AVJennings Limited
ABN: 44 004 327 771

30 June 2019 Preliminary Final Report
Appendix 4E

This Financial Report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, it is recommended that this Report be read in conjunction with the Annual Report for the year ended 30 June 2018 and any public announcements made by AVJennings Limited during the year ended 30 June 2019 in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Securities Exchange.

Contents

Results for Announcement to the Market

Appendix 4E for the year ended 30 June 2019

	2019 $'000	2018 $'000	Decrease $'000	Decrease %
Revenues	296,467	372,167	(75,700)	(20.3)%
Profit after tax	16,439	31,347	(14,908)	(47.6)%
Net profit attributable to owners of the Company	16,439	31,347	(14,908)	(47.6)%

Dividends	Cents per share	Franked amount per share at 30% tax
Current period		
Interim dividend	1.0	1.0
Final dividend	1.5	1.5
Total dividend	**2.5**	**2.5**
Previous period		
Interim dividend	2.0	2.0
Final dividend	3.0	3.0
Total dividend	**5.0**	**5.0**

Record date for determining entitlements to dividend: 6 September 2019

Payment date: 20 September 2019

The Company's Dividend Re-Investment Plan remains suspended.

Explanation of results

The Operating and Financial Review in the Directors' Report provides an explanation of the results.

Directors' Report

For the year ended 30 June 2019

The Directors present their Report on the Company and its controlled entities for the year ended 30 June 2019.

DIRECTORS

The names of the Company's Directors in office during the year and until the date of this Report are as below. Directors were in office for the entire period unless otherwise stated.

S Cheong	Non-Executive Chairman
RJ Rowley	Non-Executive Deputy Chairman
PK Summers	Managing Director and Chief Executive Officer
E Sam	Non-Executive Director
B Chin	Non-Executive Director
BG Hayman	Non-Executive Director
TP Lai	Non-Executive Director
BL Tan	Non-Executive Director
P Kearns	Non-Executive Director (appointed 21 March 2019)

OPERATING AND FINANCIAL REVIEW

Financial Results

The Company recorded a Net Profit Before Tax of $23.8 million for the year ended 30 June 2019, down 47% on the previous year (30 June 2018: $45.1 million) and Net Profit After Tax of $16.4 million (30 June 2018: $31.3 million).

On 2 August 2019 the Company provided a market update indicating that its NPBT for FY19 would be approximately $23 million, and the result is in line with this guidance.

Profit for the year was adversely affected by a deterioration in consumer confidence in the residential property market, particularly in the large Melbourne and Sydney markets. This lack of confidence was despite continuing strong industry fundamentals and did not begin to abate until late in FY19 following the Federal election in May 2019, lowering of interest rates and the prospect of improved availability of mortgage finance for customers.

Dividends

Directors declared that a fully franked final dividend of 1.5 cents per share be paid in September 2019, taking total dividends declared for FY19 to 2.5 cents per share, fully franked.

Business Overview

For reasons above, FY19 proved to be a very challenging year. There were fewer contracts signed than in the preceding financial year, with the result that the Company's performance was underwritten to a greater degree by the settlement of contracts signed in prior periods. This included settlements with good margins at Lyndarum North and 'Waterline Place' (GEM Apartments) in Victoria, together with settlements at 'Arcadian Hills' Cobbitty, 'Argyle' Elderslie, "Evergreen" Spring Farm and 'Magnolia' Hamlyn Terrace in NSW. Pleasingly, the rate of settlement failure experienced by the Company was negligible, although a higher number of customers did require a short extension to their contracted settlement period to obtain mortgage finance.

Directors' Report
For the year ended 30 June 2019

OPERATING AND FINANCIAL REVIEW (continued)

FY19 also saw other initiatives and outcomes which, although not materially impacting on results in that year, will be important factors in coming years.

In Queensland we were able to advance a number of projects which will see more stages from more projects move into profit recognition in FY20. One of those projects is our significant 'Riverton' project in Jimboomba, the remaining 50% of which was acquired from the former joint venture partner during the year.

