

1. Company details

Name of entity:	Velocity Property Group Limited
ABN:	66 605 935 153
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

2. Results for announcement to the market

			\$
Revenues from ordinary activities	down	4% to	26,173,418
Loss from ordinary activities after tax attributable to the owners of Velocity Property Group Limited	down	120% to	(255,580)
Loss for the half-year attributable to the owners of Velocity Property Group Limited	down	120% to	(255,580)
			31 Dec 2019 31 Dec 2018 Cents Cents
Basic earnings per share			(0.07) 0.36
Diluted earnings per share			(0.07) 0.36

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the Group after providing for income tax and non-controlling interest amounted to \$255,580 (31 December 2018: profit of \$1,290,759).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>5.25</u>	<u>5.59</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

Velocity Property Group Limited

ABN 66 605 935 153

Interim financial report - 31 December 2019

Velocity Property Group Limited
Contents
31 December 2019



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The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Velocity Property Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

The following persons were Directors of Velocity Property Group Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Mr Michael Pearson, Non-Executive Chairman
Mr Brendon Ansell, Managing Director
Miss Cherie Leatham, Non-Executive Director
Mr Philip Raff, Executive Director
Mr Tony Pitt, Non-Executive Director (appointed 23 December 2019)
Mr James Storey, Non-Executive Director (appointed 23 December 2019)

Principal activities

Velocity is an Australian boutique property development company that develops multi-unit apartment and mixed commercial developments, recognisable for their stylish architectural design, high quality finishes and usable and flexible spaces that maximise lifestyle and sale-ability in the markets in which it operates. During the period, the principal continuing activities of the group consisted of:

- property development (residential multi-unit apartments, residential townhouses and homes and mixed commercial)
- property investment (residential)

The delivery of the group's projects is completed by specialist in-house staff experienced in land acquisition, project due diligence, feasibility analysis, project management, sales and marketing. Construction and design of the projects are tendered out to external parties.

Consolidated result

The loss for the Group after providing for income tax and non-controlling interest amounted to \$255,580 (31 December 2018: profit of \$1,290,759).

Review and results of operations

- Net loss after tax and after providing for non-controlling interests of \$255,580, impacted by an increase in expenses.
- The Group's revenue from sale of properties was \$25,840,974 (1H19: \$27,052,958) driven by initial sales at ONE Bulimba Riverfront. Revenue from further sales at ONE Bulimba Riverfront, ONE Palm Beach and Ellerslie Crescent Residences is expected during the 2nd half of FY20.
- Construction has completed at Parque on Oxford with initial sales also expected in the 2nd half of FY20.
- Employee benefit expenses increased due to the employment of 3 new full time employees in newly created roles in the project management and sales teams. Other administration expenses were impacted by \$440,000 in consultants and legals in relation to the capital and business restructure that was announced to the market in December 2019.
- The Group achieved lower development margins across the portfolio of 9% on revenue and 10% return on costs (including marketing costs, which are expensed ahead of recognising revenue). These margins were impacted by additional project and finance costs to deliver projects at The Hathaway, ONE Palm Beach and ONE Bulimba Riverfront.
- Construction at Two27 is expected to commence in the 2nd half of FY20.
- Earnings per share at balance date was -0.07 cents (2018: 0.36 cents).
- Net tangible assets per share decreased to \$0.0525 (2018: \$0.0559).

Group development portfolio

The Group continues to be active in the market for opportunities to replenish its development portfolio, with a continued focus on key markets in south-east Queensland, particularly Brisbane and the Gold Coast. The Group is confident that additional development site(s) will be acquired in the 2nd half of FY20, expanding the Group's development pipeline.

Development activities

The Hathaway project is 100% sold out with the final penthouse selling during the period.

ONE Palm Beach is complete with 88% of settlements achieved by balance date. The grand penthouse settled early in the 2nd half of FY20 that saw the Group achieve a record sale price of \$4m for apartments sold in Palm Beach during the 2019 calendar year. Only 1 apartment remains to be sold in the development.

The heritage house at Ellerslie Crescent is under contract for sale and this settlement will occur during the 2nd half of FY20. The final 2 luxury homes at Ellerslie Crescent are expected to sell in the 2nd half of FY20.

Construction of the Parque on Oxford townhouses and apartments was completed during the period with initial settlements achieved after balance date. The Group expects the balance of sales to be achieved over the course of the 2020 calendar year.

