80.31	5	-	$0.69	$5.33
- Ireland	$16.36	1	-	-	$0.35
Total Owner-Occupied Land & Buildings	**$402.92**	**25**	**3**	**$0.69**	**$28.38**
(3) Joint Venture Assets	**$2.25**	**-**	**7**	**-**	**-**
Total Freehold Property Segment Assets	**$3,014.68**	**119**	**56**	**$34.96**	**$28.38**

(1) This equates to approximately 1.3% of the freehold investment properties balance as at 30 June 2020.

Leasehold Property Portfolio | AASB 16 *Leases*

On 1 July 2019, the consolidated entity adopted AASB 16 *Leases*, resulting in the first-time recognition of right-of-use assets on the balance sheet totalling $1.14 billion - representing our right to use an underlying leased asset as at 30 June 2020 - and the recognition of $1.17 billion of lease liabilities - representing the present value of future lease payments.

Right-of-Use Assets: Leasehold Investment Properties (Sub-Leased to External Parties)

The consolidated entity has a portfolio of property leases primarily for the purposes of being sub-leased to Harvey Norman®, Domayne® and Joyce Mayne® franchisees in Australia. For these properties, the consolidated entity enters into property leasing arrangements with external landlords and then subsequently subleases these sites to franchisees pursuant to a licence, terminable upon reasonable notice. Leasehold investment property: right-of-use asset meet the definition of an investment property.

As at 30 June 2020, there were 240 leasehold investment properties. 100 leasehold investment properties (42% of total) were occupied by Harvey Norman®, Domayne® and Joyce Mayne® franchisees in Australia for retail purposes. The remaining 140 leasehold investment properties (58% of total) were primarily used by our franchisees for warehousing. The adoption of AASB 16 *Leases* has resulted in an increase in expenses of $7.04 million for the leasehold investment properties in the current financial year.

OPERATING and FINANCIAL REVIEW (continued)

Leasehold Property Portfolio | AASB 16 *Leases* (continued)

Right-of-Use Assets: Leasehold Owner-Occupied Properties and Plant and Equipment Assets

Leasehold properties occupied by the consolidated entity primarily include company-operated stores, warehouses and offices that are leased from external landlords. Unlike the leasehold investment properties: right-of-use assets which are measured at fair value, the leasehold owner-occupied properties and plant and equipment assets: right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses. The adoption of AASB 16 *Leases* has resulted in an increase in expenses of $2.23 million for the leasehold Owner-Occupied Properties and Plant and Equipment Assets in the current financial year.

The below table shows the composition of right-of-use assets and lease liabilities within our leasehold property portfolio as at balance date, and the number of leased retail properties and other properties leased by the consolidated entity.

COMPOSITION OF LEASEHOLD PROPERTY SEGMENT ASSETS	RIGHT OF USE ASSETS 2020 ($m)	LEASE LIABILITIES 2020 ($m)	# OF LEASED RETAIL PROPERTY ASSETS	# OF LEASED OTHER PROPERTY ASSETS
(1) Leases of Properties Sub-Leased to External Parties				
- Australia	**$621.90**	**$643.68**	**100**	**140**
(2) Leases of Owner-Occupied Properties and Plant and Equipment Assets				
- Australia	$35.14	$52.49	-	1
- New Zealand	$109.24	$126.75	21	24
- Singapore & Malaysia	$245.44	$184.54	35	9
- Slovenia & Croatia	$11.30	$13.34	1	6
- Ireland & Northern Ireland	$112.65	$152.28	14	10
Total Owner-Occupied Properties and Plant and Equipment Assets	**$513.78**	**$529.41**	**71**	**50**
Total Leasehold Property Segment Assets	**$1,135.69**	**$1,173.09**	**171**	**190**

Review of the Financial Position of the Consolidated Entity

The unpredictable challenges and uncertainty of 2020 has reinforced the importance of our fundamental cornerstone principle of developing, maintaining and enhancing our robust asset base and preserving our solid balance sheet.

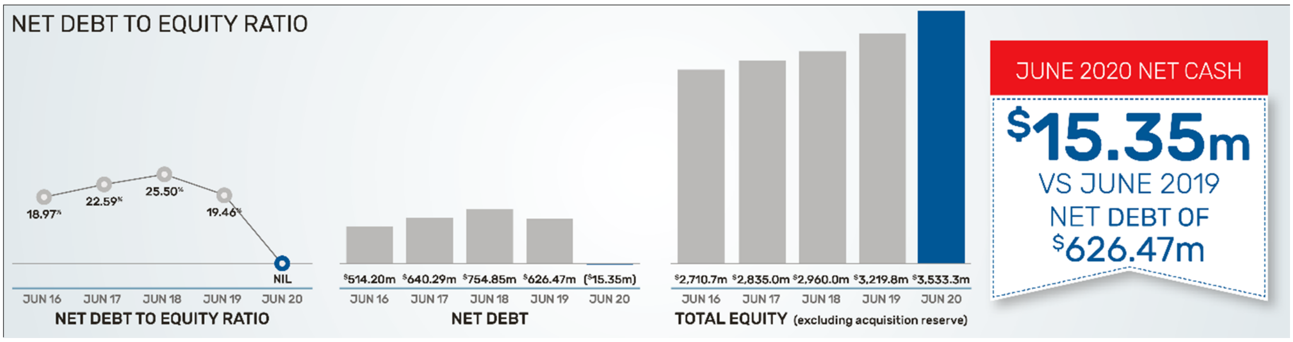
OPERATING and FINANCIAL REVIEW (continued)

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

Preservation of cash and the repayment of external debt facilities has resulted in a NIL net debt to equity ratio:

In the third quarter of FY20, as the COVID-19 pandemic emerged, we moved quickly to bolster our financial position and undertook a cash preservation approach across the consolidated entity. The cancellation of the interim FY20 dividend and the 20% reduction in the remuneration of the Directors for the months of April, May and June 2020 were some of the cash preservation measures taken during the year. As at 30 June 2020, the consolidated entity generated a positive net cash position (cash net of Interest-bearing loans and borrowings) of $15.35 million compared to a net debt position of $626.47 million as at 30 June 2019.

As at 30 June 2020, the consolidated entity had unused, available financing facilities of $685 million – only utilising $293 million out of total approved financing facilities of $978 million. The robust cash flows generated by the consolidated entity in 2H20, particularly in 4Q20, resulted in the ability to pay down external debt – including the $520 million repayment of the Syndicated Facility in Australia. This has resulted in a net debt to equity ratio of nil as at 30 June 2020, compared to a net debt to equity ratio of 19.46% as at 30 June 2019.



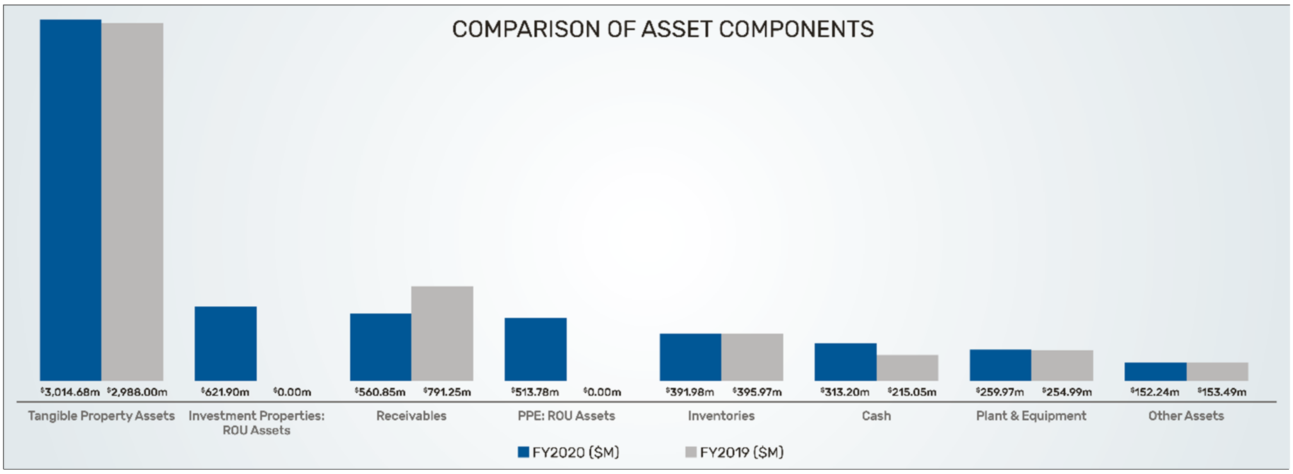
Strong Increase in Total Assets:

Total assets increased by +21.5%, or $1.03 billion, to $5.83 billion as at 30 June 2020, from $4.80 billion as at 30 June 2019. $1.14 billion of this increase can be attributed to the first-time application of AASB 16 *Leases* from the beginning of the 2020 financial year that resulted in the recognition of right-of-use assets for leases of owner-occupied properties and plant and equipment leases of $513.78 million and investment properties (leasehold): right-of-use assets of $621.90 million relating to leases of properties that are sub-leased to external parties. The value of the freehold investment property portfolio increased by $84.38 million, or +3.4%, to $2.59 billion as at 30 June 2020 primarily due to the net property revaluation increment over the past 12 months and the refurbishments of other freehold investment property assets. Cash and cash equivalents increased by $98.15 million to $313.20 million as at 30 June 2020, from $215.05 million as at 30 June 2019, predominantly due to greater receipts from customers – due to stronger sales from company-operated stores – and greater receipts from franchisees – primarily due to the improved profitability of the franchising operations segment. The higher receipts from customers and higher net receipts from franchisees were used to pay down debt.

The above increases have been offset by a reduction in trade receivables by $230.41 million due to lower receivables from franchisees by $255.37 million. Franchisee receivables are reduced on a daily basis by an automated process, at the direction of the franchisee, to transfer the net cash receipts in the bank account of the franchisee to Derni, to reduce that franchisee's indebtedness to Derni. The net cash receipts of franchisees were significantly stronger in the second half of the 2020 financial year – particularly in the 4th quarter. This resulted in higher repayments of franchisee indebtedness and a lower franchisee receivables balance at the end of the year. Property, plant and equipment assets decreased by $33.32 million due to $75.16 million reclassification from property, plant and equipment assets to right-of-use assets upon the first-time adoption of AASB 16 *Leases* offset by the acquisition of a freehold owner-occupied property in NZ, and the fit-out of the 5 new company-operated stores in Malaysia prior to December 2019, 1 new outlet in New Zealand and the fit-out of 2 new franchised complexes this year. Upgrades and refurbishments to franchised complexes and company-operated stores have continued only where necessary for the safety, comfort and security of the customers and for the maintenance and protection of our brands. The premium refit program that we announced last year (which was to be progressively rolled-out in Australia and overseas) was put on hold. Similarly, our overseas expansion plans have halted since December 2019, and the 5 stores that were planned to open in the second half of the year did not occur due to government mandated lockdowns and business closures.

OPERATING and FINANCIAL REVIEW (continued)

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



Reduction of Total Liabilities (excluding AASB 16 lease liabilities):

Total liabilities increased by $750.33 million, or +46.9%, to $2.35 billion as at 30 June 2020 from $1.60 billion as at 30 June 2019 mainly attributable to the recognition of lease liabilities of $1.17 billion resulting from implementing AASB 16 *Leases* which took effect from 1 July 2019. The increase was offset by a reduction in interest-bearing loans and borrowings of $543.68 million, of which the majority of the reduction related to the repayment of the Syndicated Facility in Australia by $520 million since the end of prior year.

Solid Net Assets:

The consolidated entity is very pleased to report another solid net asset base, with robust growth of 8.7% during the year, or an increase of $279.53 million, to $3.48 billion as at 30 June 2020, from $3.20 billion as at 30 June 2019.

Robust Cash Flows

Cash and cash equivalents, net of bank overdraft, as disclosed in the Statement of Cash Flows on page 87, increased by $108.63 million or 58.5% to $294.45 million in FY20, compared to $185.82 million in FY19.

During FY20, the consolidated entity generated $1.06 billion of net cash flows from operating activities. This was primarily achieved by receiving $2.46 billion from customers and $1.30 billion in net receipts from franchisees, offset by $2.47 billion in payments to suppliers and employees. Net receipts from franchisees increased by $445.86 million, or +51.9%, to $1.30 billion, from $858.37 million in FY19 as net receipts from franchisees were affected by the movement in the aggregate amount of financial accommodation provided to franchisees in FY20 relative to the movement in FY19. During FY20, the movement in the aggregate amount of financial accommodation provided to franchisees decreased significantly compared to the movement in FY19, primarily due to improved profitability of the franchising operations segment in the second half of FY20, particularly in 4Q20. Higher net receipts from franchisees are also assisted by an increase in gross revenue from franchisees received in FY20 compared to FY19. Receipts from customers increased by $63.67 million due to higher sales from company-operated stores. Payments to suppliers and employees decreased by $210.28 million as FY19 included lease payments in accordance with the superseded standard AASB 117. Under AASB 16 *Leases*, only variable lease payments and payments for short term and low-value leases form part of payments to suppliers and employees. All other lease payments under AASB 16 are allocated between interest and principal components and classified within operating and financing cash flows respectively.

There was an increase in the net cash flows used in investing activities by $70.76 million during FY20 as the prior year included the receipt of proceeds of $40.50 million pursuant to the completion of the Administrator Sale of the Coomboona JV assets in January 2019. Payment for the purchase of investment properties increased by $23.60 million in FY20 primarily due to the purchase and refurbishments of freehold investment properties in the first half of FY20. The increase in outflows was offset by an increase in proceeds from sale of property, plant and equipment and properties held for resale by $23.60 million predominantly due to the completion of the sale for the Byron at Byron Bay Resort in the first half of this year.

There was an increase in the net cash financing outflows by $565.08 million during FY20 primarily due to an increase in net repayment of the Syndicated Facility by $495 million and the inclusion of the principal component of lease payments of $124.77 million in financing activities upon the first-time adoption of AASB 16 *Leases* in the current year.

OPERATING and FINANCIAL REVIEW (continued)

Capital Management Policy

The consolidated entity's capital management policy objectives are to: create long-term sustainable value for shareholders; maintain optimal returns to shareholders and benefits to other stakeholders; source the lowest cost available capital; and prevent the adverse outcomes that can result from short-term decision making.

The Capital Management Policy stipulates a net debt to equity target for the consolidated entity of less than 50%. In this report, the calculation of the net debt to equity ratio excludes the right-of-use assets and lease liabilities recognised under AASB 16 in order to be comparable with ratios calculated in previous periods.

As at 30 June 2020, the consolidated entity had unused, available financing facilities of $685 million – only utilising $293 million out of total approved financing facilities of $978 million. This has resulted in a net debt to equity ratio of nil as at 30 June 2020, compared to a net debt to equity ratio of 19.46% as at 30 June 2019.

The capital structure of the consolidated entity consists of: debt, which includes interest-bearing loans and borrowings as disclosed in Note 17. Interest-Bearing Loans and Borrowings of this report; cash and cash equivalents; and, equity attributable to equity holders of the parent, comprising ordinary shares, retained profits and reserves as disclosed in Notes 22, 23 and 25 respectively.

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

Outlook

We expect to open up to 12 new Harvey Norman® company-operated stores overseas, with 3 in New Zealand, 3 in Malaysia, 3 in Singapore, 2 in Ireland and 1 in Croatia. The new store at Galway City in Ireland has already opened subsequent to balance date and is trading well.

In Australia, we anticipate opening a new Harvey Norman® franchised complex at Hornsby, NSW in October 2020. Upgrades and refurbishments to franchised complexes as part of our premium refit strategy announced last year is expected to recommence in FY21, after being placed on hold temporarily due to COVID-19 disruptions. Subsequent to balance date, eighteen (18) Harvey Norman® and Domayne® complexes in greater Melbourne, Victoria were closed to the public from 6th August 2020 as a direct result of the Stage 4 Restrictions mandated by the State Government of Victoria. Our franchisees quickly moved to service their customers via Click & Collect and contactless deliveries. The sales turnover of our affected franchisees in greater Melbourne will be adversely affected by the mandated closures. It is presently estimated that the easing of Stage 4 Restrictions in Victoria will be commence from 26th October 2020.

On 11th August 2020, the New Zealand Government announced Alert Level 3 restrictions for the Auckland region, and Alert Level 2 restrictions for the remainder of the country, resulting in the closure of eleven (11) Harvey Norman® company-operated stores in Auckland to the public from midday 12th August 2020 to Sunday 30th August 2020 inclusive. All 11 stores re-opened to the public from Monday 31st August 2020.

The below table shows the aggregated sales increase / (decrease) from 1 July 2020 to 17 September 2020 compared to 1 July 2019 to 17 September 2019. The % increases have been calculated in Australian Dollars $A.

COUNTRY (% increase calculated in $AUD)	July 2020 vs July 2019		August 2020 vs August 2019		1 July 2020 to 17 September 2020 vs 1 July 2019 to 17 September 2019	
	Total %	Comparable %	Total %	Comparable %	Total %	Comparable % (1)
Australian Franchisees	40.5	40.9	34.3	35.1	33.8	34.5
New Zealand	24.1	23.5	14.6	13.9	18.8	18.0
Slovenia & Croatia	24.8	24.8	35.3	35.3	27.2	27.2
Ireland	63.1	59.9	57.4	49.1	61.7	55.1
Northern Ireland	31.7	31.7	19.5	19.5	23.6	23.6
Singapore	0.8	0.8	6.1	6.1	(3.7)	(-3.8)
Malaysia	15.6	2.2	5.4	(-7.4)	7.4	(-5.1)

(1) Excludes the effect (in the relevant period) of the temporary closures mandated by each local government as a result of their COVID-19 response.

Summary of Key Business Risks

The Board is cautiously optimistic about the consolidated entity's future trading performance but acknowledges that there are several factors that may pose a risk to the achievement of the business strategies and future financial performance as outlined above.

Every business faces risks with the potential to impair its ability to execute its strategy or achieve its financial objectives. There are a number of key risks, both specific to the Harvey Norman® integrated retail, franchise, property and digital system and external risks, for example the macroeconomic environment, over which the consolidated entity has no control. The consolidated entity acknowledges the existence of these risks, and in the first instance seeks to identify and understand individual risks, and then – to the extent possible – manage and/or minimise risks.

Changes in trading conditions due to the COVID-19 global pandemic:

The emergence of COVID-19 at the beginning of 2020 has created widespread panic and disruption to the way in which governments lead their countries across the globe, the approach to business operations and trade, and how individuals carry out their day-to-day lives. The consolidated entity has adapted to adhere to the mandatory social distancing restrictions applicable in the 8 countries in which it, or its franchisees, operate and has temporarily closed to the public when mandated to do so by the relevant government.

The consolidated entity expects that the COVID-19 pandemic could impact trading conditions in the year ahead. The response to COVID-19 by government and health services organisations, through regulation and policy, may limit the ability of franchised complexes in Australia and overseas company-operated stores to trade at normal capacity. Strict social distancing measures and 'COVID-Safe' work practices may continue to restrict trade in future periods. This risk is mitigated as the majority of the franchised complexes and company-operated stores are located in large-format retail centres, characterised by generous retail footprints and spacious floor layouts, thereby maximising the ability to trade and service the needs of their customers.

The uncertainty around the lasting economic, health and social impacts of the COVID-19 pandemic, the risk of further government-mandated retail closures in the near future, changing consumer behaviour and the ability of the supply-chains to meet demand, may impact the sales revenue generated by franchisees in Australia and company-operated stores – thereby impacting the profitability and cash flow of the consolidated entity. This risk is mitigated by the consolidated entity's robust balance sheet, stringent measures to preserve cash and enhance liquidity, coupled with the continuous monitoring of any changes in COVID-19 regulation and policy as they are announced. The consolidated entity is in a positive net cash position of $15 million as at 30 June 2020 – with $685 million of unused, available debt facilities (refer to Note 18. Financing Facilities Available) – compared to a net debt position of $626.47 million as at 30 June 2019, and is therefore well-placed to tackle COVID-19 challenges as they arise.

Changes to macroeconomic conditions and policy that may result in declining consumer sentiment:

The consolidated entity has a significant exposure to the economy of the countries in which it operates. There are a number of general economic conditions, including interest and exchange rate movements, overall levels of demand, housing market dynamics, wage growth, employment, economic and political instability and government fiscal, trade, monetary and regulatory policies, that can impact the level of consumer confidence and discretionary retail spending. These conditions may affect revenue from sales to customers and franchise fees. The consolidated entity seeks to reduce its exposure to these risks through appropriate business diversification, also by closely monitoring both internal and external sources of information that provide insights into any changes in demand within the economies in which it operates.

Increased competition resulting in a decline of retail margin or a loss of market share for franchisees in Australia and company-operated stores in overseas markets:

The integrated retail, franchise, property and digital system, and diverse category mix assists in maintaining the consolidated entity's competitive position. Market consolidation and/or acquisition may result in further competition and changes to retail margins and market share. Franchisees in Australia and company-operated stores in 7 overseas regions operate across a number of categories in the strongly performing Home and Lifestyle market. Diversity of category and the ability to identify growth opportunities locally and overseas, mitigates the risk from existing and potential competitors.

Emergence of competitors in new channels:

The Harvey Norman® Omni Channel Strategy provides customers of franchisees with a diverse, consistent and distinctive Harvey Norman® customer experience through a range of channels. The Harvey Norman® Omni Channel Strategy integrates retail, online, mobile, and social channels.

The online operations of franchisees in Australia and the company-operated online operations overseas continue to grow. The digital platform provides new opportunities for growth and new ways to embrace and engage with customers. Data analytics are an important element of the Harvey Norman® Omni Channel Strategy, and are utilised to improve customer experience.

OPERATING and FINANCIAL REVIEW (continued)

Summary of Key Business Risks (continued)

The Harvey Norman® Omni Channel Strategy sets the Harvey Norman® brand apart from other online and digital competitors as the digital, physical complex and distribution channels are fully integrated, providing customers of franchisees with a multitude of engagement options to meet their needs. The Harvey Norman® Omni Channel Strategy, supported by the retail property portfolio of the consolidated entity, makes the Harvey Norman® brand a strong competitor in the market.

A decline in the commercial property sector leading to softening property asset values, falling rental returns and a reduction of future capital returns on property assets:

With a property portfolio of over $3 billion, the consolidated entity is exposed to potential reductions in commercial property values. The consolidated entity has a selective and prudent acquisition and development strategy and maintains high-quality complexes and a solid, dynamic, complementary tenancy mix in order to maximise the profitability of the property segment. Refer to Note 14: Investment Properties: Freehold on pages 119 to 122 of this report.

Counterparty risks of service providers:

This risk relates to the inability of service providers to meet their obligations, including compliance obligations. The consolidated entity closely monitors and evaluates the performance of external service providers to mitigate counterparty risk.

Counterparty risk associated with the mining camp accommodation joint ventures:

Commodity prices are inherently volatile. The provision of services to the mining industry is dependent on the investment cycle. The consolidated entity has continued its joint ventures with counterparties to provide mining camp accommodation services. The risk in respect of mining camp accommodation joint ventures includes the ability of counterparties to meet financial and other obligations under mining camp accommodation joint venture agreements.

The consolidated entity closely monitors and evaluates the performance of counterparties of the mining camp accommodation joint ventures by monitoring compliance with joint venture agreements; adopting a prudent and conservative approach to the review of mining camp accommodation cash flows, including future cash flow projections; and ensuring that an adequate level of security is maintained for any funds advanced to mining camp accommodation joint ventures.

Compliance by franchisees with franchise agreements:

The risk relates to franchisees acting in breach of the terms and conditions of their respective franchise agreements. The consequences of non-compliance may include damage to the brand, fines or other sanctions from regulators, and/or a reduction in franchise fees received from franchisees.

The franchisor continually monitors and evaluates the financial and operating performance of each franchisee to actively assess compliance with executed franchise agreements. Instances of non-compliance are promptly addressed to protect the Harvey Norman® brand and/or intellectual property of the franchisor.

Information Technology (“IT”) security and data security breaches:

This risk relates to the potential failure in IT security measures resulting in fraud, the loss, destruction or theft of customer, supplier, financial or other commercially-sensitive information including intellectual property. This has the potential to adversely affect our operating results which would lead to lawsuits, damage the reputation of the Harvey Norman® brand, and/or create other liabilities for the consolidated entity.

There are a number of key controls in place, including an ongoing security improvement program, investment in cyber security resources; the implementation, maintenance and supervision of operational policies and contracts intended to preserve the confidentiality and integrity of IT systems. The Information Technology environment is subject to regular independent audit and review of IT security controls, response plans and incident management practices.

DIRECTORS' REPORT – THE BOARD OF DIRECTORS

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

Gerald Harvey *Executive Chairman*	Mr. G. Harvey was the co-founder of Harvey Norman Holdings Limited in 1982 with Mr. I.J. Norman. Mr. G. Harvey has overall executive responsibility for the strategic direction of the consolidated entity, and in particular, property investments.
Kay Lesley Page *Executive Director and CEO*	Ms. Page joined Harvey Norman in 1983 and was appointed a director of Harvey Norman Holdings Limited in 1987. Ms. Page became the Chief Executive Officer of the Company in February 1999 and has overall executive responsibility for the consolidated entity. Ms. Page was an independent member of the Place Management NSW Board, and resigned as a member on 21 February 2020. Ms. Page was a Director of the Trustee of the Sydney Cricket and Sports Ground Trust, and resigned her directorship on 6 March 2020.
Chris Mentis *B.Bus., FCA, FGIA, Grad Dip App Fin* *Executive Director, CFO & Company Secretary*	Mr. Mentis was appointed a director of Harvey Norman Holdings Limited on 30 August 2007. Mr. Mentis joined Harvey Norman as Financial Controller on 15 December 1997. On 20 April 2006, he became Chief Financial Officer and Company Secretary. Mr. Mentis is a Fellow of the Chartered Accountants Australia & New Zealand (CA ANZ) and a Fellow of the Governance Institute of Australia, with extensive experience in financial accounting. Mr. Mentis has overall executive responsibility for the accounting and financial matters of the consolidated entity.
John Evyn Slack-Smith *Executive Director & COO*	Mr. Slack-Smith was a Harvey Norman® computer franchisee between 1993 and 1999. Mr. Slack-Smith became a director of the Company on 5 February 2001. Mr. Slack-Smith has overall executive responsibility for the operations of the consolidated entity. Mr. Slack-Smith was appointed a Non-Executive Director of the Children's Tumour Foundation of Australia on 22 July 2019, and is the Chair of the Barker College Foundation Limited and a Member of Council at Barker College.
David Matthew Ackery *Executive Director*	Mr. Ackery was appointed a director of Harvey Norman Holdings Limited on 20 December 2005. Mr. Ackery has overall executive responsibility for the relationship between the consolidated entity and Harvey Norman® home appliances, home entertainment and technology franchisees and strategic partners. Mr. Ackery finished his tenure as the Chairman of the public company, St. Joseph's College Foundation Limited, on 30 June 2019.
Michael John Harvey *B.Com* *Non-Executive Director*	Mr. M. Harvey joined Harvey Norman in 1987, having completed a Bachelor of Commerce degree. Mr. M. Harvey gained extensive experience as a Harvey Norman® franchisee from 1989 to 1994. Mr. M. Harvey became a director of the Company in 1993 and was appointed Managing Director in July 1994. Mr. M. Harvey ceased to be an Executive Director and Managing Director on 30 June 1998.
Christopher Herbert Brown *OAM, LL.M, FAICD, CTA* *Non-Executive Director*	Mr. Brown holds the degree of Master of Laws from the University of Sydney. Mr. Brown is the senior partner in Brown Wright Stein Lawyers. Brown Wright Stein Lawyers has acted as lawyers for the consolidated entity since 1982. Mr. Brown was appointed a director of the Company in 1987, when it became a listed public company. Mr. Brown is a member of the Audit, Remuneration and Nomination Committees. Mr. Brown is the Chairman of Windgap Foundation Limited. In 2013 he was awarded the Medal of the Order of Australia (OAM) for service to the community, particularly to people with disability.
Kenneth William Gunderson-Briggs *B.Bus., FCA, MAICD* *Non-Executive Director (Independent)*	Mr. Gunderson-Briggs was appointed a director of Harvey Norman Holdings Limited on 30 June 2003. Mr. Gunderson-Briggs is a chartered accountant and a registered company auditor. Mr. Gunderson-Briggs has been involved in public practice since 1982 and a partner in a chartered accounting firm since 1990. Mr. Gunderson-Briggs' qualifications include a Bachelor of Business from the University of Technology, Sydney and he is a Fellow of the CA ANZ. Mr. Gunderson-Briggs was appointed Chairman of the Remuneration Committee on 16 December 2015 and is a member of the Audit & Risk and Nomination Committees. Mr. Gunderson-Briggs is an independent Non-Executive Director of Australian Pharmaceutical Industries Limited, a company listed on the ASX.
Graham Charles Paton *AM, B.Ec, FCPA, MAICD* *Non-Executive Director (Independent)*	Mr. Paton holds a Bachelor of Economics degree from the University of Sydney. During his 23 years as a partner of an international chartered accounting practice, he was involved in the provision of professional services to the retail industry. He retired from public practice in July 2001. Mr. Paton is a Fellow and Life Member of CPA Australia and was the National President of that professional accounting body in 1993/1994. In 2001, Mr. Paton was awarded membership of the General Division of the Order of Australia for his services to the accounting profession and for his services to the deaf community through his chairmanship of the Shepherd Centre for Deaf Children for the decade to 2001. Mr. Paton was appointed a director of Harvey Norman Holdings Limited on 20 June 2005 and was appointed the Senior Independent Director on 16 December 2015. Mr. Paton was appointed Chairman of the Nomination Committee on 16 December 2015, Chairman of the Audit & Risk Committee on 9 March 2006 and is a member of the Remuneration Committee.
Maurice John Craven *B.Sc, FAICD* *Non-Executive Director (Independent)*	Mr. Craven was appointed a director of Harvey Norman Holdings Limited on 27 March 2019. Mr. Craven holds a Bachelor of Science degree from the University of Melbourne and is a Fellow of the Australian Institute of Company Directors. Mr. Craven has been actively involved with innovation and growth in technology empowered industries for the past 20 years and prior to that was a partner for 25 years with Andersen Consulting. Mr. Craven is Chair of Specialisterne Australia, a Member of the Board of Cenitex and a Member of the Board of Social Venture Partners Melbourne.

DIRECTORS' REPORT (CONTINUED)

The Board of Directors: Roles and Responsibilities / Structure and Composition

Role and Responsibilities

It is the role of the Board to:

- set and approve the strategy of the Company
- set the risk appetite of the Company;
- oversee the risk management framework of the Company;
- review the risk management framework of the Company at least annually to satisfy itself that the risk management framework of the Company continues to be sound and that the Company is operating with due regard to the risk appetite set by the Board;
- satisfy itself that the risk management framework of the Company deals adequately with contemporary and emerging risks such as conduct risk, digital disruption, cyber-security, privacy and data breaches, sustainability and climate change; and
- disclose, in relation to each reporting period, whether such a review has taken place.

It is the role of senior management of the Company to design and implement the risk management framework of the Company and controlled entities and to ensure that the Company and each controlled entity operates within the risk appetite(s) set by the Board of the Company.

The Board delegates to senior management of the Company, responsibility for the operational effectiveness and efficiency of the management of risk.

The Board has established guidelines for the composition of the Board and meeting processes.

The responsibility for implementation of strategy and risk management and operations of the business is delegated, by the Board, to the CEO and the executive management team. The CEO reports to the Board on operational issues that include:

a. Recommendations on strategic initiatives and developing and implementing corporate strategies;

b. Preparation for approval by the Board of budgets and cash flow forecasts and management of operations within the financial constraints imposed by the Board;

c. Maintenance of effective compliance and risk management frameworks;

d. Evaluation of the performance of key executives, including succession and learning and growth activities;

e. Achievement of financial and non-financial key performance indicators as set by the Board; and

f. Information to keep the Board and ASX fully informed having regard to continuous disclosure obligations.

The Company's continuous disclosure policy sets out procedures supporting the Company's compliance with its continuous disclosure obligations under the ASX listing rules. The policy is available on the Governance page of the website. Matters which are specifically reserved for the Board are set out in the Board Charter, which is available on the Governance page of the website. Other functions reserved for the Board include:

a. Approving the annual and half-yearly financial reports;

b. Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures; and

c. Reporting to shareholders.

Board Structure and Composition

The relevant factors in determining the suitability of a board member are integrity, business savvy, an owner-oriented attitude and a deep genuine interest in the business of the consolidated entity.

In applying these principles to the consolidated entity:

a. Integrity requires a level of fundamental honesty, candour and frankness in dealing with colleagues, regulators and other third parties. Integrity necessarily requires a director to bring an open mind and independent judgment to the discussion of any matter of concern to the Board.

b. Business savvy requires a deep understanding of one or more of the sectors of retail, property, franchising and digital.

c. An owner orientation or perspective of an owner requires the individual to either have:

    1. "skin in the game" by holding, controlling or benefitting from a significant parcel of shares where the financial interests of the director are aligned with the long term beneficial interest of shareholders; or

    2. a perspective of advising owners of businesses and understanding that wealth generation is derived from the building of business interests that create long term sustainable value.

d. Directors with an owner orientation retain an open mind to consider diverse views but are not strictly beholden to the whims of fashionable thinking and are able to form their own views as to what constitutes best practice in corporate governance.

e. Interest in and time to do the job means:

    1. the person has an executive role, meaning that the person's career is based on job performance at the company; or

    2. the individual has a limited number of outside interests (i.e. the person is not a professional Non-Executive Director),

but in both cases the individual has an independence of mind and outlook.

Applying these criteria to the current Board, the Board is satisfied that each Director brings to the Board the necessary skills and attributes specified.

DIRECTORS' REPORT (CONTINUED)

The Board of Directors: Roles and Responsibilities / Structure and Composition (continued)

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could interfere materially with, or could reasonably be perceived to interfere materially with, the exercise of their unfettered and independent judgement.

A majority of the Board does not consist of independent directors. The majority of the Board consists of Executive Directors. The Board recognises the recommendation of the ASX Corporate Governance Council (**CGC**) that a majority of the Board should consist of independent directors.

The Board believes that Mr Gerald Harvey is the most appropriate person to lead the Board as Executive Chairman and that he is able to bring, and does bring quality independent judgement to all relevant issues falling within the scope of the role of Chairman and that the Company, as a whole, benefits from his long standing experience of its operations and business relationships.

The Company has in place with each Director a written agreement which sets out the terms of their appointment.

Directors' Meetings

DIRECTOR *Number of Meetings:*	Attendance	Full Board *16*	Audit & Risk *13*	Remuneration *4*	Nomination *4*
G. Harvey	100%	16 [16]	n/a	n/a	n/a
K.L. Page	100%	16 [16]	n/a	n/a	n/a
J.E. Slack-Smith	94%	15 [16]	n/a	n/a	n/a
D.M. Ackery	100%	16 [16]	n/a	n/a	n/a
C. Mentis	100%	16 [16]	n/a	n/a	n/a
M.J. Harvey	94%	15 [16]	n/a	n/a	n/a
C.H. Brown	100%	16 [16]	13 [13]	4 [4]	4 [4]
K.W. Gunderson-Briggs	100%	16 [16]	13 [13]	4 [4]	4 [4]
G.C. Paton	100%	16 [16]	13 [13]	4 [4]	4 [4]
M.J. Craven	100%	16 [16]	n/a	n/a	n/a

The above table represents the directors' attendance at meetings of the Board, Audit & Risk Committee, Remuneration Committee and Nomination Committee. The number of meetings for which the director was eligible to attend is shown in brackets. In addition, the Executive Directors held regular meetings for the purpose of signing various documentation.

Directors' Relevant Interests

At the date of this report, the relevant direct and indirect interest of each director in the ordinary shares and performance rights instruments of the Company and related bodies corporate are:

DIRECTOR	Ordinary Shares	Performance Rights
G. Harvey	392,385,265	193,500
K.L. Page	19,772,685	478,500
J.E. Slack-Smith	1,101,443	293,000
D.M. Ackery	641,021	293,000
C. Mentis	1,118,847	241,000
M.J. Harvey	3,335,180	-
C.H. Brown	205,525,565	-
K.W. Gunderson-Briggs	10,059	-
G.C. Paton	17,582	-
M.J. Craven	30,673	-
TOTAL	623,938,320	1,499,000

Performance Rights

At the date of this report, there were 1,499,000 performance rights (2019: 1,349,500), being a right to acquire ordinary shares in the Company at nil exercise price.

- On 28 November 2016, a total of 400,000 performance rights under Tranche 2 of the 2016 LTI Plan were granted to Executive Directors in accordance with the terms and conditions of the LTI Plan. On 1 January 2020, 160,000 performance rights representing 40% of Tranche 2 of the 2016 LTI Plan had lapsed and will never be exercisable by the participants. On 5 March 2020, 240,000 performance rights under Tranche 2 of the 2016 LTI Plan were exercised reducing the unissued ordinary shares under Tranche 2 of the 2016 LTI Plan to nil.
- On 1 December 2017, a total of 400,000 performance rights under Tranche 3 of the 2016 LTI Plan were granted to Executive Directors in accordance with the terms and conditions of the LTI Plan.
- On 4 December 2018, a total of 549,500 performance rights under Tranche FY19 of the 2016 LTI Plan were granted to the Executive Directors in accordance with the terms and conditions of the LTI Plan.
- On 2 December 2019, a total of 549,500 performance rights under Tranche FY20 of the 2016 LTI Plan were granted to the Executive Directors in accordance with the terms and conditions of the LTI Plan.

DIRECTORS' REPORT (CONTINUED)

CEO and CFO Certification

The CEO and CFO have provided written statements to the Board in accordance with section 295A of the Corporations Act 2001 and have also certified to the Board in relation to the year ended 30 June 2020, that:

a. Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and

b. The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to factors such as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive. CEO and CFO control assurance is not, and cannot, be designed to detect all weaknesses in control procedures.

In order to mitigate this risk, internal control questions are required to be answered and completed by the key management personnel of all significant business units, including finance managers, in support of the written statements of the CEO and CFO.

Company Secretary

Mr. C. Mentis is a chartered accountant and became Company Secretary on 20 April 2006. Mr. Mentis has extensive experience in financial accounting and has been with the consolidated entity since 1997. Mr. Mentis is a Fellow of the Governance Institute of Australia.

Committee Membership

As at the date of this report, the Company had an Audit & Risk Committee, a Remuneration Committee and a Nomination Committee. Members acting on the committees of the board during the year were:

NON-EXECUTIVE DIRECTOR	Audit & Risk	Remuneration	Nomination
C.H. Brown	√	√	√
K.W. Gunderson-Briggs	√	√ (Chairman)	√
G.C. Paton	√ (Chairman)	√	√ (Chairman)

Corporate Governance

The board of directors (**Board**) of Harvey Norman Holdings Limited (the **Company**) is committed to a high standard of corporate governance, and is responsible for establishing, maintaining and monitoring the corporate governance framework of the consolidated entity.

The Board has benchmarked its practices against the ASX CGC published guidelines and the CGC corporate governance principles and recommendations (27 March 2014 edition) (**Principles**). The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Statement outlines the Company's corporate governance practices, including compliance with the Principles for the year ended 30 June 2020. The Corporate Governance Statement has been approved by the Board. The full Corporate Governance Statement and further details about corporate governance policies adopted by the Company and the Board and committee charters may be accessed via the Company's website www.harveynormanholdings.com.au.

Dividends

The directors recommend a fully franked final dividend of 18.0 cents per share to be paid on 2 November 2020 to shareholders registered on 12 October 2020 (total dividend, fully franked - $224,281,198).

The following fully franked dividends of the Company have also been paid, declared or recommended since the end of the preceding financial year:

	Payment Date	Amount
2019 final fully-franked dividend	1 November 2019	$247,744,684
2020 interim fully-franked dividend	4 May 2020 (Proposed)	Cancelled
2020 special fully-franked dividend	29 June 2020	$74,760,399

On 1 November 2019, the final dividend in respect of the year ended 30 June 2019 was paid totalling $247.74 million.

On 2 April 2020, given the uncertainty regarding the duration of the COVID-19 pandemic and its potential impact on trading, and for the abundance of precaution, the directors announced the decision to revoke the decision to pay, and cancel, the FY20 interim dividend of 12.0 cents per share. The cancellation of the FY20 interim dividend resulted in $149.52 million of cash being retained in the business.

On 10 June 2020, the directors announced that the Company would pay a special dividend of 6.0 cents per share, fully-franked, to shareholders registered at the close of business on 23 June 2020. This special dividend was paid on 29 June 2020 totalling $74.76 million.

