

**ASX / MEDIA RELEASE**

- Launch of targeted \$150 million - \$200 million AVJennings Residential Property Fund
  - The Hon. Craig Knowles to Chair
- Peter Summers appointed Managing Director & Chief Executive Officer
- Mark Henesey-Smith appointed Chief Operating Officer, Developments
- After tax loss of \$9.7 million for 6 months ending 31 December 2008:
  - Result reflects continuing market challenges on the residential property sector as a consequence of the economic climate
  - Includes unrealised loss on hedging contracts of \$3.6 million after tax
  - Revenue down 8.8% to \$242.0 million
  - No asset write downs
  - Includes restructuring costs incurred in first half

**OVERVIEW:**

Further to its market update released in late January, residential property developer AVJennings Limited (ASX : AVJ), today announced an interim after tax loss of \$9.7 million for the 6 month period ended 31 December 2008 compared to an interim after tax profit of \$6.1 million for the previous corresponding period. Revenue was \$242.0 million compared to \$265.4 million for the previous corresponding period.

The result includes an unrealised loss of \$3.6 million (after tax) on interest rate hedging contracts. The Company regularly has in place such contracts to prudently limit its interest rate exposure. Due to recent interest rate reductions, the current market value of these contracts has decreased resulting in the unrealised loss.

Overall, the result reflected continuing market challenges on the residential property sector as a consequence of the economic climate and financial market turmoil. These challenges, combined with lack of affordability for first home buyers, resulted in soft demand in the first half of the financial year.

Nevertheless, despite the first half setback and continuing uncertain market conditions, the Company's portfolio is well positioned to take advantage of improvements in the market which may result from recent interest rate reductions, the enhanced first home owners grant and improvement in affordability. The Company also continues to explore viable acquisition opportunities, particularly under joint venture arrangements, development agreements and other appropriate capital structures.

Under present market conditions, the Company has carefully reviewed its portfolio and concluded that an impairment of assets is not necessary at this stage. This has been the result of the Company's conservative approach to acquisitions in prior years.

Additionally, management is in the process of examining all areas of the business in order to ensure their appropriateness to the present environment, to preserve, as far as possible, capital resources and to position for the future. The review is continuing and recent initiatives have already resulted in improvements to operations and reductions to cost structure. These will benefit the Company in future periods, but restructuring costs have negatively impacted the first half and will do so in the second half of the financial year. The Company has also strengthened its operational management team.

The Board is pleased to announce the appointment of Peter Summers as the Managing Director and Chief Executive Officer of AVJennings with immediate effect. The Board engaged the services of a major international senior executive search company to present the most appropriate candidate to fill the vacant position and, at the time, asked Peter to indicate his own interest. After an extensive search and interview process, Peter's qualifications and experience were clearly identified as the most appropriate, and the Board were unanimous in their support of his appointment.

The Company is also pleased to announce that Mark Henesey-Smith has been appointed to the position of Chief Operating Officer, Developments. Mark has been with the Company since October 2000 and has in recent years been the Executive General Manager, Queensland. The Chief Operating Officer, Developments role is a newly created position.

The appointments of Peter and Mark add to the recent senior appointments of Alan Soutar as Executive General Manager, Contract Building and Carl Thompson as Company Secretary/General Counsel.

### **SEGMENT RESULTS:**

#### **Land:**

Operationally, land turnover decreased by 21.7% to \$79.0 million. Margins also fell from 25.1% to 12.8%. Traditionally, land sales to other builders, who form a major customer base of the Company, decline more sharply in a slow market than other land sales, as builders take a more cautious purchasing approach. The decreased margins reflect a combination of price discounting, increased holding costs included in cost of sales, and the mix of projects for which sales were recorded in the first half.

Whilst the results from the land operations partly reflect market conditions in the first half, the timing of the Company's land development projects meant that it is anticipated that sales would be weighted towards the second half.

