



AVJennings Limited  
ABN: 44 004 327 771

Financial Report  
30 June 2008



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# Directors' Report

For the year ended 30 June 2008

Your Directors present their Report on the Company and its controlled entities for the year ended 30 June 2008.

## DIRECTORS

The names of the Company's Directors in office during the year and until the date of this report are as follows. Directors have been in office since the start of the year to the date of this report.

S Cheong	Chairman (non-executive)
RJ Rowley	Deputy Chairman (non-executive)
LF Milkovits	Managing Director and Chief Executive Officer
PK Summers	Finance Director, Chief Financial Officer and Company Secretary
HR Hochstadt	Director (non-executive)
E Sam	Director (non-executive)
B Chin	Director (non-executive)
BG Hayman	Director (non-executive)

## COMPANY SECRETARY

The names of the Company Secretaries in office during the year and until the date of this report (unless otherwise stated) are as follows:

HL Linacre	Resigned 5 September 2008
PK Summers	

## PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year were Residential Land Development, Residential Housing Development and Contract House Building.

There was no significant change in the nature of these activities during the financial year.

## OPERATING RESULTS

The consolidated profit after tax for the financial year was \$11.2 million (\$12.2 million for the 15 months ended 30 June 2007).

## DIVIDENDS PAID OR PROPOSED

Dividend paid to the Members during the financial year was as follows:	<b>\$'000</b>
Final fully franked dividend for financial year 2007, paid 29 October 2007	6,753
	<hr/> <b>6,753</b>

Subsequent to the year end, the Directors declared a final dividend of 2.0 cents per share (\$5,332,489) fully franked, to be paid on 31 October 2008. The final dividend has not been provided for in the 30 June 2008 financial statements.

The Company has an active Dividend Reinvestment Plan. The last date for the receipt of an election notice will be 10 October 2008. Subject to the approval of the Directors, the allotment price will be a 7.5% discount to the weighted average price of all the Company's fully paid shares traded on the Australian Stock Exchange during the five trading days from, and including, the date on which the shares go ex-dividend.

# Directors' Report

For the year ended 30 June 2008

## REVIEW OF OPERATIONS

The pre-tax profit for the full year ended 30 June 2008 was \$15.5 million compared to \$17.8 million pre-tax profit for the 15 month period ended 30 June 2007 (\$14.2 million annualised). Revenue for the 12 month period was \$517.8 million compared to \$632.2 million for the 15 month period ended 30 June 2007 (\$505.8 million annualised).

Contract signings for the 12 months to 30 June 2008 were \$570.0 million, compared to \$698.7 million for the 15 month period ended 30 June 2007 (\$559.0 million annualised). However, revenue recognised in the accounts for that period was \$517.8 million. The balance will be recognised in subsequent reporting periods.

Current reporting period margins increased to 19.4% from 19.0% in 2007.

Net interest bearing debt at 30 June 2008 per the consolidated accounts was \$168.0 million. Including the Consolidated Entity's proportionate share of debt from joint ventures which have been equity accounted, net debt at 30 June 2008 was \$194.3 million and this compares with \$218.7 million at 31 December 2007 and \$119.2 million at 30 June 2007.

The result was impacted by:

- § A write down of the carrying amount of inventory by \$1.066 million.
- § Extremely slow sales in New South Wales, particularly on the Sydney fringe. The already slow market further weakened in December 2007 following the preceding interest rate rise. In this State, the Consolidated Entity has adequate completed development inventory and production rates have been slowed to avoid the accumulation of unsold stock.
- § Low contract signings and margins for Contract Building in a slow market, particularly in New South Wales.

The New South Wales housing environment has been at particularly low levels for a prolonged period due to the compound effects of taxes, protracted approval processes and interest rate rises. These factors are structural in character and, other than possibly interest rates, unlikely to change in the short term.

AVJennings' business model, being residential developments and house construction, has cyclical earnings prospects which are influenced by both activity levels and price growth in the housing sector.

The current environment has been particularly difficult for the sector, however a cyclical turnaround is inevitable, as has always been the case.

Whilst short term issues such as affordability, purchaser confidence and investor activity can cause more volatile short term cycles, long term prospects for residential property development are strongly linked to underlying supply and demand. The current cycle has resulted in a major shortfall in housing supply relative to underlying demand. Underlying demand is determined by factors such as net immigration levels, birth rates, etc. and remains fundamentally strong.

Consequently, the Consolidated Entity has continued to pursue a growth strategy which has seen its development pipeline increase to some 10,800 lots (or equivalents) from some 7,600 a year ago. A significant proportion of this increase has been by way of development agreements with minimal upfront investment. The increase in its developments pipeline positions the Consolidated Entity well for the next growth cycle in the housing sector.

# Directors' Report

For the year ended 30 June 2008

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There have been no significant changes in the state of affairs of the Consolidated Entity during the year other than as disclosed in this report.

## **COMPARATIVE FIGURES**

For the 2007 financial year, the Consolidated Entity adopted a 30 June year end. The 2007 financial year reporting period was for the 15 months from 1 April 2006 to 30 June 2007. The comparative figures in the *Income Statement*, the *Statement of Changes in Equity*, the *Cash Flow Statement*, and Notes thereto, are therefore those for the 15 months ended 30 June 2007.

To enable meaningful comparison, some comparatives have been reclassified to conform with current year's presentation.

## **MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR**

Subsequent to the end of the financial year, the Company declared a final dividend of 2.0 cents per share, fully franked, as discussed earlier in this report and in Note 11 to the Financial Statements.

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

- i. the Consolidated Entity's operations in future financial years; or
- ii. the results of those operations in future financial years; or
- iii. the Consolidated Entity's state of affairs in future financial years.

## **FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES**

Future developments in the operations of the Consolidated Entity and the expected results of those operations have not been included in this report as the Directors believe that the inclusion of such information would be likely to result in unreasonable prejudice to the Consolidated Entity.

## **ENVIRONMENTAL REGULATION**

The Consolidated Entity's operations are subject to various environmental regulations under both Commonwealth and State legislation, particularly in relation to its property development activities. The Consolidated Entity's practice is to ensure that where operations are subject to environmental regulations, those obligations are identified and appropriately addressed. This includes obtaining and complying with conditions of relevant authority consents and approvals and obtaining necessary licenses.

The Consolidated Entity is not aware of any breaches of any environmental regulations and has not incurred any significant liabilities under any such environmental legislation.

# Directors' Report

For the year ended 30 June 2008

## INFORMATION ON THE DIRECTORS

### **Simon Cheong** *B.Civ.Eng. MBA*

Director since 20 September 2001. Mr Cheong has over 25 years experience in real estate, banking and international finance. He currently serves as Chairman and Chief Executive Officer of SC Global Developments Limited. Mr Cheong has formerly held positions with Citibank (Singapore) as their Head of Real Estate Finance for Singapore as well as with Credit Suisse First Boston as a Director and Regional Real Estate Head for Asia (excluding Japan). In 1996, Mr Cheong established his own firm, SC Global Pte Limited, a real estate and hotel advisory and direct investment group specialising in structuring large and complex transactions worldwide. In February 2007, he was elected President of the prestigious Real Estate Developers' Association of Singapore (REDAS), by an overwhelming majority. Resident of Singapore.

#### *Responsibilities:*

Chairman of the Board, Non-Executive Director, Chairman of Investments Committee, Member of Remuneration Committee, Member of Nominations Committee.

#### *Directorships held in other listed entities:*

SC Global Developments Limited, Chairman and Chief Executive Officer, since 14 March 2000.

### **Jerome Rowley** *SF Fin, FAICD*

Director since 22 March 2007. Mr Rowley has been a career banker since the early 1970s with Citigroup, Morgan Grenfell and ABN AMRO. From 1992 to 2002, he served as Managing Director and CEO of ABN AMRO Australia and Head of Relationship Management and Structured Finance for ABN AMRO, Asia Pacific. He has been active in both wholesale and investment banking domestically and internationally. During his career, Mr Rowley devoted considerable effort towards the recognition, understanding and management of risk as a means of profit optimisation. Of particular significance was his involvement in advising and funding including debt, equity and hybrids, of infrastructure projects in both Australia and Asia Pacific. Resident of Sydney.

#### *Responsibilities:*

Deputy Chairman, Chairman of Risk Management Committee, Member of Investments Committee.

#### *Directorships held in other listed entities:*

Anaeco Limited, since 15 August 2005.

Natural Fuel Limited (from 18 August 2006 to 31 October 2007).

### **Louis F Milkovits** *B.Sc. B.Ec.*

Director since 3 May 1999. Mr Milkovits has been Managing Director and Chief Executive Officer of AVJennings Limited since May 1999. Prior to joining the Company, he held senior positions in the Defence Housing Authority, including three years as its Managing Director. His earlier work encompassed all commercial and residential property development for the Australian Government in the state of Victoria, and development of housing industry models and general econometric and mathematical research. Resident of Melbourne.

#### *Responsibilities:*

Managing Director, Chief Executive Officer, Member of Investments Committee.

#### *Directorships held in other listed entities:*

None.

# Directors' Report

For the year ended 30 June 2008

## INFORMATION ON THE DIRECTORS (continued)

### **Peter K Summers** *B.Ec. CA*

Director since 27 August 1998. Mr Summers has been employed with the Company and its related entities since 1984. During that time he has held various management roles and Directorships in these Companies. He was appointed Chief Financial Officer of the Company in 1995 and became Finance Director in August 1998. Mr Summers is a Chartered Accountant, having worked previously with Price Waterhouse, and is a member of the Finance and Treasury Association. He has extensive experience in general and financial management as well as mergers and acquisitions. Resident of Melbourne.

#### *Responsibilities:*

Finance Director, Chief Financial Officer, Company Secretary.

#### *Directorships held in other listed entities:*

None.

### **Elizabeth Sam** *B.A. Hons (Econ)*

Director since 20 September 2001. Mrs Sam has over 40 years experience in international banking and finance. She has served on numerous high level Singaporean government financial and banking review committees and was the Chairman of the Singapore International Monetary Exchange from 1987-1990 and 1993-1996. Resident of Singapore.

#### *Responsibilities:*

Non-Executive Director, Chairman of Remuneration Committee, Member of Audit Committee.

#### *Directorships held in other listed entities:*

Boardroom Limited, since 15 August 2000.

Kasikorn Bank Plc, Thailand, since 29 March 2001.

SC Global Developments Limited, since 23 July 2002.

The Straits Trading Company Limited, since 30 April 2008.

Nippecraft Limited (from 24 July 2007 to 28 April 2008).

### **Herman R Hochstadt** *B.A (Hons), AMP (Stanford-Insead)*

Director since 30 June 2004. Over 40 years experience in public administration in several Singaporean government departments, including over 10 years in the Ministry of Finance and Monetary Authority of Singapore, and in business, including as Chairman of Export Credit Insurance Corporation of Singapore, the Neptune Orient Lines and APL and as Board Director of Singapore Airlines. He was Chairman of the Singapore Turf Club and a member of the Economics Development Board, Inland Revenue Authority of Singapore, Mass Rapid Transit Corporation, Port of Singapore Authority and National Productivity Board; and served as Special Advisor to the Port & Maritime Authority of Singapore and as High Commissioner for Singapore to Botswana, Mauritius, Namibia, South Africa, Swaziland and Tanzania. Mr. Hochstadt is currently a member of Singapore's Presidential Council for Minority Rights and Pro-Chancellor of Nanyang Technological University. Resident of Singapore.

#### *Responsibilities:*

Non-Executive Director, Chairman of Nominations Committee, Member of Audit Committee, Member of Remuneration Committee.

#### *Directorships held in other listed entities:*

None.

# Directors' Report

For the year ended 30 June 2008

## INFORMATION ON THE DIRECTORS (continued)

### **Bobby Chin** CA (ICAEW), B. Acc

Director since 18 October 2005. Mr Chin is the Chairman of Singapore Totalisator Board and serves on the Boards of Competition Commission of Singapore and Singapore Labour Foundation. He served 31 years with KPMG Singapore and was its Managing Partner from 1992 to September 2005. Mr Chin is a member of the Institute of Certified Public Accountants in Singapore, and an associate member of the Institute of Chartered Accountants in England and Wales. Resident of Singapore.

#### *Responsibilities:*

Non-Executive Director, Chairman of Audit Committee, Member of Nominations Committee.

#### *Directorships held in other listed entities:*

Oversea-Chinese Banking Corporation Limited, since 1 October 2005.

The Straits Trading Company Limited (from 18 November 2005 to 24 April 2008).

Stamford Land Corporation Limited (from 2 May 2006 to 31 December 2007).

Yeo Hiap Seng Limited, since 15 May 2006.

Ho Bee Investment Limited, since 29 November 2006.

Neptune Orient Lines Limited, since 26 December 2006.

### **Bruce G Hayman**

Director since 18 October 2005. Mr Hayman has over 40 years commercial management experience with 20 of those at operational Chief Executive or General Manager level. He is currently Chairman of Chartwell Management Services where he brings his very wide business experience to clients by way of the business performance and coaching programs he offers. He has fulfilled senior management roles both in Australia and overseas for companies such as Nicholas Pharmaceutical Group, Dairy Farm Group, Hong Kong Land and Seagram Corporation. During his time in Singapore, he held the position of Foundation President of the Singapore Australia Business Council. He has also served as CEO of the Australian Rugby Union. For his contribution to tourism in Australia, he has been recognised by Tourism Training Australia with a Platinum award. He is Chairman of the Board of The Rugby Club Ltd and is a Director of Diabetes Australia – NSW. Resident of Sydney.

#### *Responsibilities:*

Non-Executive Director, Member of Remuneration Committee, Member of Nominations Committee, Member of Investments Committee, Member of Risk Management Committee.

#### *Directorships held in other listed entities:*

None.

## INFORMATION ON THE COMPANY SECRETARY

### **Peter K Summers** B.Ec. CA

Mr Summers is also the Company's Finance Director and Chief Financial Officer. Resident of Melbourne.

# Directors' Report

For the year ended 30 June 2008

## REMUNERATION REPORT (Audited)

This Remuneration Report outlines the Director and other Key Management Personnel Remuneration arrangements of the Company and its controlled entities in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management Personnel of the Consolidated Entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and its controlled entities, directly or indirectly, including any Director (whether Executive or otherwise) of the Parent Company, and includes the six other Key Management Personnel in the Parent and controlled entities receiving the highest remuneration.

For the purposes of this report, the term 'Key Management Personnel' encompasses the Chief Executive, Senior Executives, General Managers and Secretaries of the Parent and its controlled entities.

### 1. Details of Key Management Personnel of the Company and the Consolidated Entity

#### (i) Directors

S Cheong	Chairman (non-executive)
RJ Rowley	Deputy Chairman (non-executive)
LF Milkovits	Managing Director and Chief Executive Officer
PK Summers	Finance Director, Chief Financial Officer and Company Secretary
HR Hochstadt	Director (non-executive)
E Sam	Director (non-executive)
B Chin	Director (non-executive)
BG Hayman	Director (non-executive)

#### (ii) Other Key Management Personnel

M Henesey-Smith	State Manager Developments (Queensland)	
PA Jackson	State Manager Developments (South Australia)	
SC Orlandi	State Manager Developments (New South Wales)	
P Viitas	State Manager Developments (Victoria)	
GW Trezise	State Manager Apartments (New South Wales)	Appointed 16 July 2007
M Roser	National Manager Contract Building	Appointed 8 October 2007

### 2. Principles Used to Determine the Nature and Amount of Remuneration

#### 2.1 The Remuneration Committee

The Board has established a Remuneration Committee that is comprised of four Non-Executive Directors. The Committee considers and reports on, among other things, remuneration policies and packages applicable to Board members and other Key Management Personnel of the Company. The Committee is empowered to seek external professional advice on any matter within its terms of reference. The Committee's main functions encompass reviewing and reporting to the Board on:

- Conditions of service and remuneration of the Chief Executive Officer and his direct reports;
- Performance of the Chief Executive Officer;
- Remuneration of the Chief Financial Officer and the Company Secretary;
- Remuneration policies of the Consolidated Entity which include the performance review of all employees, senior management and Board members;
- Proposals for reward initiatives;
- Succession planning for senior management; and
- Other related matters as directed by the Board.

# Directors' Report

For the year ended 30 June 2008

## **REMUNERATION REPORT (Audited) (continued)**

### **2.1 The Remuneration Committee (continued)**

The Committee meets at least annually and the Chief Executive Officer attends its meetings by invitation when required to report on, and discuss, Key Management Personnel performance and remuneration matters. The Chief Executive Officer is excluded from Committee deliberations relating to his position.

### **2.2 Remuneration Philosophy**

The continuing performance of the Consolidated Entity to maximise stakeholder benefit depends upon the quality of its Directors and other Key Management Personnel. To ensure compliance with the objective of maximising stakeholder benefits, the Consolidated Entity must attract, motivate and retain highly skilled Directors and other Key Management Personnel. To this end, the Consolidated Entity has established appropriate, demanding performance hurdles for variable Key Management Personnel remuneration.

### **2.3 Remuneration Structure**

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct.

### **2.4 Remuneration of Non-Executive Directors**

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 Committee has available to it data on the fees that a wide range of companies pay to their independent Directors. If the Company pays fees to its Non-Executive Directors then these are within the aggregate limits approved by the Shareholders at a General Meeting. The independent Non-Executive Directors receive, or will receive, fees paid by the Company.

Two Non-Executive Directors, Mr S Cheong and Mrs E Sam, do not receive fees, however the Consolidated Entity pays a consulting fee to a substantial shareholder SC Global Developments Limited.