DIRECTORS' REPORT (CONTINUED)

Dividends (continued)	The total dividend in respect of the year ended 30 June 2020 of 24.0 cents per share represents 62.24% (2019: 96.77%) of profit after tax and non-controlling interests, as set out on page 83 of the financial statements. Excluding the non-cash net property revaluation increments, the total dividend in respect of the year ended 30 June 2020 of 24.0 cents per share represents 65.59% (2019: 110.26%) of profit after tax and non-controlling interests, as set out on page 83 of the financial statements. The Dividend Policy of the Company is to pay such dividends as do not compromise the capability of the Company to execute strategic objectives.
Indemnification of Officers	During the financial year, insurance and indemnity arrangements were continued for officers of the consolidated entity. An indemnity agreement was entered into between the Company and each of the directors of the Company named earlier in this report and with each full-time executive officer, director and secretary of all group entities. Under the agreement, the Company has agreed to indemnify those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities.
Principal Activities	The principal activities of the consolidated entity are that of an integrated retail, franchise, property and digital system including: ▪ Franchisor; ▪ Sale of furniture, bedding, computers, communications and consumer electrical products in New Zealand, Singapore, Malaysia, Slovenia, Ireland, Northern Ireland and Croatia; ▪ Property investment; ▪ Lessor of premises to Harvey Norman®, Domayne® and Joyce Mayne® franchisees and other third parties; ▪ Media placement; and ▪ Provision of consumer finance and other commercial loans and advances.
Significant Changes in the State of Affairs	In the opinion of the directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the year ended 30 June 2020.
Significant Events After Balance Date	There have been no circumstances arising since balance date which have significantly affected or may significantly affect: ▪ the operations; ▪ the results of those operations; or ▪ the state of affairs of the entity or consolidated entity in future financial years.
Rounding of Amounts	The amount contained in the financial statements and the Directors' Report have been rounded to the nearest thousand dollars (unless specifically stated to be otherwise) under the option available to the Company under Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which this legislative instrument applies.

Letter from the Chair of the Remuneration Committee

Dear Shareholders

The consolidated entity delivered a record financial result for the 2020 year increasing reported profit before tax (**PBT**) by 15.1% to $661.29 million and reported net profit after tax and non-controlling interests (**NPAT**) by 19.4% to $480.54 million. Comparable profit year-on-year was up 26% on a PBT basis and 30.9% on NPAT.

It also delivered a strong increase of 8.7% in the net asset base for shareholders to $3.48 billion as at 30 June 2020. The PBT return on net assets was 19% for the 2020 financial year compared to 18% for 2019.

COVID-19 Effects on Remuneration

The COVID-19 pandemic struck the Australian and world economies in March 2020. The consolidated entity operates businesses in eight separate countries around the world, with the governments of each of those countries reacting in different ways to the health and economic crisis.

In April 2020, each of the Executive Directors forewent 20% of their salaries for the 3 months of April, May and June 2020. Similarly, the Non-Executive Directors elected to voluntarily reduce their director fee by 20% for the same period.

Following the end of the 2020 financial year, the Remuneration Committee resolved that in making its decisions and recommendations in respect of remuneration outcomes for the Executive Directors, it would exclude the effect of COVID-19 support and assistance received by the consolidated entity in each of the countries in which it operates, from remuneration outcomes, so as to eliminate unintended windfall gains in remuneration returns for the Executive Directors. COVID-19 support and assistance is detailed on page 6 of this report.

Evaluation of Performance of Executive Directors

An appraisal of the performance of each Executive Director and the Executive Director team was undertaken following the end of the 2020 year as part of the annual Participant Performance Review by the Remuneration Committee.

The appraisal considered matters in respect of performance during the COVID-19 period, including:

- The operation of the consolidated entity across the eight separate countries including in both lock-down and reduced trading circumstances, around the management of risks to the business which included employee and stakeholder welfare;
- The actions of the Executive Directors in protecting the business and reacting to the changes in market demand, including across the key functions of franchising, physical stores, on-line presence, supply chain management, logistics, marketing and advertising, government relations and property across the eight separate countries.

The appraisal was undertaken to ensure that executive remuneration in respect of the record financial result for 2020 was fair and reasonable, was in line with performance, and did not result in unintended windfall gains in remuneration returns for the Executive Directors.

Remuneration Considerations following the 2019 AGM

At the 2019 AGM held on 27 November 2019, a total of 683.62 million shares were held by key management personnel (KMPs) of HNHL, and their related parties, and were therefore ineligible to vote on the adoption of the 2019 Remuneration Report. The total number of ineligible votes represented 54.86% of total HVN shares on issue as at the date of the 2019 AGM.

Out of the remaining 562.39 million shares that were eligible to vote on the adoption of the 2019 Remuneration Report (representing 45.14% of total HVN shares on issue), the Company received 179.65 million votes against the adoption of the 2019 Remuneration Report (representing 31.94% of the eligible votes).

In aggregate, the total number of votes against the adoption of the 2019 Remuneration Report was 14.42% of the total number of HVN shares on issue.

Benchmarking and External Stakeholders

Several external stakeholders were of the view that the 2019 remuneration of the Executive Directors, and in particular, the fixed remuneration of the Executive Directors, including the CEO, was too high relative to the benchmark groups referenced by some proxy advisors to stakeholders. To address this, the Company commissioned an independent remuneration expert review of the level of remuneration of the Executive Directors of the Company during 2020, including analyses and comparison of alternate peer groups, such as those used by the Company and proxy advisors in their prior assessments of executive remuneration.

The critical findings of the independent remuneration expert review were as follows:

- Prior remuneration benchmark peer groups of the Company and of external stakeholders could be refined in order to validly estimate remuneration applicable to executive positions of the Company by:
  - an increase in peer company numbers to improve statistical reliability;
  - including peer companies that have important operational characteristics necessary to capture expertise required for position matching; and
  - excluding companies with operations that are not comparable.
- Prior benchmarking peer groups, including those utilised by external stakeholders, differed, so that there were bound to be differences in assessment. It was found that all stakeholder methods could be improved by matching positions for operational size, focus, breadth, industry, geographic locations and financial accountability.

DIRECTORS' REPORT – REMUNERATION REPORT

Letter from the Chair of the Remuneration Committee (continued)
Benchmarking and External Stakeholders (continued)

- The peer group used by the Company to benchmark executive remuneration should be expanded to include additional companies similar in size and operations, balanced across a greater range of measures and operational characteristics, including:
    - company size e.g. system revenue, EBIT, net assets, tangible assets and market capitalisation; and
    - operations e.g. franchising, physical stores, on-line presence, overseas operations and property investment.
- The benchmark group of the Company be reset to a group having sufficient companies to provide matches for the executive director positions, enough data to be reliable over time, with narrower differences in size parameters to reliably compare remuneration, although noting that the number of peers that match in terms of operational scope and financials among ASX listed companies was less than ideal.
- The statistical analysis indicated that executive pay varied with the size of the operation for which the executive was accountable. Because the Company is larger than most companies in its industry, paying the median level would not attract or retain executives best suited to running larger businesses.
- The Company should position remuneration around the level that reflects the financial accountability and operational scope of the Company relative to the enlarged and more relevant comparator group, which was around the 75th to 90th percentile of that group.

The conclusions reached by the Remuneration Committee, informed by the independent expert review, in respect of the remuneration of Executive Directors for 2019 were that:
- The level of fixed remuneration was reasonable;
- The level of target and maximum remuneration from the short term incentive (STI) was reasonable; and
- The level of target and maximum remuneration from the long term incentive (LTI) was underdone and could have included further long term or extended term incentives.

Improving the Framework for Remuneration in 2020
The following improvements were made to the remuneration framework for Executive Directors:

- Profit after tax adjusted for the after tax effect of property increments and decrements (**APAT**) is the measure used for the achievement of the financial conditions for the short term incentive, replacing earnings per share;
- The 100% short term incentive (**STI**) pool was increased to $3.0 million from $2.8 million in line with the increase in net assets of the Company over the previous two financial periods, with the 100% STI pool able to be increased if the financial performance conditions for the short term incentives are over-achieved to the maximum extent of 120% i.e. to $3.6 million from $3.36 million.
- The level of long term incentive (**LTI**) achievement for the determination of vesting is to be based on a straight line basis as opposed to a gradation basis to remove the risk of calculation bias.
- The determination of return on net assets (**RONA**) for the on-foot LTI tranches will exclude the effects of the financial impact of the adoption of the lease accounting standard AASB 16, to allow calculation consistency.

Continuing the Framework in 2020
The framework for the Executive Director remuneration structure in the 2020 financial year remained similar to that which was in place for the 2019 financial year in respect of the following:
- Benchmarked fixed remuneration;
- Evaluation of satisfactory performance for each Executive Director required for entry into the STI;
- Entry into the 2020 STI subject to the Executive Directors having managed risk in accordance with the risk management framework and the risk appetite of the Company;
- At risk STI subject to a balanced scorecard of measures relevant to the given financial year;
- Entry at the base level of financial achievement for the STI required before the plan becomes activated;
- At risk LTI in the form of performance rights as issued under the terms of the 2016 LTI Plan;
- The use of RONA as the measure of financial performance for LTI capturing the effect of all impairments and write-downs, apart from property revaluation increments and decrements.

Things to Note for the 2020 STI Plan
The Board adopted a STI Plan for Executive Directors relevant to the desired outcomes of the 2020 financial year. The STI Plan is subject to both financial conditions, calculated exclusively using Profit after tax adjusted for the after tax effect of property increments and decrements (**APAT**) as to 50% weighting, and non-financial conditions as to 50% weighting. The minimum financial performance conditions (i.e. entry-level achievement) must be achieved prior to the activation of the non-financial performance conditions.

With respect to the 2020 STI Plan, the minimum financial performance conditions (entry-level to the 2020 STI Plan) was set at APAT of $320m, the 100% achievement level at APAT of $378m, with a maximum over-achievement level of 120% at APAT of $424m. The 100% achievement equated to a 4.5% increase of the equivalent APAT for the 2019 year after adjusting for the financial impact of the adoption of the lease accounting standard AASB 16. Achievement between the 50% and 100% targets and the 100% to the 120% targets remains set on a straight line basis.

Equivalent to previous STI Plans, each participating Executive Director is subject to the non-financial performance condition that the Executive Directors of the Company managed risk in accordance with the risk management framework and risk appetite of the Company. The Company recognises the critical connection between conduct and reward. The assessment of conduct is informed by the fundamental principles of:
- obey the law
- act fairly
- do not mislead or deceive
- provide goods and services that are fit for purpose
- delivery goods and services with reasonable care and skill

DIRECTORS' REPORT – REMUNERATION REPORT

Letter from the Chair of the Remuneration Committee (continued)

Remuneration Outcomes

The achievements of the 2020 financial year are reflected in the remuneration outcomes:

1) Executive Directors achieved 116.06% of their 2020 STI targets for performance against a balanced scorecard of measures, as compared to 90.61% for the 2019 financial year.

- In respect of the financial performance conditions, APAT of $426.78 million, which excluded COVID-19 assistance and support, exceeded the 120% over-achievement maximum of $424 million.
- The non-financial performance conditions were achieved as to 92.12% compared to 94.32% in 2019.
- Aggregated STI expense for 2020 was $3,481,651 as compared to $2,537,080 for 2019.

  The total 2020 STI award was $944,571, or 37.2%, higher than for 2019, aligned with the increase in comparable NPAT of 30.9%.

2) RONA of 18.91% for the year, which excluded COVID-19 assistance and support, resulted in the following:

- Tranche 3 of the 2016 LTI Plan, granted on 1 December 2017 being assessed for vesting at 56.6%;
- Tranche FY19 of the 2016 LTI Plan, granted on 4 December 2018 was assessed for probable vesting at 60%;
- Tranche FY20 of the 2016 LTI Plan, granted on 2 December 2019 was assessed for probable vesting at 60%.

3) The total "at risk" compensation expense for the 2020 financial year was $1,284,308 or 39.5% higher than the "at risk" expense in the 2019 financial year primarily due to the higher level of payment and assessed vesting under the STI awards.

4) The total "take-home" pay for KMP Directors was $142,230 or 1.4% higher than the 2019 financial year.

5) Tranche 2 of the 2016 LTI Plan, granted on 28 November 2016 and subject to performance over the 2017, 2018 and 2019 financial years vested as to 60% with effect from 1 January 2020. All vested performance rights have been exercised.

6) All of the Executive Directors continued to be employed throughout the year.

7) Each of the Executive Directors have a significant shareholding in the Company, each more than their respective total fixed remuneration, which provides alignment of the executive management with that of shareholders.

Correlation of Remuneration Outcomes with Performance Over 5 Years

Correlation is a calculation of the degree of relationship between two items with 100% being strongest and 0% being weakest.

The level of statistically significant correlation remains strong, between both the total remuneration expense and the "at risk" remuneration of the Directors, with all of the performance indicators such as profit before tax, return on net assets, net profit after tax, earnings per share and average share price over a five year period from 2016 to 2020. The correlation factors range between 73% and 97% over the last five financial years from 2016 to 2020. Correlation is detailed at Item 9 of the Remuneration Report.

The Board continues to be confident that the remuneration policies support the financial and strategic goals of the consolidated entity.

The directors and other members of the key management personnel team continue to be committed to protecting and growing a sustainable business and creating long-term sustainable value for all stakeholders of the consolidated entity.

On behalf of the Board, I invite you to review the full report and thank you for your continued interest.

Yours sincerely

Ken Gunderson-Briggs

KEN GUNDERSON-BRIGGS
Remuneration Committee Chairman

Contents of the 2020 Remuneration Report

This remuneration report for the year ended 30 June 2020 outlines the remuneration arrangements of the consolidated entity in accordance with the requirements of the *Corporations Act 2001 (Cth),* as amended, (the "Act") and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report is presented under the following sections:

1) Introduction
2) Remuneration principles and strategy
3) Remuneration governance
4) Remuneration mix - target
5) Details of short-term and long-term incentive plans
6) Performance and executive remuneration outcomes in FY20
7) Executive contractual arrangements
8) Non-Executive Director remuneration arrangements
9) Relationship between remuneration and the performance of the Company
10) Compensation of key management personnel
11) Additional disclosures relating to options, performance rights and shares
12) 'Take-Home Pay' for KMP Directors of the Company
13) Other matters for disclosure
14) Loans to key management personnel and their related parties
15) Other transactions and balances with key management personnel and their related parties

1. Introduction

The remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Details of KMP of the Company and consolidated entity during the 2020 financial year are set out below. Unless otherwise indicated, the individuals were KMP for the entire financial year. For the purposes of this report, the term "executive" includes the Chief Executive Officer ("CEO"), Executive Directors and Senior Executives of the consolidated entity.

Key Management Personnel (KMP)

	Position	Term as KMP
Executive Directors		
Gerald Harvey	Executive Chairman	Full financial year
Kay Lesley Page	Executive Director & Chief Executive Officer	Full financial year
John Evyn Slack-Smith	Executive Director & Chief Operating Officer	Full financial year
David Matthew Ackery	Executive Director	Full financial year
Chris Mentis	Executive Director, Chief Financial Officer & Company Secretary	Full financial year
Non-Executive Directors		
Christopher Herbert Brown OAM	Non-Executive Director	Full financial year
Michael John Harvey	Non-Executive Director	Full financial year
Kenneth William Gunderson-Briggs	Non-Executive Director (Independent)	Full financial year
Graham Charles Paton AM	Non-Executive Director (Independent)	Full financial year
Maurice John Craven	Non-Executive Director (Independent)	Full financial year
Senior Executives		
Martin Anderson	General Manager – Advertising	Full financial year
Thomas James Scott	General Manager – Property	Full financial year
Gordon Ian Dingwall	Chief Information Officer	Full financial year
Frank Robinson	General Manager – Technology & Entertainment	Resigned 30 September 2019
Lachlan Roach	General Manager – Home Appliances	Full financial year
Ajay Calpakam	General Manager – Audio Visual	Resigned 30 April 2020
Glen Gregory	General Manager – Technology & Entertainment	Appointed 9 September 2019
Emmanuel Hohlastos	General Manager – Audio Visual	Appointed 1 May 2020

2. Remuneration Principles and Strategy

The executive remuneration strategy of the consolidated entity in 2020 is designed to attract, motivate and retain high performing individuals and align the interests of executives with shareholders. The relevant factors in determining the suitability of a board member, including the Executive Directors, are integrity, business savvy, an owner-oriented attitude and a deep genuine interest in the business of the consolidated entity.

In applying these principles to the consolidated entity:

a) Business savvy requires a deep understanding of one or more of the sectors of retail, property, franchising and digital.

b) Integrity requires a level of fundamental honesty, candour and frankness in dealing with colleagues, regulators and other third parties. Integrity necessarily requires a director to bring an open mind and independent judgment to the discussion of any matter of concern to the Board.

c) An owner orientation or perspective of an owner requires the individual to either have:
   i. "skin in the game" by holding, controlling or benefitting from a significant parcel of shares where the financial interests of the director are aligned with the long term beneficial interest of shareholders; or
   ii. a perspective of advising owners of businesses and understanding that wealth generation is derived from the building of business interests that create long term sustainable value.

d) Directors with an owner orientation retain an open mind to consider diverse views but are not strictly beholden to the whims of fashionable thinking and are able to form their own views as to what constitutes best practice in corporate governance.

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

2. Remuneration Principles and Strategy (continued)

e) Interest in and time to do the job means:
  i. the person has an executive role, meaning that the person's career is based on job performance at the company; or
  ii. the individual has a limited number of outside interests (i.e. the person is not a professional Non-Executive Director),

  In both cases, the individual has an independence of mind and outlook.

Applying these criteria to the current Board, the Board is satisfied that each director, including the Executive Directors, bring to the Board the necessary skills and attributes specified.

The following table illustrates how the remuneration strategy of the consolidated entity in 2020 aligns with the strategic direction and links remuneration outcomes to performance.

Objective of the consolidated entity in 2020	To be recognised as a leader in the sectors in which the consolidated entity operates and build long-term sustainable value for shareholders		
Remuneration strategy linkages to objectives of the consolidated entity in 2020	Align the interests of executives with shareholders	The remuneration framework incorporates "at risk" components, through STI and LTI plans	Short-term performance is assessed against a suite of financial and non-financial measures relevant to the success of the consolidated entity in 2020 and generating returns for shareholders
	Long-term performance is assessed against financial performance conditions calculated exclusively in respect of RONA	Attract, motivate and retain high performing individuals Longer-term remuneration encourages retention and multi-year performance focus	The remuneration offering is competitive for companies of a similar sector, size and complexity

Component	Vehicle	Purpose	Link to Performance
Fixed Remuneration	Comprises base salary, superannuation contributions and other benefits	To provide competitive fixed remuneration set with reference to role, market and experience	Consolidated entity and individual performance are considered during the annual remuneration review
Short-Term Incentive (STI)	Paid as cash as a performance cash incentive (**PCI**), subject to minimum shareholding of individual Executive Directors.	Rewards executives for their contribution to achievement of consolidated entity outcomes	a. There is no STI award for an Executive Director unless the Executive Director satisfies the Participant Performance Review in terms of the Individual Executive Director Assessment Report. b. There is no STI award unless the Entry Level financial condition is achieved. c. The STI pool in respect of 100% achievement level is subject to performance criteria as to: 1. 50% subject to financial conditions, with the financial conditions based on Annual Profit After Tax (**APAT**); 2. 50% subject to non-financial conditions. d. Financial achievement calculated over the 100% achievement level is subject to financial conditions only. e. Executive Directors are to hold shares to the value equating to the level of fixed remuneration for that Executive Director at the end of the given financial year. f. If shares held are less than the benchmark, benefits are to be provided in the form of shares.

Where Annual Profit After Tax (**APAT**) is calculated as follows:	Annual Net Profit After Tax (APAT), excluding the after-tax effect of property revaluation increments or decrements and the after-tax effect of COVID-19 support and assistance received

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

2. Remuneration Principles and Strategy (continued)

Long-Term Incentive (LTI)	Awards under the LTI Plan are granted in the form of performance rights, being a right to acquire one ordinary share in the Company at nil exercise price	Rewards executives for their contribution to the financial performance of the consolidated entity and the effective utilisation of net assets to generate wealth for shareholders	Vesting of LTI performance rights is conditional upon achievement, in aggregate, of minimum RONA over the 2020, 2021 and 2022 financial years of 16% (for 20% vesting) with full vesting (i.e. 100%) achieved at 20% RONA
Where Return on Net Assets (**RONA**) means the fraction:	APBT (annual net profit before income tax excluding property revaluation increments or decrements, the net impact of AASB 16 *Leases* and any COVID-19 support and assistance received) / Net Assets (excluding non-controlling interests) at the close of the preceding financial year		

3. Remuneration Governance

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements for Executive Directors and Non-Executive Directors ("NEDs").

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team. In 2020, independent remuneration experts provided remuneration benchmark information for consideration and analysis in respect of the level of Executive Director remuneration, including fixed remuneration and the long-term incentives framework.

The Remuneration Committee comprises three NEDs, two of whom are independent NEDs. Further information on the committee's role, responsibilities and membership is located on the website: www.harveynormanholdings.com.au.

Remuneration Approval Process

The Board approves the remuneration arrangements of the CEO and executives and all awards made under the long-term incentive plans of the Company, following recommendations from, and certain determinations by, the Remuneration Committee. The Board sets the aggregate remuneration of NEDs, subject to shareholder approval.

The Remuneration Committee approves, having regard to the recommendations made by the CEO, the level of the short term incentive ("STI") pool for Executive Directors.

No Director participates in deliberations about, or decisions, in respect of the remuneration of that Director.

No Executive Director was present at any meeting of directors which considered any long term incentive plan or short term incentive plan of the Company, and no Executive Director voted on those matters.

COVID-19 Effects on Remuneration

The COVID-19 pandemic struck the Australian and world economies in March 2020. The consolidated entity operates businesses in eight separate countries around the world, with the governments of each of those countries reacting in different ways to the health and economic crisis.

In April 2020, each of the Executive Directors forewent 20% of their salaries for the 3 months of April, May and June 2020. Similarly, the Non-Executive Directors elected to voluntarily reduce their director fee by 20% for the same period.

Following the end of the 2020 financial year, the Remuneration Committee resolved that in making its decisions and recommendations in respect of remuneration outcomes for the Executive Directors, it would exclude the effect of COVID-19 support and assistance received by the consolidated entity in each of the countries in which it operates, from remuneration outcomes, so as to eliminate unintended windfall gains in remuneration returns for the Executive Directors.

In addition, the consolidated entity did not receive or pay any COVID-19 support and assistance in respect of any individual director or key management personnel (**KMP**).

The appraisal of the performance of each Executive Director and the Executive Director team was undertaken following the end of the 2020 year as part of the annual Participant Performance Review by the Chair of the Remuneration Committee with the CEO and Executive Chairman.

For the 2020 year, the appraisal considered matters in respect of performance during the COVID-19 period including:

- The operation of the consolidated entity across the eight separate countries including in both lock-down and reduced trading circumstances, around the management of risks to the business which included employee and stakeholder welfare;
- The actions of the Executive Directors in protecting the business and reacting to the changes in market demand, including across the key functions of franchising, physical stores, on-line presence, supply chain management, logistics, marketing and advertising, government relations and property across the eight separate countries.

The appraisal was undertaken to ensure that executive remuneration in respect of the record financial result for 2020 was fair and reasonable, was in line with performance, and did not result in unintended windfall gains in remuneration returns for the Executive Directors.

4. Remuneration Mix - Target

For the 2020 financial year, the executive remuneration framework comprised fixed remuneration, STI and LTI.

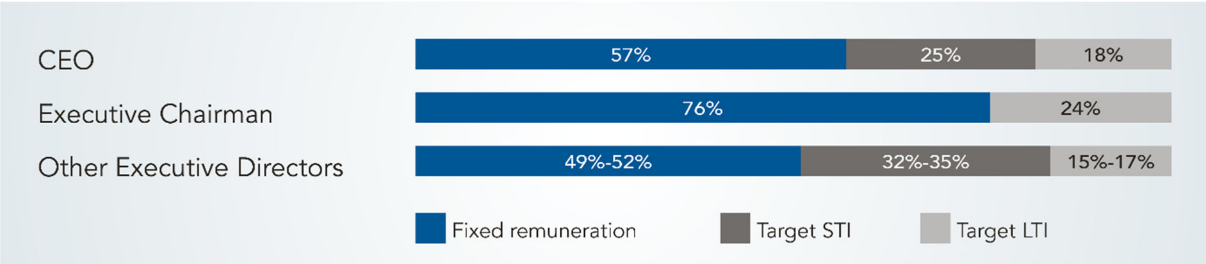
The consolidated entity aims to reward executives with a level and mix of remuneration appropriate to their position and responsibilities, while being market competitive.

During the 2020 financial year, a review by an independent remuneration expert was undertaken in respect of the remuneration benchmarking used by the Company in 2019, with reference to both sector peers and comparator groups comprising companies of comparable financial size and operations.

As a result of the remuneration review undertaken by the independent remuneration expert, the policy of the Company to position fixed remuneration around the average or median of the previous comparator group changed to position fixed remuneration against the level that reflects the financial accountability and operational scope of the position relative to peer group positions. This was around the 75th to 90th percentile of the enlarged and more relevant comparator group arising from the research. Target total remuneration is intended to provide the opportunity to earn top quartile rewards for outstanding performance.

Remuneration levels are considered annually, with consideration of market data and the performance of the consolidated entity and individual.

The following summarises the target remuneration mix of the Executive Directors.



5. Details of Short-Term and Long-Term Incentive Plans

The extent to which the financial conditions and non-financial conditions have been satisfied will be documented in a Performance Report and an Internal Audit Report, for consideration by the Remuneration Committee in accordance with the terms and conditions of the short-term and long-term incentive plans. The Performance Report is a report prepared for, and on behalf of, the CEO addressing whether each weighted non-financial condition has been satisfied or, where relevant, the extent (expressed as a percentage) to which each weighted non-financial condition has been satisfied. The Internal Audit Report is a report prepared by the Chief Internal Auditor of the Company, which is an objective appraisal of the Performance Report and documents the findings of the audit of the Performance Report.

2020 STI Plan

The consolidated entity operates an annual STI program available to Executive Directors and awards a performance cash incentive (PCI), or equity, subject to the achievement of clearly defined measures, targets, initiatives and conditions.

2020 STI Plan	
Who participates?	Executive Directors
How is the STI delivered?	STI awards, in the form of a cash bonus or performance cash incentive (**PCI**) or equity (subject to the below criteria), have been made annually to Executive Directors in order to align remuneration with the achievement of a number of performance measures, targets and initiatives covering both financial and non-financial, corporate and individual measures of performance. Executive directors are to hold shares in the Company to the value equating to the level of fixed remuneration for that Executive Director at the end of the given financial year (the **Benchmark Shareholding Level**), with any STI paid in equity or cash subject to the following: a. If the Executive Director is under the Benchmark Shareholding Level, the STI reward will be paid in equity, subject to shareholder approval and compliance with the ASX Listing Rules, to the value that increases the holding of the Executive Director to the Benchmark Shareholding Level, with any remaining balance of the STI reward paid in cash. b. If the Executive Director is over the Benchmark Shareholding Level, the STI reward will be paid in cash.
When is the STI paid?	The payment of the 2020 STI Plan PCI to an Executive Director under the 2020 STI Plan is to be made on 30 September 2020, or as soon as reasonably practicable after that date, subject to the satisfaction of 2020 STI Plan Performance Conditions and 2020 STI Plan Service Conditions.

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

5. Details of Short-Term and Long-Term Incentive Plans (continued)
2020 STI Plan (continued)

What is the 2020 STI opportunity?	Executive Directors, excluding the Executive Chairman, have a target STI opportunity of between 43% to 71% of fixed remuneration. The target STI opportunity is set at a level so as to provide sufficient incentive to Executive Directors to achieve the operational targets and such that the cost to the consolidated entity is reasonable in the circumstances. For the year ended 30 June 2020, the 100% STI Opportunity Pool of the 2020 STI Plan PCI, potentially payable, was $3,000,000 as follows: 1. in respect of Gerald Harvey, nil; 2. in respect of Kay Lesley Page, $860,000; 3. in respect of John Evyn Slack-Smith, $750,000; 4. in respect of David Matthew Ackery, $750,000; and 5. in respect of Chris Mentis, $640,000. The maximum pool for allocation at 120% Over-Achievement Level was $3,600,000 in aggregate.
What are the STI performance conditions for FY2020?	Actual STI payments awarded to each Executive Director depend on the extent to which specific measures, targets, initiatives and conditions for the 2020 financial year (**STI Targets**) were met. STI Targets cover financial and non-financial measures of performance. There is no STI award for an Executive Director unless the Executive Director satisfies the Participant Performance Review in terms of the Individual Executive Director Assessment Report. There is no STI award unless the Entry Level financial condition is achieved. The primary weighting of the 2020 STI Plan Performance Conditions are as follows: a. as to 50% - the Financial Condition; and b. as to 50% - the Non-Financial Conditions

(a) STI 50% Financial Condition	(b) STI 50% Non-Financial Conditions
APAT [Annual Net Profit After Tax] as defined in Section 2 above was selected as the STI performance measure as it: ▪ indicates the level of after tax profit generated adjusted for the after-tax effect of net property revaluation adjustments and the after-tax effect of any COVID-19 support and assistance received; and ▪ provides a basis for comparing growth in profitability year-on-year The Financial Condition is calculated in respect of the year ended 30 June 2020 and will be achieved at the following levels: ▪ Entry Level at APAT of $320 million, equating to 25% entitlement to the STI pool (50% opportunity pool = $0.75 million); ▪ 100% Level at APAT of $378 million, equating to 50% entitlement to the STI pool (100% opportunity pool = $1.50 million); ▪ Straight-line sliding scale between Entry Level and 100% Level; ▪ 120% Over-Achievement Level at APAT of $424 million, equating to 70% entitlement to the STI pool (120% opportunity pool = $2.10 million); ▪ Straight-line sliding scale for achievement between 100% and 120% Level.	The Non-Financial Conditions are assessed in respect of the year ended 30 June 2020 and include the following non-financial measures in: ▪ Customer experience (10%); ▪ Operations / Improve productivity (15%); ▪ Company-operated store expansion strategy (15%); and ▪ People & Culture / Franchisee learning, development and growth (10%). Full achievement of the non-financial conditions will equate to 50% entitlement to the STI pool i.e. $1.50 million.

How is performance assessed?	In respect of the 2020 STI, each participating Executive Director will be subject to an additional non-financial performance condition in the form of a Participant Performance Review which would: ▪ Measure the extent of the proper performance and discharge of the executive responsibilities and accountabilities of that Individual Participant Executive Director; ▪ Measure the extent of the proper performance and discharge of the duties of that Individual Participant Executive Director, as an officer and director of the Company.

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

5. Details of Short-Term and Long-Term Incentive Plans (continued)

2020 STI Plan (continued)

How is performance assessed? (continued)	To determine whether an individual is eligible for the 2020 STI, in terms of performance, the following process is undertaken: ▪ A report by the CEO in respect to which each Individual Participant Executive Director has satisfied the Participant Performance Review in the form of an Individual Executive Director Assessment Report. In respect of the assessment of the CEO, the Chairman of the Remuneration Committee shall undertake the report and assessment in respect of the CEO. ▪ An objective appraisal by the Internal Auditor of the process and conclusions reached in the Individual Executive Director Assessment Reports, to be provided to the Remuneration Committee promptly after 30 June 2020. Subject to a satisfactory Participant Performance Review, and after consideration of reports and performance against STI Targets, the Remuneration Committee makes a final determination of the amount of STI to be paid to the CEO and other Executive Directors. The extent to which the financial conditions and non-financial conditions have been satisfied will be documented in the Performance Report and an Internal Audit Report, for consideration by the Remuneration Committee in accordance with the terms and conditions of the 2020 STI Plan. The Remuneration Committee (acting on behalf of the Company) may at any time, in its absolute discretion, decrease the amount of the STI which is, or may become, payable to an executive under the 2020 STI Plan by serving a written notice to the relevant executive at any time before the payment date. Details of the 2020 STI Targets and levels of achievement in the 2020 financial year are set out in pages 46 to 49 of this report.
What happens if an executive leaves?	For "Bad Leavers" (defined by the Company as resignation or termination for cause), any STI is forfeited, unless otherwise determined by the Board. For any other reason, the Board has discretion to award STI on a pro-rated basis taking into account time and the current level of performance against performance hurdles.

Tranche FY20 of the 2016 LTI Plan

Tranche FY20 of the 2016 LTI Plan	LTI grants are made annually to Executive Directors in order to align remuneration with the creation of sustainable shareholder value over the long-term.
Who participates?	Executive Directors which have an impact on the performance of the consolidated entity against the relevant long-term performance measures.
How is the LTI delivered?	Shareholders at the AGM held on 24 November 2015 approved the terms and conditions of the 2016 LTI Plan that permitted the grant of performance rights to Executive Directors, being a right to acquire one ordinary share in the Company at nil exercise price, in three separate tranches in the 2016, 2017 and 2018 financial years. Shareholders at the AGM held on 27 November 2018, permitted the grant of a further three separate tranches of performance rights to Executive Directors in the 2019, 2020 and 2021 financial years, subject to the terms and conditions of the 2016 LTI Plan.

Executive	Tranche FY19 Exercisable between 1 January 2022 and 30 June 2024	Tranche FY20 Exercisable between 1 January 2023 and 30 June 2025	Tranche FY21 Exercisable between 1 January 2024 and 30 June 2026
G. Harvey	65,500	65,500	65,500
K.L. Page	183,000	183,000	183,000
J.E. Slack-Smith	109,000	109,000	109,000
D.M. Ackery	109,000	109,000	109,000
C. Mentis	83,000	83,000	83,000
Total	549,500	549,500	549,500

What is the LTI opportunity?	A performance right is the right to acquire one ordinary share in the Company at nil exercise price. No amount is payable in respect of the grant of a performance right. If exercised, each performance right will be converted into one ordinary share in the Company. Executive Directors have a target LTI opportunity of between 31% to 32% of fixed remuneration. A total of 549,500 performance rights under Tranche FY20 of the 2016 LTI Plan were granted to Executive Directors on 2 December 2019. The performance rights were independently valued by Mercer Consulting (Australia) Pty Limited at grant date with a fair value of $3.47 per entitlement share granted under Tranche FY20 on 2 December 2019, based on a share price of $4.30.

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

5. Details of Short-Term and Long-Term Incentive Plans (continued)
Tranche FY20 of the 2016 LTI Plan (continued)

What is the LTI opportunity? (continued)

The fair value was derived from a discounted cash flow technique where the value of the performance right is the face value of the share at grant date less the present value of the dividends expected to be paid on the share but not received by the holder during the vesting period. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche FY20 performance rights amounted to $1,906,765 in aggregate.

Tranche FY20	Key Dates
Grant date	2 December 2019
Vesting date	31 December 2022
First exercise date	1 January 2023
Last exercise date	30 June 2025

What are the performance conditions for Tranche FY20 of the 2016 LTI Plan?

Performance conditions are deemed to be an essential component of all variable reward entitlements. The proposed allocation of performance rights will be subject to service conditions and financial performance conditions. The Board (after consideration of the recommendations of the Remuneration Committee), may, in its discretion, impose additional non-financial performance conditions which must be satisfied as a condition of exercise of any performance rights by the Grantee.

100% Financial Condition

With the exception of the service condition, the Board has resolved that the conditions in respect of the achievement of Tranche FY20 of the 2016 LTI Plan will be all financial, based exclusively on RONA, where Tranche FY20 RONA means the fraction:

Tranche FY20 Aggregate APBT ÷ Tranche FY20 Aggregate Net Assets, expressed as a percentage.

Where:

Tranche FY20 Financial Years means the financial years ending 30 June 2020, 2021 and 2022;

Tranche FY20 Aggregate APBT means the aggregate amounts of the annual net profit before income tax of the consolidated entity for each of the Tranche FY20 Financial Years, but excluding amounts accounted for in the financial statements of the consolidated entity for increments or decrements arising from the revaluation of land or buildings, the net impact of AASB 16 *Leases* and any COVID-19 support and assistance received in the Tranche FY20 Financial Years;

Tranche FY20 Aggregate Net Assets means the amounts of the net assets of the consolidated entity, excluding non-controlling interests, as at each of 30 June 2019, 2020 and 2021 as described in the annual report of the consolidated entity in respect of each of the Tranche FY20 Financial Years.

Full vesting of the Tranche FY20 performance rights is conditional upon achievement, of Tranche FY20 RONA of at least 20%, with a lesser vesting as set out in the table below:

Tranche FY20 RONA Achieved	Tranche FY20 % of Performance Rights that will become exercisable
Less than 16%	Nil
16%	20%
17%	40%
18%	60%
19%	80%
20%	100%

The level of LTI achievement for the determination of vesting will be based on a straight-line basis between 16% RONA as to 20% achievement and 20% RONA as to 100% achievement.

How is performance assessed?

Level of satisfaction of LTI Plan conditions is monitored by the Remuneration Committee, with assistance from Internal Audit, each year, with the vesting outcomes ultimately determined at the end of the three-year performance period.

The LTI award for each of the financial years will be measured over a three-year period, with Tranche FY20 of the 2016 LTI Plan measured over the period for financial years ending 30 June 2020, 30 June 2021 and 30 June 2022.

When does the LTI vest?

Performance rights granted under Tranche FY20 of the 2016 LTI Plan will vest on 31 December 2022, subject to meeting the financial performance conditions in the 2020, 2021 and 2022 financial years and service conditions, and will be capable of exercise between 1 January 2023 and 30 June 2025.

5. Details of Short-Term and Long-Term Incentive Plans (continued)
Tranche FY20 of the 2016 LTI Plan (continued)

How are potential LTI awards treated on termination?	In general, where a participant resigns or is terminated for cause before a performance right vests, all unvested performance rights will lapse. The Board (after consideration of the recommendations of the Remuneration Committee of the Board), has discretion to determine the treatment of any unvested performance rights where a participant ceases employment in "good leaver" circumstances (such as by reason of death, disability or otherwise in circumstances approved by the Board). In the event of fraud, dishonesty or breach of obligations, the Board may make a determination, including lapsing an award of performance rights, to ensure no unfair benefit is obtained by a participant.
How are potential LTI awards treated if a change of control occurs?	In the event of a takeover, scheme of arrangement or other transaction which may result in a person becoming entitled to exercise control over the Company, the Board has a discretion to determine whether any unvested performance rights should vest, lapse or become subject to different performance conditions, or whether any resulting shares that are subject to a restriction period, should become unrestricted.
Are executives eligible for dividends?	Performance rights will not carry any voting or dividend rights. Performance rights are non-transferable except in limited circumstances or with the consent of the Board. If exercised, each performance right will be converted into one ordinary share in the Company. Executives will then be entitled to dividends on those ordinary shares after conversion.

6. Performance and Executive Remuneration Outcomes in FY20

6A. Actual Remuneration Earned by Key Management Personnel (KMP) in FY20

The compensation expensed in respect of KMP in FY20 is set out in Table 1 (for Directors) and Table 2 (for Senior Executives) on pages 56 and 57 of this report. This provides shareholders with a view of the remuneration earned by KMP for performance in the 2020 financial year and the value of any LTIs expensed during the financial year.

The 'take-home pay' for KMP Directors of the Company, representing the benefits paid to each Director during the year ended 30 June 2020, or as soon as practicable after that date, is set out in Section 12 of the Remuneration Report on page 61.

6B. Fixed Remuneration

Executive contracts of employment do not include any guaranteed base pay increases. The fixed remuneration of Executive Directors is reviewed annually by the Remuneration Committee.

During the 2020 financial year, a review of the remuneration benchmarking used by the Company in 2019 was undertaken by an independent remuneration expert, referencing sector peers and companies more similar to the Company in financial size and operations. As a result of the remuneration review:

- the policy of the Company was amended to set fixed remuneration against the level that reflects the size of the Company within the peer group of the refined comparator group identified by the research; and
- this benchmark ranged between the 75th and 90th percentiles because, the Company is larger than most comparable companies, and the position accountabilities of the Company when compared to matched positions in the comparator group.

Target total remuneration is intended to provide the opportunity to earn top quartile rewards for outstanding performance.

Remuneration levels are considered annually, with consideration of market data and the performance of the consolidated entity and individual, along with the longevity of the Executive Directors in their respective roles, and the assessment of opportunity costs in respect of replacement. The process undertaken by the Remuneration Committee following the review by the independent remuneration expert consisted of a review of Company, business unit and individual performance, relevant comparative remuneration, and external advice independent of management.

The fixed component of the remuneration of Executive Directors is disclosed in Table 1 on page 56 of this report.

6C. Actual Performance Against Short Term Incentive (STI) Measures

A combination of financial and non-financial measures is used to measure performance for STI awards. The aggregate 100% opportunity pool of the 2020 STI Plan potentially payable was \$3,000,000, an increase of \$200,000 from the 2019 STI pool of \$2,800,000. The maximum pool for allocation at 120% over-achievement level was \$3,600,000 in aggregate.

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

6C. Actual Performance Against Short Term Incentive (STI) Measures (continued)

50% of the STI is dependent on the satisfaction of financial performance conditions (exclusively based on APAT) and 50% is measured against the achievement of set non-financial measures.