Construction at ONE Bulimba Riverfront was completed during the period with initial settlements also occurring. Some off-the-plan contracts had settlement dates set for early in the 2nd half of FY20. The Group expects the balance of sales to be achieved over the course of the 2020 calendar year.

Two27, The Group's newest absolute beach front development at Palm Beach will be launched ahead of construction commencing in the 2nd half of FY20. In collaboration with 360 Capital, the launch will include a development syndicate that will be available to sophisticated and institutional investors with the Group contributing 20% of the syndicate's project equity in line with Velocity's new capital light strategy.

Capital management and dividends

Cash received from settlement proceeds from completed developments at ONE Bulimba Riverfront were used to repay the project finance facility for this project. These repayments of borrowings offset the proceeds from borrowings during the period used to fund construction of the Group's existing development pipeline.

The proceeds from the issue of new shares and the convertible notes in December 2019 were used to repay corporate level debt facilities. The Group is mindful of its gearing levels but borrowings are forecast to increase as construction advances on new projects and also as the development portfolio is replenished through future site acquisition(s).

Additional funding will continue to be met using a combination of senior debt secured by development sites and other debt facilities while they continue to be available at a reasonable cost. Repayment of borrowings is tied to sales of completed stock to alleviate any reliance on short-term debt.

The Group does not anticipate paying a dividend in the current financial year.

Significant changes in the state of affairs

As announced to the market on 23 December 2019, 360 Capital Group (ASX:TGP) (TGP) and 360 Capital REIT (ASX:TOT) (TOT) via their 50/50 JV investment company TGP TOT JV Pty Limited (formerly 360 Capital 2017 PERE Pty Limited) acquired a 19.99% cornerstone equity stake in The Group whilst also committing \$10m in convertible loan notes.

Moving forward, the Group will pursue a 'capital light' model, with 360 Capital's funds management platform to facilitate equity co-investment in The Group's projects, starting with Two27.

Two27 will now be funded in part by an unlisted syndicate, with The Group contributing approximately 20% of the project equity requirements. Furthermore, the Group will share in the project's development profits 50/50 with the unlisted syndicate and will also now derive development management fee income in delivering the project. This model is 'capital light' and allows The Group to have ongoing exposure to development profits, but with significantly lower equity contributions and the benefit of predictable development management fees.

There were no other significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year

Velocity will hold an extraordinary meeting of shareholders on 6 March 2020 to approve the issue of new options in relation to the convertible notes and to consolidate the ordinary shares in The Group on a 1 for 35 basis.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's independence declaration

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

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

On behalf of the Directors



Brendon Ansell
Managing Director

25 February 2020



Michael Pearson
Chairman

Auditor's Independence Declaration

As auditor of Velocity Property Group Limited for the half year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Velocity Property Group Limited during the year.



Crowe Audit Australia



John Zabala (FCA)

Partner

25 February 2020

Brisbane

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The title 'Partner' conveys that the person is a senior member within their respective division and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately-owned organisation and/or its subsidiaries.

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Velocity Property Group Limited
Statement of comprehensive income
For the half-year ended 31 December 2019



	Consolidated	
Note	31 Dec 2019	31 Dec 2018
	\$	\$
Revenue		
Revenue from sale of properties	25,840,974	27,052,958
Other revenue from operations	3	257,118
Total revenue	<u>26,173,418</u>	<u>27,310,076</u>
Expenses		
Costs of property development and construction	4	(21,971,771)
Employees benefits expense	(1,020,007)	(557,753)
Depreciation and amortisation expense	(22,086)	(6,346)
Administration and other costs	5	(1,242,368)
Total expenses	<u>(26,186,988)</u>	<u>(23,778,238)</u>
Profit/(loss) before income tax (expense)/benefit	(13,570)	3,531,838
Income tax (expense)/benefit	<u>22,078</u>	<u>(1,041,387)</u>
Profit after income tax (expense)/benefit for the half-year	8,508	2,490,451
Other comprehensive income for the half-year, net of tax	<u>-</u>	<u>-</u>
Total comprehensive income for the half-year	<u>8,508</u>	<u>2,490,451</u>
Profit for the half-year is attributable to:		
Non-controlling interest	264,088	1,199,692
Owners of Velocity Property Group Limited	<u>(255,580)</u>	<u>1,290,759</u>
	<u>8,508</u>	<u>2,490,451</u>
Total comprehensive income for the half-year is attributable to:		
Non-controlling interest	264,088	1,199,692
Owners of Velocity Property Group Limited	<u>(255,580)</u>	<u>1,290,759</u>
	<u>8,508</u>	<u>2,490,451</u>
	Cents	Cents
Basic earnings per share	(0.07)	0.36
Diluted earnings per share	(0.07)	0.36