The remaining Non-Executive Directors receive a base fee of \$50,000 for being a Director of the Consolidated Entity. An additional fee of \$10,000 is also paid to the Chairman of the Audit Committee. The payment of the additional fee for serving as Chairman of the Audit Committee recognises the additional time commitment required by the Non-Executive Director who serves as Chairman of the Audit Committee.

Non-Executive Directors do not receive any retirement benefits, nor do they participate in any incentive programs.

The remuneration of Non-Executive Directors for the year ended 30 June 2008 and for the 15 months ended 30 June 2007, is detailed in the tables on page 14 of this Report.

# Directors' Report

For the year ended 30 June 2008

## REMUNERATION REPORT (Audited) (continued)

### **2.5. Key Management Personnel Remuneration**

The Consolidated Entity aims to reward its Key Management Personnel with a level and mix of remuneration commensurate with their position and responsibilities within the Consolidated Entity so as to:

- i) Reward the Key Management Personnel for Consolidated Entity and profit centre performance against targets set by reference to appropriate benchmarks;
- ii) Align the interests of Key Management Personnel with those of shareholders; and
- iii) Ensure total remuneration is competitive by market standards.

The profit centre managers of the Consolidated Entity and Executive Directors of the Company receive a balance of fixed and variable (at risk) remuneration. The proportions vary at different levels within the Consolidated Entity reflecting the capacity of these managers to influence the overall outcome of the Consolidated Entity's operations and returns to Shareholders.

The Consolidated Entity has no Long Term Incentive (LTI) scheme in place.

#### ***i) Fixed Remuneration***

Fixed Remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of Group, business unit and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and procedures is obtained. As noted above, the Remuneration Committee has access to external advice independent of Management.

Key Management Personnel are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Consolidated Entity.

The remuneration of the named Key Management Personnel for the year ended 30 June 2008 and for the 15 months ended 30 June 2007, is detailed in the tables on page 15 of this Report.

#### ***ii) Variable Remuneration – Short Term Incentive (STI)***

The objective of the STI program is to link the achievement of the Consolidated Entity's operational targets with the remuneration received by the Key Management Personnel charged with meeting those targets. Only the Key Management Personnel in charge of profit centres have quantifiable STIs. The total potential STI available for the Key Management Personnel in charge of profit centres is set at the beginning of each financial year at a level so as to provide sufficient incentive to the Key Management Personnel to achieve the operational targets and such that the cost to the Consolidated Entity is reasonable in the circumstances.

Actual STI payments paid to Key Management Personnel depend on the extent to which specific targets set at the beginning of the financial year are met. The targets are established to ensure continuing Consolidated Entity performance and maximise stakeholder benefit.

For the reporting period, the targets consisted of a number of Key Performance Indicators (KPIs) such as the budget profit target for the profit centre.

These measures were chosen as they represent the Key Drivers for the short term success of the Consolidated Entity and provide a framework for delivering long term value.

# Directors' Report

For the year ended 30 June 2008

## REMUNERATION REPORT (Audited) (continued)

### 2.5. Executive Remuneration (continued)

#### ii) Variable Remuneration – Short Term Incentive (STI) (continued)

No part of the STI program involves a comparison of performance with factors external to the Consolidated Entity.

The Consolidated Entity has predetermined the benchmarks that must be met in order to trigger payments under the STI program. In order to trigger payments under the STI program, the program participant must exceed benchmarks established at the beginning of the financial year. On an annual basis, after consideration of the performance against the KPIs, the Remuneration Committee, in line with their responsibilities, determines the amount, if any, of the short term incentive to be paid to each Key Management Personnel. The process normally occurs within two months after the reporting date.

The estimated amount of the STI bonus to be paid is raised as a provision in the results of the financial year to which the STI bonus applies. The final actual STI bonus is determined by the Remuneration Committee. Participants that are eligible for the STI program can elect, in the period preceding the financial year to which the STI bonus applies, to either salary sacrifice all or part of the bonus to superannuation or to receive the entire bonus as a cash payment.

There are no quantified STI bonuses for other Key Management Personnel. The Chief Executive Officer, the Chief Financial Officer and the Company Secretary do not have quantified criteria for STI entitlements, however their performance is reviewed annually by the Board. Any incentive payments made to them are at the discretion of the Board.

For the 2007 financial year, 100% of the STI bonus of \$96,000 as previously accrued in that period vested to Key Management Personnel and was paid in the 2008 financial year. The maximum STI bonus payable to Key Management Personnel as considered by the Remuneration Committee for the 2008 financial year was \$125,000. This amount was accrued in the accounts as at 30 June 2008 and 100% of this incentive bonus was paid in August 2008. The minimum amount of the STI bonus assuming that none of the Key Management Personnel had met their respective KPIs for the 2008 financial year was nil.

There have been no alterations to the STI bonus plans since their grant date.

### 3. Group Performance

The table below shows the Consolidated Entity's earnings performance as well as the movement in the Consolidated Entity's earnings per share (EPS) over the last 5 years.

Financial Report Date	Financial Period	Consolidated	
		Profit After Tax \$'000	Basic EPS Cents
31 March 2004	12 months	55,013	25.56
31 March 2005	12 months	43,547	20.23
31 March 2006	12 months	16,200	7.53
30 June 2007	15 months	12,164	5.50
30 June 2007	12 months annualised *	9,731	4.40
30 June 2008	12 months	11,231	4.87

\* Pro-rata for 12 months.

# Directors' Report

For the year ended 30 June 2008

## REMUNERATION REPORT (Audited) (continued)

### **4. Employment Contracts**

#### ***i) Chief Executive Officer***

Mr Milkovits is employed under a letter of appointment. The letter of appointment does not have a termination date or termination payment details. However, it does specify a notice period. Details regarding the remuneration paid to Mr Milkovits is contained in the table on page 14. During the year no options were either granted to or exercised by Mr Milkovits. There are currently no unexercised or outstanding options.

#### ***ii) Other Key Management Personnel***

Mr Summers does not have a formal employment contract or letter of appointment that stipulates duration, notice period, termination or termination details.

The remaining named AVJennings Key Management Personnel are full time permanent employees with executive employment contracts. The employment contracts do not have termination dates or termination payments. However, they specify a notice period. There are no other terms or conditions that differ significantly from the standard employment contracts applicable to other AVJennings employees. During the year no options were either granted to or exercised by the Key Management Personnel. There are currently no unexercised or outstanding options.

# Directors' Report

For the year ended 30 June 2008

## REMUNERATION REPORT (Audited) (continued)

### 5. Remuneration of Key Management Personnel of the Company and the Consolidated Entity

Details of the nature and amount of each element of remuneration of the Directors and six other named Key Management Personnel are set out in the following tables. The Directors are the same as those identified in the *Directors' Report* and other named Key Management Personnel are also included in the category of the six highest paid Key Management Personnel.

#### Directors

	Short-Term			Post Employment	Total
	Salary / Fees	Cash Bonus	Other <sup>(4)</sup>	Superannuation <sup>(5)</sup>	
	\$	\$	\$	\$	\$
<b>30 June 2008 - 12 months</b>					
S Cheong <sup>(1)</sup>	-	-	-	-	-
RJ Rowley	-	-	-	50,000	50,000
LF Milkovits	500,000	-	-	100,000	600,000
PK Summers	283,544	-	17,789	48,667	350,000
E Sam <sup>(1)</sup>	-	-	-	-	-
HR Hochstadt	50,000	-	-	-	50,000
B Chin	60,000	-	-	-	60,000
BG Hayman	45,872	-	-	4,128	50,000
	<b>939,416</b>	<b>-</b>	<b>17,789</b>	<b>202,795</b>	<b>1,160,000</b>
<b>30 June 2007 - 15 months</b>					
S Cheong <sup>(1)</sup>	-	-	-	-	-
RJ Rowley <sup>(2)</sup>	15,143	-	-	1,362	16,505
LF Milkovits	619,859	-	-	130,141	750,000
PK Summers	367,723	-	35,289	26,988	430,000
E Sam <sup>(1)</sup>	-	-	-	-	-
HR Hochstadt	62,500	-	-	-	62,500
B Chin	75,000	-	-	-	75,000
BG Hayman	57,340	-	-	5,160	62,500
D Tsang <sup>(1)(3)</sup>	-	-	-	-	-
	<b>1,197,565</b>	<b>-</b>	<b>35,289</b>	<b>163,651</b>	<b>1,396,505</b>

(1) These Directors are not paid Directors' fees. Consulting fees of \$50,000 per month were paid to a related entity (not a member of the Consolidated Entity) for services which included the provision of these Directors' services. International airfares to attend meetings are paid for by the related entity.

(2) Appointed 22 March 2007.

(3) Retired 17 August 2006.

(4) Includes the value of motor vehicle benefits.

(5) Payments to Defined Contribution Plans. Consists of both Superannuation Guarantee Contribution payments as well as employee voluntary contributions. The Consolidated Entity does not contribute to any Defined Benefit Plans.

(a) Directors are also reimbursed for airfares (other than the international airfares for those Directors referred to in (1) above), accommodation and other expenses relating to the provision of their services.

(b) There are no long-term and share based payments made to Directors.

(c) The values contained in the above remuneration tables have been audited by the Consolidated Entity's external auditors, Ernst & Young.

# Directors' Report

For the year ended 30 June 2008

## REMUNERATION REPORT (Audited) (continued)

### 5. Remuneration of Key Management Personnel of the Company and the Consolidated Entity (continued)

#### Other Key Management Personnel

	Short-Term			Post Employment	Total
	Salary / Fees	Cash Bonus <sup>(7)</sup>	Other <sup>(8)</sup>	Superannuation <sup>(9)</sup>	
	\$	\$	\$	\$	\$
<b>30 June 2008 - 12 months</b>					
M Henesey-Smith	153,125	60,000	15,000	100,000	<b>328,125</b>
PA Jackson	135,750	20,000	-	100,000	<b>255,750</b>
SC Orlandi	158,567	-	26,000	13,967	<b>198,534</b>
P Vlitaz	223,250	45,000	15,000	18,000	<b>301,250</b>
GW Trezise <sup>(1)</sup>	192,161	-	-	13,392	<b>205,553</b>
M Roser <sup>(2)</sup>	147,218	-	19,297	14,184	<b>180,699</b>
	<b>1,010,071</b>	<b>125,000</b>	<b>75,297</b>	<b>259,543</b>	<b>1,469,911</b>
<b>30 June 2007 - 15 months</b>					
BL Harper <sup>(3)</sup>	294,046	-	-	80,954	<b>375,000</b>
M Henesey-Smith	129,126	50,000	18,750	159,624	<b>357,500</b>
PA Jackson	147,908	46,000	-	134,592	<b>328,500</b>
MF Lenarduzzi <sup>(4) (5)</sup>	241,940	-	142,600	34,922	<b>419,462</b>
SC Orlandi	182,160	-	30,816	16,724	<b>229,700</b>
P Vlitaz <sup>(6)</sup>	54,446	-	3,692	3,266	<b>61,404</b>
	<b>1,049,626</b>	<b>96,000</b>	<b>195,858</b>	<b>430,082</b>	<b>1,771,566</b>

(1) Appointed to the role of state manager Apartments (New South Wales) on 16 July 2007.

(2) Appointed to the role of national manager Contract Building on 8 October 2007.

(3) Resigned 25 January 2008.

(4) Resigned 5 April 2007.

(5) 'Other' includes a payment of \$135,677 for accrued annual and long service leave not taken by the employee who resigned on 5 April 2007.

(6) Appointed to the role of state manager Developments (Victoria) on 10 April 2007. Prior to 10 April 2007, the employee did not meet the definition of Key Management Personnel.

(7) Accrued at 30 June 2008, paid during the 2009 financial year.

(8) Includes the value of motor vehicle benefits.

(9) Payments to Defined Contribution Plans. Consists of both Superannuation Guarantee Contribution payments as well as employee voluntary contributions. The Consolidated Entity does not contribute to any Defined Benefit Plans.

(a) There are no long term and share based payments made to Key Management Personnel.

(b) The values contained in the above remuneration tables have been audited by the Consolidated Entity's external auditors, Ernst & Young.

### 6. Remuneration Options: Granted and Vested During the Year

No options were either granted or exercised during the year. There are currently no unexercised or outstanding options. None of the Directors, or the other Key Management Personnel, hold any options.

# Directors' Report

For the year ended 30 June 2008

## MEETINGS OF DIRECTORS AND DIRECTORS' COMMITTEES

The number of meetings of Directors and Directors' committees held during the year and the number of meetings attended by each Director are detailed below.

	Full Meetings of Directors		Meetings of Committees					
	Held	Attended	Audit		Remuneration		Nominations	
			Held	Attended	Held	Attended	Held	Attended
S Cheong	7	7	-	-	2	2	1	1
RJ Rowley	7	7	-	-	-	-	-	-
LF Milkovits	7	7	-	-	-	-	-	-
PK Summers	7	7	-	-	-	-	-	-
E Sam	7	7	4	4	2	2	-	-
HR Hochstadt	7	7	4	4	2	2	1	1
B Chin	7	7	4	4	-	-	1	1
BG Hayman	7	7	-	-	2	2	1	1

### *Investments Committee*

The Investments Committee did not meet formally during the year, however it conducted physical inspections of certain major development sites and received detailed briefings from management on all major development sites prior to consideration of formal acquisition proposals which were dealt with by way of circular resolution.

## DIRECTORS' INTERESTS

The relevant interests of the Directors in the shares of the Company at the date of this report are:

Director	Number
S Cheong	130,481,150
LF Milkovits	730,234
E Sam	143,182

## INDEMNIFYING OFFICERS

During the year the Consolidated Entity paid a premium in respect of a contract insuring its Directors and employees against liabilities that may be incurred in defending civil or criminal proceedings that may be brought against the Officers in their capacity as Officers of entities in the Consolidated Entity. In accordance with common practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

# Directors' Report

For the year ended 30 June 2008


## ROUNDING OF AMOUNTS

The amounts contained in this Report and in the financial statements have been rounded to the nearest \$1,000 (where rounding is permitted) under the option available to the Company under the Australian Securities and Investments Commission (ASIC) Class Order 98/100. The Company is an entity to which the Class Order applies.

## AUDITOR'S INDEPENDENCE DECLARATION

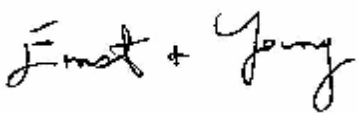
We have obtained the following independence declaration from our auditors, Ernst & Young:

**Auditor's Independence Declaration to the Directors of AVJennings Limited**




Ernst & Young Centre  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001  
Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
www.ey.com/au

In relation to our audit of the financial report of AVJennings Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young  
30 September 2008



David Simmonds  
Partner  
*Liability limited by a scheme approved under Professional Standards Legislation*

## NON-AUDIT SERVICES

A number of non-audit services were provided by the Consolidated Entity's auditor, Ernst & Young. These non-audit services are detailed in note 9 to this financial report. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

This report is made in accordance with a resolution of the Directors.



Simon Cheong  
Director

30 September 2008



Louis Milkovits  
Director

# Income Statement

For the year ended 30 June 2008

	Note	Consolidated		Parent	
		12 months June 2008 \$'000	15 months June 2007 \$'000	12 months June 2008 \$'000	15 months June 2007 \$'000
<b>Continuing Operations</b>					
Revenues	6	517,775	632,233	7,000	10,761
Change in inventories, finished goods and work-in-progress		(417,234)	(512,870)	-	-
Other operational expenses		(8,625)	(10,906)	-	-
Other income	6	1	5	-	-
Advertising expenses		(9,266)	(11,542)	-	-
Display costs		(7,365)	(8,856)	-	-
Employee expenses		(45,661)	(50,990)	-	-
Depreciation and amortisation expense	6	(2,242)	(3,051)	-	-
Finance costs	6	(520)	(424)	-	-
Other expenses		(11,412)	(15,829)	-	-
<b>Profit before income tax</b>		<b>15,451</b>	<b>17,770</b>	<b>7,000</b>	<b>10,761</b>
Income tax expense	10	(4,220)	(5,606)	-	-
<b>Net profit attributable to members of the parent</b>		<b>11,231</b>	<b>12,164</b>	<b>7,000</b>	<b>10,761</b>

		Cents	Cents
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the parent			
- Basic earnings per share	12	4.87	5.50
- Diluted earnings per share	12	4.87	5.50

# Balance Sheet

As at 30 June 2008

	Note	Consolidated		Parent	
		30 June	30 June	30 June	30 June
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	13	6,950	1,194	-	-
Trade and other receivables	14	20,517	22,451	31,382	31,382
Inventories	15	246,478	240,749	-	-
Tax receivable	16	1,501	-	-	-
Other current assets	17	6,887	3,505	-	-
<b>Total current assets</b>		<b>282,333</b>	<b>267,899</b>	<b>31,382</b>	<b>31,382</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	14	-	1,697	-	-
Inventories	15	258,076	248,899	-	-
Investments accounted for using the equity method	18	32,733	761	-	-
Investments in subsidiary companies	19	-	-	163,286	163,286
Property, plant and equipment	22	4,880	5,381	-	-
Intangible assets	23	3,554	4,046	-	-
<b>Total non-current assets</b>		<b>299,243</b>	<b>260,784</b>	<b>163,286</b>	<b>163,286</b>
<b>Total assets</b>		<b>581,576</b>	<b>528,683</b>	<b>194,668</b>	<b>194,668</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	24	65,669	101,561	22,831	52,375
Interest-bearing loans and borrowings	25	20,020	26,280	-	-
Tax payable	26	-	1,028	-	-
Provisions	28	5,239	4,702	-	-
<b>Total current liabilities</b>		<b>90,928</b>	<b>133,571</b>	<b>22,831</b>	<b>52,375</b>
<b>NON-CURRENT LIABILITIES</b>					
Trade and other payables	24	7,324	9,699	-	-
Interest-bearing loans and borrowings	25	156,340	95,714	-	-
Deferred tax liabilities	27	21,772	18,047	-	-
Provisions	28	767	982	-	-
<b>Total non-current liabilities</b>		<b>186,203</b>	<b>124,442</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>277,131</b>	<b>258,013</b>	<b>22,831</b>	<b>52,375</b>
<b>Net assets</b>		<b>304,445</b>	<b>270,670</b>	<b>171,837</b>	<b>142,293</b>
<b>EQUITY</b>					
Equity attributable to equity holders of the parent					
Contributed equity	29	119,247	89,950	119,247	89,950
Retained earnings		185,198	180,720	52,590	52,343
<b>Total equity</b>		<b>304,445</b>	<b>270,670</b>	<b>171,837</b>	<b>142,293</b>