Actual performance against those measures is as follows for the 2020 financial year:

(a) 120% over-achievement of the 50% Financial Condition (score of 70.00%) = $2,100,000 payable for FY20
(b) 92.12% achievement of the 50% Non-Financial Conditions (score of 46.06%) = $1,381,651 payable for FY20

The total 2020 STI Plan payable in respect of the 2020 financial year is $3,481,651, compared to $2,537,080 for the 2019 financial year. This represented a total achievement of 116.06% of the 2020 STI as shown in the tables below. The payment of the 2020 STI Plan is to be made on or before 30 September 2020, or as soon as reasonably practicable after that date, subject to the satisfaction of the 2020 STI Plan Service Conditions.

Financial Conditions of the 2020 STI Plan

Achievement of 50% Financial Condition						
Calculation of FY20 APAT	Annual Net Profit After Tax (APAT) excluding the after-tax effect of property revaluation increments or decrements and the after-tax effect of any COVID-19 support and assistance received				$426.78 million for FY20	Achievement = 120% over-achievement
	100% Level 2020 STI PCI	% Financial Conditions	2020 STI PCI Financial Condition	2020 APAT	% Financial Condition Satisfied	2020 STI PCI Payable
Gerald Harvey	Nil	n/a	Nil	$426.78 million	n/a	Nil
Kay Lesley Page	$860,000	50%	$430,000	$426.78 million	120% (70% score)	**$602,000**
John Evyn Slack-Smith	$750,000	50%	$375,000	$426.78 million	120% (70% score)	**$525,000**
David Matthew Ackery	$750,000	50%	$375,000	$426.78 million	120% (70% score)	**$525,000**
Chris Mentis	$640,000	50%	$320,000	$426.78 million	120% (70% score)	**$448,000**
Total	$3,000,000		$1,500,000			$2,100,000

For the 2020 financial year, $1,500,000, being 50% of the aggregate 100% level opportunity pool of the 2020 STI Plan PCI of $3,000,000, was subject to the APAT financial condition. The maximum pool for allocation at 120% over-achievement level was $3,600,000 in respect of the 2020 financial year.

The Entry Level point for the financial condition was at APAT of $320 million with the 100% achievement level at APAT of $378 million. Achievement points are set on a straight-line, sliding scale basis between the Entry Level of $320 million APAT to the 100% Level of $378 million APAT. The Over-Achievement Level point for the financial condition was at APAT of $424 million, equating to 120% entitlement to the STI pool. Over-Achievement points are set on a straight-line, sliding scale basis between the 100% Level of $378 million APAT and the 120% Level of $424 million APAT.

APAT for the 2020 financial year was $426.78 million resulting in attainment of the Over-Achievement Level of 120% of the financial condition. This translated to an achievement score of 70% in respect of the 2020 STI.

Non-Financial Conditions of the 2020 STI Plan

Achievement of 50% Non-Financial Conditions	For the 2020 financial year $1,500,000, being 50% of the aggregate 100% opportunity pool of the 2020 STI Plan PCI of $3,000,000, was subject to set non-financial performance measures as to: ▪ Customer experience (10%); ▪ Operations / Improve productivity (15%); ▪ Company-operated store expansion strategy (15%); and ▪ People & culture / Franchisee learning, development and growth (10%).

	100% Level 2020 STI PCI	% Non-Financial Conditions	2020 STI PCI Non-Financial	% Non-Financial Conditions Satisfied	2020 STI PCI Payable
Gerald Harvey	Nil	n/a	Nil	n/a	Nil
Kay Lesley Page	$860,000	50%	$430,000	92.12% (46.06% score)	$396,073
John Evyn Slack-Smith	$750,000	50%	$375,000	92.12% (46.06% score)	$345,413
David Matthew Ackery	$750,000	50%	$375,000	92.12% (46.06% score)	$345,413
Chris Mentis	$640,000	50%	$320,000	92.12% (46.06% score)	$294,752
Total	$3,000,000		$1,500,000		$1,381,651

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

6C. Actual Performance Against Short Term Incentive (STI) Measures (continued)
Non-Financial Conditions of the 2020 STI Plan (continued)

The Remuneration Committee had regard to certificates and reports from officers of the Company, other Board committees and management, including the Individual Director Assessment Reports and Internal Audit Reports, and noted that 92.12% of the non-financial performance hurdles for the 2020 STI Plan were achieved, equating to a score of 46.06%. This resulted in an amount of $1,381,651 in respect of the non-financial performance measures becoming payable to Executive Directors.

Achievement of the Non-Financial Performance Conditions for the 2020 STI Plan are set out in the following table.

	Assessment of Non-Financial Conditions of the 2020 STI Plan					
Measure	Target	Primary Weighting	Initiatives and Conditions	Weighting of Initiatives & Conditions	Achievement	Score
Customer Experience	Grant licences to use tools to reinforce and enhance the "Shop with Confidence" Harvey Norman® brand positioning through the Customer Service Standards.	10%	(1) Each franchisee in a Harvey Norman® complex to achieve an aggregate satisfaction rating from customer experience surveys of no less than 50% for that complex in Australia (expected achievement of 75%).	40%	98.75%	3.95%
			(2) Each franchisee in Australia to achieve a reduction in the number of total consumer complaints of 4% in FY20 over the prior year on a like-for-like basis.	40%	100%	4%
			(3) Company-operated stores in New Zealand to achieve an aggregate independent rating from the planned and budgeted customer experience surveys during FY20 of at least 50% (expected achievement of 75%).	10%	98%	0.98%
			(4) Company-operated stores in New Zealand to achieve a net reduction in total complaints of 3% in FY20 over the prior year on a like-for-like basis.	10%	100%	1%
Operations / Improve Productivity	Implement process improvements and systems to enhance the Online-to-Offline (020) Strategy of the consolidated entity.	15%	Franchisees are to be provided with licences and training to use tools to improve the profitability of their franchised business:			
			(1) Trak by Harvey Norman® to be expanded to 35 franchised complexes during FY20.	25%	100%	3.75%
			(2) Tools to expand business scope in respect of 'Drop Ship' capability.	25%	100%	3.75%
			(3) Optus process improvement to be delivered to franchised complexes.	25%	100%	3.75%
			Establish the governance structure for the upgrade of finance platforms of the consolidated entity in Australia.	25%	100%	3.75%
Company-Operated Store Expansion Strategy	Company-operated store expansion strategy to be developed and executed in Malaysia and Ireland.	15%	(1) Malaysia: Six (6) new stores to be opened during FY20.	75%	83.33%	9.38%
			(2) Ireland: One (1) new store to be opened at Galway	25%	100%	3.75%
People & Culture / Franchisee Learning, Development and Growth	Ongoing refinement of the process by each franchisee that promotes and encourages measureable improvement in the knowledge and capability of the franchisee and their employees.	10%	(1) Franchisees to identify and nominate a minimum number of 50 candidates to attend the "Franchisees and Proprietor in Training (FIT)" development program during FY20.	40%	100%	4%
			(2) Franchisees to achieve a successful completion rate of 75% by participants in the FIT development program during FY20.	40%	100%	4%
			(3) To establish a Lead Proprietor in Training (PIT) program framework in New Zealand.	20%	0%	0%
Total		50%				46.06%

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

6C. Actual Performance Against Short Term Incentive (STI) Measures (continued)

Service Conditions of the 2020 STI Plan

The 2020 STI Plan Service Conditions will be deemed to be satisfied, if and only if, as at the relevant payment date being 30 September 2020:

- the Executive has not resigned or provided notice of resignation of employment from the Employer, except in order to retire from the workforce;
- the Employer has not terminated the employment of the Executive for cause; or
- the Board has not determined that the incentives should be revoked or lapse as a result of any breach of the law, corrupt conduct, bribery, fraud, gross misconduct or conduct of the Executive which brings the Company or the Employer into disrepute.

Shareholding Benchmark of the 2020 STI Plan

Executive Directors are to hold shares in the Company to the value equating to the level of fixed remuneration for that Executive Director at the end of the financial year (the **Benchmark Shareholding Level**). If shares held by the Executive Director are less than the Benchmark Shareholding Level, the STI benefit are to be provided in the form of shares, subject to shareholder approval and compliance with ASX Listing Rules, to the value that increases the holding of the Executive Director to the Benchmark Shareholding Level.

Each of the Executive Directors that participated in the 2020 STI Plan held shares in the Company of a value that was in excess of the Benchmark Shareholding Level. The STI benefit under the 2020 STI Plan is to be paid in cash.

6D. Actual Performance Against Long-Term Incentive (LTI) Measures for Tranche FY20 of the 2016 LTI Plan

With the exception of the service condition, the Board has resolved that the conditions in respect of Tranche FY20 of the 2016 LTI Plan will be all financial, based exclusively on RONA, where Tranche FY20 RONA means the fraction Tranche FY20 Aggregate APBT ÷ Tranche FY20 Aggregate Net Assets, expressed as a percentage. Tranche FY20 of the 2016 LTI Plan will be measured over a three-year period for financial years ending 30 June 2020, 30 June 2021 and 30 June 2022. The financial condition of Tranche FY20 will be wholly satisfied if the cumulative RONA over the measurement period is 20%, with lesser vesting as set out in the LTI Plan conditions on pages 44 to 46. Tranche FY20 will not vest if the RONA is less than 16% on a cumulative basis over the three-year measurement period.

A total of 549,500 performance rights were granted to Executive Directors on 2 December 2019. The performance rights were independently valued by Mercer Consulting (Australia) Pty Limited at a fair value of $3.47 per entitlement share, based on a share price of $4.30 as at grant date, resulting in a total fair value of Tranche FY20 of $1,906,765. The Remuneration Committee had regard to certificates and reports from officers of the Company, other Board committees and management and Internal Audit Reports, and has estimated, based on the available evidence, that the financial performance condition for Tranche FY20 of the 2016 LTI Plan will be 60% achieved by the end of the vesting period and 60% of the estimated fair value of the performance rights will meet the performance condition.

The Remuneration Committee resolved in making its decisions and recommendations in respect of remuneration outcomes for the Executive Directors of the Company, it will exclude the effect of COVID-19 support and assistance in respect of remuneration outcomes, so as to eliminate unintended windfall gains in "at risk" remuneration returns for the Executive Directors.

The probability of 60% vesting has been estimated based on the calculation of Tranche FY20 RONA for the 2020 financial year of 18.91%. An 18.91% RONA for FY20 would result in a 60% vesting for year 1 of the three-year measurement period. A 60% vesting probability will result in an estimated cumulative Tranche FY20 fair value of $1,144,059 over the vesting period. An amount of $215,312 has been recognised as remuneration to Executive Directors and expensed in the income statement on a straight-line basis for the year ended 30 June 2020.

Achievement of 100% Financial Condition for Tranche FY20 of 2016 LTI			
Calculation of FY20 RONA:	FY20 APBT (net profit excluding property revaluations, the net impact of AASB 16 *Leases* and any COVID-19 support and assistance received) / FY 19 Net Assets (excluding non-controlling interests)	$598.93 million / $3,167.41 million	= 18.91% RONA

	Number of Performance Rights	Fair Value per Right	Fair Value of Performance Rights	Probability of Vesting %	Estimated Value of Tranche FY20 2016 LTI Plan to Vest	Tranche FY20 LTI Plan Expense in FY20
Gerald Harvey	65,500	$3.47	$227,285	60%	$136,371	$25,665
Kay Lesley Page	183,000	$3.47	$635,010	60%	$381,006	$71,705
John Evyn Slack-Smith	109,000	$3.47	$378,230	60%	$226,938	$42,710
David Matthew Ackery	109,000	$3.47	$378,230	60%	$226,938	$42,710
Chris Mentis	83,000	$3.47	$288,010	60%	$172,806	$32,522
Total	549,500		$1,906,765		$1,144,059	$215,312

6D. Actual Performance Against Long-Term Incentive (LTI) Measures for Tranche FY20 of the 2016 LTI Plan (continued)

Subject to the satisfaction of the financial performance condition and service conditions of the 2016 LTI Plan, Tranche FY20 will vest on 31 December 2022. The exercise price for each performance right will be nil. If exercised, each performance right will be converted into one ordinary share of the Company. Unexercised performance rights will lapse, irrespective of whether they have become exercisable on 1 July 2025 or:

- such earlier date specified by the Board;
- the Board determines the performance rights granted to a Grantee should lapse, as a result of any fraud, gross misconduct or conduct by that Grantee which brings the Company into disrepute; or
- the Board determines the relevant requirements in relation to performance rights granted to a Grantee, including performance conditions and a service condition, have not and are incapable of being met.

6E. Reassessment of Tranche FY19 of the 2016 LTI Plan Performance Conditions and Expense Recognised in FY20

In the 2019 financial year, a total of 549,500 performance rights were granted to Executive Directors on 4 December 2018 under Tranche FY19 of the 2016 LTI Plan. The performance rights were independently valued by Mercer Consulting (Australia) Pty Limited at a fair value of $2.59 per entitlement share, based on a share price of $3.21 as at grant date, resulting in a total fair value of Tranche FY19 of $1,423,205. Tranche FY19 of the 2016 LTI Plan will be measured over a three-year period for financial years ending 30 June 2019, 30 June 2020 and 30 June 2021.

In the 2019 Remuneration Report, it was reported that the estimated achievement of Tranche FY19 of the 2016 LTI Plan would have been 40% by the end of the vesting period and that 40% of the estimated fair value of the Tranche FY19 performance rights will meet the performance condition. The probability of 40% vesting had been estimated based on the calculation of Tranche FY19 RONA for the 2019 financial year of 17.32%.

The financial performance condition of Tranche FY19 is subject to reassessment during each of the Tranche FY19 Financial Years meaning the financial years ending 30 June 2019, 2020 and 2021. A reassessment of the Tranche FY19 Aggregate APBT and Tranche FY19 Aggregate Net Assets for the 2019 and 2020 financial years has resulted in a revised RONA (excluding property revaluations, the net impact of AASB 16 *Leases* and any COVID-19 support and assistance received) for the two-year aggregated period of 18.15%. A revised aggregated RONA of 18.15% for the Tranche FY19 Financial Years has resulted in a revised probability of vesting of 60%. This revised probability of vesting of 60% is higher than the previously estimated probability of vesting of 40% calculated in FY19 based on Tranche FY19 RONA.

The cumulative expense in respect of Tranche FY19 has been reassessed in the 2020 financial year as $853,923, an increase of $284,641 from the previous assessment of cumulative Tranche FY19 expense in the 2019 financial year of $569,282 as reported in the 2019 Remuneration Report. The total value of Tranche FY19 expense recognised in the 2020 financial year was $330,980, comprised of $278,037 relating to the recognition of the Tranche FY19 expense on a straight-line basis for FY20, and $52,943 relating to an adjustment to the Tranche FY19 expense recognised in the previous financial year due to the reassessment of the probability of vesting from 40% to 60%.

Reassessment of 100% Financial Condition for Tranche FY19 of 2020 LTI Plan						
Calculation of Aggregated RONA for Tranche FY19 Financial Years (FY2019 and FY2020)	Tranche FY19 Aggregated APBT (2019 + 2020) / Tranche FY19 Aggregated Net Assets (2018 + 2019)				$1,103.19 million / $6,078.42 million	= 18.15% RONA
	Probability Vesting % in FY19	Tranche FY19 Estimated Fair Value in FY19	Revised Probability Vesting in FY20	Revised Estimated Tranche FY19 Fair Value in FY20	Adjustment due to Reassessment	Tranche FY19 LTI Plan Expense in FY2020
Gerald Harvey	40%	$67,858	60%	$101,787	$33,929	**$39,453**
Kay Lesley Page	40%	$189,588	60%	$284,382	$94,794	**$110,226**
John Evyn Slack-Smith	40%	$112,924	60%	$169,386	$56,462	**$65,654**
David Matthew Ackery	40%	$112,924	60%	$169,386	$56,462	**$65,654**
Chris Mentis	40%	$85,988	60%	$128,982	$42,994	**$49,993**
Total		$569,282		$853,923	$284,641	$330,980

6F. Reassessment of Tranche 3 of the 2016 LTI Plan Performance Conditions and Expense Recognised in FY20

In the 2018 financial year, a total of 400,000 performance rights were granted to Executive Directors on 1 December 2017 under Tranche 3 of the 2016 LTI Plan. The performance rights were independently valued by Mercer Consulting (Australia) Pty Limited at a fair value of $3.34 per entitlement share, based on a share price of $4.02 as at grant date, resulting in a total fair value of Tranche 3 of $1,336,000. Tranche 3 of the 2016 LTI Plan will be measured over a three-year period for financial years ending 30 June 2018, 30 June 2019 and 30 June 2020.

6F. Reassessment of Tranche 3 of the 2016 LTI Plan Performance Conditions and Expense Recognised in FY20 (continued)

In the 2019 Remuneration Report, it was reported that the estimated achievement of Tranche 3 of the 2016 LTI Plan would have been 40% by the end of the vesting period and that 40% of the estimated fair value of the Tranche 3 performance rights will meet the performance condition.

The probability of 40% vesting was reassessed in 2019 based on a 2-year aggregated RONA, being the Tranche 3 Aggregate APBT and Tranche 3 Aggregate Net Assets for the 2018 and 2019 financial years. The reassessment in 2019 resulted in a revised RONA of 17.24%.

The financial performance condition of Tranche 3 is subject to reassessment during each of the Tranche 3 Financial Years meaning the financial years ending 30 June 2018, 2019 and 2020. A reassessment of the Tranche 3 Aggregate APBT and Tranche 3 Aggregate Net Assets for the 2018, 2019 and 2020 financial years has resulted in a revised RONA (excluding property revaluations, the net impact of AASB 16 *Leases* and any COVID-19 support and assistance received) for the three-year aggregated period of 17.83%. A revised aggregated RONA of 17.83% for the Tranche 3 Financial Years has resulted in the vesting of 56.6% of the Tranche 3 performance rights as calculated on a linear basis (i.e. a RONA of 17.83% has resulted in an achievement of 56.6% on a pro-rata basis between the 40% and 60% gradation levels). This revised vesting calculation of 56.6% is higher than the previously estimated probability of vesting of 40% calculated in FY19.

The cumulative expense in respect of Tranche 3 has been reassessed in the 2020 financial year as $756,177, an increase of $221,777 from the previous assessment of cumulative Tranche 3 expense in the 2019 financial year of $534,400 as reported in the 2019 Remuneration Report. The total value of Tranche 3 expense recognised in the 2020 financial year was $359,118, comprised of $245,573 relating to the recognition of the Tranche 3 expense on a straight-line basis for FY20, and $113,545 relating to an adjustment to the Tranche 3 expense recognised in the 2018 and 2019 financial years due to the reassessment of the probability of vesting from 40% to 56.6%. FY20 was the final year of measurement for Tranche 3.

Reassessment of 100% Financial Condition for Tranche 3 of 2020 LTI Plan						
Calculation of Aggregated RONA for Tranche 3 Financial Years (2018, 2019 and 2020)	Tranche 3 Aggregated APBT (2018+2019+2020) / Tranche 3 Aggregated Net Assets (2017+2018+2019)			$1,581.71 million / $8,868.88 million		= 17.83% RONA
	Probability Vesting % in FY19	Tranche 3 Fair Value in FY19	Revised Probability Vesting in FY20	Revised Tranche 3 Fair Value in FY20	Adjustment due to Reassessment	Tranche 3 LTI Plan Expense in FY2020
Gerald Harvey	40%	$83,500	56.6%	$118,153	$34,653	$56,112
Kay Lesley Page	40%	$150,300	56.6%	$212,675	$62,375	$101,001
John Evyn Slack-Smith	40%	$100,200	56.6%	$141,783	$41,583	$67,335
David Matthew Ackery	40%	$100,200	56.6%	$141,783	$41,583	$67,335
Chris Mentis	40%	$100,200	56.6%	$141,783	$41,583	$67,335
Total		$534,400		$756,177	$221,777	$359,118

6G. Assessment of Tranche 2 of the 2016 LTI Plan Performance Conditions and Expense Recognised in FY20

In 2017, a total of 400,000 performance rights were granted to Executive Directors on 28 November 2016 under Tranche 2 of the 2016 LTI Plan. The performance rights were independently valued by Mercer Consulting (Australia) Pty Limited at a fair value of $3.87 per entitlement share, based on a share price of $4.73 as at grant date, resulting in a total fair value of Tranche 2 of $1,548,000. Tranche 2 of the 2016 LTI Plan was measured over a three-year period for financial years ending 30 June 2017, 30 June 2018 and 30 June 2019.

In the 2019 Remuneration Report, it was reported that the estimated achievement of Tranche 2 of the 2016 LTI Plan would have been 60% by the end of the vesting period and that 60% of the estimated fair value of the performance rights would meet the performance condition. The probability of 60% vesting was reassessed in 2019 based on a 3-year aggregated RONA, being the Tranche 2 Aggregate APBT and Tranche 2 Aggregate Net Assets for the 2017, 2018 and 2019 financial years. The reassessment in 2019 resulted in a revised RONA of 18.10% and therefore an actual achievement of 60% of the Tranche 2 performance rights.

The cumulative expense in respect of Tranche 2 was $928,800 as reported in the 2019 Remuneration Report. The 2019 financial year was the final year of Tranche 2 measurement. During the 2020 financial year, an expense of $151,371 was recognised in respect of Tranche 2 of the 2016 LTI Plan representing the remaining vesting period up to 31 December 2019. Of the 400,000 performance rights granted to Executive Directors during 2017, a total of 60%, or 240,000 performance rights vested on 31 December 2019 and were exercisable from 1 January 2020.

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

6G. Assessment of Tranche 2 of the 2016 LTI Plan Performance Conditions and Expense Recognised in FY20 (continued)

Assessment of 100% Financial Condition for Tranche 2 of 2020 LTI Plan			
Calculation of Aggregated RONA for Tranche 2 Financial Years (2017, 2018 and 2019)	Tranche 2 Aggregated APBT (2017+2018+2019) / Tranche 2 Aggregated Net Assets (2016+2017+2018)	$1,514.54 million / $8,367.76 million	= 18.10% RONA

	Actual Achievement in FY19	Actual Tranche 2 Fair Value	Tranche 2 LTI Plan Expense in FY20
Gerald Harvey	60%	$145,125	$23,652
Kay Lesley Page	60%	$261,225	$42,573
John Evyn Slack-Smith	60%	$174,150	$28,382
David Matthew Ackery	60%	$174,150	$28,382
Chris Mentis	60%	$174,150	$28,382
Total		$928,800	$151,371

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

6H. Summary of Performance and Executive Remuneration Outcomes in FY20

Remuneration Component	Value of STI and LTI Disclosed in 2020 and 2019 Remuneration Reports						
	100%-Level Achievement Amount	Achieve-ment	Score	Amount Payable	Vesting Period	2020 Remuneration Amount	2019 Remuneration Amount
2020 STI Plan							
Financial conditions (50%)	$1,500,000	120.00%	70.00%	$2,100,000	1 Year	$2,100,000	-
Non-financial conditions (50%)	$1,500,000	92.12%	46.06%	$1,381,651		$1,381,651	-
Total 100%	$3,000,000			$3,481,651		$3,481,651	-
2019 STI Plan							
Financial conditions (50%)	$1,400,000	86.90%	43.45%	$1,216,600	1 Year	-	$1,216,600
Non-financial conditions (50%)	$1,400,000	94.32%	47.16%	$1,320,480		-	$1,320,480
Total 100%	$2,800,000			$2,537,080		-	$2,537,080
Total Short-Term Incentive PCI						$3,481,651	$2,537,080
Tranche FY20 (FY20) of 2016 LTI Plan							
Financial conditions (100%)	$1,906,765	60%	60%	$1,144,059	4 Years	$215,312	-
Non-financial conditions (0%)	-	-	-	-	(Yr 1 of 4)	-	-
Total 100%	$1,906,765			$1,144,059		$215,312	-
Tranche FY19 (FY19) of 2016 LTI Plan							
Financial conditions (100%)	$1,423,205	60%	60%	$853,923	4 Years	$330,980	$105,887
Non-financial conditions (0%)	-	-	-	-	(Yr 2 of 4)	-	-
Total 100%	$1,423,205			$853,923		$330,980	$105,887
Tranche 3 (FY18) of 2016 LTI Plan							
Financial conditions (100%)	$1,336,000	56.6%	56.6%	$756,177	4 Years	$359,118	$173,076
Non-financial conditions (0%)	-	-	-	-	(Yr 3 of 4)	-	-
Total 100%	$1,336,000			$756,177		$359,118	$173,076
Tranche 2 (FY17) of 2016 LTI Plan							
Financial conditions (100%)	$1,548,000	60%	60%	$928,800	4 Years	$151,371	$300,277
Non-financial conditions (0%)	-	-	-	-	(Yr 4 of 4)	-	-
Total 100%	$1,548,000			$928,800		$151,371	$300,277
Tranche 1 (FY16) of 2016 LTI Plan							
Financial conditions (100%)	$1,408,000	60%	60%	$844,800	n/a	-	$137,804
Non-financial conditions (0%)	-	-	-	-		-	-
Total 100%	$1,408,000			$844,800		-	$137,804
Total LTI Performance Rights						$1,056,781	$717,044
Total Value of STI and LTI						$4,538,432	$3,254,124

The total value of STI and LTI expensed in the Income Statement for the 2020 financial year and disclosed in this remuneration report was $4.54 million compared to $3.25 million expensed in the 2019 financial year, an increase of $1.28 million or 39.5%, relative to the previous year.

7. Executive Contractual Arrangements

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are below.

Chief Executive Officer

The CEO, Ms. K.L. Page is employed under a rolling contract.

Under the terms of the present contract the CEO's total potential employment cost is $3,767,010 comprised of:
- fixed remuneration of $2,100,000 per annum;
- maximum STI opportunity in respect of the year ended 30 June 2020 of $1,032,000 (at 120% over-achievement level); and
- maximum LTI opportunity in respect of the year ended 30 June 2020 of $635,010.

The CEO's termination provisions are as follows:

CEO's Termination Provisions	Notice Period	Payment in Lieu of Notice	Treatment of STI on Termination	Treatment of LTI on Termination
Employer-initiated termination	5 weeks	5 weeks	Pro-rated for time and performance	Board discretion
Termination for serious misconduct	None	None	Unvested awards forfeited	Unvested awards forfeited
Employee-initiated termination	5 weeks	5 weeks	Unvested awards forfeited, subject to Board discretion	Unvested awards forfeited, subject to Board discretion

Minimum Shareholding Requirement

There are no minimum shareholding requirements imposed on the CEO. There is a Benchmark Shareholding Level in respect of the 2020 STI Plan to determine whether the reward is to be paid as cash or in shares.

Other KMPs

All other KMPs have rolling contracts.

Standard KMP Termination Provisions	Notice Period	Payment in Lieu of Notice	Treatment of STI on Termination	Treatment of LTI on Termination
Employer-initiated termination	4-5 weeks	4-5 weeks	Pro-rated for time and performance	Board discretion
Termination for serious misconduct	None	None	Unvested awards forfeited	Unvested awards forfeited
Employee-initiated termination	4-5 weeks	4-5 weeks	Unvested awards forfeited, subject to Board discretion	Unvested awards forfeited, subject to Board discretion

8. Non-Executive Director Remuneration Arrangements

Remuneration Policy

The Board seeks to set aggregate remuneration at a level that provides the consolidated entity with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers published material from external sources and makes its own enquiries when undertaking the annual review process.

The Company's constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2006 annual general meeting (AGM) held on 21 November 2006 when shareholders approved an aggregate NED pool of $1,000,000 per year.

The Board will seek an increase for the NED pool at the 2020 AGM to $1,500,000.

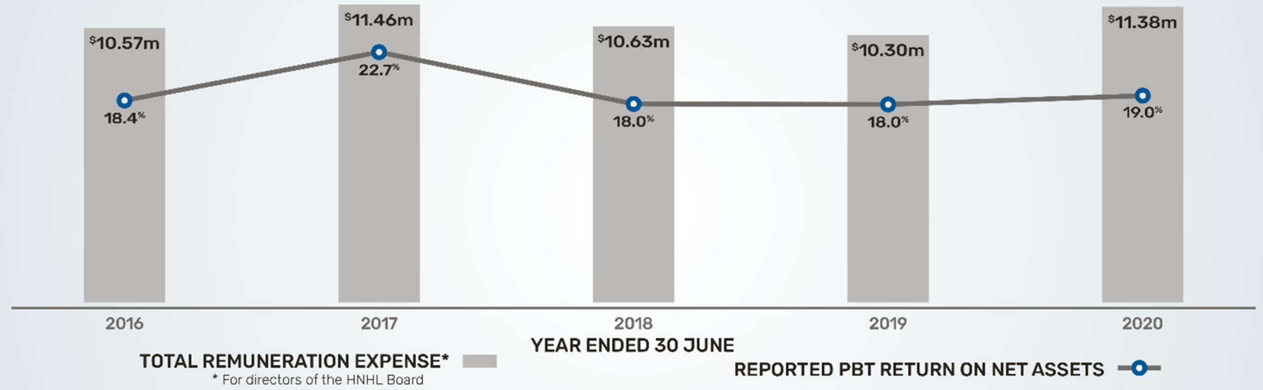
Structure

The remuneration of NEDs consists of directors' fees. NEDs do not receive retirement benefits, nor do they participate in any incentive programs. Each NED receives a fee for being a director of the Company. The structure of NED remuneration is separate and distinct from executive remuneration. The remuneration of NEDs for the years ended 30 June 2020 and 30 June 2019 are disclosed in Table 1 on page 56 of this report.

9. Relationship between Remuneration and the Performance of the Company

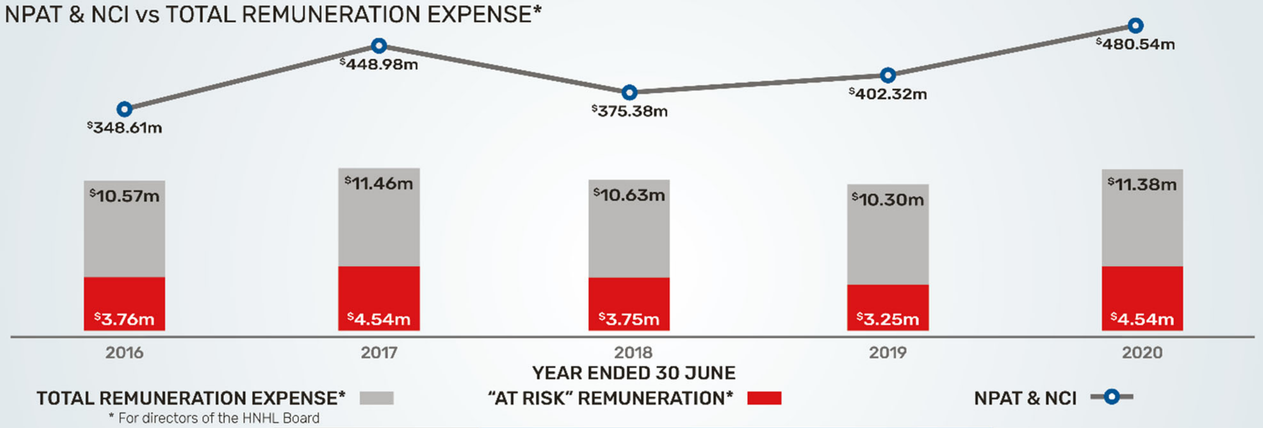
The graphs below illustrate the performance of the Company for the past five financial years and the high level of correlation between remuneration and performance. Correlation is a calculation of the degree of relationship between two items with 100% being strongest and 0% being weakest. Correlation between the indicators of performance and remuneration remain strong.

REPORTED PBT RETURN ON NET ASSETS (%) vs TOTAL REMUNERATION EXPENSE*



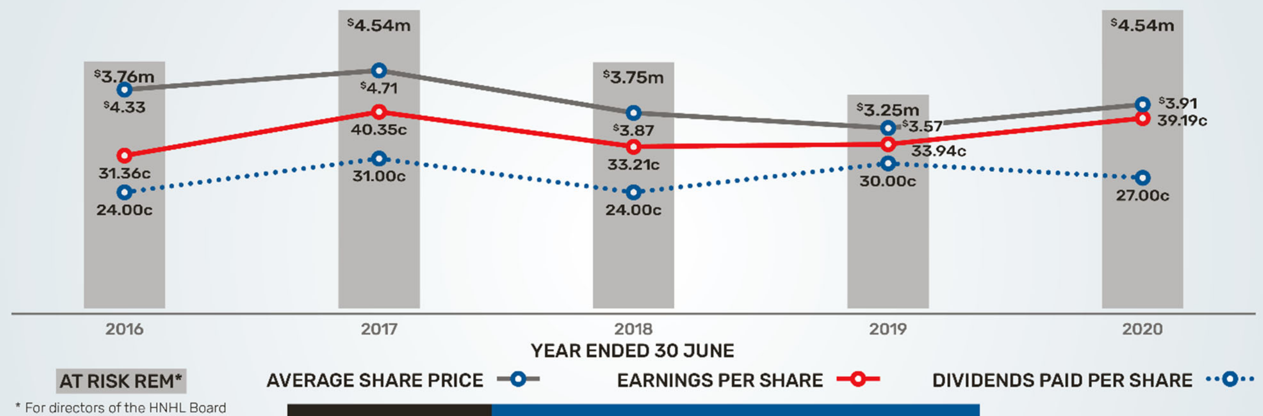
CORRELATION	5 YEAR: 77.1%	3 YEAR: 96.7%

NPAT & NCI vs TOTAL REMUNERATION EXPENSE*



CORRELATION	TOTAL REMUNERATION	"AT RISK" REMUNERATION
5 YEAR	80.8%	73.4%
3 YEAR	85.2%	80.0%

AVERAGE SHARE PRICE, EARNINGS PER SHARE AND DIVIDENDS PAID PER SHARE vs AT RISK REMUNERATION*



CORRELATION	AVERAGE SHARE PRICE	EARNINGS PER SHARE
5 YEAR	62.3%	83.4%
3 YEAR	85.5%	87.4%

10. Compensation of Key Management Personnel

TABLE 1: Compensation of Key Management Personnel Expensed for the Year Ended 30 June 2020
Directors of Harvey Norman Holdings Limited:

		Short Term Benefits				Post-Employment	Long Term Incentives	Other		
		Salary & Fees	Performance Cash Incentive	Other Short Term	Non-Monetary Benefits	Superannuation	Performance Rights	Long Service Leave (a)	Total Remuneration	% earned at risk
Gerald Harvey Executive Chairman	2020	682,668	-	10,400	-	21,003	144,882	-	858,953	16.9%
	2019	719,069	-	10,400	-	20,531	108,115	-	858,115	12.6%
Kay Lesley Page Executive Director/CEO	2020	1,958,198	998,073	-	17,812	21,003	325,505	-	3,320,591	39.9%
	2019	2,060,306	724,880	-	19,163	20,531	207,151	-	3,032,031	30.7%
John Evyn Slack-Smith Executive Director/COO	2020	1,167,547	870,413	-	-	21,003	204,081	19,459	2,282,503	47.1%
	2019	1,229,469	634,270	-	-	20,531	135,596	20,491	2,040,357	37.7%
David Matthew Ackery Executive Director	2020	1,150,447	870,413	18,000	-	21,003	204,081	19,474	2,283,418	47.1%
	2019	1,211,469	634,270	18,000	-	20,531	135,596	20,491	2,040,357	37.7%
Chris Mentis Executive Director/CFO	2020	841,426	742,752	-	43,664	21,003	178,232	14,024	1,841,101	50.0%
	2019	885,264	543,660	-	44,205	20,531	130,586	14,754	1,639,000	41.1%
Michael John Harvey Non-Executive Director	2020	52,055	-	-	-	4,945	-	-	57,000	-
	2019	54,795	-	-	-	5,205	-	-	60,000	-
Christopher Herbert Brown Non-Executive Director	2020	138,813	-	-	-	13,187	-	-	152,000	-
	2019	146,119	-	-	-	13,881	-	-	160,000	-
Kenneth William Gunderson-Briggs Non-Executive Director	2020	274,560	-	-	-	18,528	-	-	293,088	-
	2019	251,922	-	-	-	20,531	-	-	272,453	-
Graham Charles Paton Non-Executive Director	2020	138,813	-	-	-	13,187	-	-	152,000	-
	2019	146,119	-	-	-	13,881	-	-	160,000	-
Maurice John Craven Non-Executive Director	2020	125,799	-	-	-	11,951	-	-	137,750	-
	2019	34,828	-	-	-	3,304	-	-	38,132	-
Total for the 2020 Financial Year	2020	6,530,326	3,481,651	28,400	61,476	166,813	1,056,781	52,957	11,378,404	39.9%
Total for the 2019 Financial Year	2019	6,739,360	2,537,080	28,400	63,368	159,457	717,044	55,736	10,300,445	31.6%

(a) Table 1 includes the accrual for long service leave entitlements in respect of the years ended 30 June 2020 and 30 June 2019. The Chairman (G. Harvey) and Chief Executive Officer (K.L. Page) do not have a long service leave accrual as they have elected to forgo this employee entitlement.

The listed Parent Company, Harvey Norman Holdings Limited, does not have any employees.

DIRECTORS' REPORT – REMUNERATION REPORT (AUDITED)

10. Compensation of Key Management Personnel (continued)

TABLE 2: Compensation of Key Management Personnel Expensed for the Year Ended 30 June 2020
Senior Executives of Harvey Norman Holdings Limited:

		Short Term Benefits				Post-Employment	Long Term Incentives	Other			
		Salary & Fees	Performance Cash Incentive	Other Short Term	Non-Monetary Benefits	Superannuation	Performance Rights	Termination Benefits [e]	Long Service Leave	Total Remuneration	% earned at risk
Thomas James Scott	2020	573,850	-	-	-	21,003	-	-	9,564	604,417	-
GM – Property	2019	574,322	-	-	-	20,531	-	-	9,572	604,425	-
Martin Anderson	2020	305,271	-	-	27,543	22,781	-	-	5,088	360,683	-
GM – Advertising	2019	299,777	-	-	28,057	22,162	-	-	4,996	354,992	-
Gordon Ian Dingwall	2020	503,997	-	-	-	21,003	-	-	8,400	533,400	-
Chief Information Officer	2019	494,469	-	-	-	20,531	-	-	8,241	523,241	-
Ajay Calpakam [a]	2020	307,496	-	6,750	-	15,752	-	32,765	-	362,763	-
GM – Audio Visual	2019	403,017	-	9,000	-	20,531	-	-	6,717	439,265	-
Emmanuel Hohlastos [b]	2020	69,833	-	-	-	5,251	-	-	1,164	76,248	-
GM – Audio Visual	2019	-	-	-	-	-	-	-	-	-	-
Lachlan Roach	2020	409,997	-	9,000	-	21,003	-	-	6,833	446,833	-
GM – Home Appliances	2019	403,017	-	9,000	-	20,531	-	-	6,717	439,265	-
Frank Robinson [c]	2020	121,012	-	3,750	-	5,251	-	56,300	-	186,313	-
GM – Technology & Entertainment	2019	484,517	-	15,000	-	20,531	-	-	8,075	528,123	-
Glen Gregory [d]	2020	346,533	-	9,733	-	17,035	-	-	5,776	379,077	-
GM – Technology & Entertainment	2019	-	-	-	-	-	-	-	-	-	-
Total for the 2020 Financial Year	2020	2,637,989	-	29,233	27,543	129,079	-	89,065	36,825	2,949,734	-
Total for the 2019 Financial Year	2019	2,659,119	-	33,000	28,057	124,817	-	-	44,318	2,889,311	-

(a) resigned 30 April 2020
(b) commenced as GM – Audio Visual on 1 May 2020
(c) resigned 30 September 2019
(d) commenced as GM – Technology & Entertainment on 9 September 2019
(e) this amount represents the cash payment of employee leave entitlements upon resignation

11. Additional Disclosures Relating to Options, Performance Rights and Shares

Options Granted to Executive Directors as Part of Remuneration:

There were no options granted to any Executive Director during the year ended 30 June 2020.

There were no movements in option holdings during the year ended 30 June 2020.

Option Holdings of Key Management Personnel for the Year Ended 30 June 2020

There were no options held by any director or senior executive during the year ended 30 June 2020.

TABLE 3: Performance Rights Granted to Executive Directors as Part of Remuneration

The table below discloses the number of performance rights granted to Executive Directors as remuneration during the year ended 30 June 2020 as well as the number of performance rights that vested, were exercised or lapsed during the year.

Performance rights do not carry any voting or dividend rights and can be exercised once the vesting conditions have been met until their expiry date.