#### **Development Housing:**

Development Housing turnover was \$58.1 million compared to \$70.2 million for the same period last year. One of the Company's strengths in difficult markets is Development Housing, whereby it leverages off its building capability and enables more affordable housing options to be offered to the market. Traditionally, Development Housing has been the first operating segment to recover in a slow market. In recent months there has been an increase in both enquiry levels and contract signings for the business segment, particularly in New South Wales. This appears to support the view that the availability of affordable housing options, together with the Government initiatives such as a boost to the First Home Owners Grant and falling interest rates, are assisting customers to enter the market.

#### **Apartments:**

The Apartments division has also been adversely effected by the challenging market conditions and management has taken action to significantly reduce costs in this division. On a positive note, the Company's Erskineville project in Sydney has recorded good pre-sales. Again, this project offers affordable housing options in a premium location.

#### **Contract Building:**

Contract Building continues to under-perform and a full review of this segment is being undertaken by Alan Soutar. Alan has over 30 years residential building and development experience, including previous senior executive roles with the Company and more recently with Mirvac.

Whilst market conditions are difficult, particularly in New South Wales, the focus in the short-term has been to reduce costs and improve performance by strengthening management. This, coupled with initiatives such as a product review and the opening of new displays, will see improved outcomes in FY2010 and beyond.

**FUNDING:**

The Company's main banking arrangement, the multi-option banking facilities, mature on 30 September 2009. At 31 December 2008, the funding available under these facilities which comprise bank overdraft, bank loans and a standby facility was \$215 million. The utilised amount at 31 December 2008 was \$130 million with a balance of \$85 million remaining unutilised.

These loans have been classified in the Balance Sheet at 31 December 2008 as a current liability. Negotiations regarding the extension of these facilities are at an advanced stage and it is anticipated that facilities sufficient for the Company's normal business operations, will be extended, subject to the usual relevant bank credit approval process.

However, the prevailing uncertainty in the world financial markets has necessitated development of strategies that will ensure continuity of funding in these conditions. To this end, the Company is looking at new structures and initiatives in addition to the existing debt structures.

As previously reported, an increased number of acquisitions have been made under joint venture arrangements and development agreements which will reduce cash requirements in coming months and years. Additionally, a majority of the funding requirements will be sourced out of specific project facilities relating to these joint ventures. Both of these factors will result in lower reliance on the existing multi-option facilities.

**RESIDENTIAL PROPERTY FUND:**

The Company is also pleased to announce its intention to launch the AVJennings Residential Property Fund. The Fund will be unlisted and has a target closed-end life of 10 years. The Company has worked closely with its advisors, Investec, to ensure the Fund is structured appropriately for the current market.

The Fund is aiming to raise between \$150 million and \$200 million of equity. Whilst the intention is to achieve attractive returns to the investors in the Fund, the Fund will also deliver to the Company the capacity to acquire projects on behalf the Fund, to take advantage of current market conditions including reducing interest rates and infrastructure levies, increased first home owners grant and reduced competition for assets. In addition, the Company will be able to derive income from project development, sales and provision of management skills thereby gaining greater leverage from its core skills and the strength of the AVJennings brand, which continues to be a premier brand in Australian residential property development. This will enable the Company to reduce reliance on the multi-option facilities and result in smoother revenue streams with a greater portion accruing on a recurring basis.

It is intended that the Company will own a cornerstone investment in the Fund of 15% and will be able to co-invest in new projects acquired by the Fund. This equity share, together with the ability to earn additional returns from performance based management fees, will co-align the interests of the Company and the Fund.

Whilst the Company will have a 15% interest in the Fund, participation will be offered to large wholesale funds. The Fund will be chaired by an independent Chairman and the Company is pleased to announce that The Hon. Craig Knowles, a former senior New South Wales Government Minister, has agreed to take on the role. Craig has served in the portfolios of Planning and Housing; Health; Infrastructure, Planning and Natural Resources; and was Minister for Forests and Minister for Lands.

**DIVIDEND:**

Directors have decided not to declare an interim dividend.

**Further Information:** Investor Relations: Carl Thompson +61 3 9210 9848

Media: Ted McDonnell +61 434 434 868