

# **Annual General Meeting – Thursday 11 August 2005**

## **Script of Chairman's Address**

Good morning ladies and gentlemen, I am pleased to report AVJennings' results for the full year to March 31, 2005. We have a quorum and I declare this Annual General Meeting open. I am Simon Cheong, the Acting Chairman of the Board and the Chairman of this Annual General Meeting.

Firstly, I would like to introduce my fellow Directors. On my immediate left I have:

- Mr Louis Milkovits – The Company's Managing Director;
- Mr Peter Summers – The Company's Finance Director;
- Mrs Elizabeth Sam – Non-executive Director;
- Mr Herman Hochstadt – Non-executive Director;
- Mr David Tsang – Non-executive Director; and
- Mrs Helga Linacre – The Company Secretary.

I would also like to introduce the Executive General Manager for Victoria, Mike Lenarduzzi. Would you please stand Mike. Our auditor, Mr Chris George from Ernst and Young is also in attendance today. Chris, would you please stand for a moment.

Following almost a decade of price growth and relatively strong market conditions, the past reporting year has coincided with a much publicised downturn in the residential development and house building industries. For the last six quarters there has been a decline in housing approvals. The Company's performance has been impacted by this weakening market.

In the first half of the year, the timing of projects was a major determinant of the result. This was caused by lengthy delays by local authorities in providing development approvals, particularly in the northern suburbs of Melbourne and on the central coast of New South Wales. While the majority of approvals did eventuate, the timing was such that the full year outcome for the Company was highly dependent on second half sales.

During the second half of the year, there was a further softening of purchasing activity by both builders and home buyers. This was particularly noticeable in New South Wales and coincided with the introduction of a vendor stamp duty on investment properties in that state.

The outcome of the softened market resulted in lower levels of developed lot sales to builders and, for home buyers, a shift in the timing of purchases to later in the construction cycle.

However the downturn in housing approvals is inconsistent with economic factors such as continuing low interest rates, low unemployment and increasing immigration levels. Accordingly, the Company remains positive about its medium to long term growth prospects, and as it operates in a cyclical industry, some variability in outcomes can be expected.

Turnover for the year was \$439.4 million compared to \$552.5 million for the same period last year. The Company achieved a pre tax profit for the year of \$39.2 million compared to \$97.7 million for the previous year. Earnings per share were 12.75 cents compared to 31.8 cents for the previous corresponding period and the after tax return on average Shareholder equity was still a very acceptable 10.2 percent resulting in an average of 21.2 percent per annum for each of the last five years.

The Company has maintained the total dividend for the year at the same level as in 2004. Our ability to continue to pay dividends reflects the Board's confidence in AVJennings' medium to longer term growth prospects.

The Company paid a fully franked final dividend of 7.5 cents, bringing the total dividend for the year to 11 cents per share, fully franked. The total dividend represents 86 percent of net earnings per share.

The Board is conscious of the need to maintain an adequate return to Shareholders from year to year.

The Company had franking credits of \$36.7 million as at 31<sup>st</sup> of March 2005. The Directors therefore anticipate that dividends will continue to be fully franked for the foreseeable future.

Total assets increased 17 percent to \$635 million reflecting greater investment in development projects.

Gearing as measured by net interest bearing debt to total assets increased to 28 percent from 20 percent. The Company records assets, including its land bank, on a historical cost basis. Interest cover was a satisfactory 4 times.

The Company remains committed to its long term strategy of expanding its residential development operations and increasing the size and quality of its land bank.

The Company had increased its land holdings from some 8,000 to some 10,000 lots at the end of the reporting period. This has been facilitated by increased debt and retained earnings.

The Company's land holdings have grown each year and they now stand at over five years supply at historical sales rates.

These development sites underpin the returns of future years and the Company endeavours to ensure that, on average, the replenishment rate exceeds the utilisation rate. The Company is well on its way to achieving its target of having a land bank of 16,000 lots under its control within the next three years.

The Company's excellent reputation, the skills of the management team and balance sheet strength, are key factors in growing its land bank over the coming years.

The Company's principal businesses are land development, which contributed 24 percent to revenue, residential development which contributed 32 percent to revenue and contract building which contributed 44 percent to revenue. During the year the Company was internally reorganised around these operations.