# Statement of Changes in Equity

For the year ended 30 June 2008

CONSOLIDATED	Note	Attributable to equity holders of the parent		Total equity
		Issued capital \$'000	Retained earnings \$'000	\$'000
<b>At 1 April 2006</b>		<b>79,189</b>	<b>179,317</b>	<b>258,506</b>
Profit for the period		-	12,164	12,164
Total income and expenses for the period		-	12,164	12,164
Equity transactions				
- Ordinary share capital raised	29	10,761	-	10,761
- Dividends	11	-	( 10,761 )	( 10,761 )
		10,761	1,403	12,164
<b>At 30 June 2007</b>		<b>89,950</b>	<b>180,720</b>	<b>270,670</b>
Profit for the year		-	11,231	11,231
Total income and expenses for the year		-	11,231	11,231
Equity transactions				
- Ordinary share capital raised	29	29,297	-	29,297
- Dividends	11	-	( 6,753 )	( 6,753 )
		29,297	4,478	33,775
<b>At 30 June 2008</b>		<b>119,247</b>	<b>185,198</b>	<b>304,445</b>
<b>PARENT</b>				
<b>At 1 April 2006</b>		<b>79,189</b>	<b>52,343</b>	<b>131,532</b>
Profit for the period		-	10,761	10,761
Total income and expenses for the period		-	10,761	10,761
Equity transactions				
- Ordinary share capital raised	29	10,761	-	10,761
- Dividends paid	11	-	( 10,761 )	( 10,761 )
		10,761	-	10,761
<b>At 30 June 2007</b>		<b>89,950</b>	<b>52,343</b>	<b>142,293</b>
Profit for the year		-	7,000	7,000
Total income and expenses for the year		-	7,000	7,000
Equity transactions				
- Ordinary share capital raised	29	29,297	-	29,297
- Dividends paid	11	-	( 6,753 )	( 6,753 )
		29,297	247	29,544
<b>At 30 June 2008</b>		<b>119,247</b>	<b>52,590</b>	<b>171,837</b>

# Cash Flow Statement

For the year ended 30 June 2008

	Note	Consolidated		Parent	
		12 months June 2008 \$'000	15 months June 2007 \$'000	12 months June 2008 \$'000	15 months June 2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		572,448	624,921	-	-
Payments to suppliers, land vendors and employees		(589,274)	(547,392)	-	-
Interest paid		(18,722)	(20,005)	-	-
Income taxes refunded (paid)		(3,024)	1,947	-	-
<b>Net cash flows from (used in) operating activities</b>	30	<b>(38,572)</b>	<b>59,471</b>	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		444	650	-	-
Purchase of property, plant and equipment		(1,724)	(1,062)	-	-
Interest received	6	670	392	-	-
Investments in associates and joint venture entities		(31,972)	(761)	-	-
<b>Net cash flows used in investing activities</b>		<b>(32,582)</b>	<b>(781)</b>	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		279,474	175,954	-	-
Repayment of borrowings		(215,648)	(237,547)	(22,544)	-
Payment of finance lease liability		(908)	(461)	-	-
Dividends paid		(1,857)	-	(1,857)	-
Proceeds from issue of shares	29	24,401	-	24,401	-
<b>Net cash flows from (used in) financing activities</b>		<b>85,462</b>	<b>(62,054)</b>	-	-
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		<b>14,308</b>	<b>(3,364)</b>	-	-
Cash and cash equivalents at beginning of year		(7,358)	(3,994)	-	-
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	13	<b>6,950</b>	<b>(7,358)</b>	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 1. CORPORATE INFORMATION

The Financial Report of AVJennings Limited and its subsidiary companies for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Directors on 30 September 2008.

AVJennings Limited is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange and the Singapore Stock Exchange through the Central Limited Order Book (CLOB).

The Consolidated Entity ('AVJennings' or 'Consolidated Entity') consists of AVJennings Limited (the 'Company' or the 'Parent') and its subsidiary companies. The nature of the operations and principal activities of the Consolidated Entity are described in the Directors' Report.

The Consolidated Entity's functional and presentation currency is Australian Dollars.

For the 2007 financial year, AVJennings adopted a 30 June year end for the first time. In line with AASB101 *Presentation of Financial Statements*, the comparative figures in this Financial Report are the ones reported in the 30 June 2007 Financial Report, which covered the 15 month reporting period from 1 April 2006 to 30 June 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ***Basis of preparation***

This Financial Report is a general-purpose financial report which has been prepared on a historical cost basis, as modified by the revaluation of derivative financial instruments at fair value through the *Income Statement*.

The Financial Report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

### **a) Compliance with IFRS**

The Financial Report has been prepared in accordance with Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board, and complies with the *Corporations Act 2001*. The Financial Report also complies with the International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

### **b) New accounting standards and interpretations**

The Consolidated Entity has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 July 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no effect on profit and loss or the financial position of the Consolidated Entity.

Following the release of AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities*, AVJennings has transferred the detailed key managerial personnel remuneration disclosures, which have been audited, to the *Remuneration Report* section of the *Directors' Report*.

AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] and AASB 8 *Operating Segments* – AASB 8 will only affect disclosure. The standard, may have an impact on the Consolidated Entity's segment disclosures as segment information included in internal management reports is likely to be more detailed than that currently reported under AASB 114 *Segment Reporting*. The Consolidated Entity has not yet determined the full impact of the standard on the Financial Report. This standard is applicable to annual reporting periods beginning on or after 1 January 2009 and is therefore applicable to the Consolidated Entity for the annual reporting period beginning on 1 July 2009.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b) *New accounting standards and interpretations (continued)*

AASB 101 (Revised) *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* introduces as a financial statement the "Statement of Comprehensive Income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other standards. This standard is applicable to annual reporting periods beginning on or after 1 January 2009 and will become mandatory for the Consolidated Entity's annual reporting period beginning on 1 July 2009.

Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of that asset. The revised standard will become mandatory for the Consolidated Entity's annual reporting period beginning on 1 July 2009. This is unlikely to have an impact on the Consolidated Entity as it currently capitalises all borrowing costs directly attributable to the acquisition, construction or production of qualifying assets.

IRFIC Interpretation 15 *Agreements for the Construction of Real Estate* was issued in July 2008. This Interpretation provides guidance on determining whether an agreement is a construction contract, an agreement for rendering of services or for the sale of goods. The Consolidated Entity has reviewed its current agreements for the construction of real estate and the Interpretation is unlikely to change the accounting for these agreements. This interpretation is applicable to annual reporting periods beginning on or after 1 January 2009 and will become mandatory for the Consolidated Entity's annual reporting period beginning on 1 July 2009.

### c) *Basis of consolidation*

The *Consolidated Financial Statements* comprise the financial statements of AVJennings Limited (Parent Entity) and its subsidiary companies as at 30 June 2008. Comparatives cover the 15 month period ended 30 June 2007.

Subsidiary companies are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiary companies are prepared for the same reporting period as the Parent Entity, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses, and profit and losses resulting from intra-group transactions have been eliminated.

Subsidiary companies are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiary companies held by the parent are accounted for at cost in the separate financial statements of the parent.

The acquisition of subsidiary companies is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **d) Investments in subsidiary companies and controlled entities**

Investments in controlled entities are accounted for in the *Consolidated Financial Statements* as set out in note 2(c). Investments in joint ventures are accounted for as set out in note 2(e) and investments in associates are accounted for as set out in note 2(f).

### **e) Interests in joint ventures**

#### *Joint venture operations*

The Consolidated Entity's interests in unincorporated joint ventures are brought to account by recognising its proportionate share of joint venture operations' assets, liabilities, revenues and expenses under appropriate headings in its financial statements. Details of proportionately consolidated joint ventures are set out in note 21.

#### *Joint venture partnership*

The interest in a joint venture partnership is accounted for using the equity method of accounting and is carried at cost. Under the equity method, the Consolidated Entity's share of the results of a joint venture partnership is recognised in the *Income Statement*, and the share of movements in reserves is recognised in the *Balance Sheet*. Details relating to joint venture partnerships are set out in note 18(b).

### **f) Investments in associates**

The Consolidated Entity's investment in associates is accounted for using the equity method of accounting. Associates are entities over which the Consolidated Entity has significant influence and that are neither subsidiary companies nor joint ventures.

Under the equity method, investments in associates are carried in the *Balance Sheet* at cost plus post-acquisition movements in the Consolidated Entity's share of net assets of an associate. 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 an associate.

The Consolidated Entity's share of an associate's post-acquisition profits or losses is recognised in the *Income Statement*, and its share of post-acquisition movements in the associates' reserves is recognised in the Consolidated Entity's reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the *Income Statement*, while in the *Balance Sheet* they have the effect of reducing the carrying amount of the investment.

If the Consolidated Entity's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Consolidated Entity does not recognise any further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Consolidated Entity are identical and the associate's accounting policies conform to those used by the Consolidated Entity for like transactions and events in similar circumstances.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### g) *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Plant, equipment, and motor vehicles	3-7 years
Motor vehicles (held under finance lease)	2-3 years
Leasehold improvements	3-10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if necessary, at each financial year-end.

#### *Disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Gains and losses on derecognising assets are determined by comparing the net disposal proceeds with the carrying amount. These are included in the *Income Statement*.

### h) *Borrowing costs*

Borrowing costs include interest, discounts or premiums relating to borrowings, and other costs incurred in connection with the arrangement of borrowings. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility. To the extent that interest rate derivatives do not qualify for hedge accounting, the cost of such derivatives is not eligible for capitalisation.

Borrowing costs are recognised as an expense when incurred unless they relate to a qualifying asset. A qualifying asset is an asset which generally takes more than twelve months of construction or development to get it ready for its intended use or sale. In these circumstances, the borrowing costs are capitalised to the cost of the asset. Where funds are borrowed by the Consolidated Entity for the acquisition or development of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to that borrowing.

### i) *Intangible assets*

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. The Consolidated Entity does not capitalise any expenditure resulting in the creation of internally generated intangible assets.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the expected useful life of the asset and tested for impairment whenever there is an indication that the asset may be impaired. The amortisation method is reviewed at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by prospectively changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the *Income Statement* in the expense category consistent with the function of the intangible asset.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *i) Intangible assets (continued)*

At the reporting date, the Consolidated Entity had no intangible assets with indefinite useful lives.

Summarised information in respect of the intangible asset for the current and comparative period is as follows:

Type of asset	AVJennings brand name acquired by way of a business combination
Useful life of the asset	Finite
Amortisation method	Straight line basis over a 20 year life
Impairment testing	Whenever an indicator of impairment exists

#### *Disposal*

Gains or losses arising from derecognition of an intangible asset are calculated as the difference between the net disposal proceeds and the carrying amount of the asset. These are recognised in the *Income Statement* when the intangible asset is derecognised.

### *j) Inventories*

Inventories are stated at the lower of cost and net realisable value.

#### *Net realisable value*

Net realisable value is determined on the basis of sales of each class of inventory in the ordinary course of business. Estimated costs of selling are deducted in establishing the net realisable value.

#### *Development work-in-progress*

Cost includes variable and fixed costs directly related to specific contracts and other costs specifically chargeable under the contracts. Costs expected to be incurred under penalty clauses and rectification provisions as well as borrowing costs, rates and land taxes are also included.

#### *Land and property held for resale*

Cost includes the cost of acquisition, development and holding costs such as borrowing costs, rates and land taxes incurred during construction and development. Holding costs incurred after completion of development are expensed.

#### *Construction contracts*

Construction work-in-progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. Contract costs include all costs directly related to specific contracts, and costs that are specifically chargeable to the customer under the terms of the contract. The stage of completion is measured as a percentage complete of the construction contract.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **k) Trade and other receivables**

Trade receivables are carried at original invoice amount less a provision for uncollectible amounts.

Settlement terms for trade receivables are:

Development housing and land sales – generally between 30 and 180 days

Contract building (progress billing) – generally between 7 and 30 days

Collectibility of trade receivables is reviewed on an on-going basis. Receivables that are known to be uncollectible are written-off in the *Income Statement*. A provision for impairment of trade receivables is established when there is objective evidence that the Consolidated Entity will not be able to collect the outstanding amount.

Where a trade or other receivable is expected to be settled more than twelve months after the reporting date, its carrying amount is discounted using the effective interest rate method. The difference between the carrying amount and the present value is recorded in the *Income Statement*.

### **l) Cash and cash equivalents**

Cash and cash equivalents in the *Balance Sheet* comprise cash at bank and on hand and short-term deposits with a maturity of three months or less, that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value.

For the purpose of the *Cash Flow Statement*, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the *Balance Sheet*.

### **m) Interest-bearing loans and borrowings**

Interest-bearing loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the *Income Statement* over the period of the borrowings using the effective interest rate method.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **n) Provisions**

A provision is recognised when a present legal or constructive obligation, which can be reliably estimated, exists as a result of a past event, and it is probable that a future sacrifice of economic benefits will be required to settle the obligation.

Where the Consolidated Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to a provision is recorded in the *Income Statement* net of any reimbursement.

Provisions are stated at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the estimated future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risk specific to the liability.

Where discounting is used, the increase in provision due to the passage of time is recognised in the *Income Statement* under 'Finance costs'.

### **o) Employee benefits**

#### *Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised as current liabilities in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

#### *Long service leave*

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the project unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted at a pre-tax rate that reflects current market assessments of the time value of money.

#### *Superannuation contributions*

Contributions to superannuation plans are recognised as an expense in the *Income Statement* when contributions are paid or become payable.

#### *Bonus entitlements*

A liability is recognised in current trade and other payables for employee bonus entitlements where there is a contractual obligation or where a precedent has been set, creating a constructive obligation.

### **p) Leases**

#### *Consolidated Entity as lessee*

Finance leases, which transfer to the Consolidated Entity substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the balance of the liability. Finance charges are recognised in the *Income Statement*.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **p) Leases (continued)**

#### *Consolidated Entity as lessee (continued)*

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Consolidated Entity will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the *Income Statement* on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments proportionately between rental expense and reduction of the liability.

#### *Consolidated Entity as lessor*

Leases in which the Consolidated Entity retains substantially all the risks and benefits of ownership of the leased 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 as an expense over the lease term on the same basis as rental income.

### **q) Revenue recognition**

Revenue is recognised at the fair value of the consideration received or receivable, net of Goods and Services Tax ('GST').

Revenue is recognised for the major business activities as follows:

#### *Developments*

Revenue and expenses from the sale of land, houses or apartments are recognised when the significant risks and rewards of ownership and effective control have passed to the buyer and it is probable that the economic benefits, which can be reliably measured, will flow to the Consolidated Entity. Revenue from the sale of land, houses and apartments is generally recognised on settlement. In certain circumstances, land sales are recognised prior to settlement where a signed unconditional contract for sale exists.

#### *Contract building*

Contract building relates to Home Building Agreements and the like, whereby a Controlled Entity contracts to build a house or provide other residential construction services. Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of cost incurred. The stage of completion is determined based on the completion of the physical program of the contract work. Where it is probable that a loss will arise from a construction contract, the excess of costs over revenue is recognised as an expense immediately.

#### *Other revenues*

All other revenues are recognised on an accruals basis in the *Income Statement*.

### **r) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from, or paid to, the taxation authorities based on current year's taxable income. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### r) *Income tax (continued)*

Deferred income tax is calculated using the balance sheet method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 tax asset to be utilised.

Deferred income tax assets and liabilities are measured using the tax rates that are expected to be applicable when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance sheet date.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

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.

#### *Tax consolidation*

AVJennings Limited and its wholly-owned subsidiary companies have implemented the Tax Consolidation Legislation as of 1 July 2002. AVJennings Limited, as Head Entity of the Group, has entered into an agreement with its wholly-owned subsidiary, AVJennings Properties Limited, under which AVJennings Properties Limited will recognise tax amounts relating to transactions, events and balances of the wholly-owned Australian Group in this and future financial statements. The Consolidated Entity has applied the group allocation approach in determining the appropriate amount of current taxes, tax obligations and deferred taxes to allocate to the members of the Tax Consolidated Group ('TCG').

Members of the TCG have entered into a Tax Funding Agreement which provides for the allocation of current taxes of the TCG in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the TCG in accordance with the principles of AASB 112 *Income Tax*. Allocations under the Tax Funding Agreement are made at the end of each reporting period.

### s) *Other taxes*

Revenues, expenses and assets are recognised net of Goods and Services Tax ('GST') except:

- when the GST incurred on purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense as applicable; and
- receivables and payables, which are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the *Balance Sheet*.

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

# Notes to the Financial Statements

For the year ended 30 June 2008

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### s) *Other taxes (continued)*

Commitments and contingencies are disclosed exclusive of GST.

