

AVJENNINGS LIMITED

ABN: 44 004 327 771

Annual General Meeting – Thursday 17 August 2006

Chairman's & Managing Director's Address

Chairman's Address

Good morning ladies and gentlemen, I am pleased to report AVJennings' results for the full year to March 31, 2006. For those of you who I have not yet met, I am Simon Cheong, the Chairman of the Board of AVJennings Limited and I will be chairing this meeting. We have a quorum and I declare this Annual General Meeting open.

Let me introduce my fellow Directors. On my immediate left I have:

- Louis Milkovits – The Company's Managing Director;
- Peter Summers – The Company's Finance Director;
- Elizabeth Sam – Non-executive Director;
- Herman Hochstadt – Non-executive Director;
- Bobby Chin – Non-executive Director;
- Bruce Hayman – Non-executive Director; and
- David Tsang – Non-executive Director.

Also seated at the table is Helga Linacre, the Company Secretary, and in our audience is Mike Lenarduzzi, the Executive General Manager for Victoria. Would you please stand Mike. Our auditor, Mr Chris George from Ernst and Young is also in attendance today. Chris, would you please stand for a moment. This is the last AGM that Chris will be attending as auditor, as he is retiring by rotation.

On behalf of the Company and shareholders I would like to thank him for his services over the past 6 years.

I will start this meeting by giving you a brief overview of the Company's performance during the year. Louis Milkovits will then further discuss the Company's business and its strategy going forward. This will be followed by any general questions or comments that you may have, after which I will proceed with the formalities of the meeting.

During the year, the residential housing and property markets in the eastern states remained subdued. This was particularly the case in Sydney. The Company's performance was significantly influenced by this subdued market, which resulted in reduced margins on substantially increased developments turnover. A second contributing factor was reduced contract building turnover arising from reduced participation by the up-grader segment of the market.

Land and development housing sales increased substantially throughout the year, but margins were lower than that achieved in the previous period. The reduced margins were a result of the combined effect of reduced prices and higher cost of sales, including government charges, especially in New South Wales. Other than pre-sales pending title registration, at the end of its reporting period the Company had negligible completed and unsold vacant lots or housing inventory. Sales occurred broadly at production rates, but were dependent on meeting the market on price.

The Company does not expect price growth in any of its markets in the year ahead. However, it does expect to increase development sales relative to last year as a result of new projects moving to a production stage. The Company is not making a forecast on the likely outcome, other than an increase in development sales relative to the prior year.

Contract building margins were maintained, however turnover was lower than in the prior year, with the most significant reduction having occurred in New South Wales where market participation levels have slowed more than in any other state. The slow down was particularly evident among the up-grader segment of the market which had been the Company's primary target market. The Company has reviewed its target market product and pricing, which has resulted in improved contract building contract signings in recent months.

Turnover for the year was \$460.6 million compared to \$477.2 million for the same period last year. The Company achieved a pre tax profit for the year of \$23.3 million compared to \$61.4 million for the previous year and an after tax profit of \$16.2 million compared to \$43.5 million for the previous year. The after tax return on average Shareholder equity was 6.2 percent resulting in an average of 17 percent per annum for each of the last five years.

The Company declared a fully franked final dividend of 5.0 cents per share, bringing the total fully franked dividend for the year to 7.5 cents per share. The reduction relative to the previous year reflects reduced profit.

Total assets decreased to \$593 million mainly due to the impact of the introduction of AIFRS resulting in derecognising sales that had not settled at year end.

Gearing, as measured by net interest bearing borrowings to total assets, was 29.9 percent. The Company records its assets on a historical cost basis.

At the end of the reporting period the Company held or controlled some 8,800 developable lots. The reduction relative to the prior year reflects sales exceeding the rate at which the land bank has been topped up and the decision not to proceed with some land under option. The reason for this is that the expectations of land vendors are still too high given the downturn in the market and the increased cost of sales from government charges. Despite the reduced developable land inventory, the Company holds an adequate supply for the medium term and will take opportunities to expand its land bank subject to it being at the right price for today's market.

I will now call on Louis Milkovits to discuss the operations of the Company. Following Louis' presentation I will open the forum for general discussion, after which I will commence the formalities of the meeting.

Managing Director's Address

- Our Chairman has just outlined that the Company has operated in a relatively difficult residential market in the eastern states over the last year.
- There have been a number of contributing factors, but rising interest rates and additional taxation on property ownership have impacted most on affordability and confidence in the housing market.
- The sectors most affected have been the investor and up-grader markets. While the Company has not historically targeted investors, the up-grader market (which is normally the largest market segment had been its primary focus.)
- For the last year, and for the best part of the year before that, the up-grader market has been particularly weak. This is because:
 - Ø Up-graders have been concerned about not being able to sell their existing houses for the prices that they want and in the time frame they expect.
 - Ø Since they are not forced to move, they have simply stayed put in their existing homes.