	Performance Rights Granted as Remuneration During Year		Performance Rights Vested During the Year		Performance Rights Lapsed During the Year		Unvested Performance Rights at 30 June 2020		Performance Rights Exercised During the Year	
	Number of Performance Rights Granted	Value of Performance Rights Granted $	Number of Performance Rights Vested	Value of Performance Rights Vested $	Number of Performance Rights Lapsed	Value of Performance Rights Lapsed $	Number of Unvested Performance Rights	Value of Unvested Performance Rights $	Number of Performance Rights Exercised	Value of Performance Rights Exercised $
Gerald Harvey	65,500	$227,285	37,500	$145,125	25,000	$96,750	193,500	$605,680	37,500	$145,125
Kay Lesley Page	183,000	$635,010	67,500	$261,225	45,000	$174,150	478,500	$1,484,730	67,500	$261,225
John Evyn Slack-Smith	109,000	$378,230	45,000	$174,150	30,000	$116,100	293,000	$911,040	45,000	$174,150
David Matthew Ackery	109,000	$378,230	45,000	$174,150	30,000	$116,100	293,000	$911,040	45,000	$174,150
Chris Mentis	83,000	$288,010	45,000	$174,150	30,000	$116,100	241,000	$753,480	45,000	$174,150
Total	549,500	$1,906,765	240,000	$928,800	160,000	$619,200	1,499,000	$4,665,970	240,000	$928,800

11. Additional Disclosures Relating to Options, Performance Rights and Shares (continued)

Movement in performance rights during the year ended 30 June 2020:

a. A total of 549,500 performance rights under Tranche FY20 of the 2016 LTI Plan were granted to Executive Directors on 2 December 2019. The performance rights were independently valued by Mercer Consulting (Australia) Pty Limited at grant date with a fair value of $3.47 per entitlement on 2 December 2019, based on a share price of $4.30. The fair value was derived from a discounted cash flow technique where the value of the performance right is the face value of the share at grant date less the present value of the dividends expected to be paid on the share but not received by the holder during the vesting period. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche FY20 performance rights amounted to $1,906,765 in aggregate.

b. On 1 January 2020, 160,000 performance rights representing 40% of Tranche 2 of the 2016 LTI Plan had lapsed and will never be exercisable by the participants. On 5 March 2020, 240,000 performance rights under Tranche 2 of the 2016 LTI Plan were exercised reducing the unissued ordinary shares under Tranche 2 of the 2016 LTI Plan to nil.

c. As at 30 June 2020, a total of 400,000 performance rights under Tranche 3 of the 2016 LTI Plan (FY18), 549,500 performance rights under Tranche FY19 of the 2016 LTI Plan (FY19) and 549,500 performance rights under Tranche FY20 of the 2016 LTI Plan (FY20) were outstanding, unvested and not capable of exercise.

TABLE 4: Performance Rights of Key Management Personnel for the Year Ended 30 June 2020

						Due for Vesting during the year ended 30 June 2020		
	1 July 2019 Balance at the Beginning of Year	Granted as Remuneration	Performance Rights Exercised	Performance Rights Lapsed	30 June 2020 Balance at End of the Year	Total	Exercised	Lapsed
KMP: Board of Directors								
Gerald Harvey	190,500	65,500	(37,500)	(25,000)	193,500	62,500	37,500	25,000
Kay Lesley Page	408,000	183,000	(67,500)	(45,000)	478,500	112,500	67,500	45,000
John Evyn Slack-Smith	259,000	109,000	(45,000)	(30,000)	293,000	75,000	45,000	30,000
David Matthew Ackery	259,000	109,000	(45,000)	(30,000)	293,000	75,000	45,000	30,000
Chris Mentis	233,000	83,000	(45,000)	(30,000)	241,000	75,000	45,000	30,000
Total	1,349,500	549,500	(240,000)	(160,000)	1,499,000	400,000	240,000	160,000

Apart from the KMPs disclosed above, comprised of the Executive Directors of the Company, each of the Non-Executive Directors or senior executives of the Company did not have any performance rights during the year ended 30 June 2020.

The closing balance of the performance rights in the Company of 1,499,000 as at 30 June 2020 is comprised of:

a. 400,000 performance options under Tranche 3 of the 2016 LTI Plan (FY18); fair value at grant date of $3.34; to vest on 31 December 2020; exercisable between 1 January 2021 and 30 June 2023; and

b. 549,500 performance options under Tranche FY19 of the 2016 LTI Plan (FY19); fair value at grant date of $2.59; to vest on 31 December 2021; exercisable between 1 January 2022 and 30 June 2024; and

c. Granted as remuneration during the 2020 financial year: 549,500 performance options under Tranche FY20 of the 2016 LTI Plan (FY20); fair value at grant date of $3.47; to vest on 31 December 2022; exercisable between 1 January 2023 and 30 June 2025.

11. Additional Disclosures Relating to Options, Performance Rights and Shares (continued)

TABLE 5: Shareholdings/Relevant Interests of Key Management Personnel for the Year Ended 30 June 2020

	1 July 2019 Balance at the Beginning of Year	On Exercise of Performance Rights (a)	Renounceable Pro-Rata Entitlement Offer (b)	Net Change Other (c)	30 June 2020 Balance at the End of Year
KMP: Board of Directors					
Gerald Harvey	369,778,107	37,500	21,751,658	593,000	392,160,265
Kay Lesley Page	18,605,005	67,500	1,094,738	5,442	19,772,685
John Evyn Slack-Smith	997,750	45,000	58,693	-	1,101,443
David Matthew Ackery	562,908	45,000	33,113	-	641,021
Chris Mentis	1,014,186	45,000	59,661	-	1,118,847
Michael John Harvey	3,149,892	-	185,288	-	3,335,180
Christopher Herbert Brown	194,107,477	-	11,418,088	-	205,525,565
Kenneth William Gunderson Briggs	9,499	-	560	-	10,059
Graham Charles Paton	16,605	-	977	-	17,582
Maurice John Craven	15,925	-	936	13,812	30,673
KMP: Senior Executives					
Thomas James Scott	33,708	-	1,983	(25,691)	10,000
Lachlan Roach	5,000	-	295	4,705	10,000
Total	**588,296,062**	**240,000**	**34,605,990**	**591,268**	**623,733,320**

a. On 6 January 2020, the Company announced that 240,000 performance rights, representing 60% of the performance rights issued in accordance with Tranche 2 of the 2016 LTI Plan, had vested and was exercisable from 1 January 2020.

On 6 January 2020, the Company announced that 160,000 performance rights, representing 40% of the performance rights issued in accordance with Tranche 2 of the 2016 LTI Plan, had lapsed and will never be exercisable by the participants.

On 5 March 2020, 240,000 performance rights under Tranche 2 of the 2016 LTI Plan were exercised, reducing the unissued ordinary shares under Tranche 2 of the 2016 LTI Plan to nil.

b. On 30 August 2019, the Company announced that it would be offering shareholders the opportunity to participate in a renounceable pro-rata entitlement offer of new fully-paid ordinary shares in the Company (New Shares) to raise approximately $173.49 million (before costs) (**Entitlement Offer**). The offer price was $2.50 per New Share (**Offer Price**). The Entitlement Offer was for 1 New Share for every 17 existing ordinary shares in the Company at the Record Date, being 10 September 2019. The Entitlement Offer forms part of the Company's ongoing capital management program. It was intended that the proceeds from the Entitlement Offer be used to reduce the amount of HVN consolidated debt.

On 21 October 2019, the Company announced that the Directors of the Company took up their full entitlement in respect of the Entitlement Offer and acquired 34,603,712 New Shares in HVN in accordance with the Change of Directors' Interest Notice to the ASX effective 18 October 2019 and the terms and conditions of the Entitlement Offer.

c. The 'Net Change Other' column discloses the number of shares acquired by each Director of the Company via an 'on-market trade' in accordance with the prevailing market conditions on the ASX at the time of the transaction. These trades were on no more favourable terms and conditions than those that would be reasonably expected of an arm's length transaction.

12. 'Take-Home Pay' for KMP Directors of the Company

The below table shows the 'take-home pay' for each director of the Company, representing the benefits paid to each director during the year ended 30 June 2020, or as soon as practicable after that date. Total 'take-home pay' for the directors of the Company amounted to $10.25 million for the year ended 30 June 2020. The total value of remuneration expensed for directors of the Company in respect of the 2020 financial year was $11.38 million (refer to Table 1 on page 56 of this report). For the 2020 financial year, total 'take-home pay' was $1.13 million lower than the value of remuneration expensed to the income statement.

KMP: Board of Directors	Salary & Fees	Other Short Term	Non-Monetary Benefits	Super-annuation	Short-Term Performance Cash Incentive [(a)]	Exercise of Tranche 1 2016 LTI Plan	Exercise of Tranche 2 2016 LTI Plan [(b)]	FY2020 Total Take-Home Pay	FY2019 Total Take-Home Pay
Gerald Harvey	682,668	10,400	-	21,003	-	-	145,125	859,196	882,000
Kay Lesley Page	1,958,198	-	17,812	21,003	724,880	-	261,225	2,983,118	2,987,680
John Evyn Slack-Smith	1,167,547	-	-	21,003	634,270	-	174,150	1,996,970	1,977,220
David Matthew Ackery	1,150,447	18,000	-	21,003	634,270	-	174,150	1,997,870	1,977,220
Chris Mentis	841,426	-	43,664	21,003	543,660	-	174,150	1,623,903	1,595,960
Michael John Harvey	52,055	-	-	4,945	-	-	-	57,000	60,000
Christopher Herbert Brown	138,813	-	-	13,187	-	-	-	152,000	160,000
Kenneth William Gunderson-Briggs	274,560	-	-	18,528	-	-	-	293,088	272,453
Graham Charles Paton	138,813	-	-	13,187	-	-	-	152,000	160,000
Maurice John Craven	125,799	-	-	11,951	-	-	-	137,750	38,132
Total Take-Home Pay 2020	6,530,326	28,400	61,476	166,813	2,537,080	-	928,800	10,252,895	
Total Take-Home Pay 2019	6,739,360	28,400	63,368	159,457	2,275,280	844,800	-		10,110,665

a. The short-term incentive of $2.54 million represented the payment of the 2019 STI Plan that was earned in respect of the 2019 financial year, and was paid to Executive Directors in September 2019.

b. The aggregate fair value of the performance rights exercised during the 2020 financial year was $928,800, calculated at a fair value of $3.87 per right multiplied by 240,000 performance rights exercised.

13. Other Matters for Disclosure

Comments on the Remuneration Report at the 2019 AGM of the Company

The previous AGM of the Company was held on 27 November 2019.

- At that meeting, questions were answered in respect of the Participant Performance Review process, the allocation of the STI pool amongst Executive Directors, changes to remuneration for the Executive Directors since the 2018 AGM, and the calculation of the RONA return for the 2019 year.
- The Company received 179.65 million votes against the adoption of the 2019 Remuneration Report representing 31.94% of the total 562.39 million shares that were eligible to vote on that resolution. A total of 683.62 million shares were ineligible to vote on the adoption of the 2019 Remuneration Report as they were held by KMPs or their related parties.

The following improvements have been made to the remuneration framework for Executive Directors:

- Profit after tax adjusted for the after tax effect of property increments and decrements (**APAT**) is the measure used for the achievement of the financial conditions for the short term incentive, replacing earning per share;
- The 100% short term incentive (**STI**) pool was increased to $3.0 million from $2.8 million in line with increase in net assets of the Company over the previous two financial periods, with the 100% STI pool able to be increased if the financial performance conditions for the short term incentives are over-achieved to the maximum extent of 120% i.e. to $3.6 million from $3.36 million.
- The level of long term incentive (**LTI**) achievement for the determination of vesting is to be based on a straight line basis as opposed to a gradation basis to remove the risk of calculation bias.
- The determination of return on net assets (**RONA**) for the on-foot LTI tranches will exclude the effects of the financial impact of the adoption of the lease accounting standard AASB 16, to allow calculation consistency.

14. Loans to Key Management Personnel and their Related Parties

There were no loans granted to key management personnel during the year ended 30 June 2020 (2019: nil). There were no loans outstanding from key management personnel as at 30 June 2020 (2019: nil).

15. Other Transactions and Balances with Key Management Personnel and their Related Parties

		CONSOLIDATED	
		June 2020 $	June 2019 $
(i)	**Loans from directors to subsidiaries of Harvey Norman Holdings Limited:**		
	Derni Pty Limited (a wholly owned subsidiary of Harvey Norman Holdings Limited) borrowed money from entities and related parties associated with G. Harvey, M.J. Harvey and K.L. Page. Interest is payable at commercial rates. These loans are unsecured and repayable at call.	-	-
	Net amounts paid to entities associated with the above mentioned directors and their related parties.	-	(39,566,536)
	Interest paid/payable	-	371,695
(ii)	**Lease of business premises from Ruzden Pty Limited:**		
	The consolidated entity leases business premises at Bundall, Queensland from Ruzden Pty Limited. Mr G. Harvey, Ms K.L. Page, Mr M.J. Harvey and I.J. Norman Nominees Pty Limited (C.H. Brown) have an equity interest in Ruzden Pty Limited. The lease arrangements were approved by shareholders in the General Meeting held 25 May 1993, and in the General Meeting held 31 August 1999. The lease is subject to normal commercial terms and conditions. Lease payments and outgoings made by the consolidated entity to Ruzden Pty Limited was:	5,231,401	5,134,607
(iii)	**Legal fees paid to a director-related entity:**		
	Legal fees were paid to the firm of which Mr C.H. Brown is a partner for professional services rendered to the consolidated entity in the normal course of business.	3,090,533	2,638,587
(iv)	**Other income derived by related entities of key management personnel:**		
	Certain franchises are operated by entities owned or controlled by relatives of key management personnel under normal franchisee terms and conditions. Aggregated net income derived by entities owned or controlled by relatives of key management personnel was:	2,647,890	310,761

(v) Perth City West Complex

By a contract for sale dated 31 October 2000, Gerald Harvey, as to a one-half share as tenant in common, and a subsidiary of Harvey Norman Holdings Limited, as to a one-half share as tenant in common, purchased the Perth City West Complex for a purchase price of $26.60 million. In the financial statements of the consolidated entity, the day-to-day management of this entity has been accounted for as a joint venture as disclosed in Note 27. The property was subject to a lease of part of the property in favour of a subsidiary of Harvey Norman Holdings Limited (the "P.C.W. Lessee"). Gerald Harvey is entitled to one-half of the lease payments and outgoings paid by the P.C.W. Lessee. The amount of lease payments and outgoings paid by the P.C.W. Lessee to Gerald Harvey and the subsidiary of Harvey Norman Holdings Limited for the year ended 30 June 2020 was $0.74 million (2019: $0.74 million). Each of the above transactions were executed under terms and conditions no more favourable than those which it is reasonable to expect would have applied if the transactions were at arm's length.

(vi) The Byron at Byron Resort, Spa and Conference Centre

By a contract for sale dated 15 May 2002, a company (of which Gerald Harvey was a director) acting in its capacity as trustee of a trust, as to a one-half share as tenant in common (the "GH entity"), and a subsidiary of Harvey Norman Holdings Limited, as to a one-half share as tenant in common, purchased the Byron at Byron Resort, Spa and Conference Centre (the "Byron Bay Joint Venture").

On 9 August 2019, the consolidated entity announced that Harvey Norman Holdings Limited (the Company) and certain of its controlled entities, with certain entities controlled by Gerald Harvey, as owners of the Byron Bay Joint Venture, have entered into agreements for sale of the Byron Bay Joint Venture (Sale Contract) for the sale price of $41,764,000 (ex GST), subject to terms and conditions for completion. The purchasers under the Sale Contract were GAG Byron on Byron Property Co Pty Ltd ACN 635 158 351 and GAG Byron on Byron Business Company Pty Ltd ACN 635 172 333. The Sale Contract was settled during FY20 following the grant of the liquor licence approval by the relevant authority.

No conference fee was paid by the consolidated entity to the Byron Bay Joint Venture in the 2020 financial year (2019: $0.11 million).

15. Other Transactions and Balances with Key Management Personnel and their Related Parties (continued)

(vii) Gepps Cross Home HQ

By a contract for sale dated 18 December 2007, a subsidiary of the Company ("HNHL G.C. Entity") and Axiom Properties Fund Limited ("G.C. Co-Owner") purchased land located in Gepps Cross, South Australia ("G.C. Land") in equal shares as tenants in common, for the purpose of constructing and subsequently managing a retail complex on the G.C. Land ("the Gepps Cross Joint Venture"). In November 2009, the HNHL G.C. Entity and the G.C. Co-Owner granted a lease of part of the G.C. Land and retail complex to a subsidiary of the Company ("G.C. Lessee") on arm's length commercial terms ("G.C. Lease"). In August 2010, the G.C. Co-Owner informally advised the Company that the G.C. Co-Owner intended to dispose of its interest in the Gepps Cross Joint Venture, triggering first and last rights of refusal in the HNHL G.C. Entity. At a meeting of the Company held 26 August 2010, it was resolved that the Company not purchase the share of the G.C. Co-Owner in the Gepps Cross Joint Venture (including G.C. Land). On 6 October 2010, the HNHL G.C. Entity formally waived the right to purchase the interest of the G.C. Co-Owner in the Gepps Cross Joint Venture (including the G.C. Land).

By a contract for sale dated 23 December 2010, GH Gepps Cross Pty Limited, an entity associated with Gerald Harvey ("Gerald Harvey Entity") and MJH Gepps Cross Pty Limited, an entity associated with Michael Harvey ("Michael Harvey Entity") and, M&S Gepps Cross Pty Limited, purchased the one-half share as tenants in common of the G.C. Co-Owner in the G.C. Land and retail complex. The sale was subject to the G.C. Lease. In the financial statements of the consolidated entity, the day-to-day management of the Gepps Cross Joint Venture has been accounted for as equity accounted investment as disclosed in Note 27. The Gerald Harvey Entity is entitled to one-quarter of the lease payments and outgoings paid by the G.C. Lessee. The Michael Harvey Entity is entitled to one-eighth of the lease payments and outgoings paid by the G.C. Lessee. The adoption of AASB 16 *Leases* resulted in the recognition of a lease liability of $18.98 million by the G.C. Lessee as at 30 June 2020. The amount of lease payments and outgoings paid by the G.C. Lessee to the Gepps Cross Joint Venture for the year ended 30 June 2020 was $3.41 million (2019: $3.33 million). Each of the above transactions were executed under terms and conditions no more favourable than those which it is reasonable to expect would have applied if the transactions were at arm's length.

The consolidated entity acknowledges that integrating sustainable growth into its strategy, business practices and decision making is essential for long-term value creation. The consolidated entity believes that the sustainability of its operations is, in part, linked to the successful monitoring and management of its economic, social and environmental risks and opportunities and therefore the consolidated entity aims to adopt sustainable practices that will generate better long-term returns and benefits for investors and stakeholders, both internal and external.

The Board of Directors, as the highest governance body of the consolidated entity, alongside management is charged with establishing a business strategy that supports responsible decision making and sustainable value creation.

The Code of Conduct of the consolidated entity reinforces the commitment to honest, fair and transparent business practices and outlines the standards of behaviour that the consolidated entity expects of its employees.

In addition, the consolidated entity has adopted other policies such as the Conflicts of Interest Policy, the Gifts and Benefits Policy, the Intellectual Property Policy and a Confidentiality and Privacy Policy, all of which aim to reinforce corporate governance best practices.

WELL-BEING & SAFETY

Creating an environment where our people and customers can work and shop safely has always been our commitment. In the current climate, it has never been more important.

During this financial year, we have continued to progress our safety and well-being initiatives including further refinements to our overarching governance and reporting structures globally.

Our teams have undertaken various training and education opportunities in health and safety throughout the year, including refresher training on various Work Health and Safety (**WHS**) focus areas as part of October Safety Month, completion of Mental Health First Aid Accreditation for nominated employees, and BizSAFE Risk Management and Safety training to improve the ability of frontline warehouse, administrative, and retail managers in Singapore to conduct Safety and Health Risk Assessment Plans.

Harvey Norman® Singapore employees attending a BizSAFE training course

Harvey Norman® Malaysia frontline workers preparing COVID-19 packages

Harvey Norman® Singapore employees preparing COVID-19 gift packs

As for most businesses, the second half of 2020 saw COVID-19 become the focus of our health and well-being initiatives. At the very start of the pandemic, an Incident Management Team was formed to enable swift and decisive actions and operational implementations in response to the evolving risks and government requirements.

The experiences earlier in the year gained from our European and Asian responses meant that the brands were well-placed to act appropriately when the COVID-19 impacts became apparent in Australia. Consumers were encouraged to Shop Smart and Shop Safe, and a wide range of controls including hand sanitiser, increased cleaning and sanitisation, employee training, additional PPE, and improved contactless shopping options were implemented by franchisees to keep their customers and employees safe.

Preparing for R U OK Day

Mental wellness continues to be a strong focus of health and safety initiatives. To build awareness and encourage relationship building and connection amongst employees, the consolidated entity participated in R U OK Day and held various events over Mental Health Week that focused around the mental, social, physical and spiritual pillars that affect wellness. The consolidated entity continues a strong focus on mental wellness initiatives as a focus, particularly as a result of the ongoing impacts of COVID-19. As part of these events, a number of employees completed their Accredited Mental Health First Aid course to grow support in the workplace for any employees who may experience mental health concerns.

TRAINING AND DEVELOPMENT

We recognise that training and developing our people is a sound investment and can only lead to better outcomes for the consolidated entity and our stakeholders.

This year, investment in training and development has continued, with our people undertaking a variety of role-based and soft-skill courses. Whilst COVID-19 has impacted on the ability for our people to attend face-to-face or in-person meetings and development, an agile shift more towards online options occurred and has become a normal part of day to day engagement.

Harvey Norman® Malaysia Bite Sized Learning Programme

With a recognition of the increased importance of non-contact communications, a project was initiated at the end of the financial year to upgrade the internal intranet of the consolidated entity, due for completion in the 2021 financial year. The consolidated entity looks forward to this project providing improved opportunities to drive employee engagement, clear and concise communication, and increased interaction between business units, all of which are important to successful business and employee outcomes.

Harvey Norman® New Zealand Cooking & Whiteware School

Key Development Program of Franchisees*

The consolidated entity continues to invest in systems and process improvements to provide franchisees with the necessary tools to promote and enhance the knowledge and capability of the franchisee and their employees.

Franchisees can request their employees participate in the Key Development Program, the aim of which is to provide tools for the development of these employees to be future successful leaders as a Harvey Norman®, Domayne® or Joyce Mayne® franchisee.

The framework of the program is built upon three pillars – Leadership, Managing & Creating, and Operations.

Whilst traditionally provided in a face-to-face setting, the Program has successfully transitioned to an online platform due to COVID-19 restrictions.

*Franchisees and employees of franchisees in Australia are not employees of the consolidated entity.

Some of the participants of a 2019 Key Development Program session

I am really enjoying the journey so far and am looking forward to increasing my knowledge and understanding of the back end and reporting side of a franchisee business.

– Matthew Smith

I enjoy the online learning and being able to apply the newly formed skilled immediately to everyday business.

– Jason Platz

I thoroughly enjoyed being a part of a like-minded group of individuals. I enjoy being stimulated on subject matter that is of high interest to me and listening to examples of co-workers and mentors being in the situations I am confronted with and how they personally handled the task. Meeting the GM of Home Appliances (even though it wasn't in person) was a highlight for me as I really enjoy listening and absorbing other people's "journey". I definitely enjoyed Lachlan's energy and ability to visualise, plan and attack. I was inspired to embrace change and just say yes.

– Aydin Tezer

GRADUATE OPPORTUNITIES

Each year, some franchisees within Australia offer opportunities to recent graduates with relevant university qualifications, a unique graduate opportunity to fast-track their development and training to progress their career opportunities with Harvey Norman®. This opportunity can lead to participating in the Key Development Program, and eventually becoming a future Harvey Norman®, Domayne® or Joyce Mayne® franchisee.

In the 2020 financial year:

1. 5 franchisee employees completed the Graduate Program and transitioned to participate in the Key Development Program.
2. 7 new franchisee employees commenced the Graduate Program.

2019 Graduates

COMMUNITY & PARTNERSHIPS

Our communities have faced many challenges over the past 12 months, with the natural disasters of droughts, bushfires and floods swiftly followed by the ongoing COVID-19 pandemic – which has touched all our lives in so many ways.

Harvey Norman® has always felt a strong connection to community – both on local and national levels – forming a symbiotic relationship of mutual strength and support. It is times like these that remind us of the importance of giving back and supporting those communities that have been our supporters for so many years.

$3.08M
Total Goods donated (RRP)

$2.98M
Goods donated to Not for Profit & Schools (RRP)

67
Not for Profits & Schools supported

3,251
New items connected with people in need

Good360
GOODS FOR THE GREATER GOOD™

Harvey Norman® formed a working partnership with Good360 to help distribute goods to those in need.

Good360 help ensure individuals facing challenging life circumstances are able to get the goods they need – and this important service became more vital than ever in the wake of the devastation of the bushfire season, with many families left without homes and communities stripped of infrastructure.

To date, Harvey Norman® has donated a variety of goods - covering everything from fridges and washing machines to beds and furniture – with a retail value of $3.08 million to help ensure these communities can get back on their feet.

Paul Murray Live OUR TOWN - SKY NEWS

Harvey Norman® continued their partnership with Sky News and the Paul Murray Live program to stage a series of monthly Our Town events in regional Australia. These events were designed to promote and raise funds to support regional organisations such as the Country Women's Association (**CWA**) in their efforts towards drought and bushfire relief, providing women's shelters, emergency accommodation, remote healthcare solutions and much more.

Live events were held in Thredbo, Broome, Alice Springs, Newcastle, Dubbo, Batemans Bay and Hobart, with over $292,000 in donations and funds raised this financial year.

Paul Murray and Members of the Newcastle CWA

The Community Rebuilding Initiative surveying the bushfire devastation in Batemans Bay

BizRebuild

On Saturday 29th of February 2020, Harvey Norman® harnessed its significant commercial power to promote a 'SHOP. SUPPORT. REBUILD.' event where a percentage of franchisee sales generated on the day would be donated to Biz Rebuild.

This initiative was set up by the Business Council of Australia (**BCA**) in response to the devastating bushfire season in order to help support the rebuilding of businesses and industries in affected communities.

The day was a great success, with an amount of $200,000 being donated – which was the equivalent of 1% of total franchisee sales from franchised complexes throughout Australia.

DIVERSITY & INCLUSION

The consolidated entity is committed to promoting and supporting an environment where our workforce is representative of the communities in which it operates. A diverse workforce generates value for its shareholders by building capabilities for the consolidated entity to become more innovative, responsive, and competitive. Celebrating diversity and building an inclusive culture is part of what we do every day.

WOMEN *with* HARVEY NORMAN

MEET SOME OF THE TALENTED, PASSIONATE AND DETERMINED WOMEN HELPING TO CREATE PATHWAYS OF OPPORTUNITY IN THEIR COMMUNITIES.

"It isn't complicated. Harvey Norman® has supported Australian women for as long as we have been in business."

Katie Page
Executive Director and CEO
HARVEY NORMAN HOLDINGS LIMITED

Jessica Sergis
JILLAROOS/RUGBY LEAGUE

Ali Brigginshaw
QRL/RUGBY LEAGUE

Belinda Sharpe
NRL REFEREE

Alicia Eva
2020 GIANTS AFLW CAPTAIN

Madison de Rozario
PARALYMPIAN WHEELCHAIR RACING

Sage Goldsbury
WSL AUSTRALIAN SURFER

Katie Kelly
OAM, PARA-TRIATHLETE
FOUNDER, SPORT ACCESS FOUNDATION

Abigail Santos
GLOBAL FINANCIAL CONTROLLER AT HARVEY NORMAN

Melissa Wilson
MANAGING DIRECTOR, HARVEY NORMAN EUROPE

Tanya Cameron
OAM, NATIONAL PRESIDENT, COUNTRY WOMEN'S ASSOCIATION OF AUSTRALIA

Nikia Nolan
HARVEY NORMAN® YOUNG FUTURE FARMERS AWARD WINNER

Hannah Beder
HARVEY NORMAN® 2020 YOUNG WOMAN OF THE YEAR

Margy Perkuhn
SHINE AWARDS 2019 OVERALL WINNER

Tani Bloudell
HARVEY NORMAN® 2020 GOLD COAST WOMAN OF THE YEAR

The same support extends to our employees and future employees, via supporting the creation of employment opportunities and emphasising the development and training of females to grow our future talent pool. This year, the consolidated entity was pleased to note continued growth in female representation in Senior Management roles, increasing to 35.2% of total HNHL Senior Management Positions. Working to create a strong talent pool of future leaders is a key part of the DNA at Harvey Norman®.

Based on disclosed information by its employees, the consolidated entity in Australia is fortunate to have a workforce that is diverse in background, with employees self-identifying from over 43 different cultural backgrounds. We find ways to celebrate this diversity through events such as Diwali. Given the COVID-19 restrictions, events were cancelled for this financial year however we look forward to further initiatives in the second half of FY 21. All employees undertake a cultural awareness e-learning module and a Discrimination, Bullying & Harassment Prevention Policy e-learning refresher course each year to support employee awareness and knowledge and promote a positive workplace culture.

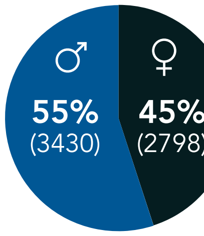
Employees of the consolidated entity are fortunate to participate in sponsored events from time-to-time to bring awareness to people from all backgrounds. For example, employees enjoyed participating in the Para-Tough Cup 2020, and New Zealand employees enjoyed hosting a fundraiser event for the NZ Paralympics Team.

For further information on Diversity initiatives, refer to the Corporate Governance Report on the consolidated entity website.

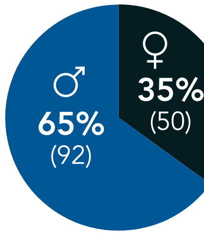
*Franchisees and employees of franchisees in Australia are not employees of the consolidated entity.

OUR PEOPLE IN NUMBERS

HNHL WORKPLACE PROFILE

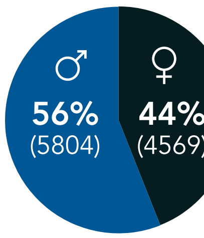


HNHL SENIOR MANAGEMENT



Average Tenure	
HNHL AU	
MALE	FEMALE
7.5 Years	6.5 Years

HN/DM/JM FRANCHISEE STAFF*



Average Tenure (with Brands)	
HN/DM/JM FRANCHISEE STAFF*	
MALE	FEMALE
4.8 Years	5.3 Years

Paralympics Australia Partnership

Harvey Norman® is proud to partner with Paralympics Australia and also support the AUS Squad, the official cheer squad of the Australian Paralympic Team. Featuring talented athletes across all disciplines, the Australian Paralympic Team are an inspiring force in the community, and Harvey Norman® is proud to provide support on their journey to achievement.

This year saw the the inaugural Harvey Norman® Para Tough Cup, with franchisee suppliers and corporate office staff competing and raising funds – with over $49,000 raised on the day, and a further $10,000 being raised from the sale of AUS Squad merchandise in store.

Participants in the Harvey Norman® Para Tough Cup

ATHLETE PROFILE

Madison de Rozario

PARALYMPIC WHEELCHAIR RACER

Not only is Madison de Rozario one of the most promising young athletes in wheelchair racing, but she's already got the track record of a seasoned veteran. Madison first represented Australia at the Paralympics in Beijing in 2008 at the tender age of 15, and has since gone on to compete at London in 2012 and Rio in 2016.

With her sights set firmly on the next Paralympics, Madison's future in the sport is looking brighter than ever, thanks to her desire for each performance to be a new personal best.

Young Future Farmers Awards

For Nikia Nolan, growing up around animals ignited a deep passion for farming - a passion which has seen her take great steps towards a bright career in the industry. A Harvey Norman® Young Future Farmers Ambassador for 2020 and winner of the YFFA 2019 University Award, Nikia is currently studying a Bachelor of Rural Science at the University of New England in Armidale - covering such diverse subject areas as soil science, agronomy, animal nutrition, biochemistry and genetics.

Nikia is just one of many Future Farmers who are driving the next wave of innovation in farming.

Harvey Norman YOUNG FUTURE FARMERS AWARD

Harvey Norman® Young Farmer of the Year 2019 University Award Winner Nikia Nolan

Harvey Norman® 2020 Young Woman of the Year Winner Hannah Beder (second from right)

NSW Women of the Year Awards

The NSW Women of the Year Awards recognise and celebrate the outstanding contribution made by women across New South Wales. In 2020, Harvey Norman® was the naming partner for the Young Woman of the Year award, which was won by Hannah Beder.

Hannah is a computer scientist who is passionate about addressing the historical gender disparity in STEM by mentoring young women to be successful in the tech industry.

Since 2015, Hannah has volunteered for Girls Programming Network, an all-female group who run free programming workshops for high school girls.

As a successful Software Engineer, Hannah's visibility in the technology and computing education industries helps to combat the notion that 'you can't be what you can't see'.

Harvey Norman® Gold Coast Woman of the Year Tani Bloudell (centre)

Shine Awards Overall Winner 2019 Margy Perkuhn

Gold Coast Women of the Year

Harvey Norman® was proud to be a naming rights partner for the Gold Coast Bulletin's Women of the Year campaign in 2020.

In its second year, there were over 250 Gold Coast women nominated across eight categories - from entrepreneurs and mentors to champions of sport and education – in an event that recognises and celebrates the inspiring, influential and innovative women living and working on Queensland's Gold Coast.

GOLD COAST women OF THE year BROUGHT TO YOU BY Harvey Norman

Shine Awards

The Shine Awards is an annual event that shines a spotlight on regional and rural women who are making a real difference to their communities, businesses and industries.

Produced in partnership with The Weekly Times, and now heading into their fourth year, these awards celebrate the vision, dedication, spirit, belief, grace and courage of women across rural and regional Australia. With the past 12 months presenting extreme challenges for so many communities, it feels more important than ever to share stories of hope, celebrate their perseverance, and to recognise the positive impact of these women.

NRL All-Stars at Harvey Norman Bundall

NRL Harvey Norman® All-Stars

2020 saw Harvey Norman® continue in its role as the naming rights partner of the NRL All-Stars match between Indigenous and Maori teams.

Prior to the match on 22 February 2020, both male and female representative teams made in-store appearances at Harvey Norman® Bundall, where the local community was able to come and meet some of their favourite players.

As the first major Rugby League event of the calendar year, this was a great opportunity to bring the community together in a positive way that celebrates the contribution of Indigenous & Maori players.


NRLW player Annette Brander

Women in Sport

Harvey Norman® has long been a proud supporter of women in sport – with sponsorship involvement spanning from juniors and grassroots all the way up to the elite levels. This support is helping these athletes achieve their goals, and by doing so also inspiring the next generation of women - creating pathways for them to pursue their own sporting endeavours.


WSL Australian surfer Sage Goldsbury


GIANTS AFLW player Nicola Barr

Environmental Responsibility

The consolidated entity is a member of the following organisations and associations:	
Consumer Electronics Association	**Australasia Furniture Research and Development Institute (AFRDI)**
New Zealand Leather and Shoe Research Association (LASRA)	**National Retailers Association, including representation on the Technical Standards Committee (NRATSC)**
Energy Users Association of Australia	**Soft Landings Product Stewardship Scheme (Founding Member)**
Diversity Council of Australia	

Environmental Regulation Performance

The consolidated entity submits a National Greenhouse Gas and Emissions Report (NGER) to the Clean Energy Regulator annually.

The consolidated entity's environmental obligations are regulated under both State and Federal Law. There were no environmental breaches notified to the consolidated entity by any Government agency during the year ended 30 June 2020 and up to the date of this report.

The 2020 financial year saw franchisees in Australia face a new challenge in terms of managing the safety of the environment within their franchised complex. The introduction of regulations in relation to social distancing and capacity restrictions by State Governments, in response to the COVID-19 global pandemic, resulted in a number of changes to how franchisees interact with their customers.

Initiatives undertaken at franchised complexes:	
Social distancing practices for customer interactions	**The installation and maintenance of hand sanitiser stations**
The management of the number of customers within the store	**Increased cleaning practices, particularly around high touch environments like checkouts**
Implementation of contactless pick-up and delivery from warehouse locations	**Increased vigilance around staff health and workplace attendance when ill**
Staff personal protective equipment	

Harvey Norman®, Domayne® and Joyce Mayne® franchised complexes had a number of visits from police and state based regulators and the overall feedback about the execution of safe practices by franchisees was very positive.

Harvey Norman®, Domayne® and Joyce Mayne® Franchised Complexes

The consolidated entity acts as a landlord in a number of retail complexes utilised by Harvey Norman®, Domayne® and Joyce Mayne® franchisees. At those premises, the landlord provides lighting and air conditioning for the utilisation of franchisees at the site and also provides electricity to the site.

The consolidated entity has undertaken the following recent actions with respect to solar energy, LED lighting and stormwater harvesting systems:

Solar Energy:
Solar installations have been completed at 31 franchised complexes, with one further installation awaiting commencement.

Using FY2016 electricity consumption as a baseline, the electricity consumption for the 31 selected franchised complexes has dropped 18.7% as a result of the solar and other energy efficiency initiatives commenced at these complexes (this result is based on comparing FY16 total consumption at participating sites with FY20 total consumption and excluding Auburn Flagship Store, where the configuration has changed dramatically and has resulted in an increase in energy usage. Not all complexes completed in FY20 had the system in operation for the full 12 months period). The supplier of the solar installations has commenced an audit of each installed system to verify its ongoing effectiveness in producing energy for consumption at the site.

Total Energy Consumption

Using FY2016 as the baseline year of measurement, the consolidated entity and the franchised complexes have reduced energy consumption in Australia by 9.4%.

The value of this reduction is equivalent to:

More than 23,800 tonnes of $C0_2$ avoided;

More than 5,000 cars taken off the road annually.

Waste Reduction

A thorough review of all packaging used by franchisees (including plastic bags, tape, strapping, cardboard boxes, etc.) against the Sustainable Packaging Guidelines was conducted in FY2020. The opportunities identified as part of that review will be implemented in subsequent years.

Each Harvey Norman®, Domayne® and Joyce Mayne® franchisee has improved their waste management performance during the 2020 financial year as follows:

WASTE STREAM	PERCENTAGE IMPROVEMENT DURING 2020 FINANCIAL YEAR	DESCRIPTION
E-WASTE	13.1% aggregate overall increase on FY2019 volumes	E-waste recycling is available through most Harvey Norman®, Domayne® and Joyce Mayne® franchised complexes.
MATTRESSES	17,189 mattresses in aggregate recycled via the Soft Landings Product Stewardship and Social Enterprise Scheme, an aggregated 35% increase on the previous financial year. Some franchisees may have used alternate service providers, particularly in Melbourne.	Harvey Norman® and Domayne® franchisees are founding members of the Soft Landings Mattress Product Stewardship Scheme.
POLYSTYRENE	An aggregate 6.7% increase in polystyrene recycling (measured in tonnes) in FY2020.	Approximately 80% of franchised complexes in Australia recycle this separate waste stream.
CARDBOARD AND PLASTIC RECYCLING AS A PERCENTAGE OF FRANCHISED COMPLEX WASTE (EXCLUDING THE ABOVE INITIATIVES)	Harvey Norman®, Domayne® and Joyce Mayne® franchised complexes recycled 7,240 tonnes, in aggregate, of cardboard and paper and 5.71 tonnes of plastic (LDPE), in aggregate, in FY2020. Average landfill diversion: • 41% (measured by weight) • 48% (measured by volume)	Each franchisee in each franchised complex in Australia carries out cardboard and plastic recycling.
PLASTIC BAG DISTRIBUTION	Net distribution of plastic bags decreased by 36% in aggregate in FY2020. Use of reusable smart bags decreased by 6.42% in aggregate.	From February 2018, all plastic bags supplied to customers by Harvey Norman®, Domayne® and Joyce Mayne® franchisees were a minimum of 40 microns.

DIRECTORS' REPORT (CONTINUED)

Auditor Independence and Non-Audit Services

During the year, the auditors of Harvey Norman Holdings Limited, Ernst & Young, provided non–audit services to the consolidated entity. In accordance with the recommendation from the Audit & Risk Committee of the Company, the directors are satisfied that the provision of the non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Also, in accordance with the recommendation from the Audit & Risk Committee, the directors are satisfied that the nature and scope of each type of non–audit service provided means that auditor independence was not compromised.

Details of the amounts paid or payable to the auditor, Ernst & Young, for the provision of non–audit services during the year ended 30 June 2020 are outlined in Note 30. Remuneration of Auditors of this annual report.

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

EY
Building a better working world

Ernst & Young
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Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the audit of the financial report of Harvey Norman Holdings Limited for the financial year ended 30 June 2020, 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 Harvey Norman Holdings Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

RRobinson

Renay Robinson
Partner
Sydney
30 September 2020

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Signed in accordance with a resolution of directors.

G. HARVEY
Chairman
Sydney
30 September 2020

K.L. Page

K.L. PAGE
Chief Executive Officer
Sydney
30 September 2020

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Building a better working world

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Harvey Norman Holdings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated income statement, 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 2020 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* (including Independence Standards) (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. 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.