### t) *Derivative financial instruments*

The Consolidated Entity uses interest rate swaps and caps to hedge the risk associated with interest rate fluctuations. In accordance with treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value and marked-to-market at each reporting date. The gain or loss on re-measurement to fair value is recognised in the *Income Statement*. The fair value of interest rate derivatives is the amount that the Consolidated Entity would receive or pay to terminate the interest rate swap or cap at balance date, taking into account current rates of interest and the creditworthiness of the counterparties.

Derivatives entered into to reduce exposures to fluctuations in floating interest rates may be accounted for as cash flow hedges provided the hedge designation, documentation and effectiveness tests can be met. To the extent that the hedges do not qualify for hedge accounting, gains or losses from changes in fair value are reflected in the *Income Statement* in the period in which the changes occur.

### u) *Trade and other payables*

Trade and other payables are stated at cost. They represent liabilities for goods and services provided to the Consolidated Entity prior to the end of the financial year that are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days from recognition date.

### v) *Earnings per share*

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, 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 period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### w) *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 deduction, net of tax, from the proceeds.

### x) *Comparative figures*

To enable meaningful comparison, some comparatives have been reclassified to conform with current year's presentation.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 3. FINANCIAL RISK MANAGEMENT

The Consolidated Entity's principal financial instruments comprise receivables, payables, finance leases, derivatives, cash, bank loans and overdrafts.

The Consolidated Entity manages its exposure to financial risks in accordance with policies recommended by management and approved by the Board. The objective of these policies is to manage key financial risks such as interest rate, foreign currency, credit and liquidity.

The Consolidated Entity enters into derivative financial instruments, principally interest rate cap and interest rate swap contracts to manage the interest rate risk arising from its operations and borrowings. The Consolidated Entity has a policy not to hold or issue derivative financial instruments for trading purposes.

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 rates and assessments of market forecasts for interest rates. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is managed through the use of periodic rolling cash flow forecasts together with the continuity of funding and through the facilities mentioned in note 25(a) and 25 (b).

Primary responsibility for identification and control of financial risks rests with the management under authority of the Board. The Board reviews and agrees on policies for managing each of the risks identified below.

### Risk exposures and responses

#### *Interest rate risk*

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will be adversely affected due to changes in market interest rates.

The Consolidated Entity's exposure to market interest rates relates primarily to the obligations arising from interest-bearing loans and overdraft. The Consolidated Entity's interest rate risk policy is to manage its finance costs using a mix of fixed and variable rate debt. The target is to keep approximately 50% of forecast two year average borrowings at fixed rates of interest. Forecast two year average borrowings are derived from periodic rolling cash flow forecasts together with an allowance for potential acquisitions.

Borrowings issued at variable rates expose the Consolidated Entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the Consolidated Entity to fair value interest rate risk.

The Consolidated Entity manages the cash flow effect of interest rate risk by entering into interest rate cap and interest rate swap contracts.

Interest rate cap contracts are entered into for a principal Australian Dollar amount by paying an upfront premium that covers a specific period. The strike rates for these contracts are benchmarked against the BBSY bid rate (*Australian Bank Bill Swap Reference Rate - Average Bid Rate*) on a monthly basis. Settlement occurs monthly, in favour of the Consolidated Entity, should the BBSY bid rate be above the cap strike rate (movements in the variable rate are directly proportional to movements in the BBSY bid rate).

Under the interest rate swaps, at the end of every quarter, the Consolidated Entity and the counterparty agree to exchange the difference between the interest calculated by applying the fixed contract rates and that calculated by applying the BBSY bid rate to the principal Australian Dollar amounts.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 3. FINANCIAL RISK MANAGEMENT (continued)

### Interest rate risk (continued)

The Consolidated Entity's interest rate derivatives do not meet the accounting requirements to qualify for hedge accounting treatment. Gains or losses arising from changes in fair value have been reflected in the *Income Statement*.

**As at the reporting date, the Consolidated Entity had the following variable rate borrowings, interest rate swap and interest rate cap contracts outstanding:**

	Consolidated 30 June 2008		Consolidated 30 June 2007	
	Weighted average interest %	Balance \$'000	Weighted average interest %	Balance \$'000
Cash	6.58%	(6,950)	5.50%	(1,194)
Bank overdrafts	-	-	9.90%	8,552
Bank loans	8.83%	174,911	7.00%	111,890
Lease liabilities	8.79%	1,449	8.00%	1,552
<b>Net financial liabilities</b>		<b>169,410</b>		<b>120,800</b>
Interest rate caps		(65,000)		(125,000)
Interest rate swaps		(65,000)		-
<b>Borrowings exposed to variable interest rate</b>		<b>39,410</b>		<b>(4,200)</b>

The Parent Entity has no financial assets or liabilities exposed to Australian variable rate interest rate risk.

Interest rate swap contracts with a principal value of \$65,000,000 (2007: \$NIL), Parent \$NIL (2007: \$NIL), are exposed to fair value movements if interest rates change. The Consolidated Entity has also entered into Australian Dollar denominated interest rate cap transactions to hedge Australian Dollar borrowings against adverse movements in interest rates. Details regarding the swaps and caps are outlined in note 25(d).

At 30 June 2008, after taking into account the effect of interest rate swaps, approximately 44.3% of the Consolidated Entity's available borrowings are at a fixed rate of interest (2007: 50.8%).

The Consolidated Entity analyses its interest rate exposure on an ongoing basis. Potential renewals of existing positions and scenarios of alternative financing, including a mix of fixed and variable interest rates and alternative hedging positions, are considered. The following sensitivity analysis is based on the interest rate exposures in existence at the balance sheet date.

**At balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:**

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	12 months June 2008 \$'000	15 months June 2007 \$'000	June 2008 \$'000	June 2007 \$'000
<b>Consolidated</b>				
+1.00% (100 basis points)	900	( 409 )	-	-
+0.50% (50 basis points)	264	( 204 )	-	-
-0.50% (50 basis points)	( 749 )	204	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 3. FINANCIAL RISK MANAGEMENT (continued)

### *Interest rate risk (continued)*

The above fluctuations in profit and equity are net of interest capitalised to inventories. The effect on the profit and equity on the basis that no interest is capitalised, would be as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	12 months June 2008 \$'000	15 months June 2007 \$'000	June 2008 \$'000	June 2007 \$'000
<b>Consolidated</b>				
+1.00% (100 basis points)	793	( 1,059 )	-	-
+0.50% (50 basis points)	237	( 530 )	-	-
-0.50% (50 basis points)	( 398 )	530	-	-

### *Foreign currency risk*

The Consolidated Entity's exposure to movements in foreign currencies is immaterial.

### *Price risk*

The Consolidated Entity does not have commodity and equity securities price risk.

### *Credit risk*

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Consolidated Entity. The nature of the industry in which the Consolidated Entity operates is such that transactions do not normally involve the passing of title to third party customers without full payment being received. In the event that title is to pass without full payment being received, then appropriate credit verification procedures are performed prior to executing the transaction.

For Contract Building, customers are usually billed progressively for work completed. Evidence of the availability of finance is obtained prior to construction commencing. In addition, receivable balances are monitored on an ongoing basis with the result that the Consolidated Entity's exposure to impaired receivables is insignificant. The ageing analysis of Trade Receivables and the movement in provision for impairment is given in note 14.

Credit risk arises from other financial assets of the Consolidated Entity, which comprise cash and cash equivalents, other receivables and certain derivative instruments. The Consolidated Entity's exposure to credit risk arises from potential default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. Derivative counterparties and cash transactions are limited to financial institutions that meet the minimum criteria set by the Board.

There are no significant concentrations of credit risk within the Consolidated Entity.

### *Liquidity risk*

Liquidity includes the following risks:

- the Consolidated Entity may not have sufficient funds to settle a transaction on the due date;
- the Consolidated Entity may be forced to sell financial assets at values which are less than their carrying amounts;

# Notes to the Financial Statements

For the year ended 30 June 2008

## 3. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity risk (continued)

- the Consolidated Entity may be unable to fully settle a financial liability or recover a financial asset; and
- the Consolidated Entity may be unable to refinance its current borrowings.

The Consolidated Entity actively undertakes liquidity and fund risk management to ensure that sufficient funds are available to meet financial obligations as and when they fall due.

The Consolidated Entity's main banking facilities operate on a two year "evergreen basis", subject to an annual review process as outlined in note 25(a). In addition, the Consolidated Entity operates certain project funding facilities which are discussed in note 25(b).

At 30 June 2008, 11.4% (2007: 21.5%) of the Consolidated Entity's debt will mature in less than one year.

### Financial assets and liabilities are expected to settle as follows:

Consolidated		1-5		
Year ended 30 June 2008	< 1 year \$'000	years \$'000	> 5 years \$'000	Total \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	6,950	-	-	6,950
Trade and other receivables	20,517	-	-	20,517
	<b>27,467</b>	-	-	<b>27,467</b>

<b>Financial Liabilities</b>				
Trade and other payables	65,669	7,324	-	72,993
Interest-bearing loans and borrowings*	20,363	170,645	-	191,008
	<b>86,032</b>	<b>177,969</b>	-	<b>264,001</b>
<b>Net maturity</b>	<b>(58,565)</b>	<b>(177,969)</b>	-	<b>(236,534)</b>

Consolidated		1-5		
Year ended 30 June 2007	< 1 year \$'000	years \$'000	> 5 years \$'000	Total \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	1,194	-	-	1,194
Trade and other receivables	22,451	1,697	-	24,148
	<b>23,645</b>	<b>1,697</b>	-	<b>25,342</b>

<b>Financial Liabilities</b>				
Trade and other payables	101,561	9,699	-	111,260
Interest-bearing loans and borrowings*	26,602	104,068	-	130,670
	<b>128,163</b>	<b>113,767</b>	-	<b>241,930</b>
<b>Net maturity</b>	<b>(104,518)</b>	<b>(112,070)</b>	-	<b>(216,588)</b>

\* Expected settlement amounts of interest-bearing loans and borrowings include an estimate of the interest payable to the date of expiry of the facilities.

The Parent Entity has no financial assets or liabilities.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 4. CAPITAL RISK MANAGEMENT

The Consolidated Entity manages its capital requirements with a view to maximising shareholder value through the mix of debt and equity funding while ensuring that it continues to operate as a going concern. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the Consolidated Entity after taking into account business plans and objectives.

The Consolidated Entity assesses its capital requirements on an ongoing basis to ensure that:

- sufficient funds and financing facilities are available on a cost effective basis for land acquisition and other business opportunities; and
- adequate financing facilities are maintained for unforeseen contingencies.

The Consolidated Entity is able to change its capital mix by issuing new shares, adjusting the amount of dividends paid to shareholders, offering a dividend reinvestment plan, activating a share buy-back program, divesting assets to repay borrowings or deferring capital expenditure. The Consolidated Entity protects its equity in assets by arranging adequate insurance cover.

During the year ended 30 June 2008, dividends of \$6,753,337 were paid (2007: \$10,761,317).

In June 2008, the Rights Issue raised \$24,400,704 after transaction costs. In September 2006, \$3,659,964 was raised from the Dividend Reinvestment Plan Underwriting Agreement.

The Board has no current plans to issue further shares to increase the capital base.

The Board monitors the capital mix through the debt to equity ratio (net debt/total equity) and the debt to total assets ratio (net debt/total assets). Based on continuing operations, these ratios are as follows:

	Consolidated		Parent	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
Interest-bearing loans and borrowings *	174,911	120,442	-	-
Less: cash and cash equivalents	(6,950)	(1,194)	-	-
<b>Net debt</b>	<b>167,961</b>	<b>119,248</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>	<b>304,445</b>	<b>270,670</b>	<b>171,837</b>	<b>142,293</b>
<b>Total assets</b>	<b>581,576</b>	<b>528,683</b>	<b>194,668</b>	<b>194,668</b>
<b>Net debt to equity ratio</b>	<b>55.2%</b>	<b>44.1%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Net debt to total assets ratio</b>	<b>28.9%</b>	<b>22.6%</b>	<b>0.0%</b>	<b>0.0%</b>

\* Excludes leased assets amounting to \$1,448,847 (2007: \$1,551,743).

# Notes to the Financial Statements

For the year ended 30 June 2008

## 5. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

### *Value of inventory*

As discussed in note 2(j) the Consolidated Entity values its inventory at the lower of cost and net realisable value. Net realisable value is determined on the basis of sales of each class of inventory in the ordinary course of business. Estimated costs of selling are deducted in establishing the net realisable value. Estimated selling price is derived from publicly available market data and historical experience, while estimated costs of completion and selling costs are derived from contracted vendor pricing and historical experience. Should the net realisable value be below cost, the carrying amount of inventory is written down to the net realisable value.

Estimates used in the calculation of net realisable value and cost will, by definition, seldom equal the actual related results.

### *Profit recognised on developments*

Profit on developments is generally recognised on settlement as discussed in note 2(q). The calculation of profit for projects that are in progress, is based on actual costs to date and estimates of costs to complete. The accounting estimates will, by definition, seldom equal the related actual results.

### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 6. REVENUES AND EXPENSES

Profit from ordinary activities before income tax includes the following revenues and expenses:

	Note	Consolidated		Parent	
		12 months June 2008 \$'000	15 months June 2007 \$'000	12 months June 2008 \$'000	15 months June 2007 \$'000
<b>Revenues</b>					
Developments		345,274	446,361	-	-
Contract building		167,222	182,445	-	-
Gain on debt forgiven by a controlled entity		-	-	7,000	-
Dividend received from controlled entity		-	-	-	10,761
Interest received		670	392	-	-
Share of profits of associates and joint venture entities accounted for using the equity method		126	1	-	-
Management fees		2,327	2,101	-	-
Rental revenue		127	128	-	-
Unrealised gain on interest rate derivatives		623	-	-	-
Sundry revenue		1,406	805	-	-
<b>Total revenues</b>		<b>517,775</b>	<b>632,233</b>	<b>7,000</b>	<b>10,761</b>
<b>Other income</b>					
Gain on disposal of property, plant and equipment		1	5	-	-
<b>Total other income</b>		<b>1</b>	<b>5</b>	<b>-</b>	<b>-</b>
<b>Total revenue and other income</b>		<b>517,776</b>	<b>632,238</b>	<b>7,000</b>	<b>10,761</b>
<b>Changes in inventories, finished goods and work-in-progress</b>					
Amortisation of finance costs previously capitalised to inventories		13,297	12,712	-	-
<b>Depreciation and amortisation expense</b>					
<i>Depreciation</i>					
Leasehold improvements	22	208	304	-	-
Plant, equipment and motor vehicles	22	892	1,450	-	-
<i>Amortisation</i>					
Motor vehicles under lease	22	650	682	-	-
Brand name	23	492	615	-	-
<b>Total depreciation and amortisation expense</b>		<b>2,242</b>	<b>3,051</b>	<b>-</b>	<b>-</b>
<b>Other expenses</b>					
Minimum operating lease payments		7,704	8,464	-	-
<b>Finance costs</b>					
Bank loans and overdrafts		18,548	20,196	-	-
Finance charges payable under finance leases		119	132	-	-
Finance charges payable to land creditors		55	218	-	-
<b>Total finance costs</b>		<b>18,722</b>	<b>20,546</b>	<b>-</b>	<b>-</b>
Less: Amount capitalised to inventories		(18,202)	(20,122)	-	-
<b>Total finance costs expensed</b>		<b>520</b>	<b>424</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

For the year ended 30 June 2008

## 7. SEGMENT INFORMATION

The Consolidated Entity operates primarily in residential development and contract building and reports by business segment. It operates wholly within the geographic region of Australia.

The following table presents the revenue and profit information regarding business segments for the year ended 30 June 2008:

<i>Business segments</i>	<i>Continuing Operations</i>								<i>Total Operations</i>	
	<i>Land</i>		<i>Development Housing</i>		<i>Apartments</i>		<i>Contract Building</i>		<i>Consolidated</i>	
	<i>12 months</i>	<i>15 months</i>	<i>12 months</i>	<i>15 months</i>	<i>12 months</i>	<i>15 months</i>	<i>12 months</i>	<i>15 months</i>	<i>12 months</i>	<i>15 months</i>
	<i>June</i>	<i>June</i>	<i>June</i>	<i>June</i>	<i>June</i>	<i>June</i>	<i>June</i>	<i>June</i>	<i>June</i>	<i>June</i>
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Revenues</b>										
External sales	217,323	230,968	108,064	207,809	19,887	7,584	167,222	182,445	512,496	628,806
Non-segment revenue	-	-	-	-	-	-	-	-	5,279	3,427
<b>Total revenues</b>	<b>217,323</b>	<b>230,968</b>	<b>108,064</b>	<b>207,809</b>	<b>19,887</b>	<b>7,584</b>	<b>167,222</b>	<b>182,445</b>	<b>517,775</b>	<b>632,233</b>
<b>Results</b>										
Segment results	39,889	36,076	5,730	12,154	(4,284)	(5,269)	(5,600)	161	35,735	43,122
Unallocated income	-	-	-	-	-	-	-	-	5,279	3,432
Unallocated depreciation and amortisation	-	-	-	-	-	-	-	-	(2,242)	(3,051)
Unallocated expenses	-	-	-	-	-	-	-	-	(22,801)	(25,309)
Unallocated interest expense	-	-	-	-	-	-	-	-	(520)	(424)
Profit before tax									15,451	17,770
Income tax expense									(4,220)	(5,606)
<b>Net profit</b>									<b>11,231</b>	<b>12,164</b>

# Notes to the Financial Statements

For the year ended 30 June 2008

## 7. SEGMENT INFORMATION (continued)

The following table presents the asset and liability information regarding business segments as at 30 June 2008:

<i>Business segments</i>	<i>Continuing Operations</i>								<i>Total Operations</i>	
	<i>Land</i>		<i>Development Housing</i>		<i>Apartments</i>		<i>Contract Building</i>		<i>Consolidated</i>	
	<i>June 2008</i>	<i>June 2007</i>	<i>June 2008</i>	<i>June 2007</i>	<i>June 2008</i>	<i>June 2007</i>	<i>June 2008</i>	<i>June 2007</i>	<i>June 2008</i>	<i>June 2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Assets</b>										
Segment assets	331,513	337,836	130,470	112,263	65,724	35,078	34,302	30,955	562,009	516,132
Unallocated assets	-	-	-	-	-	-	-	-	19,567	12,551
<b>Total assets</b>	<b>331,513</b>	<b>337,836</b>	<b>130,470</b>	<b>112,263</b>	<b>65,724</b>	<b>35,078</b>	<b>34,302</b>	<b>30,955</b>	<b>581,576</b>	<b>528,683</b>
<b>Liabilities</b>										
Segment liabilities	30,758	77,999	16,056	13,678	5,219	3,348	22,614	18,255	74,647	113,280
Unallocated liabilities	-	-	-	-	-	-	-	-	202,484	144,733
<b>Total liabilities</b>	<b>30,758</b>	<b>77,999</b>	<b>16,056</b>	<b>13,678</b>	<b>5,219</b>	<b>3,348</b>	<b>22,614</b>	<b>18,255</b>	<b>277,131</b>	<b>258,013</b>
<b>Other segment information</b>										
Capital expenditure	-	-	-	-	-	-	-	-	1,724	2,187

Land Development: Builders buy land from AVJennings onto which they package their building products, or end customers buy land from an AVJennings estate and choose their own builder.