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

Velocity Property Group Limited
Statement of financial position
As at 31 December 2019



	Note	Consolidated	
		31 Dec 2019	30 Jun 2019
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		2,339,698	1,839,403
Trade and other receivables		30,563	49,852
Inventories	6	80,076,502	86,134,470
Other		448,888	632,083
Total current assets		<u>82,895,651</u>	<u>88,655,808</u>
Non-current assets			
Investment properties	7	7,018,430	7,018,430
Property, plant and equipment		1,114,108	1,119,402
Intangibles		47,648	26,958
Total non-current assets		<u>8,180,186</u>	<u>8,164,790</u>
Total assets		<u>91,075,837</u>	<u>96,820,598</u>
Liabilities			
Current liabilities			
Trade and other payables		1,480,780	3,424,779
Borrowings	8	29,923,232	62,104,753
Income tax payable		1,315,018	-
Employee benefits		107,939	75,998
Redeemable preference shares		922,450	922,450
Total current liabilities		<u>33,749,419</u>	<u>66,527,980</u>
Non-current liabilities			
Borrowings	9	36,224,215	8,595,947
Deferred tax		115,154	1,452,249
Total non-current liabilities		<u>36,339,369</u>	<u>10,048,196</u>
Total liabilities		<u>70,088,788</u>	<u>76,576,176</u>
Net assets		<u>20,987,049</u>	<u>20,244,422</u>
Equity			
Issued capital		15,950,747	15,216,548
Reserves		472,862	472,862
Retained profits		2,738,756	2,994,416
Equity attributable to the owners of Velocity Property Group Limited		19,162,365	18,683,826
Non-controlling interest		1,824,684	1,560,596
Total equity		<u>20,987,049</u>	<u>20,244,422</u>

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

Velocity Property Group Limited
Statement of changes in equity
For the half-year ended 31 December 2019



	Issued capital \$	Reserve - predecessor accounting \$	Retained profits \$	Non- controlling interest \$	Total equity \$
Consolidated					
Balance at 1 July 2018	15,216,548	472,862	2,389,507	(137,728)	17,941,189
Profit after income tax expense for the half-year	-	-	1,290,759	1,199,692	2,490,451
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	1,290,759	1,199,692	2,490,451
Balance at 31 December 2018	15,216,548	472,862	3,680,266	1,061,964	20,431,640
	Issued capital \$	Reserve - predecessor accounting \$	Retained profits \$	Non- controlling interest \$	Total equity \$
Consolidated					
Balance at 1 July 2019	15,216,548	472,862	2,994,416	1,560,596	20,244,422
Profit/(loss) after income tax benefit for the half-year	-	-	(255,580)	264,088	8,508
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	(255,580)	264,088	8,508
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	734,119	-	-	-	734,119
Balance at 31 December 2019	15,950,667	472,862	2,738,836	1,824,684	20,987,049

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

Velocity Property Group Limited
Statement of cash flows
For the half-year ended 31 December 2019



Consolidated
31 Dec 2019 **31 Dec 2018**
\$ **\$**

Cash flows from operating activities		
Receipts from customers (inclusive of GST)	28,649,879	29,450,526
Payments to suppliers and employees (inclusive of GST)	(24,160,790)	(27,657,208)
Interest received	6,543	26,845
Interest and other finance costs paid	<u>(138,721)</u>	<u>(198,450)</u>
Net cash from operating activities	<u>4,356,911</u>	<u>1,621,713</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(11,532)	(7,670)
Payments for intangibles	<u>(25,950)</u>	<u>-</u>
Net cash used in investing activities	<u>(37,482)</u>	<u>(7,670)</u>
Cash flows from financing activities		
Proceeds from issue of shares	734,119	-
Proceeds from borrowings	63,541,247	37,095,607
Repayment of borrowings	<u>(68,094,500)</u>	<u>(37,045,860)</u>
Net cash from/(used in) financing activities	<u>(3,819,134)</u>	<u>49,747</u>
Net increase in cash and cash equivalents	500,295	1,663,790
Cash and cash equivalents at the beginning of the financial half-year	<u>1,839,403</u>	<u>3,720,463</u>
Cash and cash equivalents at the end of the financial half-year	<u>2,339,698</u>	<u>5,384,253</u>

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

Note 1. General information

The financial statements cover Velocity Property Group Limited as a Group consisting of Velocity Property Group Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Velocity Property Group Limited's functional and presentation currency.