1. Valuation of investment properties and owner-occupied properties

Why significant	How our audit addressed the key audit matter
Investment properties and owner-occupied properties (collectively, "properties") represent 51% of the Group's total assets as at 30 June 2020. Investment properties are carried at fair value with changes in fair value recognised in the income statement. Note 14 of the financial report describes the basis upon which fair value has been determined. Owner-occupied properties, represented as Land and Buildings are carried at fair value, with changes in fair value recognised in equity. Note 12 of the financial report describes the basis upon which fair value has been determined. Fair value is assessed by the directors with reference to either external independent property valuations or internal valuations and are based on market conditions existing at the reporting date. At 30 June 2020 there is significant valuation uncertainty arising from the COVID-19 pandemic and the response of Governments to it. The valuation of investment properties is inherently subjective given that there are alternative assumptions and valuation methods that may result in a range of values. The impact of COVID-19 at 30 June 2020 has resulted in a wider range of possible assumptions and values than at past valuation points. In addition, property values may change significantly and unexpectedly over a short period of time. Given the market conditions at balance date, the independent valuers have reported on the basis of the existence of 'material valuation uncertainty', noting that less certainty and a higher degree of caution should be attached to the valuations than would normally be the case. The disclosures in the financial statements provide particularly important information about the assumptions made in the property valuations and the market conditions at 30 June 2020. For these reasons we consider it important that attention is drawn to the information in Notes 12 and 14 in assessing the property valuations at 30 June 2020.	Our audit procedures included the following: ▶ Assessed the Group's accounting policies with respect to investment properties and owner-occupied properties for compliance with the relevant Australian Accounting Standards. ▶ Assessed whether we could rely on the work of those responsible for the Director's valuations and the work of the independent valuation experts by considering their qualifications, competence and objectivity. ▶ Held discussions with management and a sample of independent valuers to understand movements in the Group's investment property portfolio and the impact that COVID-19 has had on the Group's property portfolio at 30 June 2020, including trading performance, rent abatements offered to tenants, and tenant occupancy risk. For a sample of properties we: ▶ Assessed the reasonableness of key assumptions used in the valuations with reference to external market evidence. ▶ Assessed whether any relief provided to tenants in connection with COVID-19 had been factored into the valuations and that changes in tenant occupancy risk were considered. ▶ We involved our real estate valuation specialists to assist with the assessment of the valuation assumptions and methodologies for both internal and external valuations, in particular, changes made as a result of COVID-19. ▶ Evaluated the suitability of the valuation methodology across the portfolio based on the type of asset. ▶ Considered whether there have been any indicators of material changes in property valuations from 30 June 2020 up to the date of our audit opinion, or any matters emerging since 30 June 2020 which provide evidence of a material change in valuation at that date. We involved our real estate

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For the year ended 30 June 2020, valuation of investment properties and owner-occupied properties was considered a key audit matter given:

- the value of the properties relative to total assets of the Group;
- the number of judgements exercised by both independent valuation specialists and the Directors in determining fair value;
- by their nature, the use of Directors' valuations and;
- uncertainty regarding key valuation assumptions as a result of the COVID-19 economic impact.

valuation specialists to assist us in making this assessment.

- Considered whether the financial report disclosures and in particular those relating to the valuation uncertainty are appropriate.

2. Adoption of Australian Accounting Standard AASB 16 *Leases*

Why significant	How our audit addressed the key audit matter
The 30 June 2020 financial year was the first year of adoption of Australian Accounting Standard AASB 16 *Leases* ("AASB 16"). The Group holds a significant volume of leases by number and value, over retail, warehouse and office sites in Australia (as lessor and lessee) and overseas (as lessee). A large portion of the leases over retail and warehouse sites in Australia involve sub-leases to Harvey Norman, Domayne and Joyce Mayne franchisees. AASB 16 requires that the right-of use assets in respect of these leases be classified as investment properties and measured in line with the Group's accounting policy, at fair value each reporting period. As a result, on transition (1 July 2019), a lease liability of $1,161.0 million, property, plant and equipment: right-of-use assets of $449.7 million and investment properties (leasehold): right-of-use assets of $608.5 million were recognised by the Group. Note 1(f) of the financial report describes the accounting for the transition and the accounting policy for leases on an ongoing basis.	Our audit procedures included the following: ▶ Considered whether the Group's accounting policies as set out in Note 1(f) satisfied the requirements of AASB 16, including the adoption of any practical expedients selected by the Group as part of the transition process. ▶ Assessed the effectiveness of controls over the computation and recognition of the right of use asset and lease liability on transition. ▶ Assessed the mathematical accuracy of the Group's AASB 16 lease calculation model. ▶ For a sample of leases, we agreed the Group's inputs in the AASB 16 lease calculation model in relation to those leases, such as key dates, fixed and variable rent payments, renewal options and incentives, to the relevant terms of the underlying signed lease agreements. ▶ Considered the Group's assumptions in relation to the treatment of lease renewal options. ▶ Assessed whether the Group had included all of its leases, taking into consideration the modified retrospective transition approach and practical expedients adopted by the Group, by reviewing the reconciliation of the operating lease commitments disclosure in the prior year financial report to the transition disclosures.

Given the financial significance to the Group of its leasing arrangements, the complexity and judgements involved in the application of AASB 16, and the transition requirements of the standard, this was considered to be a key audit matter.	▶ We involved our valuation and financial reporting specialists to assist with: ▶ Assessment of the market rents and market discount rates used in determining the valuation of the Group's right-of-use asset for leasehold properties classified as investment properties; and ▶ Assessment of the incremental borrowing rates used to discount future lease payments to present value. ▶ Assessed the adequacy of the financial report disclosures contained in Note 1(f).

3. **Recoverability of Receivables from Franchisees**

Why significant	How our audit addressed the key audit matter
At 30 June 2020, the balance of receivables from franchisees was $352.4 million (30 June 2019: $607.7 million), representing 6% of the Group's total assets at 30 June 2020. Note 7 of the financial report describes the nature of the balances receivable from franchisees and outlines the accounting policy in relation to receivables from franchisees. The recoverability of receivables from franchisee was considered a key audit matter given the value of the balance and the judgements exercised by the Group in making their recoverability assessment.	Our audit procedures included the following: ▶ Evaluated the Group's assessment of the recoverability of receivables from franchisees. ▶ Performed a range of scenarios to 'stress test' assumptions applied by management in determining the recoverability of receivables from franchisees. ▶ For a sample of franchisee receivables, we obtained confirmation from the franchisees acknowledging the amounts owing at year end. ▶ Reviewed a sample of General Security Deeds between the franchisees and the Group that provides the Group with security over the assets of franchisees. ▶ Considered the value of assets provided as security by each of the franchisees against each franchisee receivable balance. ▶ Enquired of management and considered any evidence arising post year end of adverse performance of the franchisees, which could impact the recoverability of receivables from franchisees. ▶ Considered the adequacy of the disclosures included in Note 7 of the financial report.

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 2020 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.

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.

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- 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.

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, actions taken to eliminate threats or safeguards applied.

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 pages 39 to 63 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Harvey Norman Holdings Limited for the year ended 30 June 2020, 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.

Ernst & Young

Ernst & Young

RRobinson

Renay Robinson
Partner
Sydney
30 September 2020

DIRECTORS' DECLARATION

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

In the opinion of the directors:

a) the financial statements, notes and the additional disclosures included in the Directors' Report designated as audited, of the Company and its subsidiaries (collectively the consolidated entity) are in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
   ii. complying with Accounting Standards and the Corporations Regulations 2001;

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

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

This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 37. Deed of Cross Guarantee will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board.

G. HARVEY	K.L. PAGE
Chairman	Chief Executive Officer
Sydney	Sydney
30 September 2020	30 September 2020

STATEMENT OF FINANCIAL POSITION
as at 30 June 2020

	Note	CONSOLIDATED June 2020 $000	June 2019 $000
Current Assets			
Cash and cash equivalents	26(a)	313,195	215,048
Trade and other receivables	7	511,579	741,862
Other financial assets	8	30,237	28,888
Inventories	9	391,984	395,965
Other assets	10	34,872	37,541
Intangible assets	11	278	370
Assets held for sale	28	16,186	36,666
Total current assets		1,298,331	1,456,340
Non-Current Assets			
Trade and other receivables	7	49,269	49,391
Investments accounted for using the equity method	27	4,692	3,854
Other financial assets	8	18,176	19,370
Property, plant and equipment	12	662,889	696,207
Property, plant and equipment: Right-of-use assets	13	513,782	-
Investment properties: Freehold	14	2,593,330	2,508,951
Investment properties (Leasehold) : Right-of-use assets	15	621,903	-
Intangible assets	11	63,003	64,631
Deferred tax assets		3,227	-
Total non-current assets		4,530,271	3,342,404
Total Assets		5,828,602	4,798,744
Current Liabilities			
Trade and other payables	16	351,772	283,682
Interest-bearing loans and borrowings	17	102,841	494,579
Lease Liabilities	19	130,280	-
Income tax payable		70,229	12,000
Other liabilities	20	96,141	75,819
Provisions	21	34,181	33,028
Total current liabilities		785,444	899,108
Non-Current Liabilities			
Interest-bearing loans and borrowings	17	195,000	346,942
Lease Liabilities	19	1,042,807	-
Provisions	21	9,226	13,025
Deferred tax liabilities		317,937	330,546
Other liabilities	20	863	11,330
Total non-current liabilities		1,565,833	701,843
Total Liabilities		2,351,277	1,600,951
NET ASSETS		3,477,325	3,197,793
Equity			
Contributed equity	22	717,925	552,250
Reserves	25	216,837	217,724
Retained profits	23	2,511,580	2,397,436
Parent entity interests		3,446,342	3,167,410
Non-controlling interests	24	30,983	30,383
TOTAL EQUITY		3,477,325	3,197,793

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

INCOME STATEMENT
for the year ended 30 June 2020

	Note	CONSOLIDATED June 2020 $000	June 2019 $000
Sales of products to customers	3	2,294,913	2,234,118
Cost of sales		(1,555,271)	(1,510,733)
Gross profit		739,642	723,385
Revenue received from franchisees	3	1,055,866	943,648
Revenues and other income items	3	194,995	242,419
Distribution expenses		(45,089)	(41,102)
Marketing expenses		(380,099)	(391,044)
Occupancy expenses	4, 13, 15	(239,041)	(258,106)
Administrative expenses	4	(554,753)	(567,970)
Other expenses		(58,067)	(57,676)
Finance costs	4, 19	(59,794)	(28,782)
Share of net profit of joint ventures entities	27	7,628	9,787
Profit before income tax		661,288	574,559
Income tax expense	5	(175,265)	(165,557)
Profit after tax		486,023	409,002
Attributable to:			
Owners of the parent		480,541	402,317
Non-controlling interests		5,482	6,685
		486,023	409,002
Earnings Per Share:			
Basic earnings per share (cents per share)	6	39.19 cents	33.94 cents
Diluted earnings per share (cents per share)	6	39.15 cents	33.91 cents
Dividends per share (cents per share)	23	24.0 cents	33.0 cents

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

The Income Statement for the year ended 30 June 2019 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(f) for further information.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2020

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Profit for the year	486,023	409,002
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation	(9,236)	26,373
Net movement on cash flow hedges	(47)	9
Income tax effect on net movement on cash flow hedges	14	(3)
Items that will not be reclassified subsequently to profit or loss:		
Net fair value losses on equity investments	(1,030)	(953)
Fair value revaluation of land and buildings	28,384	12,234
Income tax effect on fair value revaluation of land and buildings	(4,655)	(3,910)
Other comprehensive income for the year (net of tax)	13,430	33,750
Total comprehensive income for the year (net of tax)	499,453	442,752
Total comprehensive income attributable to:		
Owners of the parent	494,391	434,888
Non-controlling interests	5,062	7,864
	499,453	442,752

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

The Statement of Comprehensive Income for the year ended 30 June 2019 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(f) for further information.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2020

	Attributable to Equity Holders of the Parent									
	Contributed Equity	Retained Profits	Asset Revaluation Reserve	Foreign Currency Reserve	FVOCI Reserve	Cash Flow Hedge Reserve	Employee Equity Benefits Reserve	Acquisition Reserve	Non-controlling Interests	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
At 1 July 2019, as previously reported	552,250	2,397,436	152,850	65,853	10,949	(2)	10,125	(22,051)	30,383	3,197,793
Transition adjustments arising from adoption of AASB 16	-	(43,892)	(18,067)	-	-	-	-	-	80	(61,879)
At 1 July 2019, post transition	552,250	2,353,544	134,783	65,853	10,949	(2)	10,125	(22,051)	30,463	3,135,914
Other comprehensive income:										
Revaluation of land and buildings	-	-	23,825	-	-	-	-	-	(96)	23,729
Reverse expired or realised cash flow hedge reserves	-	-	-	-	-	2	-	-	-	2
Currency translation differences	-	-	-	(8,912)	-	-	-	-	(324)	(9,236)
Fair value of forward foreign exchange contracts	-	-	-	-	-	(35)	-	-	-	(35)
Fair value of financial assets at fair value through other comprehensive income	-	-	-	-	(1,030)	-	-	-	-	(1,030)
Other comprehensive income	-	-	23,825	(8,912)	(1,030)	(33)	-	-	(420)	13,430
Profit for the year	-	480,541	-	-	-	-	-	-	5,482	486,023
Total comprehensive income for the year	-	480,541	23,825	(8,912)	(1,030)	(33)	-	-	5,062	499,453
Cost of share based payments	-	-	-	-	-	-	739	-	-	739
Utilisation of employee equity benefits reserve	-	-	-	-	-	-	(859)	-	-	(859)
Shares issued	165,675	-	-	-	-	-	-	-	-	165,675
Disposal of investment	-	-	-	-	-	-	-	3,450	-	3,450
Dividends paid	-	(322,505)	-	-	-	-	-	-	(3,345)	(325,850)
Distribution to members	-	-	-	-	-	-	-	-	(1,197)	(1,197)
At 30 June 2020	717,925	2,511,580	158,608	56,941	9,919	(35)	10,005	(18,601)	30,983	3,477,325

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2020 (continued)

	Attributable to Equity Holders of the Parent										
	Contributed Equity	Retained Profits	Asset Revaluation Reserve	Foreign Currency Reserve	Available for Sale Reserve	FVOCI Reserve (a)	Cash Flow Hedge Reserve	Employee Equity Benefits Reserve	Acquisition Reserve	Non-controlling Interests	TOTAL EQUITY
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
At 1 July 2018	388,381	2,337,241	144,526	40,659	11,902	-	(8)	10,356	(22,051)	26,926	**2,937,932**
Other comprehensive income:											
Revaluation of land and buildings	-	-	8,324	-	-	-	-	-	-	-	**8,324**
Reverse expired or realised cash flow hedge reserves	-	-	-	-	-	-	8	-	-	-	**8**
Currency translation differences	-	-	-	25,194	-	-	-	-	-	1,179	**26,373**
Fair value of forward foreign exchange contracts	-	-	-	-	-	-	(2)	-	-	-	**(2)**
Transfer to financial assets at fair value through other comprehensive income	-	-	-	-	(11,902)	11,902	-	-	-	-	**-**
Fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	(953)	-	-	-	-	**(953)**
Other comprehensive income	-	-	8,324	25,194	(11,902)	10,949	6	-	-	1,179	33,750
Profit for the year	-	402,317	-	-	-	-	-	-	-	6,685	409,002
Total comprehensive income for the year	**-**	**402,317**	**8,324**	**25,194**	**(11,902)**	**10,949**	**6**	**-**	**-**	**7,864**	**442,752**
Cost of share based payments	-	-	-	-	-	-	-	519	-	-	**519**
Utilisation of employee equity benefits reserve	-	-	-	-	-	-	-	(750)	-	-	**(750)**
Shares issued	163,869	-	-	-	-	-	-	-	-	-	**163,869**
Dividends paid	-	(342,122)	-	-	-	-	-	-	-	(2,852)	**(344,974)**
Distribution to members	-	-	-	-	-	-	-	-	-	(1,555)	**(1,555)**
At 30 June 2019	552,250	2,397,436	152,850	65,853	-	10,949	(2)	10,125	(22,051)	30,383	3,197,793

The Statement of Changes in Equity for the year ended 30 June 2019 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(f) for further information.

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

STATEMENT OF CASH FLOWS
for the year ended 30 June 2020

	Note	CONSOLIDATED June 2020 $000	June 2019 $000
Cash Flows from Operating Activities			
Net receipts from franchisees		1,304,230	858,372
Receipts from customers		2,461,539	2,397,871
Payments to suppliers and employees		(2,471,564)	(2,681,840)
Distributions received from joint ventures		8,385	10,027
GST paid		(65,501)	(56,815)
Interest received		8,142	6,625
Interest and other costs of finance paid		(20,489)	(29,223)
Interest paid on lease liabilities (a)		(40,538)	-
Income taxes paid		(128,967)	(135,139)
Dividends received		1,727	2,967
Net Cash Flows From Operating Activities	26(b)	1,056,964	372,845
Cash Flows from Investing Activities			
Payments for purchases of property, plant and equipment and intangible assets		(93,905)	(94,222)
Payments for purchase of freehold investment properties		(51,474)	(27,878)
Proceeds from sale of property, plant and equipment and properties held for resale		26,510	2,911
Payments for purchase of units in unit trusts and other investments		(215)	(1,320)
Payments for purchase of equity accounted investments		(2,215)	(434)
Payments for purchase of equity investments		(5,000)	-
Proceeds from sale of equity investments		-	18,470
Proceeds from insurance claims		2,628	903
Cash obtained on consolidation of KEH Partnership		-	50
Proceeds from the completion of the Administrator Sale of the Coomboona JV assets		-	40,500
Loans granted to joint venture entities, joint venture partners and related and unrelated entities		(13,292)	(5,183)
Net Cash Flows Used In Investing Activities		(136,963)	(66,203)
Cash Flows from Financing Activities			
Lease Payments (principal component) (a)		(124,770)	-
Proceeds from shares issued – renounceable pro-rata Entitlement Offer		165,675	163,869
Repayments of Syndicated Facility		(520,000)	(25,000)
Dividends paid		(322,505)	(342,122)
Loans repaid to related parties		(8)	(39,559)
Repayments of other borrowings		(9,763)	(3,477)
Net Cash Flows Used In Financing Activities		(811,371)	(246,289)
Net Increase in Cash and Cash Equivalents		108,630	60,353
Cash and Cash Equivalents at Beginning of the Year		185,816	125,463
Cash and Cash Equivalents at End of the Year	26(a)	294,446	185,816

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

In addition, the consolidated entity recognised rent expense of $28.62 million from short-term leases and variable lease payments during the current year which forms part of payments to suppliers and employees within operating cash flows. The above Statement of Cash Flows should be read in conjunction with the accompanying notes. The Statement of Cash Flows for the year ended 30 June 2019 was not restated upon the adoption of AASB 16 *Leases*. Refer to Note 1(f) for further information.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate Information

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

(b) Basis of Preparation

The financial report has been prepared on a historical cost basis, except for freehold investment properties, leasehold investment properties: right-of-use assets, land and buildings, derivative financial instruments and equity investments, which have been measured at fair value.

Certain comparative amounts have been re-presented to align with the presentation in the current year.

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

The consolidated financial statements of the Company and its subsidiaries (the "consolidated entity") for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on 30 September 2020.

(c) Statement of Compliance

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards Board, and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the annual reporting period ended 30 June 2020. For details on the impact of future accounting standards, refer to page 93.

(d) Basis of Consolidation

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

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

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

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

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

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

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

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

(e) Summary of Significant Accounting Policies

(i) Changes in accounting policy, disclosures, standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards mandatory for annual periods beginning on or after 1 July 2019. The consolidated entity has early adopted AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions* which is effective from 1 June 2020. Details of the early adopted standard and new mandatory standards, where material, are disclosed in Note 1(f) Summary of new Standards Adopted by the Consolidated Entity on pages 90 to 93 of this report. The consolidated entity has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Statement of Significant Accounting Policies (continued)

(ii) Significant accounting judgements and estimates

In applying the consolidated entity's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the consolidated entity. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements and estimates made by management in the preparation of these financial statements are outlined below:

- Assessment of AASB 10 *Consolidated Financial Statements* in respect of Harvey Norman®, Domayne® and Joyce Mayne® Franchisees in Australia

In determining whether the consolidated entity has control over an entity (investee) and should or should not consolidate the results of the investee, the consolidated entity assesses its exposure to / rights to variable returns from its involvement with the investee and whether it has the ability to affect those returns through its power over the investee.

The assessment of whether Harvey Norman Holdings Limited (HNHL), or any subsidiary of HNHL, as franchisor, should consolidate or not consolidate the results of a franchisee or business operations of that franchisee, is determined by whether the franchisor has control over the franchisee. The assessment of whether a franchisor controls a franchisee or the business operations of that franchisee, involves significant judgement in assessing whether the franchisor has sufficient power through its rights under arrangements with franchisees and through the practical application of those arrangements, to direct the relevant activities of the franchisee that most significantly affect the returns (profits or losses) of the franchisee.

At least on an annual basis, the directors of HNHL assess the requirements of control in accordance with AASB 10 *Consolidated Financial Statements*. During the 2020 financial year, after considering both the legal arrangements in place between the consolidated entity and Harvey Norman®, Domayne® and Joyce Mayne® franchisees and the practical application of those arrangements, the directors have continued to conclude that HNHL, or any subsidiary of HNHL, does not control the business operations of franchisees. In particular, HNHL, or any subsidiary of HNHL, does not have any existing rights that give the consolidated entity the current ability to direct the relevant activities that most significantly affect the returns of the franchisee. The ability to direct the relevant activities that most significantly affect the returns of the franchisee, rest with the franchisee.

HNHL, or any subsidiary of HNHL, does not have any voting rights or legal ownership or any equity interest in any franchisee business. Each franchise business is operated by a separate legal entity which is independent of HNHL, or any subsidiary of HNHL. The franchisee has the authority and decision-making responsibility over the day-to-day operation and administration of the franchisee business. The franchisee has the substantive right to control the decisions regarding sales and pricing, inventory purchasing and inventory management, staff management (hiring, termination, staff numbers, remuneration, appointment of management) and employment of personnel including key management.

The above assessment has resulted in the conclusion that the assets, liabilities and the results of franchisees in Australia are not consolidated by the consolidated entity because the consolidated entity does not control the business operations of Harvey Norman®, Domayne® and Joyce Mayne® franchisees.

- Impairment of non-financial assets

The consolidated entity assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the consolidated entity estimates the asset's recoverable amount. The recoverable amount of an asset or cash generating unit (**CGU**) is the higher of that asset or CGU's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset 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 CGU to which the asset belongs. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the consolidated entity estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

- Recovery of deferred tax assets – refer to Note 5. Income Tax
- Expected credit loss assessment for financial assets – refer to Note 7. Trade and Other Receivables
- Valuation of freehold owner-occupied properties – refer to note 12. Property, Plant and Equipment
- Valuation of freehold investment properties – refer to Note 14. Investment Properties (Freehold)
- Valuation of investment properties (leasehold): right-of-use assets – refer to Note 15. Investment Properties (Leasehold): Right-of-Use Assets
- Determining the incremental borrowing rate and lease term – refer to Note 19. Lease Liabilities
- Provision for lease make good – refer to Note 21. Provisions
- Measurement of the cost of equity–settled transactions – refer to Note 25. Reserves

Statement of Significant Accounting Policies (continued)

(iii) Taxes

Refer to Note 5. Income Tax for accounting policy on current income tax and deferred tax.

Goods and services tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except:

- when the GST incurred on a sale or purchase of assets and services is not payable or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or expense item or as part of the cost of acquisition of the asset as applicable.
- when receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from operating, investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

(iv) Foreign currency translation

Both the functional and presentation currency of Harvey Norman Holdings Limited and its subsidiaries is Australian dollars. Transactions in foreign currencies are initially recorded in the functional currency at exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at balance date. Differences arising on settlement or translation of monetary items are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(f) Summary of New Standards Adopted by the Consolidated Entity

(i) AASB 16 Leases – application date 1 July 2019

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

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

AASB 16 *Leases* - Transition method: 1 July 2019

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

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

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

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

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

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

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

(f) Summary of New Standards Adopted by the Consolidated Entity (continued)

(i) AASB 16 *Leases* – application date 1 July 2019 (continued)

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

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

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

	1 July 2019 $000 Increase/(Decrease)
Equity	
Retained profits	(38,948)
Reserves	(18,067)
Non-controlling interests	80
Impact on Total Equity	(56,935)

Leases of Properties Sub-Leased to External Parties

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

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

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

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

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

(f) Summary of New Standards Adopted by the Consolidated Entity (continued)

(i) AASB 16 *Leases* – application date 1 July 2019 (continued)

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

	1 July 2019 $000 Increase/(Decrease)
Equity	
Retained profits	(4,944)
Impact on Total Equity	**(4,944)**

Practical Expedients Applied on Transition

The following practical expedients have been applied on transition:

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

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

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

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

AASB 16 *Leases* – Impact on Income Statement for 2020 Financial Year:

	30 June 2020		
	Leases of Owner-Occupied Properties $000	Leases of Properties Sub-Leased to External Parties $000	Total Leases $000
Expenses Recognised Under AASB 16 *Leases*:			
Property, plant and equipment: Right-of-use asset - Depreciation expense	61,769	-	61,769
Investment properties (leasehold): Right-of-use asset - Fair value re-measurement	-	74,206	74,206
Finance costs: Interest on lease liabilities (accretion)	18,314	22,224	40,538
Total Expenses Under AASB 16 *Leases*	**80,083**	**96,430**	**176,513**
Less: Lease payments made during FY20 (Note 19) excluding variable lease payments (short-term, low-value leases)	*(75,916)*	*(89,392)*	***(165,308)***
Less: Other reclassifications under AASB 16 Leases	*(1,829)*	-	***(1,829)***
Less: Foreign currency adjustments	*(104)*	-	***(104)***
Incremental Decrease in Profit Before Tax on Adoption of AASB 16 *Leases*	***2,234***	***7,038***	***9,272***

(f) Summary of New Standards Adopted by the Consolidated Entity (continued)

(ii) AASB 2020-4 Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions (effective 1 June 2020)

The standard allows the lessee to account for any COVID-19 related rent concessions received as a variable lease payment with the effect of the rent concession recognised directly in the income statement, rather than a lease modification, which generally requires a lessee to remeasure the lease liability by discounting the revised lease payments using a new discount rate under AASB 16 *Leases*.

Accounting for any COVID-19 related rent concessions directly in the income statement is permissible provided the following conditions are met:

1) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
2) Any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
3) There is no substantive change to other terms and conditions of the lease.

The consolidated entity has early adopted this standard for the year ended 30 June 2020 and has applied the exemption available in the standard.

(g) Future Accounting Standards

The table below lists the Australian Accounting Standards which have recently been issued or amended but not yet effective and have not been adopted by the consolidated entity for the year ended 30 June 2020. The consolidated entity does not expect material impact on the application of the below standards.

Reference	New standard	Effective Date	Application Date
AASB 2018-6	Amendments to the definition of a business	1 January 2020	1 July 2020
AASB 2018-7	Amendments to the definition of material	1 January 2020	1 July 2020
AASB 2019-1	Conceptual framework for financial reporting	1 January 2020	1 July 2020
AASB 2019-5	Amendments to the disclosure of the effect of new IFRS standards not yet issued in Australia	1 January 2020	1 July 2020
AASB 2020-1	Amendments to the classification of liabilities as current or non-current	1 January 2022	1 July 2022
AASB 2020-3	Annual improvements 2018-2020 and other amendments	1 January 2022	1 July 2022
AASB 2014-10	Amendments to sale or contribution of assets between an investor and its associate or joint venture	1 January 2022	1 July 2022

2. OPERATING SEGMENTS

Operating Segment Revenue: 30 June 2020	June 2020 $000		
	Sales of Products to Customers	Revenues received from franchisees and other income items	Total Revenue by Segment
FRANCHISING OPERATIONS	-	949,037	949,037
Retail – New Zealand	960,185	23,086	983,271
Retail – Singapore & Malaysia	525,746	11,685	537,431
Retail – Slovenia & Croatia	154,362	2,399	156,761
Retail – Ireland & Northern Ireland	440,513	8,491	449,004
Other Non-Franchised Retail	224,780	4,318	229,098
TOTAL RETAIL	2,305,586	49,979	2,355,565
Retail Property	25	300,507	300,532
TOTAL PROPERTY	25	300,507	300,532
EQUITY INVESTMENTS	-	1,450	1,450
OTHER	2,229	14,996	17,225
INTER-COMPANY ELIMINATIONS	(12,927)	(65,108)	(78,035)
TOTAL SEGMENT REVENUE	2,294,913	1,250,861	3,545,774

Operating Segment Revenue: 30 June 2019	June 2019 $000		
	Sales of Products to Customers	Revenues received from franchisees and other income items	Total Revenue by Segment
FRANCHISING OPERATIONS	-	838,665	838,665
Retail – New Zealand	935,096	21,877	956,973
Retail – Singapore & Malaysia	555,467	12,937	568,404
Retail – Slovenia & Croatia	148,922	2,256	151,178
Retail – Ireland & Northern Ireland	370,154	8,098	378,252
Other Non-Franchised Retail	221,899	5,362	227,261
TOTAL RETAIL	2,231,538	50,530	2,282,068
Retail Property	33	332,126	332,159
TOTAL PROPERTY	33	332,126	332,159
EQUITY INVESTMENTS	-	18,666	18,666
OTHER	2,871	11,269	14,140
INTER-COMPANY ELIMINATIONS	(324)	(65,189)	(65,513)
TOTAL SEGMENT REVENUE	2,234,118	1,186,067	3,420,185

2. OPERATING SEGMENTS (CONTINUED)

Operating Segment Result: 30 June 2020	June 2020 $000					
	Segment Result Before Interest, Taxation, Depreciation, Impairment & Amortisation	Interest Expense	Depreciation Expense	Depreciation & Fair Value Re-measurement of ROU Asset	Impairment & Amortisation Expense	Segment Result Before Tax
FRANCHISING OPERATIONS	495,847	(23,698)	(25,197)	(78,060)	(20,300)	348,592
Retail – New Zealand	120,196	(4,282)	(7,059)	(9,354)	(345)	99,156
Retail – Singapore & Malaysia	73,550	(6,068)	(6,843)	(31,818)	(1,206)	27,615
Retail – Slovenia & Croatia	13,908	(908)	(2,701)	(1,723)	(143)	8,433
Retail – Ireland & Northern Ireland	43,263	(7,520)	(5,186)	(13,512)	(172)	16,873
Other Non-Franchised Retail	(2,640)	(1,859)	(2,525)	(1,508)	(305)	(8,837)
TOTAL RETAIL	248,277	(20,637)	(24,314)	(57,915)	(2,171)	143,240
Retail Property	199,022	(14,099)	(11,430)	-	(305)	173,188
TOTAL PROPERTY	199,022	(14,099)	(11,430)	-	(305)	173,188
EQUITY INVESTMENTS	(2,001)	(152)	-	-	-	(2,153)
OTHER	4,874	(1,378)	(5,075)	-	-	(1,579)
INTER-COMPANY ELIMINATIONS	(170)	170	-	-	-	-
TOTAL SEGMENT RESULT BEFORE TAX	945,849	(59,794)	(66,016)	(135,975)	(22,776)	661,288

Operating Segment Result: 30 June 2019	June 2019 $000				
	Segment Result Before Interest, Taxation, Depreciation, Impairment & Amortisation	Interest Expense	Depreciation Expense	Impairment & Amortisation Expense	Segment Result Before Tax
FRANCHISING OPERATIONS	295,771	(3,221)	(25,648)	(18,502)	248,400
Retail – New Zealand	84,598	-	(6,851)	(355)	77,392
Retail – Singapore & Malaysia	44,674	(87)	(6,483)	(1,049)	37,055
Retail – Slovenia & Croatia	10,487	(416)	(2,447)	(167)	7,457
Retail – Ireland & Northern Ireland	15,255	(2,424)	(4,867)	(167)	7,797
Other Non-Franchised Retail	(12,200)	(1,531)	(2,443)	(497)	(16,671)
TOTAL RETAIL	142,814	(4,458)	(23,091)	(2,235)	113,030
Retail Property	235,083	(19,463)	(10,634)	(305)	204,681
TOTAL PROPERTY	235,083	(19,463)	(10,634)	(305)	204,681
EQUITY INVESTMENTS	18,595	(197)	-	-	18,398
OTHER	4,999	(1,711)	(4,990)	(8,248)	(9,950)
INTER-COMPANY ELIMINATIONS	(268)	268	-	-	-
TOTAL SEGMENT RESULT BEFORE TAX	696,994	(28,782)	(64,363)	(29,290)	574,559

2. OPERATING SEGMENTS (CONTINUED)

Operating Segment Assets and Liabilities: 30 June 2020	June 2020 $000 Segment Assets: Segment Assets	Segment Assets: Inter-company Eliminations	Segment Assets: Segment Assets After Eliminations	Segment Liabilities: Segment Liabilities	Segment Liabilities: Inter-company Eliminations	Segment Liabilities: Segment Liabilities After Eliminations
FRANCHISING OPERATIONS	3,495,462	(2,222,820)	1,272,642	916,694	(139,436)	777,258
Retail – New Zealand	434,573	-	434,573	269,969	(4,188)	265,781
Retail – Singapore & Malaysia	446,675	(1,671)	445,004	298,827	(40,670)	258,157
Retail – Slovenia & Croatia	74,388	(3,260)	71,128	63,719	(368)	63,351
Retail – Ireland & Northern Ireland	243,916	(262)	243,654	266,188	(615)	265,573
Other Non-Franchised Retail	211,721	(43,627)	168,094	237,933	(144,973)	92,960
TOTAL RETAIL	1,411,273	(48,820)	1,362,453	1,136,636	(190,814)	945,822
Retail Property	3,061,520	(63,486)	2,998,034	2,040,088	(1,848,851)	191,237
Property Developments for Resale	16,186	-	16,186	-	-	-
TOTAL PROPERTY	3,077,706	(63,486)	3,014,220	2,040,088	(1,848,851)	191,237
EQUITY INVESTMENTS	45,688	-	45,688	1,737	-	1,737
OTHER	188,513	(58,141)	130,372	261,223	(214,166)	47,057
TOTAL SEGMENT ASSETS / LIABILITIES BEFORE TAX	8,218,642	(2,393,267)	5,825,375*	4,356,378	(2,393,267)	1,963,111*

Operating Segment Assets and Liabilities: 30 June 2019	June 2019 $000 Segment Assets: Segment Assets	Segment Assets: Inter-company Eliminations	Segment Assets: Segment Assets After Eliminations	Segment Liabilities: Segment Liabilities	Segment Liabilities: Inter-company Eliminations	Segment Liabilities: Segment Liabilities After Eliminations
FRANCHISING OPERATIONS	3,006,917	(2,078,590)	928,327	234,661	(10,340)	224,321
Retail – New Zealand	267,981	-	267,981	103,973	(4,031)	99,942
Retail – Singapore & Malaysia	199,964	(1,772)	198,192	119,811	(40,141)	79,670
Retail – Slovenia & Croatia	56,675	(3,115)	53,560	46,526	(753)	45,773
Retail – Ireland & Northern Ireland	86,553	(119)	86,434	129,126	(416)	128,710
Other Non-Franchised Retail	175,065	(46,765)	128,300	220,853	(141,443)	79,410
TOTAL RETAIL	786,238	(51,771)	734,467	620,289	(186,784)	433,505
Retail Property	2,976,650	(25,319)	2,951,331	2,331,761	(1,820,345)	511,416
Property Developments for Resale	36,666	-	36,666	-	-	-
TOTAL PROPERTY	3,013,316	(25,319)	2,987,997	2,331,761	(1,820,345)	511,416
EQUITY INVESTMENTS	44,344	-	44,344	5,470	-	5,470
OTHER	161,871	(58,262)	103,609	280,166	(196,473)	83,693
TOTAL SEGMENT ASSETS / LIABILITIES BEFORE TAX	7,012,686	(2,213,942)	4,798,744*	3,472,347	(2,213,942)	1,258,405*

* Segment liabilities are exclusive of income tax payable and deferred tax assets and deferred tax liabilities

2. OPERATING SEGMENTS (CONTINUED)

The consolidated entity operates predominantly in ten (10) operating segments:

Operating Segment	Description of Segment
Franchising Operations	Consists of the franchisor operations of the consolidated entity, but does not include the results, assets, liabilities or operations of any Harvey Norman®, Domayne® and Joyce Mayne® franchisees.
Retail – New Zealand	Consists of the wholly-owned operations of the consolidated entity in the retail trading operations in New Zealand under the Harvey Norman® brand name.
Retail – Singapore & Malaysia	Consists of the controlling interest of the consolidated entity in the retail trading operations in Singapore and Malaysia under the Harvey Norman® and Space Furniture® brand names.
Retail – Slovenia & Croatia	Consists of the wholly-owned operations of the consolidated entity in the retail trading operations in Slovenia and Croatia under the Harvey Norman® brand name.
Retail – Ireland & Northern Ireland	Consists of the wholly-owned operations of the consolidated entity in the retail trading operations in Ireland and Northern Ireland under the Harvey Norman® brand name.
Other Non-Franchised Retail	Consists of the retail and wholesale trading operations in Australia which are wholly-owned, controlled or jointly-controlled by the consolidated entity, and does not include the operations of any Harvey Norman®, Domayne® and Joyce Mayne® franchisees.
Retail Property	Consists of freehold land and buildings that are owned by the consolidated entity for each site that are fully operational or are ready for operations. The revenue and results of this segment consists of rental income, outgoings recovered and the net property revaluation increments and/or decrements recognised in the Income Statement. This segment includes the mining camp accommodation joint ventures.
Property Developments for Resale	Consists of freehold land and buildings acquired by the consolidated entity, to be developed, or currently under development, for the sole purpose of resale at a profit. This segment includes land and buildings held for sale, which were previously reported in the Retail Property segment.
Equity Investments	This segment refers to the investment in, and trading of, equity investments.
Other	This segment primarily relates to credit facilities provided to related and unrelated parties and other unallocated income and expense items.

SIGNIFICANT ACCOUNTING POLICIES

An operating segment is a component of an entity 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 entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management 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.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team. The consolidated entity 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 production processes;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services; and, if applicable
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 *Operating Segments* 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 as "other segments".

3. REVENUES

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Revenue from contracts with customers and franchisees:		
Sale of products to customers (a)	2,294,913	2,234,118
Services to customers (c) (included in Revenues and other income items line in the Income Statement)	27,676	27,536
Franchise fees in accordance with franchise agreements (b) (included in Revenue received from franchisees in the Income Statement)	780,237	668,926
Total revenue from contracts with customers and franchisees	3,102,826	2,930,580

Refer to Table 1 on page 99 for a breakdown of revenues and the relationship to the reported operating segments of the consolidated entity - by Types of Contracts.

Refer to Table 2 on page 100 for a breakdown of revenues and the relationship to the reported operating segments of the consolidated entity - by Primary Geographical Markets.

	June 2020 $000	June 2019 $000
Other revenue from franchisees:		
Rent and outgoings received from franchisees	247,291	243,940
Interest to implement and administer the financial accommodation facilities	28,338	30,782
Total other revenue received from franchisees (b)	275,629	274,722
Gross revenue from other unrelated parties:		
Rent and outgoings received from external tenants	98,610	95,982
Interest received from financial institutions and other parties	6,388	5,262
Dividends received	1,450	2,711
Total revenue from other unrelated parties (c)	106,448	103,955
Other income items:		
Net property revaluation increment on Australian freehold investment properties	34,268	69,289
Property revaluation increment for overseas controlled entity	688	1,012
Net revaluation increment of equity investments to fair value	-	15,955
Other income	25,915	24,672
Total other income items (c)	60,871	110,928

Disclosed in the Income Statement as follows:

	June 2020 $000	June 2019 $000
(a) Sale of products to customers	2,294,913	2,234,118
(b) Revenue received from franchisees	1,055,866	943,648
(c) Revenues and other income items	194,995	242,419

SIGNIFICANT ACCOUNTING POLICIES

Revenue from Franchisees
The application of AASB 15 *Revenue from Contracts with Customers* to franchise agreements with franchisees requires the consolidated entity to recognise revenue from franchisees based on the amount it expects to receive in exchange for the provision of franchising operations' activities to franchisees, pursuant to a franchise agreement.

Sale of goods
The customer obtains control over the product upon delivery and revenue is therefore recognised at the point in time the product is delivered or handed over to the customer. Revenue is measured based on the consideration expected to be received, net of trade rebates and discounts paid.

Revenue from services
The consolidated entity provides repair services, installation services and delivery services to customers. These services are sold either in their own contracts with the customers or bundled together with the sale of products. The consolidated entity recognises revenue when the service is rendered. For bundled packages, the consolidated entity accounts for individual products and services separately, if they are distinct.