Integrated Housing and Apartments Development: The customer buys a completed home, townhouse or apartment within an AVJennings development.

Contract Building: The customer contracts to build a home with AVJennings on land they have sourced themselves.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 8. DIRECTORS' AND EXECUTIVES' DISCLOSURES

### (a) Compensation of Key Management Personnel

	Consolidated		Parent	
	12 months June 2008 \$	15 months June 2007 \$	12 months June 2008 \$	15 months June 2007 \$
<i>Short-term</i>				
- Salary/Fees	1,949,487	2,247,191	-	-
- Cash bonus	125,000	96,000	-	-
- Other <sup>(1)</sup>	93,086	231,147	-	-
<i>Post employment</i>				
- Superannuation <sup>(2)</sup>	462,338	593,733	-	-
	<b>2,629,911</b>	<b>3,168,071</b>	-	-

(1) 'Other' includes the value of motor vehicle benefits. In the 15 months to June 2007, 'Other' includes a payment of \$135,677 for accrued annual and long service leave to a Key Management Employee who resigned on 5 April 2007.

(2) Payments to Defined Contribution Plans. Consist of both Superannuation Guarantee Contribution payments as well as employee voluntary contributions. The Consolidated Entity does not contribute to any Defined Benefit Plans

### (b) Shareholdings of Key Management Personnel

The table below represents those shareholdings of Key Management Personnel or shareholdings of entities or other persons related to these Key Management Personnel.

#### Shares held in AVJennings Limited

	Opening Balance	Granted as Remuneration	Exercise Of Options	Net Other Change	Closing Balance
<b>For the year ended 30 June 2008</b>					
<i>Directors</i>					
S Cheong	95,348,173	-	-	35,132,977	<b>130,481,150</b>
LF Milkovits	711,483	-	-	18,751	<b>730,234</b>
E Sam	104,629	-	-	38,553	<b>143,182</b>
<b>Total</b>	<b>96,164,285</b>	-	-	<b>35,190,281</b>	<b>131,354,566</b>
<b>For the period ended 30 June 2007</b>					
<i>Directors</i>					
S Cheong	87,966,462	-	-	7,381,711	<b>95,348,173</b>
LF Milkovits	680,000	-	-	31,483	<b>711,483</b>
E Sam	100,000	-	-	4,629	<b>104,629</b>
<b>Total</b>	<b>88,746,462</b>	-	-	<b>7,417,823</b>	<b>96,164,285</b>

The net other change relates to shares issued under the Dividend Reinvestment Plan and the Rights Issue referred to in note 29.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 8. DIRECTORS' AND EXECUTIVES' DISCLOSURES (continued)

### (b) Shareholdings of Key Management Personnel (continued)

No other Key Management Personnel held shares in AVJennings Limited at any time during the year.

All equity transactions with Key Management Personnel have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length.

### (c) Compensation options: granted and vested during the year

No options were granted or exercised during the year. There are currently no unexercised or outstanding options. None of the Directors or other Key Management Personnel hold any options.

### (d) Loans to Key Management Personnel

There are currently no outstanding loans due from Key Management Personnel. No loans were made to Key Management Personnel during the year.

### (e) Other transactions with Key Management Personnel

#### Purchases

During the year, two apartments totalling \$1,211,036 (2007: \$NIL) were sold at normal market prices less Joint Venture approved staff discounts to Mr Peter Summers and Mr Bruce Harper. The discounts on the purchase prices given to both Executives were in accordance with the Joint Venture's approved discount policy. The discount is available to all employees of the Group and the Joint Venture partner. Both purchases were paid for during the financial year and there were no outstanding amounts at the end of the financial year.

During the year, a display home was sold for \$438,116 to parties related to Mr Peter Jackson and subsequently leased back at market rates. The home was sold at a normal market price and no discount was given on the sale. The purchase was paid for during the financial year and there were no outstanding amounts at the end of the financial year.

There were no other transactions that took place between the Consolidated Entity and Key Management Personnel.

#### Amounts recognised at the reporting date in relation to other transactions with Key Management Personnel:

	Consolidated		Parent	
	12 months June 2008 \$	15 months June 2007 \$	12 months June 2008 \$	15 months June 2007 \$
<i>Revenues and expenses</i>				
Revenue	1,649,152	-	-	-
<b>Total Revenue</b>	<b>1,649,152</b>	-	-	-
Purchases / Cost of Goods Sold	1,223,293	-	-	-
<b>Total Expenses</b>	<b>1,223,293</b>	-	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 9. AUDITOR'S REMUNERATION

	Consolidated		Parent	
	12 months June 2008 \$	15 months June 2007 \$	12 months June 2008 \$	15 months June 2007 \$
Amounts received or due and receivable by Ernst & Young (Australia) for:				
The audit or review of the 30 June 2008 full-year and 31 December 2007 interim financial reports of the Parent Entity and other entities in the Consolidated Entity	274,000	290,975	-	-
Review of the 31 March 2007 interim financial report (extra engagement due to change in year-end date for the Consolidated Entity)	-	30,900	-	-
Share of audit or review costs of the financial reports of the Consolidated Entity's joint ventures	8,000	14,163	-	-
Other services in relation to the Parent Entity and any other entity in the Consolidated Entity			-	-
- audit related fees	2,060	7,200	-	-
- non-audit related fees	12,300	10,500	-	-
<b>Total auditor's remuneration</b>	<b>296,360</b>	<b>353,738</b>	-	-

Audit fees of the parent are paid by a related entity.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 10. INCOME TAX

Income tax expense

	Consolidated		Parent	
	12 months June 2008	15 months June 2007	12 months June 2008	15 months June 2007
Note	\$'000	\$'000	\$'000	\$'000
The major components of income tax expense are:				
Current income tax	934	1,027	-	-
Over provision in prior year	(439)	(52)	-	-
Deferred income tax:				
Relating to origination and reversal of temporary differences	27	3,725	-	-
<b>Income tax expense reported in the Income Statement</b>	<b>4,220</b>	<b>5,606</b>	<b>-</b>	<b>-</b>

Numerical reconciliation between aggregate tax expense recognised in the *Income Statement* and tax expense calculated per the statutory income tax rate

At the Consolidated Entity's statutory income tax rate of 30% (2007 - 30%)	4,635	5,331	2,100	3,228
Adjustments in respect of current income tax of previous years	(439)	(52)	-	-
Other non-deductible items and variations	24	327	(2,100)	(3,228)
<b>Income tax expense reported in the Income Statement</b>	<b>4,220</b>	<b>5,606</b>	<b>-</b>	<b>-</b>

### Tax losses

The Consolidated Entity has carried forward capital tax losses of \$1,013,526 (2007: \$1,013,526) which are available indefinitely for offset against future capital gains subject to satisfaction of the relevant statutory tests.

### Tax consolidation

AVJennings Limited and its wholly-owned subsidiaries have implemented the Tax Consolidation Legislation as of 1 July 2002. AVJennings Limited, as Head Entity, has entered into an agreement with its wholly-owned subsidiary, AVJennings Properties Limited, under which AVJennings Properties Limited will recognise tax amounts relating to transactions, events and balances of the wholly-owned Australian Group in this and future financial statements as if those transactions, events and balances were its own, in addition to the tax balances arising in relation to its own transactions, events and balances. The Consolidated Entity has applied the group allocation approach in determining the appropriate amount of current taxes, tax obligations and deferred taxes to allocate to members of the Tax Consolidated Group ('TCG').

### Tax effect accounting by members of the TCG

Members of the TCG have entered into a Tax Funding Agreement. The Tax Funding Agreement provides for the allocation of current taxes of the TCG in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the TCG in accordance with the principles of AASB 112 *Income Tax*. Allocations under the Tax Funding Agreement are made at the end of each reporting period. The allocation of taxes under the Tax Funding Agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with AVJennings Properties Limited. The Consolidated Entity has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the TCG.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 11. DIVIDENDS PAID AND PROPOSED

	Note	Consolidated		Parent	
		12 months	15 months	12 months	15 months
		June	June	June	June
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b><i>Dividends paid on ordinary shares during the period</i></b>					
2007 final of 3.0 cents per fully paid share, paid 29 October 2007. Fully franked @ 30% tax					
	(b)	6,753		6,753	
2006 final of 5.0 cents per fully paid share, paid 15 August 2006. Fully franked @ 30% tax					
			10,761		10,761
<b>Total dividends paid</b>		<b>6,753</b>	<b>10,761</b>	<b>6,753</b>	<b>10,761</b>
<b><i>Dividends proposed after year-end and not recognised as a liability as at 30 June:</i></b>					
2008 final of 2.0 cents per fully paid share, to be paid 31 October 2008. Fully franked @ 30% tax					
	(a)	5,332		5,332	
2007 final of 3.0 cents per fully paid share, to be paid 29 October 2007. Fully franked @ 30% tax					
			6,753		6,753
<b>Total dividends proposed</b>		<b>5,332</b>	<b>6,753</b>	<b>5,332</b>	<b>6,753</b>
<b><i>Franking credit balance</i></b>					
Franking credits available for the subsequent financial years based on a tax rate of 30% are:					
Franking account balance as at the end of the financial year					
				25,116	26,218
<b>Total franking credit balance</b>				<b>25,116</b>	<b>26,218</b>

- (a) The Company has in place an active Dividend Reinvestment Plan (DRP). The last date for the receipt of an election notice will be 10 October 2008. Subject to the approval of the Directors, the allotment price will be a 7.5% discount to the value weighted average price of all the Company's fully paid shares traded on the Australian Stock Exchange during the five trading days from, and including, the date on which the shares go ex-dividend.
- (b) The DRP referred to in note 11(a) above applied to the 2007 final dividend. Details of shares issued under the plan are set out in note 29.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 12. EARNINGS PER SHARE

	Consolidated	
	12 months June 2008 \$'000	15 months June 2007 \$'000

The following reflects the income used in the computation of basic and diluted earnings per share from continuing operations:

Net profit attributable to members of the parent	11,231	12,164
Earnings used in calculating basic and diluted earnings per share	11,231	12,164

	12 months June 2008 Cents	15 months June 2007 Cents
Basic earnings per share	4.87	5.50
Diluted earnings per share	4.87	5.50

	12 months June 2008 Number	15 months June 2007 Number
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	230,645,638	221,110,770

## 13. CASH AND CASH EQUIVALENTS

	Consolidated		Parent	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Reconciliation of cash</b>				
Cash (overdraft) at the end of the financial year as shown in the <i>Cash Flow Statement</i> is reconciled to the related items in the <i>Balance Sheet</i> as follows:				
Cash at bank and in hand	6,950	1,194	-	-
Bank overdraft	-	( 8,552 )	-	-
<b>Net cash (overdraft) at the end of the financial year</b>	<b>6,950</b>	<b>( 7,358 )</b>	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 14. TRADE AND OTHER RECEIVABLES

	Consolidated		Parent	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Current</b>				
Amounts due under construction contracts and trade debtors	11,763	18,393	-	-
Less provision for doubtful debts	( 59 )	-	-	-
Net trade debtors	11,704	18,393	-	-
Amounts other than trade debtors receivable from related parties	-	-	31,382	31,382
Amounts receivable from an associate entity	-	292	-	-
Other receivables	8,813	3,766	-	-
<b>Total current trade and other receivables</b>	<b>20,517</b>	<b>22,451</b>	<b>31,382</b>	<b>31,382</b>
<b>Non-current</b>				
Amounts due from a trade debtor	-	1,697	-	-
<b>Total non-current trade and other receivables</b>	<b>-</b>	<b>1,697</b>	<b>-</b>	<b>-</b>

### Ageing of trade debtors (Current and Non-Current)

	Total \$'000	Number of days outstanding				
		0-30 \$'000	31-60 \$'000	61-90 PDNI \$'000	+ 91 PDNI \$'000	+ 91 CI \$'000
<b>2008 Consolidated</b>	11,704	9,926	282	1,398	39	59
<b>2007 Consolidated</b>	20,090	15,787	218	310	3,775	-

PDNI: Past due not impaired

CI: Considered impaired

### Movements in provision for impairment of trade debtors

	Consolidated	
	30 June 2008 \$'000	30 June 2007 \$'000
At beginning of the year	-	-
Charge for the year	59	-
Amounts written-off during the year	-	-
<b>At end of the year</b>	<b>59</b>	<b>-</b>

The classes within other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 15. INVENTORIES

	Note	Consolidated		Parent	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Current</b>					
<b>Contract Building</b>					
<i>Work-in-progress on contracts</i>					
Cost plus attributable profits		93,419	75,576	-	-
Less: progress billings		(87,720)	(72,284)	-	-
<b>Total work-in-progress on contracts</b>		<b>5,699</b>	<b>3,292</b>	-	-
<b>Land, Housing and Apartments Developments</b>					
<i>Broadacres</i>					
Land to be subdivided - at cost		24,798	39,783	-	-
Borrowing and holding costs capitalised	15(a)	7,891	8,490	-	-
<b>Total Broadacres</b>		<b>32,689</b>	<b>48,273</b>	-	-
<i>Work-in-progress</i>					
Land subdivided or in the course of being subdivided - at cost		56,747	62,712	-	-
Development costs capitalised		34,547	39,010	-	-
Houses and apartments under construction - at cost		32,246	23,676	-	-
Borrowing and holding costs capitalised	15(a)	2,479	1,979	-	-
<b>Total work-in-progress</b>		<b>126,019</b>	<b>127,377</b>	-	-
<i>Completed inventory</i>					
Completed houses and apartments - at cost		58,017	36,040	-	-
Completed residential land lots - at cost		20,725	21,564	-	-
Borrowing and holding costs capitalised	15(a)	3,329	4,203	-	-
<b>Total completed inventory</b>		<b>82,071</b>	<b>61,807</b>	-	-
<b>Total current inventories</b>		<b>246,478</b>	<b>240,749</b>	-	-
<b>Non-current</b>					
<b>Land, Housing and Apartments Developments</b>					
<i>Broadacres</i>					
Land to be subdivided - at cost		136,555	168,439	-	-
Borrowing and holding costs capitalised	15(a)	39,638	34,633	-	-
<b>Total Broadacres</b>		<b>176,193</b>	<b>203,072</b>	-	-
<i>Work-in-progress</i>					
Land subdivided or in the course of being subdivided - at cost		42,047	20,995	-	-
Development costs capitalised		27,382	16,761	-	-
Borrowing and holding costs capitalised	15(a)	12,454	8,071	-	-
<b>Total work-in-progress</b>		<b>81,883</b>	<b>45,827</b>	-	-
<b>Total non-current inventories</b>		<b>258,076</b>	<b>248,899</b>	-	-
<b>Total inventories</b>		<b>504,554</b>	<b>489,648</b>	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 15. INVENTORIES (continued)

- (a) Borrowing costs have been recognised during the financial year as part of the carrying amount of the asset. These costs have been capitalised at a weighted average interest rate of 9.13% (2007: 7.74%).
- (b) Inventory with a book value of \$88,197,000 (2007: \$19,740,000) had been pledged as security for project specific borrowings (refer to note 25(b)). The Consolidated Entity's remaining inventory has been pledged as security for the multi-option facility (refer to note 25(a)).
- (c) In accordance with the accounting policy set out in note 2(j), the carrying amount of inventory has been written down by \$1,066,000 (2007: \$NIL) to its net realisable value.

## 16. TAX RECEIVABLE

	Consolidated		Parent	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Income tax refund due	1,501	-	-	-

## 17. OTHER CURRENT ASSETS

Prepayments	5,575	3,212	-	-
Interest rate derivatives	1,047	-	-	-
Deposits	265	293	-	-
<b>Total other current assets</b>	<b>6,887</b>	<b>3,505</b>	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

		Consolidated	
		30 June	30 June
		2008	2007
		\$'000	\$'000
Investment in Associate - unincorporated	18(a)	964	761
Interest in Joint Venture Partnerships - unlisted	18(b)	31,769	-
<b>Total equity accounted investments</b>		<b>32,733</b>	<b>761</b>

The parent entity has no interests in equity accounted investments.