Velocity Property Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit 6, 59 Oxford Street
 Bulimba, Queensland, 4171

A description of the nature of the Group's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 25 February 2020.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

Note 3. Other revenue from operations

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
Rental income	295,493	219,553
Interest received	6,543	26,845
Other	30,408	10,720
	<u>332,444</u>	<u>257,118</u>

Note 4. Costs of property development and construction

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
Cost of goods sold	21,200,392	20,675,290
Finance costs	2,474,143	1,296,481
	<u>23,674,535</u>	<u>21,971,771</u>

Note 5. Administration and other costs

	Consolidated	
	31 Dec 2019	31 Dec 2018
	\$	\$
Legal costs	59,243	(7,768)
Finance costs	138,721	209,015
Rental property expenses	116,528	109,789
Other administration expenses	1,026,411	479,375
Unrealised foreign exchange loss	-	451,957
Realised foreign exchange loss	129,457	-
	<u>1,470,360</u>	<u>1,242,368</u>

Note 6. Current assets - inventories

	Consolidated	
	31 Dec 2019	30 Jun 2019
	\$	\$
Trading stock expected to be realised within 12 months	57,478,330	65,035,535
Trading stock expected to be realised after 12 months	<u>22,598,172</u>	<u>21,098,935</u>
	<u>80,076,502</u>	<u>86,134,470</u>

Note 7. Non-current assets - investment properties

	Consolidated	
	31 Dec 2019	30 Jun 2019
	\$	\$
Investment properties	<u>7,018,430</u>	<u>7,018,430</u>

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial half-year are set out below:

Opening fair value	7,018,430	7,214,000
Revaluation decrements	<u>-</u>	<u>(195,570)</u>
Closing fair value	<u>7,018,430</u>	<u>7,018,430</u>

Investment properties comprised land and buildings held or being developed for long term rental yields, capital appreciation and are not occupied by the Group. Revenue from the investment properties is included at note 3. Investment properties being developed are carried at cost value. Investment properties that are available for leasing are carried at fair market value.

The Group's investment property portfolio occupancy rate is currently 100%.

Note 8. Current liabilities - borrowings

	Consolidated	
	31 Dec 2019	30 Jun 2019
	\$	\$
Bank loans	10,668,046	13,680,688
Non-bank loans (unrelated parties)	19,255,186	48,424,065
	<u>29,923,232</u>	<u>62,104,753</u>

Note 9. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2019	30 Jun 2019
	\$	\$
Bank loans	4,811,397	1,049,423
Non-bank loans (unrelated parties)	-	2,284,153
Non-bank loans (related parties)	31,412,818	5,262,371
	<u>36,224,215</u>	<u>8,595,947</u>

In December 2019, the Group entered into two loans (a convertible note facility and residual stock facility) with 360 Capital Group entities, a related party shareholder owning 19.99% of the issued capital in the Group and Mr Tony Pitt is the Managing Director and substantial security holder of the Group. The commercial terms and the agreements itself reflected a transaction that was negotiated on an arm's length basis for the Group.

The key material terms of the convertible loan note agreement are:

- a) Fixed interest rate of 7% per annum with interest payments every 3 months.
- b) Loan repayment date is 23 December 2021, unless converted to ordinary shares earlier.
- c) Conversion price is 4c per share.

The key material terms of the residual stock facility agreement are:

- a) Fixed interest rate of 8.5% per annum with interest capitalised monthly.
- b) Loan repayment date is June 2021.
- c) First ranking security over the completed stock at ONE Bulimba Riverfront.

Part of the proceeds from the convertible loan note were used to repay in full the previous related party loan with Byron Street Pte Ltd.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Brendon Ansell
Managing Director



Michael Pearson
Chairman

25 February 2020

Independent Auditor's Review Report

To the Members of Velocity Property Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Velocity Property Group Limited (the Company) and its controlled entities, which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the half year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

Responsibilities of the Directors for the Half-Year Financial Report

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

Auditor's Responsibilities for the Audit of the Half-Year Financial Report

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

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

Independence

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

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The title 'Partner' conveys that the person is a senior member within their respective division and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately-owned organisation and/or its subsidiaries.

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Conclusion

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

- (a) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.
- (b) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

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John Zabala (FCA)
Partner

Brisbane, 25 February 2020