3. REVENUES (CONTINUED)

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

Operating Segments 30 June 2020	TYPES OF CONTRACTS 30 June 2020 $000			
	Sale of Products to Customers	Services to Customers	Franchise Fees from Franchisees	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	-	-	780,237	780,237
Retail – New Zealand	960,185	13,933	-	974,118
Retail – Singapore & Malaysia	525,746	4,818	-	530,564
Retail – Slovenia & Croatia	154,362	1,759	-	156,121
Retail – Ireland & Northern Ireland	440,513	6,604	-	447,117
Other Non-Franchised Retail	224,780	562	-	225,342
TOTAL RETAIL	2,305,586	27,676	-	2,333,262
Retail Property	25	-	-	25
TOTAL PROPERTY	25	-	-	25
EQUITY INVESTMENTS	-	-	-	-
OTHER	2,229	-	-	2,229
INTER-COMPANY ELIMINATIONS	(12,927)	-	-	(12,927)
TOTAL SEGMENT REVENUE	2,294,913	27,676	780,237	3,102,826

Operating Segments 30 June 2019	TYPES OF CONTRACTS 30 June 2019 $000			
	Sale of Products to Customers	Services to Customers	Franchise Fees from Franchisees	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	-	-	668,926	668,926
Retail – New Zealand	935,096	13,952	-	949,048
Retail – Singapore & Malaysia	555,467	5,206	-	560,673
Retail – Slovenia & Croatia	148,922	1,728	-	150,650
Retail – Ireland & Northern Ireland	370,154	5,531	-	375,685
Other Non-Franchised Retail	221,899	1,119	-	223,018
TOTAL RETAIL	2,231,538	27,536	-	2,259,074
Retail Property	33	-	-	33
TOTAL PROPERTY	33	-	-	33
EQUITY INVESTMENTS	-	-	-	-
OTHER	2,871	-	-	2,871
INTER-COMPANY ELIMINATIONS	(324)	-	-	(324)
TOTAL SEGMENT REVENUE	2,234,118	27,536	668,926	2,930,580

3. REVENUES (CONTINUED)

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

Operating Segments 30 June 2020	PRIMARY GEOGRAPHICAL MARKETS 30 June 2020 $000 Australia	New Zealand	Asia	Europe	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	780,237	-	-	-	780,237
Retail – New Zealand	-	974,118	-	-	974,118
Retail – Singapore & Malaysia	-	-	530,564	-	530,564
Retail – Slovenia & Croatia	-	-	-	156,121	156,121
Retail – Ireland & Northern Ireland	-	-	-	447,117	447,117
Other Non-Franchised Retail	213,779	11,563	-	-	225,342
TOTAL RETAIL	213,779	985,681	530,564	603,238	2,333,262
Retail Property	25	-	-	-	25
TOTAL PROPERTY	25	-	-	-	25
EQUITY INVESTMENTS	-	-	-	-	-
OTHER	2,229	-	-	-	2,229
INTER-COMPANY ELIMINATIONS	(1,891)	(10,424)	(612)	-	(12,927)
TOTAL SEGMENT REVENUE	994,379	975,257	529,952	603,238	3,102,826

Operating Segments 30 June 2019	PRIMARY GEOGRAPHICAL MARKETS 30 June 2019 $000 Australia	New Zealand	Asia	Europe	Total Revenue from Contracts with Customers and Franchisees
FRANCHISING OPERATIONS	668,926	-	-	-	668,926
Retail – New Zealand	-	949,048	-	-	949,048
Retail – Singapore & Malaysia	-	-	560,673	-	560,673
Retail – Slovenia & Croatia	-	-	-	150,650	150,650
Retail – Ireland & Northern Ireland	-	-	-	375,685	375,685
Other Non-Franchised Retail	214,359	8,659	-	-	223,018
TOTAL RETAIL	214,359	957,707	560,673	526,335	2,259,074
Retail Property	33	-	-	-	33
TOTAL PROPERTY	33	-	-	-	33
EQUITY INVESTMENTS	-	-	-	-	-
OTHER	2,871	-	-	-	2,871
INTER-COMPANY ELIMINATIONS	(324)	-	-	-	(324)
TOTAL SEGMENT REVENUE	885,865	957,707	560,673	526,335	2,930,580

4. EXPENSES AND LOSSES

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Employee benefits expense:		
Wages and salaries *	297,214	313,124
Workers' compensation	3,236	3,174
Superannuation contributions	16,612	16,278
Payroll tax *	12,414	12,107
Share-based payments	745	717
Other employee benefits	10,461	8,523
Total employee benefits expense	340,682	353,923
Finance costs:		
Interest on lease liabilities (accretion)	40,538	-
Bank interest paid to financial institutions	17,829	26,838
Other	1,427	1,944
Total finance costs	59,794	28,782
Occupancy expenses:		
Variable lease payments (including short-term and low-value leases) *	25,844	184,780
Property, plant and equipment: Right-of-use assets - Depreciation expense	61,769	-
Investment properties (leasehold): Right-of-use assets - Fair value re-measurement	74,206	-
Other occupancy expenses	77,222	73,326
Total occupancy expenses	239,041	258,106

* these amounts are net of any COVID-19 support and assistance received for FY20

	June 2020 $000	June 2019 $000
Depreciation, amortisation and impairment: (included in administrative expenses in the Income Statement)		
Depreciation of: (excluding AASB 16 depreciation in occupancy expenses above)		
- Buildings	10,983	11,857
- Plant and equipment	55,033	52,506
Amortisation of:		
- Computer software	19,814	19,721
- Net licence property and other intangible assets	1,786	1,175
Impairment of non-trade debts receivable	-	8,394
Impairment of non-current assets	876	-
Impairment of other financial assets	300	-
Total depreciation, amortisation and impairment	88,792	93,653
Loss on restructure and consolidation of KEH	-	9,665

5. INCOME TAX

(a)

	June 2020 $000	June 2019 $000
Income tax recognised in the Income Statement:		
Current income tax:		
Current income tax charge	180,801	128,456
Adjustments in respect of current income tax of previous years	(462)	(135)
Deferred income tax:		
Relating to the origination and reversal of temporary differences	(5,074)	37,236
Total income tax expense reported in the Income Statement	175,265	165,557

5. INCOME TAX (CONTINUED)

(b) **Income tax recognised in the Statement of Changes in Equity:**

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Deferred income tax:		
Net (loss) / gain on revaluation of cash flow hedges	(14)	3
Net gain on revaluation of land and buildings	4,559	3,910
Total income tax expense reported in other comprehensive income	4,545	3,913

(c) **Reconciliation between income tax expense and prima facie income tax:**

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Accounting profit before tax	661,288	574,560
At the Australian statutory income tax rate of 30% (2019: 30%)	198,386	172,368
Adjustments to arrive at total income tax expense recognised for the year:		
Transactions undertaken by Harvey Norman Holdings Limited and Harvey Norman Holdings (Ireland) Limited as agreed under the terms of an Advance Pricing Arrangement with the Australian Taxation Office dated 6 February 2012	5,793	1,630
Adjustments in respect of current income tax of previous years	(462)	(135)
Share-based payment expenses	(36)	158
Expenditure not allowable for income tax purposes	1,194	171
Income not assessable for income tax purposes	(894)	(66)
Unrecognised tax losses	294	7
Utilisation of previously unrecognised tax losses	(7,899)	(2,768)
Tax concession for research and development expenses	(189)	(221)
Difference between tax capital gain and accounting profit on revaluation of pre-CGT properties	(304)	(154)
Non-allowable building and motor vehicle depreciation	488	1,348
Reversal of non-allowable building depreciation due to a legislative change in New Zealand in FY20	(14,766)	-
Receipt of fully franked dividends	(424)	(792)
Sundry items	(382)	(636)
Effect of different rates of tax on overseas income and exchange rate differences	(5,534)	(5,353)
Total adjustments	(23,121)	(6,811)
Total income tax expense reported in the Income Statement	175,265	165,557
Effective income tax rate (%)	26.50%	28.81%

SIGNIFICANT ACCOUNTING POLICIES

Tax consolidation

Harvey Norman Holdings Limited (**HNHL**) and its 100% owned Australian resident subsidiaries are members of a tax consolidated group. HNHL is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement which provides for the allocation of income tax liabilities between the entities, should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

Wholly-owned companies of the tax consolidated group have entered into a tax funding agreement. The funding agreement provides for the allocation of current and deferred taxes on a modified standalone basis in accordance with the principles as outlined in UIG Interpretation 1052 Tax Consolidation Accounting. The allocation of taxes under the tax funding agreement is recognised as an increase or a decrease in the inter-company accounts of the subsidiaries with the tax consolidated head entity.

5 INCOME TAX (CONTINUED)

(d)

	STATEMENT OF FINANCIAL POSITION		INCOME STATEMENT	
	June 2020 $000	June 2019 $000	June 2020 $000	June 2019 $000
Deferred income tax assets and liabilities:				
Deferred income tax at 30 June relates to the following:				
Deferred tax liabilities:				
Revaluations of freehold investment properties to fair value	(193,801)	(185,556)	9,876	21,102
Revaluations of owner-occupied land and buildings to fair value	(39,699)	(40,189)	-	-
Non-allowable building depreciation in respect of properties in New Zealand	(15,389)	(13,831)	1,897	(515)
Reversal of non-allowable building depreciation due to a legislative change in New Zealand in FY20	14,766	-	(14,766)	-
Reversal of building depreciation expense for freehold investment properties	(116,570)	(105,152)	11,736	12,782
Research and development	(15,279)	(16,531)	(1,123)	(276)
Other items	(5,020)	(4,108)	830	460
Total deferred tax liabilities	(370,992)	(365,367)		
Deferred tax assets:				
Employee provisions	9,862	9,817	(120)	(396)
Unused tax losses and tax credits	3,444	260	(3,206)	(41)
Right-of-use assets and lease liabilities	17,410	-	(8,013)	-
Losses in respect of the Coomboona joint venture	11,365	11,665	300	7,134
Other provisions	11,451	7,959	(2,397)	(4,093)
Provision for lease makegood	401	442	(78)	(44)
Provision for deferred lease expenses	-	1,273	-	(72)
Lease incentives	-	1,206	-	136
Provision for executive remuneration	822	811	(10)	1,059
Revaluations of owner-occupied land and buildings to fair value	1,527	1,388	-	-
Total deferred tax assets	56,282	34,821		
Total deferred tax	(314,710)	(330,546)	(5,074)	37,236

The consolidated entity has not recognised deferred tax assets relating to tax losses of $176.00 million (2019: $195.32 million) which are available for offset against taxable profits of the companies in which the losses arose.

At 30 June 2020, no deferred tax liability has been recognised (2019: nil) in respect of the unremitted earnings of certain subsidiaries, associates or joint ventures.

SIGNIFICANT ACCOUNTING POLICIES

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the consolidated entity operates and generates taxable income.

Current income tax relating to items recognised directly in equity are recognised in equity, and not in the income statement.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. Deferred tax items recognised outside the income statement are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

5. INCOME TAX (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES

Deferred income tax (continued)
Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part of, the deferred tax asset to be utilised.

Deferred tax assets and liabilities are not recognised if temporary differences arise from the initial recognition of 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatment
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 *Income Taxes*. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

Upon adoption of the Interpretation, the consolidated entity considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Company and its subsidiaries in different jurisdictions include deductions relating to transfer pricing, and the taxation authorities may challenge those tax treatments.

The consolidated entity determined that, based on its tax compliance and transfer pricing documentation, it is probable that its tax treatment (including those of its subsidiaries) will be accepted by the relevant taxation authorities.

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

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as the consolidated entity considers that it is probable that future taxable profit will be available to utilise those temporary differences. Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

6. EARNINGS PER SHARE

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Basic earnings per share (cents per share)	39.19c	33.94c
Diluted earnings per share (cents per share)	39.15c	33.91c
The following reflects the income and HVN shares data used in the calculations of basic and diluted earnings per share:		
Profit after tax	486,023	409,002
Less: Profit after tax attributable to non-controlling interests	(5,482)	(6,685)
Profit after tax attributable to owners of the parent	480,541	402,317

6 EARNINGS PER SHARE (continued)

	NUMBER OF SHARES June 2020 Number	June 2019 Number
Weighted average number of ordinary shares used in calculating basic earnings per share (a)	1,226,271,429	1,159,443,029
Effect of dilutive securities (b)	1,267,770	1,114,644
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**1,227,539,199**	**1,160,557,673**

(a) Weighted Average Number of Ordinary Shares

The weighted average number of ordinary shares used in calculating basic earnings per share is inclusive of the new shares totalling 66,270,064 ordinary shares in the Company issued on 18 October 2019 pursuant to the pro-rata Entitlement Offer, weighted on a pro-rata basis from issue date to 30 June 2020.

(b) Effect of Dilutive Securities

On 28 November 2016, the consolidated entity issued a total of 400,000 performance rights under Tranche 2 of the 2016 LTI Plan to the Executive Directors. These performance rights are capable of exercise from 1 January 2020 to 31 December 2022. The performance rights were valued at grant date at $3.87 per entitlement share using a discounted cash flow technique. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche 2 performance rights amounted to $1,548,000 in aggregate. On 1 January 2020, 160,000 performance rights representing 40% of Tranche 2 of the 2016 LTI Plan had lapsed and will never be exercisable by the participants. On 5 March 2020, 240,000 performance rights under Tranche 2 of the 2016 LTI Plan were exercised, reducing the unissued ordinary shares under Tranche 2 of the 2016 LTI Plan to nil.

On 1 December 2017, the consolidated entity issued a total of 400,000 performance rights under Tranche 3 of the 2016 LTI Plan to the Executive Directors. These performance rights are capable of exercise from 1 January 2021 to 31 December 2023. The performance rights were valued at grant date at $3.34 per entitlement share using a discounted cash flow technique. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche 3 performance rights amounted to $1,336,000 in aggregate.

On 4 December 2018, the consolidated entity issued a total of 549,500 performance rights under Tranche FY19 of the 2016 LTI Plan to the Executive Directors. These performance rights are capable of exercise from 1 January 2022 to 30 June 2024. The performance rights were valued at grant date at $2.59 per entitlement share using a discounted cash flow technique. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche FY19 performance rights amounted to $1,423,205 in aggregate.

On 2 December 2019, the consolidated entity issued a total of 549,500 performance rights under Tranche FY20 of the 2016 LTI Plan to the Executive Directors. These performance rights are capable of exercise from 1 January 2023 to 30 June 2025. The performance rights were valued at grant date at $3.47 per entitlement share using a discounted cash flow technique. Subject to the satisfaction of the financial performance condition (calculated exclusively based on RONA) and service conditions of the 2016 LTI Plan, the total fair value of Tranche FY20 performance rights amounted to $1,906,765 in aggregate.

Performance rights issued under Tranche 3, Tranche FY19 and Tranche FY20 of the 2016 LTI Plan have been included in the calculation of diluted earnings per share. There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date.

SIGNIFICANT ACCOUNTING POLICIES

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus elements.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the year that would result from the dilution of potential shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

7. TRADE AND OTHER RECEIVABLES

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
CURRENT		
Receivables from franchisees	352,359	607,731
Trade receivables (a)	109,077	104,359
Consumer finance loans (b)	2,258	3,199
Allowance for expected credit loss (a) (b)	(3,716)	(444)
Trade receivables, net	107,619	107,114
Amount receivable in respect of finance leases (c)	3,291	3,306
Non-trade debts receivable from (d):		
- Related entities (including joint ventures and joint venture partners)	23,059	21,334
- Unrelated entities	25,745	3,096
Allowance for expected credit loss (d)	(494)	(719)
Non-trade debts receivable, net	48,310	23,711
Total trade and other receivables (current)	511,579	741,862
NON-CURRENT		
Trade receivables (a)	7,276	546
Consumer finance loans (b)	476	677
Allowance for expected credit loss (a) (b)	(4)	(6)
Trade receivables, net	7,748	1,217
Amounts receivable in respect of finance leases (c)	912	820
Non-trade debts receivable from (d):		
- Related entities (including joint ventures and joint venture partners)	49,442	50,939
- Unrelated entities	19,835	25,968
Allowance for expected credit loss (d)	(28,668)	(29,553)
Non-trade debts receivable, net	40,609	47,354
Total trade and other receivables (non-current)	49,269	49,391
Total trade and other receivables	560,848	791,253

SIGNIFICANT ACCOUNTING POLICIES

Trade and other receivables
Trade and other receivables are classified, at initial recognition, and subsequently measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently subject to impairment reviews. Gains or losses are recognised in the income statement when the asset is derecognised, modified or impaired. The financial assets at amortised cost of the consolidated entity includes receivables from franchisees, trade receivables, consumer finance loans, non-trade debts receivable from related entities and unrelated entities and finance lease receivables.

7. TRADE AND OTHER RECEIVABLES (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Impairment of financial assets

The consolidated entity recognises an allowance for expected credit losses (ECLs) for financial assets measured at amortised cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the consolidated entity expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For receivables from franchisees, consumer finance loans and non-trade debts receivable from related entities and unrelated entities, the consolidated entity applies the general approach, as prescribed in AASB 9 *Financial Instruments*, in calculating ECLs. For trade receivables and finance leases, the consolidated entity applies the simplified approach, as prescribed in AASB 9, in calculating ECLs. The consolidated entity has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Receivables from franchisees

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

The receivables from franchisees balance of $352.36 million as at 30 June 2020 comprises the aggregate of the balances due from each franchisee to Derni, and is net of any uncollectible amounts. The indebtedness of each franchisee to Derni is reduced on a daily basis by an electronic funds transfer process. Each franchisee directs the financial institution of that franchisee to transfer the net cash receipts in the bank account of the franchisee to Derni, in reduction of outstanding indebtedness.

Receivables from franchisees have been measured at amortised cost. The consolidated entity has performed an assessment of the franchisee receivables and has calculated the expected credit loss by applying the general approach for provisioning for expected credit losses prescribed by AASB 9. The expected credit loss assessment was conducted on the carrying value of franchisee receivables as at 30 June 2020 totalling $352.36 million. Based on the assessment, receivables from franchisees are current and neither past due nor impaired as at 30 June 2020.

(a) Trade receivables and allowance for expected credit loss

Trade receivables are non-interest bearing and are generally on 30-day terms. An allowance has been made for estimated unrecoverable trade receivable amounts arising from the past sale of goods and rendering of services when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $3.68 million (2019: $0.26 million) has been recognised by the consolidated entity in the current year for trade receivables. This amount has been included in the other expenses line item in the Income Statement.

The ageing analysis of current and non-current trade receivables is as follows:

- $91.30 million of the trade receivables balance as at 30 June 2020 (2019: $88.76 million) are neither past due nor impaired. It is expected that these balances will be collected by the consolidated entity on, or prior to, the due date.
- $21.36 million of the trade receivables balance as at 30 June 2020 (2019: $15.73 million) are past due but not impaired as there has not been a significant change in credit quality and the consolidated entity believes that the amounts are still considered recoverable. The consolidated entity does not hold any collateral over these balances as at 30 June 2020 (2019: nil).
- $3.70 million of the trade receivables balance as at 30 June 2020 (2019: $0.41 million) are past due and impaired, and have been provided for in full as at balance date.

Ageing Analysis	Neither past due nor impaired	Past due but not impaired			Past due and impaired			Total
		31-60 Days	61-90 Days	+90 Days	31-60 Days	61-90 Days	+90 Days	
2020 ($000)	91,301	8,593	4,087	8,675	78	98	3,521	116,353
2019 ($000)	88,764	4,193	3,486	8,048	99	111	204	104,905

7. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables and allowance for expected credit loss (continued)

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Reconciled to:		
Trade receivables (Current)	109,077	104,359
Trade receivables (Non-current)	7,276	546
Total trade receivables	116,353	104,905
Movements in the allowance for expected credit loss for trade receivables were as follows:		
At 1 July	414	751
Charge for the year	3,684	262
Foreign exchange translation	(10)	24
Amounts written off	(391)	(623)
At 30 June	3,697	414

(b) Consumer finance loans and allowance for expected credit loss

The consumer finance loans are non-interest bearing and are generally on 6 to 48 months interest-free terms. The ageing analysis of current and non-current consumer finance loans is as follows:

- $1.70 million of the consumer finance loans at 30 June 2020 (2019: $3.64 million) are neither past due nor impaired. It is expected that these balances will be collected by the consolidated entity on, or prior to, the due date.
- If a customer has missed a repayment in a consumer finance loan, the remaining balance of the consumer finance loan is treated as past due. $1.01 million of the consumer finance loans balance as at 30 June 2020 (2019: $0.20 million) are past due but not impaired. The consolidated entity does not hold any collateral over these balances and believes that these amounts will be recovered.
- $0.02 million of the consumer finance loans at 30 June 2020 (2019: $0.04 million) are past due and impaired, and have been provided for in full as at balance date.

Ageing Analysis	Neither past due nor impaired	Past due but not impaired 31-60 Days	61-90 Days	+90 Days	Past due and impaired 31-60 Days	61-90 Days	+90 Days	Total
2020 ($000)	1,699	372	432	208	-	-	23	2,734
2019 ($000)	3,642	132	22	44	-	-	36	3,876

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Reconciled to:		
Consumer finance loans (current)	2,258	3,199
Consumer finance loans (non-current)	476	677
Total consumer finance loans	2,734	3,876
Movements in the allowance for expected credit loss for consumer finance loans were as follows:		
At 1 July	36	32
Charge for the year	-	17
Amounts written off	(13)	(13)
At 30 June	23	36

7. TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Finance lease receivables and allowance for expected credit loss

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Finance lease receivables are reconciled as follows:		
Aggregate of minimum lease payments and guaranteed residual values:		
Not later than one year	3,438	3,418
Later than one year but not later than five years	1,019	896
	4,457	4,314
Future finance revenue:		
Not later than one year	(147)	(112)
Later than one year but not later than five years	(107)	(76)
Net finance lease receivables	4,203	4,126
Reconciled to:		
Amounts receivable in respect of finance leases (current)	3,291	3,306
Amounts receivable in respect of finance leases (non-current)	912	820
Total finance lease receivables	4,203	4,126

The consolidated entity offers finance lease arrangements as part of the consumer finance business. Finance leases are offered in respect of motor vehicles and livestock with lease terms not exceeding 4 years. All finance leases are at fixed rates for the term of the lease. A provision is made for estimated unrecoverable finance lease receivable amounts when there is objective evidence that a finance lease receivable is impaired. No impairment loss was recognised in the FY20 financial year (2019: nil).

The ageing analysis of current and non-current finance lease receivables is as follows:

- $1.48 million of the finance lease receivable balance as at 30 June 2020 (2019: $1.40 million) are neither past due nor impaired.
- $2.72 million of the finance lease receivable balance as at 30 June 2020 (2019: $2.73 million) are past due but not impaired. These receivables are subject to regular monitoring to ensure that they are recoverable. As at balance date, there were no events that required the consolidated entity to sell or re-pledge the secured leased assets.
- There was no finance lease receivable balance as at 30 June 2020 that was past due and impaired (2019: nil).

(d) Non-trade debts receivable and allowance for expected credit loss

Non-trade debts receivable are generally interest-bearing and are normally payable at call. The aggregate balance of current and non-current non-trade debts receivable as at 30 June 2020 was $118.08 million (2019: $101.34 million) as follows:

- $69.24 million of the non-trade debts receivable balance as at 30 June 2020 (2019: $51.85 million) are neither past due nor impaired. It is expected that these balances will be collected by the consolidated entity on, or prior to, the due date.
- $19.68 million of the non-trade debts receivable balance as at 30 June 2020 (2019: $19.22 million) are past due but not impaired. These receivables are subject to regular monitoring and periodic impairment testing to ensure that they are recoverable.
- $29.16 million of the non-trade debts receivable balance as at 30 June 2020 (2019: $30.27 million) are past due and impaired, and have been provided for in full as at balance date.

At 30 June, the ageing analysis of non-trade debts receivable is as follows:

Ageing Analysis	Neither past due nor impaired	Past due but not impaired 31-60 Days	Past due but not impaired 61-90 Days	Past due but not impaired +90 Days	Past due and impaired 31-60 Days	Past due and impaired 61-90 Days	Past due and impaired +90 Days	Total
2020 ($000)	69,241	-	-	19,678	-	-	29,162	118,081
2019 ($000)	51,847	-	-	19,218	-	-	30,272	101,337

7. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Non-trade debts receivable and allowance for expected credit loss (continued)

	CONSOLIDATED	
	June 2020 $000	June 2019 $000
Reconciled to:		
Non-trade debts receivable (current)	48,804	24,430
Non-trade debts receivable (non-current)	69,277	76,907
Total non-trade debts receivables	118,081	101,337
Movements in the allowance for expected credit loss for non-trade debts receivable were as follows:		
At 1 July	30,272	63,008
Charge for the year (iii)	1,335	3,786
Reversal during the year (i) (ii)	(2,000)	(4,494)
Utilisation of allowance for expected credit loss (iii)	(445)	(32,028)
At 30 June	29,162	30,272

(i) Non-trade debts receivable from the KEH Partnership retail joint venture:

As at 30 June 2018, the consolidated entity, through a wholly-owned subsidiary, had a 50% interest in KEH Partnership Pty Limited (**KEH**), a retail joint venture in Australia. Effective 1 July 2018, a wholly-owned subsidiary of Harvey Norman Holdings Limited acquired all of the inventory assets of KEH. Subsequently, there was a restructure of the KEH business where, by unanimous agreement in writing, each partner in the Partnership agreed to vary the interest of the respective partners in the Partnership, with the consolidated entity increasing its partnership interest in the Partnership to 99.02%. The effect of this restructure was the consolidation and elimination of the commercial loans advanced to KEH. This resulted in a net reversal of $4.49 million in FY19 in respect of the allowance for expected credit loss previously raised.

(ii) Non-trade debts receivable from mining camp joint venture:

The consolidated entity has made commercial advances to the mining camp joint ventures totalling $32.85 million (2019: $34.95 million) in aggregate as at 30 June 2020. The recoverable amount of non-trade receivables advanced to the mining camp joint ventures was assessed during the year. An impairment reversal of $2.00 million was recognised in the current year. No impairment loss or reversal was recognised in FY19. The total balance of the allowance for expected credit loss as at 30 June 2020 relating to non-trade receivables from the mining camp joint ventures was $11.23 million (2019: $13.23 million).

The recoverable amount for these non-trade receivables have been determined based on the present value of estimated cash flow projections as at 30 June 2020 for a five-year period, based on financial budgets and the assets held as security. The effective interest rate applied to the cash flow projections was 7.5%. Cash flow projections were limited to five years due to the inherent risks associated with the mining industry.

Each of the key assumptions in the impairment assessment were subject to significant accounting estimates and assumptions about future economic conditions and its impact on the ongoing trading performance of the mining camp joint ventures and the possible commencement of future projects which are currently out to tender. Judgement has been made, based on available information and these accounting estimates and assumptions, to each of these variables to assess the recoverable amount of the non-trade receivables as at balance date.

(iii) Non-trade debts receivable from the Coomboona joint venture:

On 16 January 2019, the Administrator Sale of the Coomboona JV assets was completed and the Contract for Sale settled. The secured creditors received net proceeds on sale of $40.50 million for the full discharge of the NCF receivables and the partial discharge of the HN JV Entity receivables. After taking into account the net sales proceeds, a further impairment expense of $8.25 million was recognised in December 2018, of which $3.25 million was recognised as an impairment loss in FY19 to reduce the value of the HN JV Entity receivables to its estimated recoverable amount. Upon completion of the Administrator Sale and receipt of the net proceeds on sale, the total allowance for expected credit loss for Coomboona of $32.03 million was utilised and reversed in full in FY19.

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000

8. OTHER FINANCIAL ASSETS

CURRENT

	June 2020 $000	June 2019 $000
Equity investments at fair value through profit or loss	30,237	27,483
Derivatives receivable	-	5
Other current financial assets	-	1,400
Total other financial assets (current)	30,237	28,888

NON-CURRENT

	June 2020 $000	June 2019 $000
Equity investments at fair value through OCI	15,451	16,861
Units in unit trusts	414	414
Other non-current financial assets	2,311	2,095
Total other financial assets (non-current)	18,176	19,370
Total other financial assets	48,413	48,258

SIGNIFICANT ACCOUNTING POLICIES

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include listed shares held for trading and derivative receivables. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the consolidated entity can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under AASB 132 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are not recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to an impairment assessment.

9. INVENTORIES (CURRENT)

	June 2020 $000	June 2019 $000
Finished goods at cost	402,363	403,154
Provision for obsolescence	(10,379)	(7,189)
Total inventories (current)	391,984	395,965

SIGNIFICANT ACCOUNTING POLICIES

Inventories are valued at the lower of cost and net realisable value and are recorded net of all volume rebates, marketing and business development contributions and settlement discounts. Costs are on a weighted average basis and include the acquisition cost, freight, duty and other inward charges. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

10. OTHER ASSETS (CURRENT)

	June 2020 $000	June 2019 $000
Prepayments	30,723	29,901
Other current assets	4,149	7,640
Total other assets (current)	34,872	37,541

11. INTANGIBLE ASSETS

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
CURRENT		
Net licence property (current)	278	370
NON-CURRENT		
Net licence property (non-current)	2,494	2,469
Other intangible assets (non-current)	156	252
Computer software:		
At cost	214,688	204,327
Accumulated amortisation and impairment	(154,335)	(142,417)
Net computer software (non-current)	60,353	61,910
Net intangible assets (non-current)	63,003	64,631
Total net intangible assets	63,281	65,001
Reconciliation of non-current computer software is as follows:		
Opening balance	61,910	65,607
Additions	19,167	16,606
Disposals	(921)	(732)
Amortisation	(19,814)	(19,721)
Net foreign currency differences arising from foreign operations	11	150
Net computer software (non-current)	60,353	61,910

SIGNIFICANT ACCOUNTING POLICIES

Intangible assets

Intangible assets, consisting of capitalised computer software assets, capitalised development expenditure and licence property are carried at cost less any accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight line basis over their estimated useful lives, but not greater than a period of eight and a half (8.5) years.

Intangible assets are tested for impairment where there are any indicators of impairment, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The amortisation expense on intangible assets with finite lives are recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset, and is recognised in the income statement when the intangible asset is derecognised.

	CONSOLIDATED	
	June 2020 $000	June 2019 $000

12. PROPERTY, PLANT AND EQUIPMENT

	June 2020 $000	June 2019 $000
Land at fair value	150,235	199,078
Buildings at fair value	252,681	242,135
Net land and buildings at fair value	402,916	441,213
Plant and equipment:		
At cost	837,764	828,962
Accumulated depreciation	(577,791)	(577,100)
Net plant and equipment	259,973	251,862
Lease make good asset:		
At cost	-	7,042
Accumulated depreciation	-	(3,910)
Net lease make good asset	-	3,132
Total plant and equipment	259,973	254,994
Total property, plant and equipment:		
Land and buildings at fair value	402,916	441,213
Plant and equipment at cost	837,764	836,004
Total property, plant and equipment	1,240,680	1,277,217
Accumulated depreciation and amortisation	(577,791)	(581,010)
Total written down amount	662,889	696,207

Reconciliation of the carrying amounts of property, plant and equipment were as follows:

	June 2020 $000	June 2019 $000
Land at fair value (a):		
Opening balance	199,078	195,490
Additions	3,372	-
Disposals	(1,809)	-
Increase resulting from revaluation	8,925	2,962
Depreciation of leasehold land (b)	-	(1,128)
Reclassification to assets held for sale	-	(7,162)
Reclassification to leasehold properties: right-of-use assets	(57,641)	-
Net foreign currency differences arising from foreign operations	(1,690)	8,916
Closing balance	150,235	199,078
Buildings at fair value (a):		
Opening balance	242,135	236,971
Additions	16,471	7,204
Disposals	(1,542)	(341)
Increase resulting from revaluation	20,477	9,272
Depreciation for the year	(10,897)	(10,647)
Reclassification to assets held for sale	-	(9,505)
Reclassification to leasehold properties: right-of-use assets	(10,930)	-
Net foreign currency differences arising from foreign operations	(3,033)	9,181
Closing balance	252,681	242,135
Net land and buildings at fair value	402,916	441,213

(a) The net book value of land and buildings (other than land and buildings classified as freehold investment properties) would have been $199.36 million (2019: $225.49 million) if it was measured on a historical cost basis.

(b) The depreciation charge related to leasehold land located in Singapore. Upon the first time application of AASB 16 *Leases*, the leasehold property in Singapore was reclassified as a leasehold property: right-of-use asset.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliation of the carrying amounts of property, plant and equipment (continued):

	CONSOLIDATED June 2020 $000	June 2019 $000
Plant and equipment at cost:		
Opening balance	822,143	795,632
Additions	71,773	76,863
Disposals	(53,758)	(66,005)
Acquisition of a subsidiary	-	5,656
Net foreign currency differences arising from foreign operations	(2,394)	9,997
Closing balance	837,764	822,143
Plant and equipment accumulated depreciation:		
Opening balance	573,729	574,843
Depreciation for the year	55,033	50,548
Disposals	(48,705)	(59,945)
Acquisition of a subsidiary	-	1,582
Net foreign currency differences arising from foreign operations	(2,266)	6,701
Closing balance	577,791	573,729
Net book value plant and equipment	259,973	248,414
Leased plant and equipment at cost:		
Opening balance	6,819	6,475
Additions	-	443
Acquisition of a subsidiary	-	69
Disposals	-	(168)
Reclassification to leasehold properties: right-of-use assets	(6,819)	-
Closing balance	-	6,819
Leased plant and equipment accumulated depreciation:		
Opening balance	3,371	2,120
Depreciation for the year	-	1,364
Acquisition of a subsidiary	-	14
Disposals	-	(127)
Reclassification to leasehold properties: right-of-use assets	(3,371)	-
Closing balance	-	3,371
Net book value leased plant and equipment	-	3,448
Lease make good asset at cost:		
Opening balance	7,042	6,257
Additions	-	908
Disposals	(17)	(429)
Net foreign currency differences arising from foreign operations	18	306
Reclassification to leasehold properties: right-of-use assets	(7,043)	-
Closing balance	-	7,042
Lease make good asset accumulated depreciation:		
Opening balance	3,910	3,525
Depreciation for the year	-	594
Disposals	(17)	(377)
Net foreign currency differences arising from foreign operations	11	168
Reclassification to leasehold properties: right-of-use assets	(3,904)	-
Closing balance	-	3,910
Net book value lease make good asset	-	3,132
Total property, plant and equipment	662,889	696,207

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES

Freehold owner-occupied properties

Following initial recognition at cost, owner-occupied land and buildings are carried at fair value less any subsequent accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Land – not depreciated
- Buildings – 20 to 40 years

Any revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, the increase is recognised in the income statement. Any revaluation deficit is recognised in the income statement, except to the extent that it offsets a previous surplus of the same asset in the asset revaluation reserve.

Any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the fair value of the asset.

Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value of the asset at the balance date.

Plant and equipment assets

Plant and equipment assets are recognised at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the plant and equipment assets (3 to 20 years). The residual values, useful lives and amortisation methods of plant and equipment assets are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement when the asset is derecognised.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Valuation of freehold owner-occupied properties

The consolidated entity values land and buildings at fair value. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction as at the valuation date.

The Board of Directors make an assessment of the fair value of each freehold owner-occupied property as at balance date. This assessment is informed by:

- the information and advice contained in the last independent external valuation report for that property prepared by an external professionally qualified valuer who holds a recognised relevant professional qualification and has specialised expertise in the property being valued (**Independent Valuer**);
- the information and advice in the last internal valuation report for that property;
- the last management review for that property; and
- other information and professional or expert advice given or prepared by reliable and competent persons in relation to that property.

Independent External Valuations

Until 31 December 2019, the entire freehold owner-occupied property portfolio was independently valued at least once every three (3) years. It was determined that for the second half of the 2020 financial year and thereafter, the entire freehold owner-occupied property portfolio will be independently valued by an Independent Valuer at least once every two (2) years.

Internal Valuation and Reviews

Freehold owner-occupied properties not independently externally valued as at balance date are subject to an internal valuation or a management review, performed by persons qualified by relevant education, training or experience.

The key assumptions used to determine the fair value of freehold owner-occupied properties, and the relevant sensitivity analysis, are disclosed in 12(b) and 12(c).

Financial Reporting Impacts of COVID-19:

Land of $150.24 million and buildings of $252.68 million are measured at fair value at 30 June 2020. Land and buildings measured at fair value are also subject to similar valuation uncertainties as described in Note 14. Investment Properties: Freehold. The COVID-19 pandemic has created a higher degree of uncertainty regarding the assessment of fair value, particularly around the critical assumptions regarding market rents, capitalisation rates, terminal yields and discount rates. As a result, estimated fair values may change significantly and unexpectedly over a relatively short period of time.

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliation of owner occupied properties – land and buildings at fair value

	New Zealand		Slovenia		Singapore		Australia	Ireland	Total	
	Retail $000	Warehouse $000	Retail $000	Warehouse $000	Retail $000	Office $000	Retail $000	Retail $000	2020 $000	2019 $000
Opening balance	261,851	-	75,342	3,355	68,420	8,438	7,638	16,169	441,213	432,461
Additions	17,794	12	-	-	-	-	2,037	-	19,843	7,204
Disposals	(24)	-	-	(3,327)	-	-	-	-	(3,351)	(341)
Fair value adjustments	21,775	1,043	6,019	-	-	(249)	463	351	29,402	12,234
Depreciation for the year	(8,480)	(109)	(1,819)	(61)	-	(23)	(88)	(317)	(10,897)	(11,775)
Transfer to property: ROU assets	-	-	-	-	(68,571)	-	-	-	(68,571)	-
Transfer to assets held for sale	-	-	-	-	-	-	-	-	-	(16,667)
Change in class of property	(4,447)	4,447	-	-	-	-	-	-	-	-
Net foreign currency differences	(5,672)	(95)	772	33	151	(73)	-	161	(4,723)	18,097
Closing balance	282,797	5,298	80,314	-	-	8,093	10,050	16,364	402,916	441,213

(b) Fair value measurement, valuation techniques and inputs

Class of property	Fair value hierarchy *	Fair value 30 June 2020 $000	Valuation technique	Key unobservable inputs	Range of unobservable inputs
Retail	Level 3	389,525	Discounted cash flow	Terminal yield	4.38% - 8.50%
				Discount rate	5.50% - 8.90%
			Income capitalisation	Net market rent per sqm p.a.	$128 - $362
				Capitalisation rate	4.75% - 8.63%
			Direct sale comparison	Price per sqm of lettable area	$7,621
Warehouse	Level 3	5,298	Income capitalisation	Net market rent per sqm p.a.	$100
				Capitalisation rate	5.60%
Office	Level 3	8,093	Discounted cash flow	Terminal yield	3.50%
				Discount rate	4.00%
			Income capitalisation	Net market rent per sqm p.a.	$215 - $250
				Capitalisation rate	3.30%
			Direct sale comparison	Price per sqm of lettable area	$7,671 - $9,529
Total		402,916			

* Refer to Note 35 (e) on page 143 for the definition of level 3 fair value hierarchy

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(b) Fair value measurement, valuation techniques and inputs (continued)

The income capitalisation method of valuation was used for the valuation of retail and warehouse properties in New Zealand. A discounted cash flow method was undertaken in respect of the same properties as a secondary method. There were no material differences between the income capitalisation method result and the discounted cash flow method result.

The income capitalisation method of valuation was used for the valuation of one (1) retail owner-occupied property in Australia. A direct sale comparison method was used for the same property as a secondary method. There were no material differences between the income capitalisation method result and the direct sale comparison method result.

The income capitalisation method of valuation was used for the valuation of retail properties in Slovenia. The income capitalisation method of valuation was used for the valuation of one (1) retail property in Ireland. The income capitalisation method, the direct sale comparison method and the discounted cash flow method were used for the valuation of office properties in Singapore.

The table on the previous page includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs used in determining the fair value:

Income capitalisation method

Under the income capitalisation method, a property's fair value is estimated using the current market rental value generated by the property, which is divided by the appropriate market capitalisation rate.

Discounted cash flow ("DCF") method

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life, including terminal value. This involves the projection of a series of cash flows and the application of an appropriate market-derived discount rate to establish the present value of the income stream.

Direct sale comparison method

Under the direct sale comparison method, a property's fair value is estimated based on comparable transactions. The unit of comparison applied by the consolidated entity is the price per square metre.

Net market rent

Net market rent is the estimated amount for which a property or space within a property could lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In addition, an allowance for recoveries of lease outgoings from tenants is made on a pro-rata basis (where applicable).

Capitalisation rate

The rate at which net market income is capitalised to determine the value of a property. The rate is determined by reference to market evidence and independent external valuations received.

Terminal yield

The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of a given period when carrying out a discounted cash flow calculation. The rate is determined by reference to market evidence and independent external valuations received.

Discount rate

Rate used to discount the net cash flows generated from rental activities during the period of analysis. The rate is determined by reference to market evidence and independent external valuations received.

Price per square metre

Price per square metre is obtained based on recent transactions of similar properties around the vicinity. Appropriate adjustments are made between the comparables and the property to reflect the differences in size, tenure, location, condition and prevailing market conditions and all other relevant factors affecting its value.