Investments in associates are accounted for in accordance with the policy outlined in note 2(f) while Joint Venture Partnerships are accounted for in accordance with note 2(e).

### **(a) Investment in Associate**

Investment details	Consolidated	
	Interest held	
	30 June	30 June
	2008	2007
<b>Associate name and principal activity</b>		
Epping JV - Land Development	10%	10%

The Consolidated Entity has significant influence over the Associate as it is represented on the project governing body and its employees provide essential technical knowledge to the project. The Associate is an unincorporated entity which trades in Australia. It has a 30 June year-end and its principal activity is the development and sale of residential lots.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

### (a) Investment in Associate (continued)

	Consolidated	
	30 June 2008 \$'000	30 June 2007 \$'000
<i>Movements in carrying amount</i>		
At the beginning of the year	761	-
Investment in Associate	-	760
Share of net profit	203	1
<b>At the end of the year</b>	<b>964</b>	<b>761</b>
<i>Extract from Associate's Balance Sheet:</i>		
Current assets	9,682	2,071
Non-current assets	10,113	15,552
<b>Total assets</b>	<b>19,795</b>	<b>17,623</b>
Current liabilities	10,156	3,410
Non-current liabilities	-	6,600
<b>Total liabilities</b>	<b>10,156</b>	<b>10,010</b>
<b>Net assets</b>	<b>9,639</b>	<b>7,613</b>
<b>Share of Associate's net assets</b>	<b>964</b>	<b>761</b>
	<b>12 Months June 2008</b>	<b>15 Months June 2007</b>
<i>Extract from Associate's Income Statement:</i>		
Revenues	9,176	13
Expenses	( 7,145 )	( 4 )
<b>Net profit</b>	<b>2,031</b>	<b>9</b>

### **Impairment**

The Consolidated Entity's investment in the Associate was not impaired at any time during the year.

### **Share of Associate's commitments and contingent liabilities**

The Associate's commitments and contingent liabilities have been entered into on a non-recourse basis and therefore the Consolidated Entity has no exposure to the Associate's commitments and contingent liabilities as at the date of this report.

Contingent liabilities in respect to certain performance guarantees granted by the Associate in the normal course of business to unrelated parties, at 30 June 2008, amounted to \$1,085,924 (2007: \$NIL).



# Notes to the Financial Statements

For the year ended 30 June 2008

## 19. INVESTMENTS IN SUBSIDIARY COMPANIES

	Consolidated		Parent	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Controlled entities unlisted - at cost	-	-	163,286	163,286

## 20. CONTROLLED ENTITIES

### (a) Investment in controlled entities

The following economic entities are the controlled entities of AVJennings Limited.

ECONOMIC ENTITY <sup>(1)</sup>	% Equity Interest		Included in Banking Cross Deed of Covenant <sup>(2)</sup>	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
<b>Entities included in the Closed Group</b>				
A.V. Jennings Real Estate Pty Limited	100	100	Yes	Yes
AVJennings Real Estate (VIC) Pty Limited	100	100	Yes	Yes
AVJennings Holdings Limited	100	100	Yes	Yes
AVJennings Properties Limited	100	100	Yes	Yes
Jennings Sinnamon Park Pty Limited	100	100	Yes	Yes
Long Corporation Limited	100	100	Yes	Yes
Orlit Pty Limited	100	100	Yes	Yes
Sundell Pty Limited	100	100	Yes	Yes
AVJennings Housing Pty Limited	100	100		
AVJennings Housing VIC. Pty Limited	100	100		
AVJennings Housing N.S.W. Pty Limited	100	100		
AVJennings Housing S.A. Pty Limited	100	100		
AVJennings Housing QLD. Pty Limited	100	100		
AVJennings Home Improvements S.A. Pty Limited	100	100		
AVJennings Mackay Pty Limited	100	-		

(1) All entities are incorporated and trade in Australia.

(2) These entities, including AVJennings Limited, are included under the banking cross deed of covenant referred to in note 25(a).

# Notes to the Financial Statements

For the year ended 30 June 2008

## 20. CONTROLLED ENTITIES (continued)

### (a) Investment in controlled entities (continued)

ECONOMIC ENTITY <sup>(1)</sup>	% Equity Interest		Included in Banking Cross Deed of Covenant <sup>(2)</sup>	
	30 June 2008	30 June 2007	30 June 2008	30 June 2007
<b>Entities excluded from the Closed Group</b>				
Petsamo No 66 Pty Limited	100	100		
Hymill Pty Limited	100	100		
AVJennings Project Management Services Pty Limited	100	100		
Crebb No 12 Pty Limited	100	100		
Dunby Pty Limited	100	100		
Epping Developments Limited	100	100		
Montpellier Gardens Pty Limited	100	100		
Sirda Pty Limited	100	100		
AVJ ODP Pty Limited (Formerly Lorak Pty Limited)	100	100		
AVJennings (Cammeray) Pty Limited	100	100		
AVJennings Syndicate No 2 Limited	100	100		
AVJennings Syndicate No 3 Limited	100	100		
AVJennings Syndicate No 4 Limited	100	100		
AVJennings Officer Syndicate Limited	100	100		
AVJennings Hindmarsh Syndicate Limited	100	100		
AVJennings Properties SPV No 1 Pty Limited	100	100		
AVJennings Properties SPV No 2 Pty Limited	100	100		
AVJennings Properties SPV No 3 Pty Limited	100	100		
AVJennings Properties SPV No 4 Pty Limited	100	-		
AVJennings Properties SPV No 5 Pty Limited	100	-		
AVJ Erskineville Pty Limited	100	-		
AVJ SPV No 8 Pty Limited	100	50		
AVJennings Properties SPV No 9 Pty Limited	100	-		
AVJennings SPV No 10 Pty Limited	100	-		
AVJennings Properties SPV No 11 Pty Limited	100	-		
AVJennings Properties SPV No 12 Pty Limited	100	-		
AVJ Hobsonville Pty Limited	100	-		
AVJennings Syndicate No 5 Limited	100	-		
AVJennings Syndicate No 6 Limited	100	-		

(1) All entities are incorporated and trade in Australia.

(2) These entities, including AVJennings Limited, are included under the banking cross deed of covenant referred to in note 25(a).

### (b) Ultimate parent

AVJennings Limited is the ultimate Australian Parent Entity as well as the ultimate Parent Entity.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 20. CONTROLLED ENTITIES (continued)

### (c) Deeds of cross guarantee

Certain entities within the Group are parties to deeds of cross guarantee under which each controlled entity guarantees the debts of the others. By entering into these deeds, the controlled entities are relieved from the requirement to prepare financial statements and *Directors' Reports* under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by the Australian Securities and Investments Commission (ASIC). Those entities included in the Closed Group are listed in note 20(a). These entities represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the deeds of cross guarantee that are controlled by AVJennings Limited, they also represent the "Extended Closed Group".

### (d) Class order closed group

Certain controlled entities were granted relief by ASIC (under provisions of Class Orders) from the requirement to prepare separate audited financial statements, where deeds of indemnity have been entered into between the Parent Entity and the Controlled Entities to meet their liabilities as required (refer note 20(c)).

The Extended Closed Group referred to in the *Directors' Declaration* therefore comprises all of the entities within the Class Order. Certain entities falling outside of the Extended Closed Group are listed in note 20(a), and are therefore required to prepare separate annual financial statements.

The *Income Statement* for those controlled entities which are party to the deed is as follows:

	Closed Group	
	12 months June 2008 \$'000	15 months June 2007 \$'000
<b><i>Income Statement</i></b>		
Revenues	480,310	557,384
Cost of sales	( 390,539 )	( 456,961 )
Other expenses	( 78,962 )	( 95,848 )
<b>Profit before income tax</b>	<b>10,809</b>	<b>4,575</b>
Income tax expense	( 2,244 )	( 23 )
<b>Net profit attributable to members of the parent</b>	<b>8,565</b>	<b>4,552</b>

# Notes to the Financial Statements

For the year ended 30 June 2008

## 20. CONTROLLED ENTITIES (continued)

### (d) Class order closed group (continued)

The *Balance Sheet* for those controlled entities which are party to the deed is as follows:

	Closed Group	
	30 June 2008 \$'000	30 June 2007 \$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	6,885	-
Trade and other receivables	18,448	4,980
Inventories	174,732	217,146
Tax receivable	1,501	-
Other current assets	6,839	3,439
<b>Total current assets</b>	<b>208,405</b>	<b>225,565</b>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	-	-
Inventories	258,076	248,899
Investment accounted for using the equity method	-	-
Property, plant and equipment	4,880	5,381
Intangible assets	3,554	4,046
<b>Total non-current assets</b>	<b>266,510</b>	<b>258,326</b>
<b>Total assets</b>	<b>474,915</b>	<b>483,891</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	18,605	97,810
Interest-bearing loans and borrowings	( 7,259 )	9,390
Tax payable	( 1,721 )	1,028
Short-term provisions	5,239	4,372
<b>Total current liabilities</b>	<b>14,864</b>	<b>112,600</b>
<b>NON-CURRENT LIABILITIES</b>		
Trade and other payables	7,324	9,699
Interest-bearing loans and borrowings	156,340	95,714
Deferred tax liabilities	20,921	16,368
Provisions	767	982
<b>Total non-current liabilities</b>	<b>185,352</b>	<b>122,763</b>
<b>Total liabilities</b>	<b>200,216</b>	<b>235,363</b>
<b>Net assets</b>	<b>274,699</b>	<b>248,528</b>
<b>EQUITY</b>		
Equity attributable to equity holders of the parent		
Contributed equity	119,247	89,950
Retained earnings	155,452	158,578
<b>Total equity</b>	<b>274,699</b>	<b>248,528</b>

# Notes to the Financial Statements

For the year ended 30 June 2008

## 20. CONTROLLED ENTITIES (continued)

### (d) Class order closed group (continued)

The *Statement of Changes in Equity* for those controlled entities which are party to the deed is as follows:

	Closed Group	
	30 June 2008 \$'000	30 June 2007 \$'000
<b><i>Statement of Changes in Equity</i></b>		
At beginning of the year	248,528	243,976
Net income recognised directly in equity	-	-
Less equity of members removed from closed group	( 4,938 )	-
Profit for the period	8,565	4,552
Total income and expenses for the period	3,627	4,552
Equity transactions		
- Ordinary share capital raised	29,297	10,761
- Dividends paid	( 6,753 )	( 10,761 )
	26,171	4,552
<b>At end of the year</b>	<b>274,699</b>	<b>248,528</b>

## 21. INTEREST IN JOINT VENTURE OPERATIONS

A number of controlled entities have entered into joint venture operations. Information relating to the Joint Ventures is set out below:

	INTEREST HELD IN OUTPUT	
	30 June 2008	30 June 2007
<b><i>Joint Venture name and principal activities</i></b>		
Regatta Waters / ParkLake Joint Venture - Land Development	50%	50%
Springbank Waters Joint Venture - Land Development	50%	50%
Cammeray Joint Venture - Apartments Development	50%	50%
Cheltenham Joint Venture - Land Development	50%	-

Contingent liabilities exist in respect of a financial guarantee that has been issued in relation to the Cheltenham Joint Venture. This financial guarantee has been issued in the normal course of business and is included in note 32.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 21. INTEREST IN JOINT VENTURE OPERATIONS (continued)

The Consolidated Entity's interest in the profits and losses of the Joint Venture Operations are included in the *Income Statement*, in accordance with the accounting policy described in note 2(e), under the following classifications:

	Consolidated	
	15 months June 2008 \$'000	12 months June 2007 \$'000
<b><i>Income Statement</i></b>		
Revenues	14,032	26,121
Cost of sales	( 10,037 )	( 15,541 )
Other expenses	( 795 )	( 1,479 )
<b>Profit before income tax</b>	<b>3,200</b>	<b>9,101</b>
Income tax expense	( 960 )	( 2,730 )
<b>Net profit attributable to members of the parent</b>	<b>2,240</b>	<b>6,371</b>

The Consolidated Entity's interest in the assets and liabilities of joint venture operations are included in the *Balance Sheet*, in accordance with the policy described in note 2(e), under the following classifications:

	Consolidated	
	30 June 2008 \$'000	30 June 2007 \$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	775	204
Trade and other receivables	97	80
Inventories	4,226	5,194
Other current assets	55	12
<b>Total current assets</b>	<b>5,153</b>	<b>5,490</b>
<b>NON-CURRENT ASSETS</b>		
Inventories	-	-
<b>Total non-current assets</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>	<b>5,153</b>	<b>5,490</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	1,553	1,344
<b>Total current liabilities</b>	<b>1,553</b>	<b>1,344</b>
<b>NON-CURRENT LIABILITIES</b>		
Interest bearing loans and borrowings	1,605	3,142
<b>Total non-current assets</b>	<b>1,605</b>	<b>3,142</b>
<b>Total liabilities</b>	<b>3,158</b>	<b>4,486</b>
<b>Net assets</b>	<b>1,995</b>	<b>1,004</b>

The parent entity has no direct interests in joint venture operations.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 22. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Leasehold improvements</b>				
At cost	2,807	2,710	-	-
Less: accumulated depreciation	(1,653)	(1,447)	-	-
<b>Total leasehold improvements</b>	<b>1,154</b>	<b>1,263</b>	-	-
<b>Plant, equipment and motor vehicles</b>				
At cost	15,160	14,548	-	-
Less: accumulated depreciation	(12,630)	(11,745)	-	-
<b>Total plant and equipment</b>	<b>2,530</b>	<b>2,803</b>	-	-
<b>Motor vehicles under finance lease</b>				
At cost	1,902	2,168	-	-
Less: accumulated amortisation	(706)	(853)	-	-
<b>Total motor vehicles under finance lease</b>	<b>1,196</b>	<b>1,315</b>	-	-
<b>Total property, plant and equipment</b>	<b>4,880</b>	<b>5,381</b>	-	-

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the period are set out below:

	Note	Leasehold improve- ments \$'000	Plant, equipment and motor vehicles \$'000	Leased motor vehicles \$'000	Total \$'000
<b>For the period ended 30 June 2007</b>					
<b>Consolidated</b>					
Carrying amount at 1 April 2006		1,557	3,846	1,276	6,679
Additions		11	1,051	1,125	2,187
Disposals		(1)	(644)	(404)	(1,049)
Depreciation/amortisation charge for the period	6	(304)	(1,450)	(682)	(2,436)
<b>Carrying amount at 30 June 2007</b>		<b>1,263</b>	<b>2,803</b>	<b>1,315</b>	<b>5,381</b>
<b>For the year ended 30 June 2008</b>					
<b>Consolidated</b>					
Carrying amount at 1 July 2007		1,263	2,803	1,315	5,381
Additions		99	820	805	1,724
Disposals		-	(201)	(274)	(475)
Depreciation/amortisation charge for the year	6	(208)	(892)	(650)	(1,750)
<b>Carrying amount at 30 June 2008</b>		<b>1,154</b>	<b>2,530</b>	<b>1,196</b>	<b>4,880</b>

# Notes to the Financial Statements

For the year ended 30 June 2008

## 23. INTANGIBLE ASSETS

	Consolidated		Parent	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
Note	\$'000	\$'000	\$'000	\$'000
Brand name at cost	9,868	9,868	-	-
Less: accumulated amortisation	(6,314)	(5,822)	-	-
<b>Total intangible assets</b>	<b>3,554</b>	<b>4,046</b>	-	-

### Reconciliations

Reconciliations of the carrying amount of the intangible asset at the beginning and end of the period is set out below:

	Consolidated		Parent	
	12 months	15 months	12 months	15 months
	June	June	June	June
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Carrying amount beginning of year	4,046	4,661	-	-
Amortisation charge for the year	6 (492)	(615)	-	-
<b>Carrying amount at end of year</b>	<b>3,554</b>	<b>4,046</b>	-	-

## 24. TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
<b>Current</b>				
<i>Secured</i>				
Land creditors	4,100	3,388	-	-
<i>Unsecured</i>				
Land creditors	6,980	54,408	-	-
Trade creditors	42,142	32,733	-	-
Other creditors and accruals	12,447	11,032	-	-
Loans from controlled entities	-	-	22,831	52,375
	61,569	98,173	22,831	52,375
<b>Total current payables</b>	<b>65,669</b>	<b>101,561</b>	<b>22,831</b>	<b>52,375</b>
<b>Non-Current</b>				
<i>Secured</i>				
Land creditors	2,600	1,500	-	-
<i>Unsecured</i>				
Land creditors	4,724	8,199	-	-
<b>Total non-current payables</b>	<b>7,324</b>	<b>9,699</b>	-	-

The amounts due to secured land creditors are secured over the title to properties acquired by way of either mortgage bond or bank guarantee in favour of the land vendor. These security arrangements remain in place until final settlement of the amounts due to the land vendor. Titles for the unsecured land creditors only transfer to the Consolidated Entity on full payment of the amount outstanding or upon provision of some other security.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 25. INTEREST-BEARING LOANS AND BORROWINGS

	Note	Consolidated		Parent	
		30 June	30 June	30 June	30 June
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>Current</b>					
<i>Unsecured</i>					
Lease liabilities	31(b)	782	838	-	-
<i>Secured</i>					
Bank overdraft		-	8,552	-	-
Bank loans		19,238	16,890	-	-
		19,238	25,442	-	-
<b>Total current interest-bearing liabilities</b>		<b>20,020</b>	<b>26,280</b>	<b>-</b>	<b>-</b>
<b>Non-current</b>					
<i>Secured</i>					
Bank loans		155,673	95,000	-	-
<i>Unsecured</i>					
Lease liabilities	31(b)	667	714	-	-
<b>Total non-current interest-bearing liabilities</b>		<b>156,340</b>	<b>95,714</b>	<b>-</b>	<b>-</b>