- The consequences for the Company have been twofold:
 - Ø Reduced up-grader participation for contract building which has flowed through to lower contract building sales; and
 - Ø A margin squeeze on significantly increased development sales due to:
 - Some nominal price reductions (which have been significant in NSW)
 - Increased cost of sales as various tiers of government have increased taxes on the tail end of the property boom just two years ago (again especially in NSW).

- A summary of operations over the last year appears on the following slides.
 - Ø Queensland:
 - This market remains reasonable for the Company, particularly in relation to affordable (or low cost) housing, however margins remain under pressure primarily due to price competition from other developers.

 - Ø New South Wales:
 - This has been a particularly subdued market in almost all categories.
 - There have been unprecedented price reductions and government imposed production cost increases, resulting in exceptional pressures on margins.
 - Added to this, there have been increasing costs in both time and money for regulatory compliance.

 - Ø Victoria:
 - Both land sales and affordable housing sales are satisfactory, with most sales occurring off the plan.
 - The main challenge for the Company in Victoria is the timing of project completion to bring sales to profit recognition stage.

 - Ø South Australia:
 - Sales are satisfactory other than for one regional land subdivision project.

A common issue among customers across all regions where the Company operates is affordability. The Company has been particularly pro-active in realigning product to meet affordability criteria and to provide products to meet the needs of new market entrants.

The outcomes for the Company in the last year had been very dependent on margins being achieved, which in aggregate were lower than in the prior year.

It is unlikely that property prices in the eastern states will increase significantly in the current year. However, there is a widely held expectation that presently constrained activity and prices in the eastern states will reverse in trend by 2008.

The combined effects of introducing more affordable housing and more projects being at a production stage are, however, likely to result in increased turnover, but mainly towards the second half of the year.

It is probably worth spending a few moments on strategy.

Shareholders who have been with the Company for a longer period may recall that a little over 5 years ago it was predominantly a contract building company with a modest integrated housing operation in Sydney. Its total developable land inventory was just 3,000 lots, with the vast majority (by value) being located in New South Wales.

Since that time, it has progressively morphed, using its building skills to develop integrated housing, then using its new development skills to develop land only subdivisions.

Its business today, is predominantly land subdivision followed by development housing. It's 3,000 lots have grown to 8,800 and, importantly, the Company has diversified geographically so there is considerably more exposure to Queensland and Victoria in particular.

Although the transformation from house builder to residential developer has had its difficulties, from long lead times to taxation imposts, in my view it is still the right business for the Company to be in. However, there are two further issues which need to be addressed.

The first is a continuation of the geographic diversification which has been followed over the last five years.

The second is to continue growth in the Company's area of expertise without increasing the direct demand for funding.

In this context the Company is presently in the process of creating a residential development syndication structure which will lead to fee based income and result in less dependency on project timing and industry cycles.

There has been reference in the media to the underwriting of the Dividend Reinvestment Plan. For the record I wish to say:

The Company established a Committee of Independent Non-Executive Directors to evaluate proposals to underwrite the Dividend Reinvestment Plan. The Committee comprised of Mr Bobby Chin, Mr Herman Hochstadt and Mr Bruce Hayman.

Offers to underwrite the Plan were received from several external parties who are traditional underwriters. The Company also received proposals from its two substantial shareholders SC Global Developments Limited and Guinness Peat Group plc.

The Company had released to the ASX an announcement on the choice of underwriter wherein it informed the market that this Committee intended to appoint Trimount Pte Ltd (a 100% subsidiary of SC Global) to be the underwriter.

The Company had informed the ASX of the review process used by the Committee and had received from it, before the appointment of the underwriter was made, letters saying that Listing Rules 10.16 and 10.11 did not apply.

Finally, the material commercial terms of the underwriting by Trimount were:

- Ø 100% underwriting offer
- Ø Zero underwriting fees, and
- Ø 5% discount to share price (rather than the 7.5% applicable to the DRP)

This was superior to all other offers and therefore it was in the best interests of all shareholders.

With this, I will now hand back to the Chairman who will address various corporate issues before reverting to the formal proceedings.

Chairman's Address Continued

Other than for the results and the presentation we have just had on the Company's business operations, there are two other issues of significance.

The first is that there has been a change in the Board composition with the appointment of two new independent Directors. These are Mr Bobby Chin and Mr Bruce Hayman. Their election is one of the formal agenda items for today's meeting.

The second is that the Company has changed its year end to 30 June. This is largely to lessen the impact of revenue recognition timing uncertainties given that the Company's peak selling months are February and March. Additionally, the Company's present year end reporting date is uncommon and the June year end will simplify compliance and reporting.

For the present year there will be an interim report to both 30 September and 31 March, then a final report to 30 June. Subsequent year reports will be to the half year ending in 31 December and the full year ending in 30 June.

I welcome any questions. Thank you.