(c) Sensitivity Information

Key unobservable inputs	Impact on fair value for significant increase in input	Impact on fair value for significant decrease in input
Net market rent	Increase	Decrease
Capitalisation rate	Decrease	Increase
Terminal yield	Decrease	Increase
Discount rate	Decrease	Increase
Price per square metre	Increase	Decrease

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Sensitivity Information (continued)

The net market rent of a property and the capitalisation rate are key inputs of the income capitalisation valuation method. The income capitalisation valuation method incorporates a direct interrelationship between the net market rent of a property and its capitalisation rate. This methodology involves assessing the total net market income generated by the property and capitalising this in perpetuity to derive a capital value. Significant increases (or decreases) in rental returns and rent growth per annum in isolation would result in a significantly higher (or lower) fair value of the properties. There is an inverse relationship between the capitalisation rate and the fair value of properties. Significant increases (or decreases) in the capitalisation rate in isolation would result in a significantly lower (or higher) fair value of the properties.

The discount rate and terminal yield are key inputs of the discounted cash flow method. The discounted cash flow method incorporates a direct interrelationship between the discount rate and the terminal yield as the discount rate applied will determine the rate in which the terminal value is discounted to present value. Significant increases (or decreases) in the discount rate in isolation would result in a significantly lower (or higher) fair value. Similarly, significant increases (or decreases) in the terminal yield in isolation would result in a significantly lower (or higher) fair value. In general, an increase in the discount rate and a decrease in the terminal yield could potentially offset the impact on the fair value of the properties.

(d) Highest and best use

For all freehold owner-occupied properties that are measured at fair value, the current use of the property is considered its highest and best use.

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

	RIGHT-OF-USE ASSETS		
	Leasehold properties $000 (a)	Plant and equipment $000	Total $000
AASB 16 transition adjustments	447,575	2,144	449,719
Reclassification of pre-existing balances (b)	71,330	3,448	74,778
As at 1 July 2019, post transition	518,905	5,592	524,497
Additions	53,588	1,102	54,690
Modifications and re-measurements	(55)	-	(55)
Disposals and lease surrenders	(533)	-	(533)
Depreciation for the year	(59,619)	(2,150)	(61,769)
Foreign currency	(3,066)	18	(3,048)
As at 30 June 2020	509,220	4,562	513,782

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

The geographical split of Property, Plant and Equipment: Right-of-Use Assets is as follows:	30 June 2020 $000
Leases of owner-occupied properties and plant and equipment assets:	
Australia	35,144
New Zealand	109,244
Singapore & Malaysia	245,443
Slovenia & Croatia	11,301
Ireland & Northern Ireland	112,650
Total leases of owner-occupied properties and plant and equipment assets	513,782

SIGNIFICANT ACCOUNTING POLICIES

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

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

	CONSOLIDATED June 2020 $000	June 2019 $000

14. INVESTMENT PROPERTIES: FREEHOLD

	June 2020 $000	June 2019 $000
Opening balance at beginning of the year, at fair value	**2,508,951**	2,429,397
Net additions, disposals and transfers	**50,111**	9,253
Net increase from fair value adjustments	**34,268**	70,301
Closing balance at end of the year, at fair value	**2,593,330**	2,508,951

Below is a list of the top 20 freehold investment properties ranked in order of fair value as at 30 June 2020:

Property	Last Independent Valuation Date	Independent Valuation at last valuation date ($000)	Fair Value 30 June 2020 ($000)	Cap Rate 30 June 2020 (%)
Penrith Homemaker Centre – Harvey Norman® / Domayne®	30 Jun 2019	158,000	169,243	6.75
Springvale Homemaker Centre – Harvey Norman® / Domayne®	30 Jun 2020	142,000	142,000	6.75
Maroochydore Homemaker Centre – Harvey Norman® / DM® / JM®	31 Dec 2018	81,000	81,979	7.25
Alexandria Complex – Domayne®	30 Jun 2020	63,000	63,000	6.25
Silverwater Warehouse Complex	31 Dec 2018	60,700	62,600	6.75
Toowoomba Centre Complex – Harvey Norman®	31 Dec 2019	61,800	62,312	7.50
The Cambridge Park Centre – Harvey Norman®	30 Jun 2018	56,700	58,012	8.00
Perth City West Complex – Harvey Norman® / Domayne® (a)	30 Jun 2020	57,500	57,500	7.00
Auburn Complex – Domayne® (b)	30 Jun 2020	55,000	55,000	n/a
Albury Homemaker Centre – Harvey Norman®	30 Jun 2019	52,000	52,210	7.75
Maribyrnong Complex – Harvey Norman®	31 Dec 2019	51,500	50,000	6.50
Auburn Flagship Store Complex – Harvey Norman®	31 Dec 2018	48,500	49,383	6.75
Rutherford (Maitland) Complex – Harvey Norman®	31 Dec 2017	42,000	43,502	7.75
Browns Plains Homemaker Centre – Harvey Norman®	30 Jun 2019	41,800	42,754	8.00
Gepps Cross Home HQ – Harvey Norman® (a)	30 Jun 2019	40,900	41,137	7.50
Munno Para Shopping City – Harvey Norman®	30 Jun 2018	40,000	41,094	7.25
Bendigo Homemaker Centre	30 Jun 2018	37,000	38,440	7.25
Harvey Norman® (NSW) Commercial Showroom & Warehouse	30 Jun 2020	36,000	36,000	5.75
Devonport Homemaker Centre – Harvey Norman®	31 Dec 2018	34,000	35,056	7.50
Balgowlah Complex – Harvey Norman®	31 Dec 2019	34,500	34,602	6.50
TOTAL TOP 20 INVESTMENT PROPERTIES			1,215,824*	

The fair value of the top 20 freehold investment properties amounted to $1.22 billion as at 30 June 2020, representing 46.9% of the total fair value of freehold investment properties of $2.59 billion. The fair value of the remaining 117 freehold investment properties as at 30 June 2020 totalled $1.37 billion, representing 53.1% of the portfolio as at balance date.

(a) Balances represent the consolidated entity's 50% ownership interest in the investment property.
(b) The direct sale comparison method was adopted in the last independent valuation.

* The difference between the fair value of the freehold investment property as at 30 June 2020 and the independent valuation as at the last valuation date mainly relates to capital additions in respect of the freehold investment property between the periods.

SIGNIFICANT ACCOUNTING POLICIES

Valuation of Freehold Investment Properties

Each freehold investment property, which is property held to earn rentals and/or for capital appreciation is initially measured at cost, including transaction costs, and subsequently valued at fair value. 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. Gains and losses arising from changes in fair value of freehold investment properties are recognised in the income statement in the period in which they arise. Investment property is derecognised when the property has been disposed of. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Each freehold investment property is the subject of a lease or licence in favour of independent third parties, including Harvey Norman®, Domayne® and Joyce Mayne® franchisees.

14. INVESTMENT PROPERTIES: FREEHOLD (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Valuation Approach:

The board of directors make an assessment of the fair value of each freehold investment property as at balance date. This assessment is informed by:

- the information and advice contained in the last independent external valuation report for that property prepared by an external, professionally qualified valuer who holds a recognised relevant professional qualification and has specialised expertise in the property being valued (**Independent Valuer**);
- the information and advice contained in the last internal valuation report for that property (which was informed by the immediately preceding independent external valuation report for that property);
- the last management review for that property; and
- other information and professional or expert advice given or prepared by reliable and competent persons in relation to that property.

Independent External Valuations

Until 31 December 2019, the entire freehold investment property portfolio in Australia was independently valued at least once every three (3) years, on a rotational basis by an Independent Valuer. Under this approach, approximately one-sixth of the portfolio was independently externally valued at least once every six (6) months.

It was determined that for the second half of the 2020 financial year and thereafter, the entire freehold investment property portfolio in Australia will be independently valued by an Independent Valuer at least once every two (2) years on a rotational basis.

For the 2020 financial year, sixty-one (61) valuations of freehold investment properties were performed by Independent Valuers: twenty-five (25) at 31 December 2019 and thirty-six (36) at 30 June 2020. A total of 44.53% of the number of freehold investment properties were independently externally valued this year. A total of 44.72% of the aggregate fair value of the freehold investment property portfolio in Australia was independently externally valued this year.

Internal Valuations and Reviews

Freehold investment properties not independently externally valued as at balance date are subject to an internal valuation or a management review, performed by persons qualified by relevant education, training or experience. Each internal valuation and management review is informed by the last independent external valuation and reliable market evidence. For the 2020 financial year, 17 freehold investment properties had been affected by the same factors as the properties which had been independently externally valued. As a consequence, internal valuations for these 17 properties were undertaken to determine the effect of these factors.

Valuation Methodologies:

The fair value in respect of each freehold investment property has been calculated primarily using the income capitalisation method of valuation, using the current market rental value, and having regard to, in respect of each property:

- the highest and best use of the property
- the quality of construction
- the age and condition of improvements
- recent market sales data in respect of comparable properties
- current market rental value, being the amount that could be exchanged between knowledgeable, willing parties in an arm's length transaction
- the tenure of franchisees and external tenants
- adaptive reuse of buildings
- non-reliance on turnover rent
- other specific circumstances of the property

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

The fair value of a freehold investment property under construction is determined under the income capitalisation method by estimating the fair value of the property as at the relevant completion date less the remaining costs to complete and allowances for associated risk. As a secondary method, a discounted cash flow valuation is undertaken. An internal valuation or management review is performed for any property less than 75% complete where there is an indication of a substantial change in the risks or benefits to warrant an earlier assessment. Normally, the direct sale comparison method of valuation is used for properties for future development.

Financial Reporting Impacts of COVID-19:

The COVID-19 pandemic has created a higher degree of uncertainty regarding the assessment of fair value of freehold investment properties, particularly around the critical assumptions regarding market rents, capitalisation rates, terminal yields and discount rates.

For the 36 sites that were independently externally valued as at 30 June 2020, each of the five (5) independent, qualified valuers engaged in the valuation process were faced with an unprecedented set of circumstances in a COVID-19 affected market on which to base a judgement. As a result, the independent external valuations at 30 June 2020 incorporated a clause regarding 'significant valuation uncertainty'. This clause implies that valuations are current at the valuation date only, and less certainty and a higher degree of caution should be attached to the valuation. Estimated fair values may change significantly and unexpectedly over a relatively short period of time. However, for the avoidance of doubt, the inclusion of the 'significant valuation uncertainty' clause does not mean that the valuation cannot be relied upon. Rather, the clause brings attention to the current extraordinary circumstances arising from COVID-19, and therefore there is less certainty regarding some of the critical assumptions in the valuation process than would otherwise be the case.

14. INVESTMENT PROPERTIES: FREEHOLD (CONTINUED)

Financial Reporting Impacts of COVID-19 (continued):
To reflect the potential impact of COVID-19, independent valuers may consider and adjust, one or a number of valuation inputs and estimates, where appropriate, including lower probabilities of tenant recoveries, lower market rent growth rates, longer lease up periods, increased leasing allowances and adjustments to capitalisation and discount rates to reflect the uncertainty in the amount and timing of cash flows.

Valuations may also include deductions for the cost of estimated rental relief to be provided to tenants, where relevant. Where appropriate, directors have adopted a similar approach in the internal valuation and review process as used for independent external valuations.

As at balance date, the fair value of the freehold investment property portfolio incorporates a best estimate of the impact of COVID-19, using the information available at the time of preparing the valuations. The duration and depth of the pandemic are unknown, and, in the event the impacts of the COVID-19 pandemic are more severe or prolonged than anticipated, this may have an adverse impact on the fair value of the freehold investment property portfolio.

The valuation uncertainties described above also applies to the land and buildings measured at fair value, of $150.24 million and $252.68 million respectively, as disclosed in Note 12. Property, Plant and Equipment.

(a) Reconciliation of investment properties: freehold

	New Zealand		Australia			TOTAL	
	Retail $000	Warehouse $000	Retail $000	Warehouse $000	Office $000	June 2020 $000	June 2019 $000
Opening balance	6,940	3,075	2,239,761	220,598	38,577	**2,508,951**	2,429,397
Additions	3	-	48,351	2,559	120	**51,033**	30,189
Transfer to assets held for sale	-	-	-	-	-	**-**	(18,627)
Fair value adjustments*	-	-	19,777	14,518	(27)	**34,268**	70,301
Disposals	-	-	(403)	(209)	-	**(612)**	(2,613)
Depreciation for the year	(75)	(11)	-	-	-	**(86)**	(82)
Net foreign currency differences	(155)	(69)	-	-	-	**(224)**	386
Closing balance	6,713	2,995	2,307,486	237,466	38,670	**2,593,330**	2,508,951

* Fair value adjustments totalling $34.27 million for the year ended 30 June 2020 are included in other income (2019: $70.30 million).

(b) Fair value measurement, valuation techniques and inputs

Class of property	Fair value hierarchy*	Fair value June 2020 $000	Valuation technique	Key unobservable inputs	Range of unobservable inputs
Retail	Level 3	Metropolitan: 1,369,959 Regional: 944,240 Total: 2,314,199	Income capitalisation	Net market rent/sqm p.a. Capitalisation rate: - Metropolitan - Regional	$78 - $260 6.0% - 8.5% 6.5% - 9.8%
			Discounted cash flow	Terminal yield Discount rate	6.3% - 10.0% 7.0% - 10.5%
			Direct sale comparison	Price per sqm of lettable area	$607 - $3,615
Warehouse	Level 3	240,461	Income capitalisation	Net market rent/sqm p.a. Capitalisation rate	$25 - $164 5.8% - 10.0%
			Discounted cash flow	Terminal yield Discount rate	6.0% - 9.3% 6.8% -10.3%
			Direct sale comparison	Price per sqm of lettable area	$722 - $2,488
Office	Level 3	38,670	Income capitalisation	Net market rent/sqm p.a. Capitalisation rate	$115 - $385 7.0% - 8.8%
			Discounted cash flow	Terminal yield Discount rate	7.3% 7.0%
			Direct sale comparison	Price per sqm of lettable area	$1,442 - $4,793
Total		2,593,330			

* Refer to Note 35 (e) on page 143 for the definition of level 3 fair value hierarchy.

14. INVESTMENT PROPERTIES: FREEHOLD (CONTINUED)

(b) Fair value measurement, valuation techniques and inputs (continued)

The income capitalisation method of valuation was primarily used for the valuation of all Retail, Warehouse and Office investment properties in Australia and the Retail and Warehouse investment properties in New Zealand. A discounted cash flow valuation or a direct sale comparison valuation was undertaken, excluding property for development in Australia, as a secondary method. There were no material differences between the income capitalisation method result, the discounted cash flow method result and the direct sale comparison method result. The direct sale comparison method was used for all properties classified as property for development. The descriptions and definitions relating to valuation techniques and key unobservable inputs used in determining the fair value of investment properties are the same as those for freehold owner-occupied properties detailed in Note 12(b).

(c) Sensitivity information

The sensitivity information for investment properties is the same as those for freehold owner-occupied properties detailed in Note 12(c).

(d) Rent and outgoings received and operating expenses of investment properties

Included in rent and outgoings received from franchisees and rent and outgoings received from other tenants other than franchisees as disclosed in Note 3. Revenues is rent and outgoings received from investment properties of $220.04 million for the year ended 30 June 2020 (2019: $217.09 million). Operating expenses, including rates and taxes and repairs and maintenance, recognised in the income statement in relation to investment properties amounted to $54.13 million for the year ended 30 June 2020 (2019: $50.74 million).

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

	Leasehold Properties 30 June 2020 $000
Opening balance at beginning of the year, at fair value	608,465
Additions	29,448
Modifications and re-measurements	73,425
Disposals and lease surrenders	(15,229)
Net decrease from fair value re-measurements	(74,206)
Closing balance at end of the year, at fair value	**621,903**

(a) Fair value measurement, valuation techniques and inputs

Class of property	Fair value hierarchy*	Fair value June 2020 $000	Valuation technique	Key unobservable inputs	Range of unobservable inputs
Retail	Level 3	481,561	Discounted cash flow	Discount Rate	2.921% to 5.191%
				Market rent ranges/sqm.pa	
				- Gross	$65 to $500
				- Net	$35 to $775
Warehouse	Level 3	140,342	Discounted cash flow	Discount Rate	2.921% to 5.191%
				Market rent ranges/sqm.pa	
				- Gross	$25 to $290
				- Net	$35 to $210
Total		**621,903**			

* Refer to Note 35(e) on page 143 for the definition of level 3 fair value hierarchy.

(b) Sensitivity Information

Key unobservable inputs	Impact on fair value for significant increase in input	Impact on fair value for significant decrease in input
Discount rate	Decrease	Increase
Market rent ranges	Increase	Decrease

(c) Rent and outgoings received and operating expenses of leasehold investment properties

Included in rent and outgoings received from franchisees as disclosed in Note 3. Revenues is rent and outgoings received from leasehold investment properties of $116.75 million for the year ended 30 June 2020. Operating expenses, excluding interest on lease liabilities and fair value re-measurements on leasehold investment properties: ROU Assets, recognised in the income statement in relation to leasehold investment properties amounted to $24.96 million for the year ended 30 June 2020.

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

SIGNIFICANT ACCOUNTING POLICIES

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

Subsidiaries of Harvey Norman Holdings Limited (**HNHL**) enter into leases of properties in Australia (each a **Leasehold Investment Property**) with third party landlords. After entry into a lease with an external landlord, the relevant subsidiary of HNHL grants a sub-lease or licence to a Harvey Norman®, Domayne® and Joyce Mayne® franchisee, to occupy an area of that Leasehold Investment Property.

The adoption of AASB 16 *Leases* resulted in the recognition of a right-of-use asset by the consolidated entity in respect of each subsidiary's right to use each Leasehold Investment Property for the respective lease term (each an **IP Leasehold ROU Asset**). As each IP Leasehold ROU Asset meets the definition of investment property under AASB 140 *Investment Property*, the consolidated entity is required to measure each IP Leasehold ROU Asset at fair value. The consolidated entity has adopted the fair value model in AASB 140 and each IP Leasehold ROU Asset is measured at fair value.

In respect of each lease of a Leasehold Investment Property, the present value of the lease payments is determined and carried as a lease liability and the fair value of the lessee's right to use the Leasehold Investment Property over the lease term is recorded as an IP Leasehold ROU Asset. Gains or losses arising from re-measurement of the fair value of an IP Leasehold ROU Asset are included in the Income Statement of the consolidated entity as a fair value increment or decrement in the period in which they arise.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Each IP Leasehold ROU Asset is subject to a semi-annual review to fair value at each reporting period. This review is undertaken by persons qualified by relevant education, training or experience, with the assistance of qualified management. As part of the review, an independent, professionally qualified valuer who holds a recognised relevant professional qualification and has relevant specialised expertise (**Independent Valuer**) is engaged to provide independent verification of key observable inputs.

The re-measurement of an IP Leasehold ROU Asset to fair value comprises the following:

1) A reduction in the IP Leasehold ROU Asset to reflect the decrease in its future value due to the usage of the asset during the period, reflecting the passage of time and a reduction in remaining lease tenure. This is recognised as a fair value decrement in the Income Statement.
2) Re-measurement of the IP Leasehold ROU Asset at the prevailing discount rate as at the reporting date. If the discount rate at the end of the period is higher than the discount rate at the beginning of the period, there will be a decrease in the value of the IP Leasehold ROU Asset and a corresponding fair value decrement is recognised in the Income Statement. If the discount rate at the end of the period is lower than the discount rate at the beginning of the period, there will be an increase in the value of the IP Leasehold ROU Asset and a corresponding fair value increment is recognised in the Income Statement. The discount rate used is determined using market data, information on margins available to the consolidated entity, and other adjustments appropriate as at the reporting date.
3) The Independent Valuer provides independent verification of key observable inputs including the current market rent ranges, being the amount that could be exchanged between knowledgeable, willing parties in an arm's length transaction, at each reporting date. If the current market range increases, there may be an increase in the value of the IP Leasehold ROU Asset and a corresponding fair value increment may be recognised in the Income Statement. If the current market range decreases, there may be a decrease in the value of the IP Leasehold ROU Asset and a corresponding fair value decrement may be recognised in the Income Statement.

The results and recommendations of the review and the information or professional advice provided by the Independent Valuer are used to inform each director of the assessment of the fair value of each IP Leasehold ROU Asset at balance date.

Discount rate

Investment properties (leasehold): right-of-use assets are re-measured to fair value by using the prevailing discount rate as at the reporting date which is determined by taking into accounting the following:

- External market based rates for a range of maturities as at the reporting date;
- The lending margins available to the consolidated entity; and
- Other adjustments that may be made by market participants over the lease term.

As at 30 June 2020, the discount rates used in re-measuring investment properties (leasehold): right-of-use assets range from 2.92% to 5.19%.

Market rent ranges

As at each balance date, the Independent Valuer provides market rent ranges for each leasehold investment property, being the amount that could be exchanged between knowledgeable, willing parties in an arm's length transaction at each reporting date. The market rent ranges are used to assess whether future lease payments are representative of what market participants would pay for a particular asset over a similar term.

Financial Reporting Impacts of COVID-19:

The COVID-19 pandemic has created a higher degree of uncertainty regarding the assessment of fair value of leasehold investment properties, particularly around the critical assumptions regarding market rents and discount rates.

Estimated fair values may change significantly and unexpectedly over a relatively short period of time. To reflect the potential impact of COVID-19, adjustments may be made, where appropriate, to one or a number of valuation inputs and estimates, including lower market rent growth rates and adjustments to discount rates, to reflect the uncertainty in the amount and timing of cash flows.

As at balance date, the fair value of the leasehold investment property portfolio incorporates a best estimate of the impact of COVID-19. The duration and depth of the pandemic are unknown, and, in the event the impacts of the COVID-19 pandemic are more severe or prolonged than anticipated, this may have an adverse impact on the fair value of the leasehold investment property portfolio.

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000

16. TRADE AND OTHER PAYABLES (CURRENT)

	June 2020 $000	June 2019 $000
Trade and other creditors	283,838	221,323
Accruals	67,934	62,359
Total trade and other payables (current)	351,772	283,682

17. INTEREST-BEARING LOANS AND BORROWINGS

	June 2020 $000	June 2019 $000
CURRENT - Secured:		
Bank overdraft (a)	18,749	29,232
Commercial bills payable (b)	9,750	9,750
Syndicated Facility Agreement (c)	-	370,000
Other short-term borrowings (d)	69,638	79,417
Finance lease liabilities (refer to Note 19)	-	1,622
CURRENT - Unsecured:		
Derivatives payable	187	49
Non-trade amounts owing to:		
- Related parties	4,237	4,245
- Unrelated parties	280	264
Total interest-bearing loans and borrowings (current)	102,841	494,579
NON-CURRENT - Secured:		
Syndicated Facility Agreement (a)	195,000	345,000
Finance lease liabilities (refer to Note 19)	-	1,942
Total interest-bearing loans and borrowings (non-current)	195,000	346,942
Total interest-bearing loans and borrowings	297,841	841,521

(a) Bank Overdraft

Of the total bank overdraft of $18.75 million as at 30 June 2020:

- a total of $18.42 million relates to a bank overdraft due by Harvey Norman Trading (Ireland) Limited to Bank of Ireland ("BOI") (the "BOI Overdraft Facility"). Australia and New Zealand Banking Group Limited ("ANZ") has provided an indemnity/Guarantee/ Stand-by Letter of Credit Facility in favour of BOI in support of the BOI Overdraft Facility, at the request of the Company ("ANZ-BOI Facility"). The ANZ-BOI Facility is further secured by the Syndicated Facility Agreement described in Note 17(c).
- a total of $0.33 million relates to a bank overdraft facility with AmBank (M) Berhad in Malaysia which is subject to periodic review. The Company has granted a guarantee to AmBank (M) Berhad in Malaysia in respect of the obligations of Space Furniture Collection Sdn Bhd.

(b) Commercial Bills Payable

The commercial bills payable form part of facilities granted by ANZ. The payment of each commercial bill is secured by the securities given pursuant to the Syndicated Facility Agreement (as defined in Note 17(c)), and subject to annual review by ANZ. Each commercial bill has a tenure not exceeding 180 days but is repayable on demand by ANZ, upon the occurrence of any event of default or Relevant Event (as defined in Note 17(c)) under the Syndicated Facility Agreement, or after any annual review date.

(c) Syndicated Facility Agreement

On 2 December 2009, the Company, a subsidiary of the Company ("Borrower") and certain other subsidiaries of the Company ("Guarantors") entered into a Syndicated Facility Agreement with certain banks ("Financiers" and each a "Financier"). On 29 November 2019, the Amending Deed (No. 7) to the Syndicated Facility Agreement was executed with the effect of extending the repayment date of Tranche A1 of the Facility totalling $170 million to 4 December 2021 and Tranche A2 of the Facility totalling $200 million to 4 December 2022.

The aggregate available facility of the Syndicated Facility Agreement remained at $810 million. The utilised amount of the Syndicated Facility Agreement as at 30 June 2020 was $195 million, repayable as set out below, all of which was classified as non-current interest-bearing loans and borrowings. This Facility is secured by:

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

17. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

(c) Syndicated Facility Agreement (continued)

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

- in respect of Tranche A1 totalling $170 million, on 4 December 2021 ($170 million utilised at 30 June 2020);
- in respect of Tranche A2 totalling $200 million, on 4 December 2022 ($25 million utilised at 30 June 2020);
- in respect of Tranche A3 totalling $200 million, on 4 December 2020 (nil utilised at 30 June 2020);
- in respect of Tranche B totalling $240 million, on 4 December 2021 (nil utilised at 30 June 2020); and
- otherwise on demand by or on behalf of the Financiers upon the occurrence of any one of a number of events (each a "Relevant Event"), including events which are not within the control of the Company, the Borrower or the Guarantors. Each of the following is a Relevant Event:
  - (i) an event occurs which has or is reasonably likely to have a material adverse effect on the business, operation, property, condition (financial or otherwise) or prospects of the Borrower or the Company and the subsidiaries of the Company;
  - (ii) if any change in law or other event makes it illegal or impractical for a Financier to perform its obligations under the Syndicated Facility Agreement or fund or maintain the amount committed by that Financier to the provision of the Increased Facility ("Commitment"), the Financier may by notice to the Borrower, require the Borrower to repay the secured moneys in respect of the Commitment of that Financier, in full on the date which is forty (40) business days after the date of that notice.

(d) Other Short-Term Borrowings

Of the total other short-term borrowings of $69.64 million:

- a total of $35.77 million is secured by the securities given pursuant to the Syndicated Facility Agreement. The facilities are utilised in Slovenia and Croatia and have a maturity date of 4 December 2020.
- a total of $24.65 million is secured by the securities given pursuant to the Syndicated Facility Agreement. The facility is utilised in Singapore and has a maturity date of 4 December 2020.
- a total of $4.70 million relates to a revolving credit facility with ANZ in Singapore. This facility is subject to periodic review and otherwise repayable on demand. The revolving credit facility is secured by the securities given pursuant to the Syndicated Facility Agreement.
- a total of $1.02 million relates to a revolving credit facility with AmBank (M) Berhad in Malaysia which is subject to periodic review and otherwise repayable on demand. The Company has granted a guarantee to AmBank (M) Berhad in Malaysia in respect of the obligations of Space Furniture Collection Sdn Bhd.
- a total of $3.50 million relates to a revolving credit facility with ANZ in Australia which is subject to periodic review and otherwise repayable on demand. The Company has granted a guarantee to ANZ in respect of the obligations of the Lighting Partners Australia partnership.

The Company has not received notice of the occurrence of any Relevant Event from any Financier. During the 2020 and 2019 financial years, there were no defaults or breaches on any of the interest-bearing loans and borrowings referred to in this note.

(e) Defaults and Breaches

The Company has not received notice of the occurrence of any Relevant Event from any Financier. During the 2020 and 2019 financial years, there were no defaults or breaches on any of the interest-bearing loans and borrowings referred to in this note.

SIGNIFICANT ACCOUNTING POLICIES

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The consolidated entity's financial liabilities include trade and other payables, derivative payable and loans and borrowings including bank overdrafts, commercial bills payable, Syndicated Facility Agreement, short-term borrowings, non-trade amounts owing to directors, related parties and unrelated parties.

After initial recognition, loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in the income statement when the liabilities are derecognised.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

18. FINANCING FACILITIES AVAILABLE

At balance date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Total facilities:		
Bank overdraft	51,512	50,260
Other borrowings	107,018	110,896
Commercial bank bills	9,750	9,750
Syndicated Facility	810,000	810,000
Total Available Facilities	978,280	980,906
Facilities used at reporting date:		
Bank overdraft	18,749	29,232
Other borrowings (current)	69,638	79,417
Commercial bank bills (current)	9,750	9,750
Syndicated Facility (current)	-	370,000
Syndicated Facility (non-current)	195,000	345,000
Total Used Facilities	293,137	833,399
Facilities unused at reporting date:		
Bank overdraft	32,763	21,028
Other borrowings	37,380	31,479
Syndicated Facility	615,000	95,000
Total Unused Facilities	685,143	147,507

Refer to Note 17. Interest-Bearing Loans and Borrowings for details regarding the security provided by the consolidated entity over each of the financing facilities disclosed above.

19. LEASE LIABILITIES

(a) The following table sets out the carrying amounts of lease liabilities and movements during the year:

	30 June 2020 $000
AASB 16 transition adjustments	1,157,445
Reclassification of pre-existing balances (i)	3,564
Lease Liabilities as at 1 July 2019	1,161,009
New, modified and re-measured leases	140,044
Interest on lease liabilities (accretion)	40,538
Lease payments	(165,308)
Foreign currency	(3,196)
Lease liabilities as at 30 June 2020	1,173,087

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

Reconciled to:

Lease liabilities (current)	130,280
Lease liabilities (non-current)	1,042,807
Lease liabilities as at 30 June 2020	1,173,087

19. LEASE LIABILITIES (CONTINUED)

(b) The geographical split of lease liabilities as at 30 June 2020 is as follows:

	30 June 2020 $000
Leases of owner-occupied properties and plant and equipment assets:	
Australia	52,492
New Zealand	126,749
Singapore & Malaysia	184,544
Slovenia & Croatia	13,340
Ireland & Northern Ireland	152,282
Total lease liabilities of leases of owner-occupied properties and plant and equipment assets	529,407
Leases of properties sub-leased to external parties:	
Australia	643,680
Total lease liabilities of leases of sub-leased to external parties	643,680
Total lease liabilities	1,173,087

(c) The maturity profile of undiscounted lease liabilities as at 30 June 2020 is as follows:

	30 June 2020 $000
Less than 1 year	171,185
1 to 2 years	168,722
2 to 5 years	445,904
Over 5 years	656,160
Total undiscounted lease liabilities	1,441,971

(d) Commitments for leases not yet commenced

The consolidated entity had committed to leases which had not yet commenced as at 30 June 2020. These leases are not included in the calculation of the consolidated entity's lease liabilities. The estimated undiscounted lease liabilities for these leases is $13.70 million.

SIGNIFICANT ACCOUNTING POLICIES

Short-term leases and lease of low-value assets

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

Lease liabilities

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

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

19. LEASE LIABILITIES (CONTINUED)

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Incremental borrowing rate

The incremental borrowing rate is derived by reference to the rate at which a lessee would borrow to acquire the underlying asset, repaying over a similar term to the lease term. If the interest rate in the lease is not readily determinable, the consolidated entity determines the incremental borrowing rate for each lease by taking into account the following:

- external market based rate for a similar term to the lease term at the lease commencement date;
- the lending margins available to the consolidated entity for the respective jurisdiction at the lease commencement date; and
- other adjustments that may be made by market participants over the lease term.

As at 30 June 2020, the incremental borrowing rates applied by the consolidated entity were as follows:

	Weighted Average Incremental Borrowing Rate (%)
Australia	3.59%
New Zealand	3.46%
Singapore & Malaysia	2.98%
Slovenia & Croatia	3.36%
Ireland & Northern Ireland	3.66%

Lease term

The lease term is determined at lease commencement or at the effective date of lease modification, and is reviewed if a significant change in circumstances occurs. In determining the lease term, the consolidated entity considers all facts and circumstances that create an economic incentive to exercise a renewal option, or not to exercise a termination option. Renewal options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

As at 30 June 2020, the lease terms adopted by the consolidated entity were as follows:

	Weighted average lease term (years)
Australia	10.70
New Zealand	13.62
Singapore & Malaysia	6.65
Slovenia & Croatia	9.46
Ireland & Northern Ireland	9.17

As at 30 June 2020, the consolidated entity have assessed that a number of options do not meet the criteria of 'reasonably certain' and therefore the lease payments relating to these options have not been included in the lease liability. The undiscounted lease payments for these excluded options would amount to $85.31 million.

20. OTHER LIABILITIES

	CONSOLIDATED	
	June 2020 $000	June 2019 $000
CURRENT		
Lease incentives (a)	-	4,101
Unearned revenue	96,141	71,718
Total other liabilities (current)	96,141	75,819
NON-CURRENT		
Lease incentives (a)	-	11,223
Unearned revenue	863	107
Total other liabilities (non-current)	863	11,330
Total other liabilities	97,004	87,149

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

	CONSOLIDATED June 2020 $000	June 2019 $000

21. PROVISIONS

CURRENT

	June 2020 $000	June 2019 $000
Employee entitlements	34,181	31,902
Lease make good	-	437
Deferred lease expenses (refer to Note 20(a))	-	689
Total provisions (current)	34,181	33,028

NON-CURRENT

	June 2020 $000	June 2019 $000
Employee entitlements	2,213	2,171
Lease make good	7,013	6,604
Deferred lease expenses (refer to Note 20(a))	-	4,250
Total provisions (non-current)	9,226	13,025
Total provisions	43,407	46,053

SIGNIFICANT ACCOUNTING POLICIES

Provisions are recognised when the consolidated entity 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.

Provision for employee entitlements
Provisions are made for benefits accruing to employees in respect of annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions that are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Provision for lease make good
Provisions are recognised for the anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with dismantling and removing the assets and restoring the leased premises according to contractual arrangements. These future cost estimates are discounted to their present value.

22. CONTRIBUTED EQUITY

	June 2020 $000	June 2019 $000
Ordinary Shares	717,925	552,250
Total contributed equity	717,925	552,250

	30 June 2020 Number of shares	30 June 2019 Number of shares
Number of ordinary shares issued and fully paid	1,246,006,654	1,179,736,590

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

Movements in ordinary shares on issue:	June 2020 No. of Shares	June 2020 $000
At 1 July 2019	1,179,736,590	552,250
Issue of shares under renounceable pro-rata Entitlement Offer	66,270,064	165,675
At 30 June 2020	1,246,006,654	717,925

22. CONTRIBUTED EQUITY (CONTINUED)

Ordinary Shares – Terms and Conditions

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in any surplus on winding up in proportion to the number of and amounts paid up on shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a meeting of the Company.

SIGNIFICANT ACCOUNTING POLICIES

Contributed equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a reduction, net of tax, from the proceeds.

	CONSOLIDATED	
	June 2020 $000	June 2019 $000

23. RETAINED PROFITS AND DIVIDENDS

Movements in retained profits were as follows:

	June 2020 $000	June 2019 $000
Balance at beginning of the year	2,397,436	2,337,241
Transition adjustments arising from adoption of AASB 16	(43,892)	-
Profit for the year	480,541	402,317
Dividends paid	(322,505)	(342,122)
Balance at end of the year	**2,511,580**	**2,397,436**

Dividends declared and paid:

Dividends on ordinary shares:

	June 2020 $000	June 2019 $000
Final fully-franked dividend for 2019: 21.0 cents (2018: 18.0 cents)	247,745	200,554
Interim fully-franked dividend for 2020: 12.0 cents (2019: 12.0 cents)	-	141,568
Special fully-franked dividend for 2020: 6.0 cents	74,760	-
Total dividends paid	**322,505**	**342,122**

On 1 November 2019, the final dividend in respect of the year ended 30 June 2019 was paid totalling $247.74 million.

On 2 April 2020, given the uncertainty regarding the duration of the COVID-19 pandemic and its potential impact on trading, and for the abundance of precaution, the directors announced the decision to revoke the decision to pay, and cancel, the FY20 interim dividend of 12.0 cents per share. The cancellation of the FY20 interim dividend resulted in $149.52 million of cash being retained in the business.

On 10 June 2020, the directors announced that the Company would pay a special dividend of 6.0 cents per share, fully-franked, to shareholders registered at the close of business on 23 June 2020. This special dividend was paid on 29 June 2020 totalling $74.76 million.

The final dividend of 18.0 cents per share totalling $224.28 million fully-franked, for the year ended 30 June 2020 will be paid on 2 November 2020. No provision has been made in the Statement of Financial Position for the payment of this final dividend.

Franking Account Balance:

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

	June 2020 $000	June 2019 $000
- franking account balance as at the end of the financial year at 30%	489,613	539,191
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	57,126	1,222
- franking credits that will be utilised in the payment of proposed final dividend	(96,121)	(106,176)
Amount of franking credits available for future reporting years	**450,618**	**434,237**

24. NON-CONTROLLING INTERESTS

Interest in:

	June 2020 $000	June 2019 $000
- Ordinary shares	2,691	2,691
- Reserves	14,621	15,027
- Retained earnings	13,671	12,665
Total non-controlling interests	**30,983**	**30,383**

25. RESERVES

CONSOLIDATED $000	Asset revaluation reserve	Foreign currency translation reserve	Available for sale reserve	FVOCI reserve	Cash flow hedge reserve	Employee equity benefits reserve	Acquisition reserve	Total
At 1 July 2018	144,526	40,659	11,902	-	(8)	10,356	(22,051)	185,384
Revaluation of land and buildings	12,234	-	-	-	-	-	-	12,234
Tax effect of revaluation of land and buildings	(3,910)	-	-	-	-	-	-	(3,910)
Transfer to financial assets at fair value through other comprehensive income (a)	-	-	(11,902)	11,902	-	-	-	-
Unrealised loss on financial assets at fair value through other comprehensive income	-	-	-	(953)	-	-	-	(953)
Reverse expired or realised cash flow hedge reserves	-	-	-	-	8	-	-	8
Net loss on forward foreign exchange contracts	-	-	-	-	(3)	-	-	(3)
Tax effect of net loss on forward foreign exchange contracts	-	-	-	-	1	-	-	1
Currency translation differences	-	25,194	-	-	-	-	-	25,194
Cost of share based payments	-	-	-	-	-	519	-	519
Utilisation of employee equity benefits reserve	-	-	-	-	-	(750)	-	(750)
At 30 June 2019	152,850	65,853	-	10,949	(2)	10,125	(22,051)	217,724
At 1 July 2019	152,850	65,853	-	10,949	(2)	10,125	(22,051)	217,724
Transition adjustments arising from adoption of AASB 16	(18,067)	-	-	-	-	-	-	(18,067)
At 1 July 2019, post transition	134,783	65,853	-	10,949	(2)	10,125	(22,051)	199,657
Revaluation of land and buildings	28,384	-	-	-	-	-	-	28,384
Tax effect of revaluation of land and buildings	(4,559)	-	-	-	-	-	-	(4,559)
Unrealised loss on financial assets at fair value through other comprehensive income	-	-	-	(1,030)	-	-	-	(1,030)
Reverse expired or realised cash flow hedge reserves	-	-	-	-	2	-	-	2
Net loss on forward foreign exchange contracts	-	-	-	-	(49)	-	-	(49)
Tax effect of net loss on forward foreign exchange contracts	-	-	-	-	14	-	-	14
Currency translation differences	-	(8,912)	-	-	-	-	-	(8,912)
Disposal of investment	-	-	-	-	-	-	3,450	3,450
Cost of share based payments	-	-	-	-	-	739	-	739
Utilisation of employee equity benefits reserve	-	-	-	-	-	(859)	-	(859)
At 30 June 2020	158,608	56,941	-	9,919	(35)	10,005	(18,601)	216,837

(a) The listed shares held as available for sale at fair value as at 30 June 2018 were classified as listed shares held at fair value through other comprehensive income (FVOCI) upon first-time application of the standard, AASB 9 *Financial Instruments* from 1 July 2018.

25. RESERVES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES

Asset revaluation reserve
Any revaluation increment arising from revaluation of freehold owner-occupied properties is recorded in other comprehensive income (OCI) and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation decrement of the same asset previously recognised in the income statement, the increase is recognised in the income statement. Any revaluation decrement is recognised in the income statement, except to the extent that it offsets a previous increment of the same asset in the asset revaluation reserve.

Foreign currency translation reserve
The functional currency of overseas subsidiaries is the currency commonly used in their respective countries. As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the consolidated entity at the rate of exchange prevailing at the balance date and the income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on retranslation for consolidation are recognised in OCI in the foreign currency translation reserve.

Fair Value through Other Comprehensive Income (FVOCI) Reserve
The consolidated entity elected to classify its non-current equity investments as equity instruments designated at fair value through other comprehensive income. The fair value changes on the non-current equity investments are recorded in OCI in the FVOCI reserve.

Cash Flow Hedge Reserve:
The consolidated entity uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised as other expense in the income statement. The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve.

