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AVJennings Returns to Profit

Australia's leading residential developer AVJennings has returned to profit for the six months to 31 December 2009 on the back of major structural changes and a resilient Australian housing market.

AVJennings returned a pre-tax profit of \$3.9 million (\$3.2 million after tax) due to improved margins, reduced costs and a greater emphasis on project management fees. This compares with a pre-tax loss of \$13.8 million (\$9.7 million after tax) for the same period last year.

The effective tax rate of 18.3% is lower than the statutory tax rate of 30% as a result of equity accounting the after tax profits of jointly controlled entities. If the income from these entities had been accounted for on a pre-tax basis (i.e. taking into account the Company's share of the gross result) the profit before tax would be \$4.8 million with a corresponding income tax expense of \$1.6 million.

Contract signings were \$255.1 million compared with \$183.7 million for the same period last year. Total revenues were \$239.9 million compared with \$241.7 million for the same period last year.

Debt also decreased in the first six months of the current financial period.

AVJennings Chief Executive Mr. Peter Summers said the return to profit reflects a total review of operations during 2009.

Contract signings for the Contract Building division were \$115.8 million compared with \$67.7 million for the same period last year and \$121.6 million for the second half of the year ended 30 June 2009. Revenue for the same periods was \$105.7 million, \$86.8 million and \$72.1 million respectively.

Mr Summers said that gross margins for contract building also improved during the first six months of the financial year and should continue to improve in the second half. Overheads have also been significantly reduced from previous years' levels.

AVJennings reported revenue for the Developments division of \$131.7 million from \$153.0 million during the corresponding period in 2008. However, despite the lower revenue, profits from this division increased due to a greater focus on recurring income such as project management fees and interests in joint ventures.

The Development division results also reflect the completion of AVJ's highly successful Verve apartment project at Erskineville in Sydney. As at 31 December 2009, 91 out of a total of 102 apartments had settled.

AVJennings net debt at 31 December 2009 was \$71.3 million. This compares with \$125.0 million at 30 June 2009 and \$200.2 million at 31 December 2008. These numbers include the Company's proportionate share of all net debt balances, including joint ventures and special purpose vehicles. On an equity accounted basis, net debt, as shown in the 31 December 2009 Financial Statements, was \$67.4 million.

Mr. Summers readily admits 2009 was a challenging year and 2010 will bring new challenges.

“Consumer confidence remains volatile, likely interest rate rises will further add to affordability concerns and the ending of the First Home Owners Boost has seen a significant decline in first home owner activity,” Mr. Summers said.

“However, the Australian residential property market has proven resilient. The dramatic under supply of new residential property compared to underlying demand is continuing to be reflected in selling prices, albeit tempered by affordability constraints.”

Mr. Summers added that the activity levels of first home buyers in 2009, particularly in the established housing market, has enabled existing home owners to sell their homes and these buyers have been re-entering the market in recent times.

He believes conditions for investors to take a stronger position in the coming years, backed by price growth, low vacancy rates and rent increases, are positive.

Mr. Summers concluded that AVJennings would continue to place a greater emphasis on its iconic branding in the highly competitive Australian residential marketplace.

“Since 1932, AVJennings has been at the forefront of residential development in Australia. Those traditions and levels of service built over eight decades will become even more relevant for AVJ going into 2010 and beyond.”

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