### Financing arrangements

The Consolidated Entity has access to the following lines of credit (the Parent Entity has no financing facilities other than loans from Controlled Entities):

	Note	Available \$'000	Utilised \$'000	Unutilised \$'000
<b>30 June 2008</b>				
Multi-option facilities	25(a)			
- bank overdraft		20,000	-	20,000
- bank loans		180,000	130,000	50,000
- standby credit facility		15,000	-	15,000
- performance bonds and other non-cash facilities		43,750	36,858	6,892
		<b>258,750</b>	<b>166,858</b>	<b>91,892</b>
Project funding	25(b)			
- bank loans		78,736	44,911	33,825
- performance bonds and other non-cash facilities		2,625	2,125	500
		<b>81,361</b>	<b>47,036</b>	<b>34,325</b>
Leasing facilities	25(c)	<b>3,500</b>	<b>1,449</b>	<b>2,051</b>

# Notes to the Financial Statements

For the year ended 30 June 2008

## 25. INTEREST-BEARING LOANS AND BORROWINGS (continued)

### Financing arrangements (continued)

	Note	Available \$'000	Utilised \$'000	Unutilised \$'000
<b>30 June 2007</b>				
Multi-option facilities	25(a)			
- bank overdraft		20,000	8,552	11,448
- bank loans		180,000	95,000	85,000
- standby credit facility		15,000	-	15,000
- performance bonds and other non-cash facilities		33,750	24,521	9,229
		<b>248,750</b>	<b>128,073</b>	<b>120,677</b>
<hr/>				
Project funding	25(b)			
- bank loans		31,200	16,890	14,310
- performance bonds and other non-cash facilities		2,375	1,159	1,216
		<b>33,575</b>	<b>18,049</b>	<b>15,526</b>
<hr/>				
Leasing facilities	25(c)	<b>3,500</b>	<b>1,552</b>	<b>1,948</b>

### Significant terms and conditions

#### (a) Multi-option facility

The total multi-option facility is secured by a fixed and floating charge over all the assets and undertakings of the entities within the Consolidated Entity, other than those assets pledged as security for project funding (see note 15(b)), and other than those assets pledged as security for properties acquired as detailed in note 24 (secured land creditors). The facility expires in September 2009 and is subject to an annual review. The next review will be in September 2008 which, if approved, will extend the facility expiry date to September 2010. The Parent Entity has entered into a cross deed of covenant with various controlled entities to guarantee obligations of those entities in relation to the multi-option facility. Details of entities included in the cross deed of covenant are set out in note 20. There is no overdraft at the year-end and the current interest rates on the bank loans range from 8.44% to 9.13% (2007: 6.77% to 7.68% and 10.10% on overdraft). Drawings under the standby credit facility are to be repaid in 90 days. The facility was unused at 30 June 2008 and at 30 June 2007.

#### (b) Project funding

Project funding facilities are secured by:

- fixed and floating charges over all assets and undertakings of the entities involved in the relevant project, namely, AVJennings (Cammeray) Pty Limited; AVJennings Properties SPV No. 5 Pty Limited and AVJ Erskineville Pty Limited;
- first registered mortgage over the real estate inventories of the projects; and
- fixed and floating charge over the assets and undertakings of a project of AVJennings Properties Limited.

At 30 June 2008 the facilities shown are interchangeable up to \$800,000 (2007: \$1,925,000) between the bank loans and performance bonds/other non-cash facilities. The lines of credit shown are maximum limits which are available progressively as projects are developed. The expiry dates for the facilities take place between April 2009 and November 2011. Individual projects are expected to be completed and the outstanding amounts repaid or refinanced prior to expiry of each facility. As at 30 June 2008, the balance outstanding on these facilities was \$44,911,000 (2007: \$16,890,000).

# Notes to the Financial Statements

For the year ended 30 June 2008

## 25. INTEREST-BEARING LOANS AND BORROWINGS (continued)

### (b) Project funding (continued)

	Consolidated	
	30 June	30 June
	2008	2007
	\$'000	\$'000
The carrying amounts of the pledged assets are as follows:		
Cammeray, New South Wales	8,978	5,753
Burwood, Victoria	-	12,655
Coomera, Queensland	-	1,424
Killara, New South Wales	27,720	-
Wollert, Victoria	37,170	-
Erskineville, New South Wales	14,456	-

The weighted average interest rate on the project loans at the year-end was 9.30% (2007: 7.04%).

### (c) Leasing facilities

No separate security has been provided by the Consolidated Entity in relation to lease liabilities. The rights to the leased assets revert to the lessor in the event of default. The facility expires in September 2009 and is subject to an annual review. The next review will be in September 2008 which, if approved, will extend the facility expiry date to September 2010. The current interest rates on finance leases range from 7.44% to 10.14% (2007: 7.35% to 8.36%). The lease terms range between 12 and 36 months.

### (d) Interest rate hedge instruments

The Consolidated Entity manages the cash flow effect of interest rate risk by entering into interest rate cap and interest rate swap contracts.

Interest rate cap contracts are entered into for a principal Australian Dollar amount by paying an upfront premium that covers a specific period. The strike rates for these contracts are benchmarked against the BBSY bid rate (*Australian Bank Bill Swap Reference Rate - Average Bid Rate*) on a monthly basis. Settlement occurs monthly, in favour of the Consolidated Entity, should the BBSY bid rate be above the cap strike rate (movements in the variable rate are directly proportional to movements in the BBSY bid rate).

Under the interest rate swaps, at the end of every quarter, the Consolidated Entity and the counterparty agree to exchange the difference between the interest calculated by applying the fixed contract rates and that calculated by applying the BBSY bid rate to the principal Australian Dollar amounts.

As at 30 June 2008, the principal amounts, rates and terms of the interest rate caps and interest rate swaps are as follows:

Type of derivative	Period covered	Strike Rate	Fixed Rate	Consolidated borrowings hedged	
				30 June	30 June
				2008	2007
		%	%	\$'000	\$'000
Interest rate cap	April 2007 - March 2008	7.50	-	-	125,000
Interest rate cap	April 2008 - June 2010	7.75	-	65,000	-
Interest rate swap	April 2008 - June 2010	-	7.60	35,000	-
Interest rate swap	April 2008 - June 2010	-	7.62	30,000	-

The parent entity has not entered into any derivative contracts.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 26. TAX PAYABLE

	Consolidated		Parent	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Income tax payable	-	1,028	-	-

## 27. DEFERRED TAX LIABILITIES

The provision for deferred income tax is made up as follows:

- capitalisation of development costs	20,374	17,605	-	-
- accrued income	770	1,551	-	-
- prepayments, accruals/provisions and investments	(438)	(2,174)	-	-
- brand name	1,066	1,214	-	-
- other	-	(149)	-	-
<b>Deferred tax liabilities</b>	<b>21,772</b>	<b>18,047</b>	-	-

### Reconciliations

Reconciliations of the carrying amount of the deferred tax liability at the beginning and end of the year is set out below

	Note	Consolidated		Parent	
		12 months	15 months	12 months	15 months
		June	June	June	June
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
Carrying amount at beginning of the year		18,047	13,416	-	-
Arising temporary differences	10	3,725	4,631	-	-
<b>Carrying amount at end of the year</b>		<b>21,772</b>	<b>18,047</b>	-	-

### Tax losses

The Consolidated Entity has capital tax losses of \$1,013,526 (2007: \$1,013,526) which are available indefinitely for offset against future capital gains subject to satisfaction of the relevant statutory tests.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 28. PROVISIONS

	Consolidated		Parent	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Current</b>				
Employee benefits	5,237	4,601	-	-
Other	2	101	-	-
<b>Total current provisions</b>	<b>5,239</b>	<b>4,702</b>	<b>-</b>	<b>-</b>
<b>Non-current</b>				
Employee benefits	767	982	-	-
<b>Total non-current provisions</b>	<b>767</b>	<b>982</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

For the year ended 30 June 2008

## 29. CONTRIBUTED EQUITY

	Consolidated and Parent	
	30 June 2008 \$'000	30 June 2007 \$'000
Ordinary shares		
<b>Issued and fully paid ordinary shares</b>	<b>119,247</b>	<b>89,950</b>

	Consolidated and Parent	
	30 June 2008 \$'000	30 June 2007 \$'000
Movement in contributed equity:		
As at the beginning of the year	89,950	79,189
Issued pursuant to the Rights Issue, net of associated costs		
5 June 2008 - at an issue price of \$0.67 per ordinary share	24,401	
Issued pursuant to the Dividend Reinvestment Plan (DRP)		
29 October 2007 - at an issue price of \$1.14 per ordinary share	4,896	
15 August 2006 - at an issue price of \$1.08 per ordinary share		7,102
Issued pursuant to the DRP Underwriting Agreement		
19 September 2006 - at an issue price of \$1.11 per ordinary share		3,659
	29,297	10,761
<b>As at the end of the year</b>	<b>119,247</b>	<b>89,950</b>

	Consolidated and Parent	
	30 June 2008 Number	30 June 2007 Number
Movement in ordinary shares on issue:		
As at the beginning of the year	225,111,229	215,226,332
Issued pursuant to the Rights Issue		
5 June 2008	37,212,098	
Issued pursuant to the Dividend Reinvestment Plan (DRP)		
29 October 2007	4,301,135	
15 August 2006		6,575,707
Issued pursuant to the DRP Underwriting Agreement		
19 September 2006		3,309,190
	41,513,233	9,884,897
<b>As at the end of the year</b>	<b>266,624,462</b>	<b>225,111,229</b>

Transaction costs for the Rights Issue amounted to \$531,402. These costs were deducted from gross proceeds and the net amount recorded in equity.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

There are currently no unexercised or outstanding options. No options were exercised during the year.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 30. CASH FLOW STATEMENT RECONCILIATION

	Note	Consolidated		Parent	
		12 months June 2008 \$'000	15 months June 2007 \$'000	12 months June 2008 \$'000	15 months June 2007 \$'000
<b>Reconciliation of net profit after tax to net cash flows from operations</b>					
Net profit after tax		11,231	12,164	7,000	10,761
<i>Adjustments for:</i>					
Depreciation		1,100	1,754	-	-
Amortisation		1,142	1,297	-	-
Net loss (gain) on disposal of property, plant and equipment		31	( 5 )	-	-
Interest income classified as investing cash flow		( 670 )	( 392 )	-	-
<i>Change in operating assets and liabilities:</i>					
Decrease (increase) in inventories		( 14,906 )	73,180	-	-
Decrease (increase) in trade and other receivables		3,631	( 10,282 )	-	-
Increase in prepayments and deposits		( 3,382 )	( 258 )	-	-
Increase in deferred tax liability		3,725	4,631	-	-
Increase (decrease) in current tax liability		( 1,028 )	1,028	-	-
Decrease (increase) in current tax assets		( 1,501 )	1,947	-	-
Decrease in trade and other payables		( 38,267 )	( 26,564 )	( 7,000 )	( 10,761 )
Increase in provisions		322	971	-	-
<b>Net cash flows from (used in) operating activities</b>		<b>( 38,572 )</b>	<b>59,471</b>	<b>-</b>	<b>-</b>
<b>Non-cash financing and investing activities</b>					
Ordinary shares issued pursuant to the Dividend Reinvestment Plan	29	4,896	10,761	-	-
Acquisition of plant and equipment by means of finance leases	22	805	1,125	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 31. COMMITMENTS

### (a) Capital commitments

Conditional contracts for the acquisition of land which have not yet been recognised in the financial statements are as follows:

	Consolidated		Parent	
	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
Within one year	10,434	9,899	-	-
After one year, but not more than five years	29,040	3,000	-	-
<b>Total expenditure commitments</b>	<b>39,474</b>	<b>12,899</b>	-	-

### (b) Finance lease commitments – Consolidated Entity as lessee

Finance leases are employed as a means of funding the acquisition of employer provided motor vehicles. Lease payments are generally fixed. Where leases have renewal or purchase options, they are exercisable at market prices. No finance lease arrangements create restrictions on other financing transactions.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

#### **Finance leases**

Analysis of finance lease commitments

#### *Minimum lease payments*

Within one year	870	925	-	-
After one year, but not more than five years	718	749	-	-
<b>Total minimum lease payments</b>	<b>1,588</b>	<b>1,674</b>	-	-
<i>Less amounts representing finance charges</i>				
Within one year	( 88 )	( 87 )	-	-
After one year, but not more than five years	( 51 )	( 35 )	-	-
<b>Total finance charges</b>	<b>( 139 )</b>	<b>( 122 )</b>	-	-
<b>Present value of minimum lease payments</b>	<b>1,449</b>	<b>1,552</b>	-	-
<i>Present value of lease payments</i>				
Within one year	25	782	838	-
After one year, but not more than five years	25	667	714	-
<b>Total present value of minimum lease payments</b>	<b>1,449</b>	<b>1,552</b>	-	-

The Consolidated Entity has no finance lease arrangements where the Consolidated Entity is the lessor.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 31. COMMITMENTS (continued)

### (c) Operating lease commitments – Consolidated Entity as lessee

Operating leases include property, computer equipment leases and leases for motor vehicles provided under novated leases. Certain property leases include inflation escalation and market review clauses. No renewal or purchase options exist in relation to operating leases, and no operating leases contain restrictions on financing or other leasing activities.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2008 are as follows:

	Consolidated		Parent	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
<b>Operating leases</b>				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities:				
Within one year	4,031	6,012	-	-
After one year, but not more than five years	6,044	6,713	-	-
<b>Total operating leases</b>	<b>10,075</b>	<b>12,725</b>	-	-
<i>Represented by:</i>				
Non-cancellable operating leases	7,661	11,521	-	-
Cancellable operating leases	2,414	1,204	-	-
<b>Total operating leases</b>	<b>10,075</b>	<b>12,725</b>	-	-

### (d) Operating lease commitments – Consolidated Entity as lessor

Operating leases include property leases which have remaining terms between 1 and 6 months. All property leases include inflation escalation and market review clauses.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June 2008 are as follows:

Commitments in relation to leases contracted for at the reporting date but not recognised as assets:				
Within one year	4	158	-	-
<b>Total operating leases</b>	<b>4</b>	<b>158</b>	-	-
<i>Represented by:</i>				
Non-cancellable operating leases	4	158	-	-

# Notes to the Financial Statements

For the year ended 30 June 2008

## 32. CONTINGENCIES

### *Unsecured*

#### *Cross guarantees*

The Parent Entity has entered into deeds of cross guarantee in respect of the debts of certain of its controlled entities as described in note 20.

#### *Banking facilities*

The Parent Entity has entered into a cross deed of covenant with various controlled entities to guarantee the obligations of those entities in relation to the banking facilities. Details of these entities are set out in note 20.

#### *Legal issues*

From time to time a controlled entity defends actions served on it in respect of rectification of building faults and other issues. It is not practicable to estimate the amount, if any, which the entity could be liable for in this respect. The Directors' anticipate that the resolution of any such matters currently outstanding will not have a material effect on the Consolidated Entity's results.

### *Secured*

#### *Performance guarantees*

Contingent liabilities in respect of certain performance guarantees, granted by controlled entities in the normal course of business to unrelated parties, at 30 June 2008, amounted to \$34,709,000 (2007: \$20,494,000). These performance guarantees are issued to bond for completion of works as required by councils and utilities. Further details regarding guarantees are provided in note 25. No liability is expected to arise.

#### *Financial guarantees*

Certain financial guarantees have been granted by the Consolidated Entity's main bankers in the normal course of business as follows:

- issued to land vendors as security for land purchased by the Consolidated Entity for which title has already transferred to the Consolidated Entity. At 30 June 2008 these financial guarantees amounted to \$1,500,000 (2007: \$4,538,000);
- issued to various landlords as security for office space leased by the Consolidated Entity. At 30 June 2008 these financial guarantees amounted to \$448,000 (2007: \$448,000);
- issued to the Queensland Commissioner for Land Tax as security for land tax liabilities that arise as a result of land settlements. At 30 June 2008 these financial guarantees amounted to \$200,000 (2007: \$200,000); and
- issued to a land owner as security for the Consolidated Entity's obligations under a contract for the right to develop land to which the Consolidated Entity does not have title. At 30 June 2008, this financial guarantee amounted to \$2,125,000 (2007: \$NIL)

# Notes to the Financial Statements

For the year ended 30 June 2008

## 33. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the end of the financial period, the Company declared a final dividend of 2.0 cents per share, fully franked, as discussed elsewhere in the Directors' Report and in Note 11 to the Financial Statements.

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

- a) the Consolidated Entity's operations in future financial years; or
- b) the results of those operations in future financial years; or
- c) the Consolidated Entity's state of affairs in future financial years.

## 34. RELATED PARTY DISCLOSURES

### (a) *Ultimate parent*

AVJennings Limited is the ultimate Australian Parent Entity as well as the ultimate Parent Entity.

### (b) *Share and share option transactions with Directors and Director-related entities*

The aggregate number of shares and options held at the reporting date either directly or indirectly or beneficially by the Directors or by an entity related to those Directors of AVJennings Limited are as follows:

	Owned by Directors directly, or indirectly or beneficially		Otherwise owned in which the Director was deemed to have an interest	
	30 June 2008 Number	30 June 2007 Number	30 June 2008 Number	30 June 2007 Number
Fully paid ordinary shares	131,354,566	96,164,285	131,354,566	96,164,285

Directors and Director-related entities received normal dividends on these ordinary shares.

### (c) *Entity with significant influence over AVJennings Limited*

130,481,150 ordinary shares equating to 48.94% of the total ordinary shares on issue (2007: 95,348,173 & 42.36% respectively) were held by SC Global Developments Limited and its associates in the Parent Entity at 30 June 2008. Certain Directors of SC Global Developments Limited are also Directors of AVJennings Limited. Details of Directors' interests in the shares of the Parent Entity are set out in the *Directors' Report*.