Within these operations the Company engages three distinct market groups. The first of these are builders, who purchase land directly or package their housing product onto AVJennings land. The second group is homeowners who are upgrading and purchase into one of AVJennings completed housing developments and the third are customers seeking to engage the Company's contract building services to have an AVJennings designed house built on their own land or an AVJennings supervised house extension.

In line with this internal reorganisation, the Company is also in the midst of reviewing its branding to better communicate its operations to its customers.

The developments activity accounted for most of the profit. While contract building revenues increased compared to the prior year, the activity remained a challenge.

The location of development activities over a wide geographic area continues to spread project risk. The projects are now of a larger size and have decreased in number from 70 to 45 in the last two years. While they take somewhat longer to bring to production, they offer superior value creation potential and greater business continuity than the smaller projects of earlier years.

I will now call on Mr Louis Milkovits the Managing Director to discuss the operational outlook of the Company. Following Louis' presentation I will continue my address.

## Market

- The housing market has been contracting on the east coast for the last six quarters.
- The impact of this contraction on the Company is evident in the preceding three halves of AVJennings' results.
  - which have each been lower than the preceding half.
- The forecast for the near future, is for less activity than we have witnessed in previous years, and limited price growth.
  - in other words, the Company is operating in a very cyclical sector, and while the short term outlook for the market is similar to that which we have experienced in the last year, the medium to longer term prospects are more favourable.

## Outlook

- Although purchaser activity has moderated in the short term, the factors contributing to underlying demand remain strong.
  - in addition to relatively good economic conditions and growth in new household formation, rental property vacancy levels are now very low.
  - this suggests an early impetus for the market strengthening again.
  - the recent decisions by the Reserve Bank to leave interest rates on hold, and by the NSW Government to abolish duty on the sale of investment property are also positive for strengthening the market.

## Inventories

- During the first half of the reporting year, the Company held low levels of completed stock ready for sale, due to the timing of development approvals for projects.
- The majority of development approval issues have now been resolved.
  - With some 10,000 lots under the Company's control, development approval has now been obtained on some 6,000 lots.
  - Of the remaining 4,000, 2,500 are zoned but not yet development approved, leaving 1,500 unzoned.
- There are presently adequate levels of completed housing and land stocks.
  - Availability of stock is no longer an issue and supports our medium to long term growth prospects.
  - The main issue at the present time is sales rates, which in turn are limited by market activity levels.

## Direction

- Despite the inevitable exposure to market cycles, developments underpin both past performance and long term prospects.
- In the last year the Company has internally reorganised to increase its focus on residential development activity.
  - Each state operation is now structured as two developments branches, plus a contract building branch.
  - Developments comprise of Land Subdivision, Integrated Housing and Low-Rise Apartments (New South Wales only).

## Resource Allocation

- About 50% of the Company's funds are invested in Land Subdivision projects.
  - Most of the remainder is invested in Integrated Housing.
  - Low-Rise Apartments are relatively few and exist only in Sydney due to lack of land availability.
- Contract Building engages the majority of staff (about 70%) but delivers low profits due to the structure of the industry within which it operates.

## Growth

- Despite the present cyclical downturn, the Company remains committed to the growth of its developments operations.
- The primary focus remains on land subdivision projects where possible, but land scarcity and opportunities to increase yield give rise to the Company's participation in Integrated Housing.
- In the last six months, the Company has moderated its land purchase activity, largely because vendor expectations remain too high.

## Regional Prospects

- New South Wales has been most severely impacted by the housing downturn.
  - Housing affordability has become a major issue in the wake of increasing government charges.
- The present downturn has impacted Victoria, South Australia and Queensland to a lesser degree.
  - The majority of the Company's acquisitions in recent years have been in Victoria and Queensland.

## Delivery

- Developed lot production and housing completions are on schedule.
- Near term outcomes are dependent largely on the strength of market activity.

While this year's performance has been lower than in previous years, I should reiterate again that the medium to longer term prospects for AVJennings are favourable and supported by sound fundamentals. The management team is working hard to position the Company for future growth, and the increased emphasis on land development and development housing (as distinct from contract building) holds us in good stead for the future.

Thank you ladies and gentlemen for your continued support. I will now hand back to Simon Cheong.

Thank you Louis.

We believe that AVJennings is well placed in its projects and strategies to maximise Shareholder returns in the medium to longer term.

May I take this opportunity to commend the Company's management team and employees for their hard work in difficult market conditions. I also thank our shareholders and business partners for their continued support.

Ladies and gentlemen, thank you.