Employee equity benefits reserve
The consolidated entity provides benefits to certain employees (including Executive Directors) of the consolidated entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense, together with a corresponding increase in other comprehensive income (employee equity benefits reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the consolidated entity's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. Further disclosure relating to equity-settled transactions is also provided in the Remuneration Report, Note 4. Expenses and Losses and Note 29. Employee Benefits.

Acquisition Reserve:
Changes in the consolidated entity's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised in OCI in the acquisition reserve.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Equity-settled transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date when they are granted by using an appropriate valuation model.

26. CASH AND CASH EQUIVALENTS

(a) RECONCILIATION TO CASH FLOW STATEMENT

Cash and cash equivalents comprise the following:

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Cash at bank and on hand	287,043	200,877
Short term money market deposits	26,152	14,171
	313,195	215,048
Bank overdraft (Note 17. Interest-Bearing Loans and Borrowings)	(18,749)	(29,232)
Cash and cash equivalents	294,446	185,816

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

	June 2020 $000	June 2019 $000
Profit after tax	486,023	409,002
Adjustments for non-cash items:		
Net foreign exchange losses	639	461
Allowance for expected credit loss	3,019	671
Share of net profit from joint venture entities	(7,628)	(9,787)
Depreciation of property, plant and equipment	66,016	64,363
Depreciation of right-of-use assets	61,769	-
Fair value re-measurement of investment properties (leasehold): right-of-use- assets	74,206	-
Amortisation	21,600	20,896
Impairment of non-trade debts receivable	-	8,394
Impairment of non-current assets	876	-
Impairment of other financial assets	300	-
Revaluation of Australian investment properties and investment properties of overseas controlled entity	(34,956)	(70,301)
Loss on restructure and consolidation of KEH Partnership	-	9,665
Deferred lease expenses	-	239
Executive remuneration expenses	3,449	3,175
Loss/(profit) on disposal and sale of property, plant and equipment, and the revaluation of listed securities	3,976	(14,125)
Movements in provisions	4,541	(1,158)
Changes in assets and liabilities:		
(Increase)/decrease in assets:		
Receivables	238,782	(75,548)
Inventory	791	(25,080)
Other current assets	1,093	7,531
Increase/(decrease) in liabilities:		
Payables and other current liabilities	76,908	48,056
Income tax payable	55,560	(3,609)
Net cash flows from operating activities	1,056,964	372,845

26. CASH AND CASH EQUIVALENTS (continued)

SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities in the statement of financial position.

27. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED	
	June 2020 $000	June 2019 $000
Total investments accounted for using the equity method	4,692	3,854

	Ownership Interest		Contribution to Profit / (Loss) Before Tax	
	June 2020 %	June 2019 %	June 2020 $000	June 2019 $000
Noarlunga Shopping Complex	50%	50%	1,437	1,447
Perth City West Complex	50%	50%	2,748	3,123
Warrawong King St. Shopping Complex (a)	62.5%	62.5%	1,075	1,087
Byron Bay (Residential / Convention Development) (c)	-	50%	(210)	(755)
Byron Bay – 2 (Resort Operations) (c)	-	50%	(243)	536
Dubbo Shopping Complex	50%	50%	632	699
Bundaberg (Land held for investment)	50%	50%	(352)	(202)
Gepps Cross Home HQ	50%	50%	2,773	3,117
QCV (Miners Residential Complex) (b)	50%	50%	12	11
Other	50%	50%	(244)	724
			7,628	9,787

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

(b) A number of wholly-owned subsidiaries of Harvey Norman Holdings Limited (**HNHL**) have entered into joint ventures with an unrelated party to provide mining camp accommodation. The respective joint ventures have been granted finance facilities as follows:
  (i) A finance facility from ANZ for the amount of $5.15 million plus interest and costs, with a maturity date of 31 July 2020. On 30 July 2020, the maturity date of this finance facility from ANZ was extended to 31 January 2021.
  (ii) Finance facilities from Network Consumer Finance Pty Limited ("NCF"), a wholly-owned subsidiary of HNHL, for the amount of $31.09 million plus interest and costs, subject to bi-annual review.

(c) On 9 August 2019, the consolidated entity announced that Harvey Norman Holdings Limited (the Company) and certain of its controlled entities, with certain entities controlled by Gerald Harvey, as owners of the property and business known as The Byron at Byron Bay Resort (**Resort**), have entered into agreements for sale of the Resort (**Sale Contract**) for the sale price of $41,764,000 (ex GST), subject to terms and conditions for completion. The purchasers under the Sale Contract are GAG Byron on Byron Property Co Pty Ltd ACN 635 158 351 and GAG Byron on Byron Business Company Pty Ltd ACN 635 172 333. The Sale Contract was settled during FY20 following the grant of the liquor licence approval by the relevant authority.

27. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

SIGNIFICANT ACCOUNTING POLICIES

Investment in associates and joint ventures
An associate is an entity over which the consolidated entity has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not control or have joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The investments in associates and joint ventures of the consolidated entity are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the consolidated entity's share of net assets of the associate or joint venture since the acquisition date.

After application of the equity method, the consolidated entity determines whether it is necessary to recognise any impairment loss with respect to its net investment in the associates and joint ventures. At each reporting date, the consolidated entity determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the consolidated entity calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value.

28. ASSETS HELD FOR SALE

As at 30 June 2020, the assets held for sale balance of $16.19 million represents the carrying amount of a warehouse in Singapore that is currently held for sale.

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

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

SIGNIFICANT ACCOUNTING POLICIES

Non-current assets held for sale
The consolidated entity classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

29. EMPLOYEE BENEFITS

	CONSOLIDATED June 2020 Number	CONSOLIDATED June 2019 Number
The number of full-time equivalent employees employed as at 30 June were:	5,732	5,510

The aggregate employee benefit liability was comprised of:	June 2020 $000	June 2019 $000
Accrued wages, salaries and on-costs	20,123	20,152
Provisions (Current – Note 21)	34,181	31,902
Provisions (Non-current – Note 21)	2,213	2,171
Total employee benefit provisions	56,517	54,225

The consolidated entity makes contributions to complying superannuation funds for the purpose of provision of superannuation benefits for eligible employees of the consolidated entity. The amount of contribution in respect of each eligible employee is not less than the prescribed minimum level of superannuation support in respect of that eligible employee. The complying superannuation funds are independent and not administered by the consolidated entity.

Performance Rights

At balance date, the following performance rights were outstanding and vested (or able to be exercised) by, or for the benefit of, directors of Harvey Norman Holdings Limited:

Grant Date	Expiry Date	Number of Performance Rights Outstanding 2020	Number of Performance Rights Outstanding 2019	Number of Performance Rights Vested 2020	Number of Performance Rights Vested 2019
30/11/2015	30/06/2021	-	-	-	240,000
28/11/2016	30/06/2022	-	400,000	240,000	-
01/12/2017	30/06/2023	400,000	400,000	-	-
04/12/2018	30/06/2024	549,500	549,500	-	-
02/12/2019	30/06/2025	549,500	-	-	-
		1,499,000	1,349,500	240,000	240,000

30. REMUNERATION OF AUDITORS

	CONSOLIDATED June 2020 $	CONSOLIDATED June 2019 $
Fees to Ernst & Young Australia:		
- audit or review of the financial reports	1,406,009	1,300,774
- tax services	151,150	203,950
- consulting services	33,250	-
Total payable to Ernst & Young Australia	1,590,409	1,504,724
Fees to overseas member firms of Ernst & Young Australia:		
- audit or review of the financial reports	780,376	760,162
- tax services	213,845	272,795
- consulting services	14,348	11,164
Total payable to overseas member firms of Ernst & Young Australia	1,008,569	1,044,121
Total Remuneration Payable to Ernst & Young	2,598,978	2,548,845

31. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

Directors	Title	Senior Executives	Title
Gerald Harvey	Executive Chairman	Martin Anderson	General Manager – Advertising
Kay Lesley Page	Executive Director and Chief Executive Officer	Thomas James Scott	General Manager – Property
John Evyn Slack-Smith	Executive Director and Chief Operating Officer	Gordon Ian Dingwall	Chief Information Officer
David Matthew Ackery	Executive Director	Ajay Calpakam [resigned 30 April 2020]	General Manager – Audio Visual
Chris Mentis	Executive Director, Chief Financial Officer and Company Secretary	Lachlan Roach	General Manager – Home Appliances
Christopher Herbert Brown OAM	Non-Executive Director	Frank Robinson [resigned 30 September 2019]	General Manager – Technology & Entertainment
Michael John Harvey	Non-Executive Director	Emmanuel Hohlastos [commenced 1 May 2020]	General Manager – Audio Visual
Kenneth William Gunderson-Briggs	Non-Executive Director (Independent)	Glen Gregory [commenced 9 September 2019]	General Manager – Technology & Entertainment
Graham Charles Paton AM	Non-Executive Director (Independent)		
Maurice John Craven [commenced 27 March 2019]	Non-Executive Director (Independent)		

(b) Compensation of Key Management Personnel

The total remuneration paid or payable to Key Management Personnel of the consolidated entity was as follows:

	CONSOLIDATED	
	June 2020 $	June 2019 $
Short-term	12,796,618	12,088,384
Post-employment	295,892	284,274
Long-term (share-based payments)	1,056,781	717,044
Other – long service leave accrual	89,782	100,054
Other – termination benefits	89,065	-
	14,328,138	13,189,756

Refer to Tables 1 and 2 on pages 56 and 57 of this report for further information.

32. RELATED PARTY TRANSACTIONS

(a) Ultimate Controlling Entity

The ultimate controlling entity of the consolidated entity is Harvey Norman Holdings Limited, a company incorporated in Australia.

(b) Transactions with Other Related Parties

(i)	Several controlled entities of Harvey Norman Holdings Limited operate loan accounts with other related parties, mainly consisting of joint ventures and the other joint venture partner of the joint ventures. Refer to Note 7. Trade and Other Receivables. The amount of receivables from related parties at balance date was:	72,500,801	72,273,155
(ii)	The consolidated entity has a payable to other related parties (excluding transactions with KMPs and their related parties) at arm's length terms and conditions. The amount owing to other related parties at balance date was:	4,237,364	4,244,921

Refer to information provided in Section 15. Other Transactions and Balances with Key Management Personnel and their Related Parties in this report on pages 62 and 63 for further information.

33. COMMITMENTS

(a) Lease commitments [the consolidated entity as a lessor]:

	CONSOLIDATED June 2020 $	CONSOLIDATED June 2019 $
Future minimum amounts receivable under non-cancellable operating leases are as follows:		
Not later than one year	105,805	102,750
Later than one year but not later than five years	191,537	173,457
Later than five years	46,694	30,784
Minimum lease receivable	344,036	306,991

SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated entity has entered into commercial leases in respect of its freehold property portfolio and motor vehicles. All leases in the consolidated entity's freehold property portfolio include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

(b) Capital expenditure contracted but not provided is payable as follows:

	June 2020 $	June 2019 $
Not later than one year	16,028	52,186
Later than one year but not later than five years	-	-
Total capital expenditure commitments	16,028	52,186

The consolidated entity had contractual obligations to purchase property, plant and equipment and investment properties of $16.03 million (2019: $52.19 million). The contractual obligations are mainly for the acquisition of new properties and refurbishment of existing franchised complexes in Australia. The contractual obligations relating to joint venture entities for the year ended 30 June 2020 was $0.95 million (2019: $2.52 million).

34. CONTINGENT LIABILITIES

As at 30 June 2020, Harvey Norman Holdings Limited (the Company) and its wholly-owned subsidiaries have entered into the following guarantees, however the probability of having to make a payment under these guarantees is considered remote:
(a) Guarantees in the normal course of business relating to lease make-good obligations under certain operating lease contracts (with the exclusion of those lease make-good payments that are considered to be probable and recognised as a provision in Note 21. Provisions); and
(b) Indemnities to financial institutions to support bank guarantees in respect of the performance of contracts.

No provision has been made in the financial statements in respect of these contingencies as the possibility of a probable outflow under these guarantees is considered remote.

SIGNIFICANT ACCOUNTING POLICIES

Contingent liabilities
The consolidated entity does not recognise liabilities that do not meet the recognition criteria as prescribed in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Contingent liabilities are not recognised as liabilities if the possibility of a probable outflow is considered remote as their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the consolidated entity.

At each reporting date, the consolidated entity assesses whether an outflow of future economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

35. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Objectives and Policies

The treasury function of the consolidated entity is responsible for the management of the following risks:

- market risk;
- credit risk; and
- liquidity risk.

The consolidated entity's principal financial liabilities, other than derivatives, comprise of trade and other payables and interest-bearing loans and borrowings. The consolidated entity's principal financial assets, other than derivatives, include cash and cash equivalents, trade and other receivables and equity investments at fair value. The consolidated entity manages its exposure to key financial risks, such as interest rate and currency risk in accordance with the consolidated entity's Treasury Policy which is approved by the Board of Directors. The objective of the Treasury Policy is to support the delivery of the consolidated entity's financial targets whilst protecting future financial security. The consolidated entity enters into derivative transactions, principally forward currency contracts, to manage the currency risks arising from the consolidated entity's operations and its sources of finance.

The consolidated entity 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 foreign exchange risk;
- monitoring assessments of market forecasts for interest rate and foreign exchange;
- ageing analyses and monitoring of specific credit allowances to manage credit risk; and
- monitoring liquidity risk through the future rolling cash flow forecasts.

The Board reviews and endorses policies for managing each of these risks as summarised below:

- the setting of limits for trading in derivatives; and
- hedging cover of foreign currency risk, credit allowances, and future cash flow forecast projections.

(b) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Components of market risk to which the consolidated entity are exposed are discussed below.

(i) Foreign Currency Risk Management

Foreign currency risk refers to the risk that the value of financial instruments, recognised asset or liability will fluctuate due to changes in foreign currency rates. The consolidated entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The consolidated entity's foreign currency exchange risk arises primarily from:

- receivables or payables denominated in foreign currencies; and
- firm commitments or highly probable forecast transactions for payments settled in foreign currencies.

The consolidated entity is exposed to foreign exchange risk from various currency exposures, primarily with respect to:

- United States dollars;
- New Zealand dollars;
- Euro;
- British pound;
- Singapore dollars;
- Malaysian ringgit; and
- Croatian kuna

The consolidated entity minimises its exposure to foreign currency risk by initially seeking contracts effectively denominated in the entity's functional currency where possible and economically favourable to do so. Foreign exchange risk that arises from firm commitments or highly probable transactions is managed principally through the use of forward currency contracts. The consolidated entity hedges a proportion of these transactions in each currency in accordance with the Treasury Policy.

	CONSOLIDATED	
	June 2020 $000	June 2019 $000
Financial assets		
Cash and cash equivalents	44,375	37,962
Trade and other receivables	5,167	7,282
Derivatives receivable	-	5
	49,542	45,249
Financial liabilities		
Trade and other payables	34,351	28,807
Interest-bearing loans and borrowings	11,742	12,016
Derivatives payable	187	49
	46,280	40,872
Net exposure	3,262	4,377

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (continued)

(ii) Interest Rate Risk Management

Interest rate risk is the risk that the fair value on future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The consolidated entity's exposure to market interest rates relates primarily to cash and cash equivalents, non-trade debts receivable from related entities and unrelated entities, bank overdraft, non-trade amounts owing to related parties, Syndicated Facility, commercial bills and other short-term borrowings. The consolidated entity manages the interest rate exposure by adjusting the ratio of fixed interest debt to variable interest debt to a desired level based on current market conditions. Where the actual interest rate profile on the physical debt profile differs substantially from the desired target, the consolidated entity uses interest rate swap contracts to adjust towards the target net debt profile.

30 June 2020	Principal subject to floating interest rate $000	Fixed interest rate maturing in: 1 year or less $000	Over 1 to 5 years $000	More than 5 years $000	Non-interest bearing $000	Total $000	Average interest rate: Floating	Fixed
Cash	203,649	28,998	-	-	80,548	313,195	0.00% - 1.92%	0.00% - 3.65%
Consumer finance loans	-	-	-	-	2,734	2,734	-	-
Finance lease receivables	-	570	912	-	2,721	4,203	-	11.00%
Receivables from franchisees	-	-	-	-	352,359	352,359	-	-
Trade receivables	-	-	-	-	116,353	116,353	-	-
Other financial assets	-	-	-	-	48,413	48,413	-	-
Non-trade debts receivables & loans	58,975	24,548	14,836	5,991	13,731	118,081	2.39% - 5.27%	5.00% -10.00%
	262,624	54,116	15,748	5,991	616,859	955,338		
Syndicated Facility and other short-term borrowings	264,638	-	-	-	-	264,638	0.95% -5.87%	-
Trade creditors	-	-	-	-	351,772	351,772	-	-
Other loans	4,237	-	-	-	280	4,517	2.37% - 3.20%	-
Bank overdraft	18,749	-	-	-	-	18,749	2.25% - 6.95%	-
Bills payable	9,750	-	-	-	-	9,750	1.44% -2.57%	-
Other financial liabilities	-	-	-	-	187	187	-	-
	297,374	-	-	-	352,239	649,613		

30 June 2019	Principal subject to floating interest rate $000	Fixed interest rate maturing in: 1 year or less $000	Over 1 to 5 years $000	More than 5 years $000	Non-interest bearing $000	Total $000	Average interest rate: Floating	Fixed
Cash	169,617	2,675	-	-	42,756	215,048	0.01% - 3.15%	0.00% - 2.24%
Consumer finance loans	-	-	-	-	3,876	3,876	-	-
Finance lease receivables	-	579	820	-	2,727	4,126	-	11.00%
Receivables from franchisees	-	-	-	-	607,731	607,731	-	-
Trade receivables	-	-	-	-	104,905	104,905	-	-
Other financial assets	-	-	-	-	48,258	48,258	-	-
Non-trade debts receivables & loans	62,191	2,469	21,573	5,388	9,716	101,337	3.52% - 6.10%	5.00% - 9.50%
	231,808	5,723	22,393	5,388	819,969	1,085,281		

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market Risk (continued)

(ii) Interest Rate Risk Management

30 June 2019	Principal subject to floating interest rate	Fixed interest rate maturing in			Non-interest bearing	Total	Average interest rate	
		1 year or less	Over 1 to 5 years	More than 5 years				
	$000	$000	$000	$000	$000	$000	Floating	Fixed
Syndicated Facility and other short-term borrowings	794,417	-	-	-	-	794,417	1.27% - 6.12%	-
Trade creditors	-	-	-	-	283,682	283,682	-	-
Other loans	4,245	-	-	-	264	4,509	2.37% - 3.20%	-
Bank overdraft	29,232	-	-	-	-	29,232	1.20% - 6.95%	-
Bills payable	9,750	-	-	-	-	9,750	1.47% - 2.10%	-
Finance lease liabilities	-	1,622	1,942	-	-	3,564	-	3.30% - 10.21%
Other financial liabilities	-	-	-	-	49	49	-	-
	837,644	1,622	1,942	-	283,995	1,125,203		

(iii) Equity Price Risk Management

The consolidated entity is exposed to equity price risk arising from equity investments. Equity investments are held for strategic rather than trading purposes. The exposure to the risk of a general decline in equity market values is not hedged as the consolidated entity believes such a strategy is not cost effective. The fair value of the equity investments publicly traded on the ASX was $30.24 million as at 30 June 2020 (2019: $27.48 million). The fair value of the equity investments publicly traded on the NZX was $15.45 million as at 30 June 2020 (2019: $16.86 million).

(iv) Sensitivity analysis

At the reporting date, the consolidated entity's exposure to interest rate risk, foreign currency risk (after taking into consideration the hedge of foreign currency payables) and equity price risk are not considered material.

(c) Credit Risk

Credit risk refers to the loss that the consolidated entity would incur if a debtor or other counterparty fails to perform under its contractual obligations.

Credit risk arises from the financial assets of the consolidated entity, which comprise receivables from franchisees, trade and non-trade debts receivables, consumer finance loans and finance lease receivables. The consolidated entity's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these financial assets.

The consolidated entity's exposure to market interest rates relates primarily to:

- The Franchisor constantly monitors and evaluates the financial position of each franchisee;
- Conducting appropriate due diligence on counterparties before entering into an arrangement with them. It is the consolidated entity's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored;
- Non-trade debts receivable are subject to regular monitoring and/or periodic impairment testing to ensure that they are recoverable; and
- Finance lease receivables are secured by assets with a value equal to, or in excess of, the counterparties' obligation to the consolidated entity.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of debtors in various countries and industries. In addition, receivable balances are monitored on an ongoing basis.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The table below represents the financial assets of the consolidated entity by geographic location displaying the concentration of credit risk for each location as at balance date:

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit Risk (continued)

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Location of credit risk		
Australia	497,774	727,060
New Zealand	35,905	33,700
Singapore and Malaysia	18,321	20,475
Slovenia and Croatia	5,603	7,033
Ireland and Northern Ireland	3,245	2,985
Total	560,848	791,253

(d) Liquidity Risk

Liquidity risk includes the risk that, as a result of the consolidated entity's operational liquidity requirements:

- the consolidated entity will not have sufficient funds to settle a transaction on the due date;
- the consolidated entity will be forced to sell financial assets at a value which is less than what they are worth; or
- the consolidated entity may be unable to settle or recover a financial asset at all.

To help reduce these risks, the consolidated entity:

- has readily accessible standby facilities and other funding arrangements in place; and
- maintains instruments that are tradeable in highly liquid markets.

The Board reviews this exposure on a monthly basis from a projected 12-month cash flow forecast, listing of banking facilities, explanations of variances from the prior month reports and current funding positions of the overseas controlled entities provided by finance personnel. The following table details the consolidated entity's remaining contractual maturity for its financial assets and financial liabilities. The financial assets have been disclosed based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The financial liabilities have been disclosed based on the undiscounted cash flows of the financial liabilities based on the earliest date on which the consolidated entity can be required to pay.

30 June 2020	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	Over 5 years $000	Total $000
Non derivative financial assets					
Cash and cash equivalents	313,195	-	-	-	313,195
Receivables from franchisees	352,359	-	-	-	352,359
Trade and other receivables	163,859	6,452	40,455	11,047	221,813
Other financial assets	30,237	-	-	18,176	48,413
Total financial assets	859,650	6,452	40,455	29,223	935,780
Non derivative financial liabilities					
Trade and other payables	351,772	-	-	-	351,772
Interest bearing loans and borrowings	106,360	171,388	25,155	-	302,903
Derivative financial liabilities					
Forward currency contracts	187	-	-	-	187
Total financial liabilities	458,319	171,388	25,155	-	654,862
Net maturity	401,331	(164,936)	15,300	29,223	280,918

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Liquidity Risk (continued)

30 June 2019	Less than 1 year $000	1 to 2 years $000	2 to 5 years $000	Over 5 years $000	Total $000
Non derivative financial assets					
Cash and cash equivalents	215,048	-	-	-	215,048
Receivables from franchisees	607,731	-	-	-	607,731
Trade and other receivables	138,350	6,976	51,085	6,200	202,611
Other financial assets	28,883	-	-	19,370	48,253
Derivative financial assets					
Forward currency contracts	5	-	-	-	5
Total financial assets	990,017	6,976	51,085	25,570	1,073,648
Non derivative financial liabilities					
Trade and other payables	283,682	-	-	-	283,682
Interest bearing loans and borrowings	509,145	205,555	149,252	-	863,952
Derivative financial liabilities					
Forward currency contracts	49	-	-	-	49
Total financial liabilities	792,876	205,555	149,252	-	1,147,683
Net maturity	197,141	(198,579)	(98,167)	25,570	(74,035)

(e) Fair Value of Financial Assets and Financial Liabilities

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

- The carrying amounts of cash and cash equivalents, receivables from franchisees, trade and other receivables, other financial assets, trade and other payables and interest-bearing loans and borrowings are reasonable approximations of fair value.
- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- The consolidated entity enters into derivative financial instruments with various counterparties, particularly financial institutions with investment grade credit ratings. Forward currency contracts are valued using valuation techniques which employs the use of market observable inputs.

The consolidated entity uses various methods in estimating the fair value of financial instruments. The methods comprise:
Level 1 – the fair value is calculated using quoted prices in active markets.
Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

30 June 2020	Quoted market price (Level 1) $000	Market observable inputs (Level 2) $000	Total $000
Financial Assets			
Listed investments	45,688	-	45,688
Total financial assets	45,688	-	45,688
Financial Liabilities			
Forward currency contracts	-	187	187
Total financial liabilities	-	187	187

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair Value of Financial Assets and Financial Liabilities (continued)

30 June 2019	Quoted market price (Level 1) $000	Market observable inputs (Level 2) $000	Total $000
Financial Assets			
Listed investments	44,344	-	44,344
Forward currency contracts	-	5	5
Total financial assets	44,344	5	44,349
Financial Liabilities			
Forward currency contracts	-	49	49
Total financial liabilities	-	49	49

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices and are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Forward currency contracts are measured using quoted forward exchange rates. These instruments are included in level 2.

(f) Capital Risk Management Policy

The consolidated entity's capital management policy objectives are to: create long-term sustainable value for shareholders; maintain optimal returns to shareholders and benefits to other stakeholders; source the lowest cost available capital; and prevent the adverse outcomes that can result from short-term decision making.

The consolidated entity is constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the consolidated entity may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The capital structure of the consolidated entity consists of debt, which includes the interest-bearing loans and borrowings disclosed in Note 17, cash and cash equivalents disclosed in Note 26(a) and equity attributable to equity holders of the parent, comprising ordinary shares, reserves and retained profits as disclosed in Notes 22, 25 and 23 respectively. None of the consolidated entity's entities are subject to externally imposed capital requirements.

Capital management is monitored through the net debt to equity ratio. The target for the consolidated entity's net debt to equity ratio is a tolerance level of up to 50%. As at 30 June 2020, the consolidated entity had unused, available financing facilities of $685 million – only utilising $293 million out of total approved financing facilities of $978 million. This has resulted in a net debt to equity ratio of nil as at 30 June 2020, compared to a net debt to equity ratio of 19.46% as at 30 June 2019.

	CONSOLIDATED	
	June 2020 $000	June 2019 $000
Borrowings (refer to Note 17. Interest-Bearing Loans and Borrowings)	**297,841**	841,521
Less: Cash and cash equivalents	**313,195**	215,048
Net (Cash) / Debt	**(15,354)**	626,473
Total equity (a)	**3,533,326**	3,219,841
Net debt to equity ratio (b)	**-0.43%**	19.46%

(a) For the purpose of calculating the net debt to equity ratio, total equity excludes the negative acquisition reserve of $18.60 million (2019: $22.05 million), the right-of-use assets in respect of property, plant and equipment leases of $513.78 million and investment properties (leasehold): right-of-use assets of $621.90 million and the lease liabilities recognised under AASB 16 *Leases* of $1,173.09 million.

(b) As at 30 June 2020, the consolidated entity had a net cash of $15.35 million and therefore the net debt to equity ratio was disclosed as nil.

36. DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Instruments

The following table details the derivative hedging instruments as at balance date. The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

36. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Forward currency contracts – held for trading

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
Current Assets		
Forward currency contracts – cash flow hedges	-	5
Current liabilities		
Forward currency contracts – held for trading	137	42
Forward currency contracts – cash flow hedges	50	7

The consolidated entity has entered into forward currency contracts which are economic hedges but do not satisfy the requirements of hedge accounting.

Currency	Average Exchange Rate 2020	Average Exchange Rate 2019	CONSOLIDATED 2020 Buy $000	CONSOLIDATED 2020 Sell $000	CONSOLIDATED 2019 Buy $000	CONSOLIDATED 2019 Sell $000
Euro (0-12 months)	67.29	61.28	3,682	-	5,185	-
US Dollar (0-12 months)	67.40	69.41	4,043	-	848	-
Total			7,725	-	6,033	-

These contracts are fair valued by comparing the contracted rate to the market rates at balance date. All movements in fair value are recognised in the income statement in the period they occur. The net fair value losses on forward currency contracts during the year ended 30 June 2020 was $0.14 million for the consolidated entity (2019: $0.04 million).

(b) Forward currency contracts – cash flow hedges

The consolidated entity purchases inventories from various overseas countries. As such, the consolidated entity is exposed to foreign exchange risk from various currency exposures, primarily with respect to:

- United States dollars; and
- Euro.

In order to protect against exchange rate movements and to manage the inventory costing process, the consolidated entity has entered into forward currency contracts to purchase US dollars and Euro. These contracts are hedging highly probable forecasted purchases and they are timed to mature when payments are scheduled to be made. The following table details the forward currency contracts outstanding as at reporting date:

Currency	Average Exchange Rate 2020	Average Exchange Rate 2019	CONSOLIDATED 2020 Buy $000	CONSOLIDATED 2020 Sell $000	CONSOLIDATED 2019 Buy $000	CONSOLIDATED 2019 Sell $000
Euro (0-12 months)	59.59	61.86	1,293	-	2,058	-
US Dollar (0-12 months)	64.80	68.38	291	-	285	-
Total			1,584	-	2,343	-

The forward currency contracts are considered to be highly effective hedges as they are matched against forecast inventory purchases and firm committed invoice payments for inventory purchases. During the year ended 30 June 2020, the hedges were 100% effective (2019: 100% effective), therefore the gain or loss on the contracts attributable to the hedged risk is taken directly to other comprehensive income. When the inventory is delivered the amount recognised in other comprehensive income is adjusted to the inventory account in the statement of financial position.

Movement in the forward currency contract cash flow hedge reserve:

	CONSOLIDATED June 2020 $000	CONSOLIDATED June 2019 $000
	Increase/(Decrease)	
Opening balance	(2)	(8)
Transferred to inventory	2	8
Charged to other comprehensive income	(35)	(2)
Closing balance	(35)	(2)

37. DEED OF CROSS GUARANTEE

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, relief has been granted to certain controlled entities of Harvey Norman Holdings Limited from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports. These controlled entities have entered into a Deed of Cross Guarantee with Harvey Norman Holdings Limited ("Closed Group"). The effect of this Deed of Cross Guarantee is that Harvey Norman Holdings Limited has guaranteed to pay any deficiency in the event of winding up a controlled entity within the Closed Group or if the controlled entity does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities within the Closed Group have also given a similar guarantee in the event that Harvey Norman Holdings Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The parties to the Deed of Cross Guarantee include Harvey Norman Holdings Limited and the following controlled entities:

- Arisit Pty Limited
- Contemporary Design Group Pty Limited
- Derni Pty Limited
- Generic Publications Pty Limited
- Harvey Norman Big Buys Pty Limited
- Harvey Norman Stores (N.Z.) Pty Limited
- Network Consumer Finance Pty Limited
- Sarsha Pty Limited
- Yoogalu Pty Limited

The Statement of Financial Position and Income Statement for the Harvey Norman Holdings Limited Closed Group are as follows:

	June 2020 $000	June 2019 $000
Current Assets		
Cash and cash equivalents	188,935	153,800
Trade and other receivables	499,955	718,834
Other financial assets	30,237	28,886
Inventories	207,757	172,282
Intangible assets	278	370
Other assets	24,885	24,144
Total current assets	952,047	1,098,316
Non-Current Assets		
Trade and other receivables	1,704,045	1,778,987
Other financial assets	297,642	281,302
Property, plant and equipment	33,114	28,387
Property, plant and equipment: Right-of-use assets	6,538	-
Intangible assets	59,037	59,110
Total non-current assets	2,100,376	2,147,786
Total Assets	3,052,423	3,246,102
Current Liabilities		
Trade and other payables	163,380	127,699
Interest-bearing loans and borrowings	10,184	380,183
Lease Liabilities	2,293	-
Income tax payable	67,123	306
Provisions	29,617	26,841
Other liabilities	46,291	30,158
Total current liabilities	318,888	565,187
Non-Current Liabilities		
Interest-bearing loans and borrowings	195,000	345,144
Lease Liabilities	12,654	-
Provisions	1,957	2,017
Deferred income tax liabilities	99,259	92,073
Other liabilities	-	300
Total non-current liabilities	308,870	439,534
Total Liabilities	627,758	1,004,721
NET ASSETS	2,424,665	2,241,381

37. DEED OF CROSS GUARANTEE (CONTINUED)

	June 2020 $000	June 2019 $000
Equity		
Contributed equity	717,925	552,250
Reserves	12,781	12,893
Retained profits	1,694,210	1,676,238
Non-Controlling Interest	(251)	-
TOTAL EQUITY	2,424,665	2,241,381
Income Statement		
Profit before income tax	454,855	385,324
Income tax	(114,378)	(85,570)
Profit after tax	340,477	299,754
Retained Earnings		
Retained earnings at the beginning of the year	1,676,238	1,718,606
Profit after tax from continuing operations	340,477	299,754
Dividends provided for or paid	(322,505)	(342,122)
Retained earnings at the end of the year	1,694,210	1,676,238

38. PARENT ENTITY FINANCIAL INFORMATION

	PARENT ENTITY	
Statement of Financial Position	June 2020 $000	June 2019 $000
Current assets	93	84
Non-current assets	2,693,100	2,428,919
Total assets	2,693,193	2,429,003
Current liabilities	58,516	2,469
Non-current liabilities	118,223	107,567
Total liabilities	176,739	110,036
Contributed equity	717,925	552,250
Retained profits	1,798,529	1,766,717
Total Equity	2,516,454	2,318,967
Profit for the Year	354,317	324,981
Total Comprehensive Income	354,317	324,981

Guarantees

The Parent Company is party to a Deed of Cross Guarantee ("Deed") with the following controlled entities:

- Arisit Pty Limited
- Contemporary Design Group Pty Limited
- Derni Pty Limited
- Generic Publications Pty Limited
- Harvey Norman Big Buys Pty Limited
- Harvey Norman Stores (N.Z.) Pty Limited
- Network Consumer Finance Pty Limited
- Sarsha Pty Limited
- Yoogalu Pty Limited

The effect of this Deed is that the Parent Company has guaranteed to pay any deficiency in the event of winding up one of the above controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The above controlled entities have also given a similar guarantee in the event that the Parent Company is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. Harvey Norman Big Buys Pty Limited entered into the Deed with the Parent Company during the year ended 30 June 2020.

Contingent Liabilities

Refer to information provided in Note 34. Contingent Liabilities for disclosures relating to the Parent Entity.

39. CONTROLLED ENTITIES AND UNIT TRUSTS

The listing of controlled entities and unit trusts detailed on this page is not a complete and exhaustive list of all controlled entities and unit trusts held by Harvey Norman Holdings Limited. The financial year of all controlled entities and unit trusts are the same as that of the Parent Company.

Shares held by Harvey Norman Holdings Limited

A listing of material subsidiaries of Harvey Norman Holdings Limited are detailed below:

Arisit Pty Limited [1, 2]
Bencoolen Properties Pte Limited [7,8]
Cascade Consolidated Sdn. Bhd. [10,11]
Consolidated Design Group Pty Limited [1]
Contemporary Design Group Pty Limited [1,2]
Derni Pty Limited [1,2]
Elitetrax Marketing Sdn. Bhd. [11,12]
Generic Publications Pty Limited [1,2]
Harvey Norman Big Buys Pty Limited [1,2,3]
Harvey Norman Croatia d.o.o. [16,17]
Harvey Norman Europe d.o.o. [15, 16]
Harvey Norman Holdings (Ireland) Limited [13]
Harvey Norman Limited [5]
Harvey Norman Ossia (Asia) Pte Limited [7,8,9]
Harvey Norman Properties (N.Z.) Limited [5,6]
Harvey Norman Singapore Pte Limited [7,8]
Harvey Norman Stores (N.Z.) Pty Limited [1,2]
Harvey Norman Trading (Ireland) Limited [13,14]
Harvey Norman Trading d.o.o. [15,16]
Lighting Venture Pty Limited [1,4]
Network Consumer Finance Pty Limited [1,2]
Pertama Holdings Pte Limited [7,8,9]
Pertama Mechandising Pte Ltd [7,10]
Sarsha Pty Limited [1,2]
Space Furniture Pte Limited [7,8]
Space Furniture Collection Sdn. Bhd. [11]
Yoogalu Pty Limited [1,2]

Notes:

1	Company incorporated in Australia.
2	Company is a member of the "Closed Group" relieved under the Class Order described in Note 37.
3	Harvey Norman Big Buys Pty Limited holds 99.02% of the shares in the KEH Partnership.
4	Lighting Venture Pty Limited holds 75% of shares in Glolight Pty Limited.
5	Company incorporated in New Zealand.
6	Shares held by Harvey Norman Limited.
7	Company incorporated in Singapore.
8	Harvey Norman Singapore Pte Limited owns 100% of the shares in Bencoolen Properties Pte Limited, 60% of the shares in Harvey Norman Ossia (Asia) Pte Limited, 100% of the shares in Space Furniture Pte Limited and 50.62% of the shares in Pertama Holdings Pte Limited.
9	Harvey Norman Ossia (Asia) Pte Limited holds 49.38% of the shares in Pertama Holdings Pte Limited.
10	Shares held by Pertama Holdings Pte Limited
11	Company incorporated in Malaysia
12	Shares held by Cascade Consolidated Sdn. Bhd.
13	Company incorporated in Ireland.
14	Shares held by Harvey Norman Holdings (Ireland) Limited.
15	Company incorporated in Slovenia.
16	Harvey Norman Europe d.o.o. owns 100% of the shares in Harvey Norman Trading d.o.o. and 100% of the shares Harvey Norman Croatia d.o.o.
17	Company incorporated in Croatia.

Units in Unit Trusts held by Harvey Norman Holdings Limited

A listing of material unit trusts of Harvey Norman Holdings Limited are detailed below:

Calardu Trust
Calardu ACT Trust
Calardu Albury Trust
Calardu Alexandria DM Trust
Calardu Alexandria WH Trust
Calardu Auburn No. 1 Trust
Calardu Auburn No. 2 Trust
Calardu Auburn No. 4 Trust
Calardu Auburn No. 5 Trust
Calardu Auburn No. 6 Trust
Calardu Auburn No. 7 Trust
Calardu Auburn No. 8 Trust
Calardu Ballina No. 1 Trust
Calardu Bendigo Trust
Calardu Brookvale Trust
Calardu Browns Plains No. 1 Trust
Calardu Cairns Trust
Calardu Cambridge Trust
Calardu Campbelltown Trust
Calardu Cannington Trust
Calardu Caringbah (Taren Point) Trust
Calardu Devonport Trust
Calardu Gepps Cross Trust
Calardu Hoppers Crossing Trust
Calardu Loganholme Trust
Calardu Malaga Trust
Calardu Maribyrnong Trust
Calardu Maroochydore Trust
Calardu Midland Trust
Calardu Munno Para Trust
Calardu Penrith No. 1 Trust
Calardu Penrith Trust
Calardu Perth City West Trust
Calardu Preston Trust
Calardu Rutherford Trust
Calardu Silverwater Trust
Calardu Springvale Trust
Calardu Toowoomba No. 1 Trust
Calardu Tweed Heads No. 1 Trust
Calardu Wodonga Trust
Harvey Norman Discounts No. 1 Trust
Harvey Norman No. 1 Trust

40. SIGNIFICANT EVENTS AFTER BALANCE DATE

There have been no circumstances arising since balance date which have significantly affected or may significantly affect:

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

SHAREHOLDER INFORMATION

DISTRIBUTION OF SHAREHOLDINGS AS AT 28 SEPTEMBER 2020

Size of Holding	Ordinary Shareholders
1 – 1,000	7,587
1,001 – 5,000	8,121
5,001 – 10,000	2,323
10,001 – 100,000	2,141
100,001 and over	168
	20,340
Number of Shareholders with less than a marketable parcel	504

VOTING RIGHTS

All ordinary shares issued by Harvey Norman Holdings Limited carry one vote per share.

TWENTY LARGEST SHAREHOLDERS AS AT 28 SEPTEMBER 2020

Number of Ordinary Shares	Shareholder	Percentage of Ordinary Shares
392,385,265	Mr. Gerald Harvey	31.49%
205,525,565	Mr. Christopher Herbert Brown	16.49%
170,684,000	HSBC Custody Nominees Limited	13.70%
99,187,484	J P Morgan Nominees Australia Limited	7.96%
82,548,243	Citicorp Nominees Pty Limited	6.63%
58,592,289	Ms. Margaret Lynette Harvey	4.70%
37,767,238	National Nominees Limited	3.03%
20,063,673	Enbeear Pty Limited	1.61%
19,891,305	BNP Paribas Nominees Pty Limited, BNP Paribas Noms Pty Limited & BNP Paribas Noms (NZ) Limited	1.60%
19,772,685	Ms. Kay Lesley Page	1.59%
5,213,182	Argo Investments Limited	0.42%
3,582,234	BKI Investment Company Limited	0.29%
3,335,180	Mr. Michael Harvey	0.27%
2,033,309	Omnilab Media Investments Pty Limited	0.16%
1,582,730	AMP Life Limited	0.13%
1,355,181	Navigator Australia Ltd	0.11%
1,268,491	Mr. Arthur Brew	0.10%
1,118,847	Mr. Chris Mentis	0.09%
1,101,443	Mr. John Evyn Slack-Smith	0.09%
1,061,450	Mr. Graeme Harvey	0.09%
1,128,069,794		90.55%