# Notes to the Financial Statements

For the year ended 30 June 2008

## 34. RELATED PARTY DISCLOSURES (continued)

### (d) Parent Entity amounts receivable from and payable to controlled entities

	30 June 2008 \$'000	Parent	30 June 2007 \$'000
Current receivables due from subsidiary companies	31,382		31,382
Current payables due to subsidiary companies	22,831		52,375

At 30 June 2008, the Parent Entity has not set up any provisions against debts owed by related parties as recoverability is considered to be virtually certain (2007: \$NIL). An impairment assessment is undertaken each financial year-end to determine whether there is objective evidence that a related party receivable is impaired. If evidence of impairment exists, the impairment loss is recognised immediately.

### (e) Transactions with related parties:

	Note	Consolidated		Parent	
		12 months June 2008 \$	15 months June 2007 \$	12 months June 2008 \$	15 months June 2007 \$
Consultancy fees paid	(i)	600,000	750,000	-	-
Reimbursement of sundry expenses	(ii)	50,966	28,929	-	-
Dividends received	(iii)	-	-	-	10,761,000
Debt forgiven	(iv)	-	-	7,000,000	-
Value of shares issued pursuant to DRP	(v)	2,884,929	4,457,323	2,884,929	4,457,323
Value of shares issued pursuant to DRP underwriting	(vi)	-	3,659,964	-	3,659,964
Value of shares issued pursuant to Rights Issue	(vii)	21,879,577	-	21,879,577	-

(i) Consultancy fees paid to SC Global Developments Limited at \$50,000 per month (2007: \$50,000 per month).

(ii) Overseas airfares reimbursed for Herman Hochstadt and Bobby Chin to attend Board meetings in Australia, reimbursement of costs in relation to Singapore listing and shareholder matters and other sundry expenses.

(iii) Dividend received by the Parent Entity from subsidiary companies.

(iv) Debt forgiven by AVJennings Properties Limited, a controlled entity.

(v) Value of shares issued to Directors, either directly, indirectly or beneficially, pursuant to the DRP.

(vi) DRP underwriting issue to Trimount Pte Ltd (a wholly owned subsidiary of SC Global Developments Limited) pursuant to Deed of Underwriting of the AVJennings DRP.

(vii) Value of shares issued to Directors, either directly, indirectly or beneficially, pursuant to the Rights Issue.

### (f) Joint ventures in which related entities in the Consolidated Entity are venturers

Joint ventures in which the Consolidated Entity has an interest are set out in note 18 and 21.

### (g) Terms and conditions of transactions with related parties

Transactions with related parties are made at arm's length both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

# Directors' Declaration

In accordance with a resolution of the Directors of AVJennings Limited, we state that:

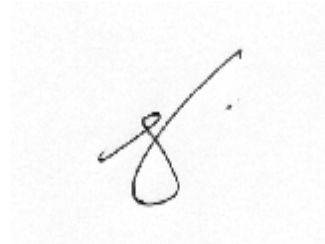
- 1) In the opinion of the Directors:
  - i) the financial statements and notes of the Company and the Consolidated Entity are in accordance with the *Corporations Act 2001*, including;
    - a) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
    - b) complying with Accounting Standards and *Corporations Regulations 2001*; and
  - ii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2) This declaration has been made after receiving declarations required to be made to the Directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ended 30 June 2008.
- 3) 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 Consolidated Entity identified in note 20 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



Simon Cheong  
*Director*

30 September 2008



Louis Milkovits  
*Director*

## Independent auditor's report to the members of AVJennings Limited

### Report on the Financial Report

We have audited the accompanying financial report of AVJennings Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## Auditor's Opinion

In our opinion:

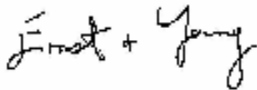
1. the financial report of AVJennings Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of AVJennings Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 15 of the directors' report for the year ended 30 June 2008. 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.

## Auditor's Opinion

In our opinion the Remuneration Report of AVJennings Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'D. Simmonds'.

David Simmonds  
Partner  
Sydney  
30 September 2008

# Corporate Governance Statement

For the year ended 30 June 2008

This Corporate Governance Statement indicates the Company's conformance with the Australian Stock Exchange's ("ASX") Corporate Governance Council's, "Corporate Governance Principles and Recommendations" (2<sup>nd</sup> Edition: 2007), as required by the ASX Listing Rules.

The AVJennings Corporate Governance Statement is structured with reference to the ASX recommendations. Areas of non compliance will be disclosed under the relevant principle. All corporate practices within this report were in place for the entire year unless otherwise indicated. This Statement refers to documents that support the Company's Corporate Governance framework and it is posted in the Corporate Governance section on the Company's website: [www.avjennings.com.au](http://www.avjennings.com.au)

## Principle 1:

### ***Lay solid foundations for management and oversight by the Board***

Recommendation 1.1 of the ASX Corporate Governance Principles requires the Company to establish and disclose the functions reserved for the Board and those delegated to management. The roles and responsibilities of the Company's Board, Board Committees and senior management have been established through Board approved Charters, which have been operational throughout the period and are disclosed on the Company's website at [www.avjennings.com.au](http://www.avjennings.com.au).

All persons who are invited and agree to act as a Director of the Company do so by a formal letter of consent.

To assist it in carrying out its responsibilities, the Board has established several standing Board Committees of its members. Director appointments to Board Committees are by formal resolutions of the Board. The Chairman of each Committee reports on any matters of substance at the next full Board Meeting. Membership of Board Committees and attendance at Board and Committee meetings is tabulated in the Director's Report section of this Report.

The Board Committees are:

- § Audit Committee
- § Nominations Committee
- § Remuneration Committee
- § Investments Committee
- § Risk Management Committee

The roles and responsibilities of the Chief Executive Officer and senior management are established through key performance objectives. They are assessed against those objectives on an annual basis, or more frequently if that is indicated. During the period the Nominations Committee has reviewed the performance of Board members.

The Remuneration Committee monitors the performance of the Chief Executive Officer. It also monitors the performance of the Chief Financial Officer and the Company Secretary in consultation with the Chief Executive Officer. The Chief Executive Officer assesses the performance of senior management and these assessments are reviewed by the Remuneration Committee. The process for evaluating the performance of senior executives is set out in the Remuneration Report section of this Report.

The Board has also approved financial delegations and personnel delegations which cover specific areas of delegated responsibility to the Managing Director and senior management.

During the period, the Board has considered broad Corporate Governance matters, including the continuing relevance of existing committees and its own performance.

## **Principle 2:**

### ***Structure the Board to add value***

#### *Directors*

The Board determines its size and composition, subject to its Constitution and Section 201 of the Corporations Act 2001 which stipulates that a public company must have at least three Directors.

The Board has adopted guidelines concerning its composition. For the time being, the Board has determined that there shall be at least five Directors, increasing where additional expertise is required. The current Directors of the Company are listed in the *Directors' Report* of this Report with a brief description of their qualifications, experience, special responsibilities and status as executive, non executive or independent director.

The Board includes both Executive and Non-Executive Directors with a majority of Non-Executive Directors. The Non-Executive Directors include both independent and non-independent Directors. There is a strong element of independence on the Board, with four of the six non-executive Directors being independent, within the ASX guidelines on independence. The other two Non-Executive Directors, who represent SC Global Developments Limited, a substantial shareholder, have no involvement in the operational management of the Company. The Managing Director and the Finance Director are Executive Directors.

The Chairman of the Board is selected by the full Board. The current Chairman of the Board, Mr Simon Cheong, is also Chairman of the Board of a substantial shareholder, SC Global Developments Limited. The Deputy Chairman, Mr Jerome Rowley, is an Independent Director. There is no lead Independent Director as recommended by the ASX Principles. The roles of the Chairperson and Chief Executive Officer are exercised by different individuals.

The Board meets at least four times a year and the meetings occur over a number of days. Meeting venues are planned to enable Directors to familiarise themselves with major development projects. A formal agenda is in place for each meeting.

New Directors are inducted individually on the Company's financial, strategic, operational and Risk Management positions. Directors have access to Company records and information through the Company Secretary and other relevant senior officers. They receive regular detailed reports on financial and operational aspects of the Company's business and may request elaboration or explanation of those reports at any time.

Each Director has the right to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required but this may not be unreasonably withheld. Any advice obtained is made available to the Chairman.

#### *Nominations Committee*

The Board has a Nominations Committee, comprising three Independent Directors, Mr H Hochstadt, the Chairman of the Committee, Mr B Chin and Mr B Hayman and one Non-Executive Director, Mr S Cheong.

The Nominations Committee Charter sets out its role, responsibilities, composition, structure, membership requirements and guidelines and is posted on the Corporate Governance section of the Company's website. The purpose of the Committee is to consider the performance of Directors and the appointment of new Directors. The Committee may make use of external consultants if that is deemed appropriate. The Committee meets at least annually.

#### *Company Secretary*

The Board appoints the Company Secretary and all Directors have access to the Company Secretary. Details of the Company Secretary's experience and qualifications are set out in this Report.

The role of the Company Secretary is to support the effectiveness of the Board by monitoring and advising the Board on its Corporate Governance responsibilities by means of its charters, procedures and updates on legislation and regulation. The Company Secretary is also responsible for lodgements with relevant regulators, management of dividend payments and/or dividend reinvestment plan allotments and management of the relationship between shareholders and the share registry.

### **Principle 3:**

#### ***Promote ethical and responsible decision making***

##### *Code of Conduct*

The Company has a Code of Conduct which sets out the behaviour required of all Board members, senior management, employees and contractors throughout the period. The content of the Code is integrated into management practices and forms part of the terms of employment of all Company employees. The Code, which is disclosed on the Company's website, provides a mechanism to employees to report breaches of the Code without fear of retribution. Senior management deals with breaches of the Code and monitors compliance. The Company Secretary and the Chief Executive Officer report to the Board and the Audit Committee on various aspects of Code Compliance.

##### *Dealing in AVJennings' shares*

The Code places restrictions on the ability of Directors, officers and employees to trade in the Company's shares during specified restricted "black out" periods. The restrictions are designed to minimise the risk of actual or perceived insider trading.

### **Principle 4:**

#### ***Safeguard integrity in financial reporting***

##### *Audit Committee*

The Company has an Audit Committee comprising of two Independent Directors, Mr B Chin (who is also the Chairman of the Committee), Mr H Hochstadt, and one Non-Executive Director, Mrs E Sam. The Chairman of the Committee is a different individual to the Chairman of the Board. The Audit Committee Charter sets out its role, responsibilities, composition, structure and membership requirements and is posted on the Corporate Governance section of Company's website.

All other members of the Board are invited to attend Audit Committee meetings as observers and in a non voting capacity. In the past year, all Board members have attended all Audit Committee meetings. The Audit Committee papers, including the minutes of the previous Committee Meetings, are sent to all Board members.

The Chief Executive Officer, Chief Financial Officer, Company Secretary, Internal Auditor and the External Auditor attend Audit Committee meetings at the discretion of the Committee. The Committee also meets privately with the External Auditor at least once a year, without management being present.

The Minutes of each Committee meeting are reviewed at the subsequent meeting of the Committee. The Chairman of the Committee is available to report on or answer questions about the Committee's conclusions and recommendations to the Board. The Committee meets at least four times during the year.

##### *Audit Governance*

The Company has a policy on the provision of auditing and related services. The Committee is satisfied on the level of independence of the External Auditor.

During the reporting period, the Company had its 2007 Annual Report and Audit Committee Charter posted on its website. The Annual Report has details of the Audit Committee's membership and the number of meetings held and attended.

##### *Financial Reporting*

The Board receives regular reports about the financial condition and operational results of the Company throughout the year. In relation to the half year and annual financial statements, all key management personnel are required to sign off on the systems and processes within their area of responsibility. This procedure supports the Managing Director and Finance Director in their Certification to the Board in effect stating that the Company's accounts present a true and fair view, in all material aspects, of the Company's financial condition and operational results and accord with the relevant accounting standards.

## **Principle 5:**

### ***Make timely and balanced disclosure***

A continuous disclosure regime operates throughout the Group. Policies and Procedures are in place to ensure matters that a person could reasonably expect to have a material effect on the share price are announced to the Australian (ASX) and Singapore (SGX) Stock Exchanges in a timely manner. These policies and procedures have been formally communicated to all relevant staff. The Company Secretary is the nominated Continuous Disclosure Officer. The Board is advised of any notifiable events. The Board approves, or is advised of, all releases that are made to the ASX and the SGX. All announcements made by the Company are posted on the Company's website in the "Shareholder" section.

## **Principle 6:**

### ***Respect the rights of Shareholders***

The Company endeavours to keep its Shareholders fully informed of matters likely to be of interest to them. It does this through:

- Reports to the ASX, SGX and the press;
- Half and full year profit announcements;
- Annual Reports;
- Investor briefings and information provided to analysts, (which is released to the ASX and SGX prior to being provided to the analysts);
- Continuous disclosure to the ASX pursuant to the ASX Listing Rules and notification of the same information to the SGX; and
- Posting all the above and any other notifications made by the Company to Shareholders, on its website.

The Company's website – [www.avjennings.com.au](http://www.avjennings.com.au) has a section titled "Shareholders" with sub sections on:

- Company's previous Annual Financial Reports and Half Yearly Reports;
- The Company's share price on the ASX- provided by a link to the ASX web site;
- Announcements made to the ASX and SGX;
- Copies of investor presentations;
- Corporate Governance Charters and Policies including a Shareholder Communication Policy;
- Terms and conditions of the Company's Dividend Reinvestment Plan; and
- Media releases.

At the Annual General Meeting, the Chairman encourages questions and comments from Shareholders and seeks to ensure the Meeting is managed to give the maximum number of Shareholders an opportunity to participate. In the interests of clarity, questions on operational matters may be answered by the Chief Executive Officer or another appropriate member of senior management.

The External Auditor attends the Company's Annual General Meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the Independent Audit Report.

## **Principle 7:**

### ***Recognise and manage risk***

The Board has ultimate responsibility for the Risk Management, compliance and control functions across the Group. These functions are aligned with the Company's strategy and business objectives.

The Company has in place internal controls intended to identify and manage significant business risks. These include the review of development proposals and the management of their ongoing performance.

Management prepares the Risk Management Plan and the Board is responsible for reviewing and approving it.

The Board has established a Risk Management Committee. The Committee comprises two independent Directors and meets quarterly, or more frequently as circumstances require. The Committee is supported by the Chief Executive Officer, Chief Financial Officer and the Company Secretary. The Risk Management Committee is responsible for monitoring management's implementation of the Risk Management Plan, taking the Internal Auditor's review into account.

The Company's assets are insured under a comprehensive insurance program which is reviewed annually.

The Company also has an Investments Committee comprising of one Non-Executive Director, Mr S Cheong, two independent Directors, Mr B Hayman and Mr J Rowley, one Executive Director, Mr L Milkovits and one Non-Director member, Mr David Tsang. The Committee considers all major land development acquisition and disposal proposals that are over monetary limits delegated to management. It also conducts a pre-commencement review and ongoing project reviews during the life of all development projects.

The Chief Executive Officer and the Chief Financial Officer have given the Board a written statement in accordance with section 295A of the Corporations Act to the effect that:

- The integrity of financial statements is founded on a sound system of Risk Management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's Risk Management and internal compliance and control system, in so far as it relates to financial risk, is operating efficiently and effectively in all material respects.

#### **Principle 8:**

##### ***Remunerate fairly and responsibly***

The Board has established a Remuneration Committee to consider and report on, among other things, remuneration policies and packages applicable to Board members and to senior managers of the Company. It also reviews the remuneration policies of the Company. The Committee meets at least annually and its Charter is available on the Company's web site under the Corporate Governance Section.

The Committee consists of two Non-Executive Directors, Mrs E Sam (Chairperson) and Mr S Cheong, and two Independent Directors, Mr H Hochstadt and Mr B Hayman. The Board is of the view that the Committee, which consists entirely of Non Executive Directors, albeit without an independent majority or Chairperson, is structured appropriately to perform its functions in reviewing the remuneration of Company executives and staff.

The Committee reviews and reports to the Board on:

- Conditions of service and remuneration of the Chief Executive Officer and his direct reports;
- Performance of the Chief Executive Officer;
- Remuneration of the Chief Financial Officer and the Company Secretary;
- Remuneration policies for the Company, which include the performance review of all employees, senior management and Board members;
- Proposals for reward initiatives;
- Succession plans for senior management; and
- Other related matters as directed by the Board.

The Chief Executive Officer attends meetings of the Remuneration Committee by invitation when required to report on, and discuss, senior management performance and remuneration matters. He is excluded from Committee deliberations relating to his position.

The Committee is empowered to seek external professional advice on any matter within its terms of reference.

Senior managers of the Company receive a balance of fixed and variable (at risk) remuneration. The proportions vary at different levels within the Company, reflecting the capacity of the senior managers to influence the overall outcome of the Company's operations and returns to Shareholders. The bonuses to executives are based on a review of individual executive performance as well as the Company's overall financial performance. The Committee also reviews the remuneration arrangements for each of the Chief Executive Officer's direct reports.

Director's fees paid to Non-Executive Directors and Independent Non-Executive Directors are determined by the Board, and are within the aggregate limits approved by Shareholders at a General Meeting. The Independent Non-Executive Directors currently receive fees paid by the Company. The Committee has available to it data on fees paid to Independent Directors by a wide range of Companies. The remaining two Non-Executive Directors do not receive fees, however the Company pays a consulting fee to the substantial Shareholder, SC Global Developments Limited.