We also substantially advanced development work for the Buckley B stage at Hobsonville Point, Auckland, for which some $26.9 million of pre-sales are on hand. The wholesale nature of our current New Zealand operations means that its results have traditionally been lumpy and, while it traded profitably in FY19, it will make a much larger contribution next financial year as a result of completing those pre-sales.

Although the South Australian business continued to trade at a loss, we have continued to operate against plans for improved performance. Revision to cost structures, operational methods and product will improve both sales and efficiency. Alongside these changes we have continued to rationalise the level of funds invested in the South Australian business.

Benefits will continue to flow from the reorganisation of the Company's management and project control structure undertaken during the year, which were implemented right across the business. These changes included the appointment of a Chief Operating Officer in September 2018.

<u>Balance Sheet and Land Holdings</u>

Controlled land inventory rose nominally to 9,531 lots (30 June 2018: 9,373 lots).

Reflecting slower market conditions, at 30 June 2019 1,600 lots were under development, 18% below the FY18 number. The gearing ratio (net debt/total assets) at 26.6% was higher than 20.4% in FY18 but remains comfortably within the Company's target range of 15-35%. The Company extended the term of its main banking facility by a further 12 months to 30 September 2021 on substantially the same terms.

While net cash used in operating activities was $45.8 million (30 June 2018: net cash from operating activities $47.6 million) it is important to bear in mind that approximately $62.8 million was invested in the acquisition and first stage of development of Ara Hills. This will be the Company's new flagship project in Auckland that is expected to start contributing to earnings in 2022. Cash generation from the balance of operations was therefore positive at approximately $17 million, notwithstanding the softer market conditions experienced during the year.

<u>Subsequent Events</u>

On 2 August 2019 the Company announced it had entered into binding Heads of Agreement documentation with the landowner, to develop a large greenfield site located in Caboolture West, Brisbane. Whilst the total project is expected to yield over 8,000 lots, the Heads of Agreement relates to the initial part of the project which will see the delivery of approximately 3,500 lots into this fast-growing south-east Queensland corridor. This has been secured on a low capital intensive basis.

Directors' Report
For the year ended 30 June 2019

OPERATING AND FINANCIAL REVIEW (continued)

<u>Outlook</u>

In its FY18 results announcement, as well as at the 2018 Annual General Meeting, the Company informed shareholders of its belief that market conditions would soften in FY19. Although fundamentals for residential property remained sound, a combination of low consumer confidence and difficult mortgage financing conditions for our customers led to this belief.

For the reasons stated earlier, the Board and management of AVJennings believe that the bottom of the current property cycle has been reached. A combination of the expected improving market conditions, together with Company specific matters also referred to above, now lead to an expectation the Company will deliver a stronger result in FY20.

General market sentiment is clearly beginning to improve, driven in part by continuing supportive market fundamentals, conclusion of the Federal election, relaxation of the minimum mandatory servicing requirement prescribed by APRA for retail banks when they assess home loan applications, and more positive press commentary about residential property markets generally. A modest uptick in visitor numbers to sales offices and on-line has been seen in recent months, and it is reasonably expected that trend will be sustained during FY20.

The Company will also have more projects actively selling in more diverse locations during the current year. Significant contribution is also expected to be earned in the first half of FY20 from the recognition of pre-sold land, together with 15 townhouses, within the Buckley B Precinct of the Hobsonville Point project in Auckland NZ.

Finally, important demand drivers remain supportive, including continuing positive net migration into major capital cities; ongoing under-building of affordable, detached and low-rise dwellings sufficient to meet the demand; stable employment; low interest rates, and a nascent but perceptible increase in retail bank mortgage lending appetite.

DIVIDENDS

A fully franked final dividend of 3.0 cents per share for the year ended 30 June 2018 was paid on 11 October 2018, and a fully franked interim dividend of 1.0 cent per share paid on 22 March 2019 (30 June 2018 interim dividend: 2.0 cents). Subsequent to the end of the financial year, the Directors have recommended a fully franked dividend of 1.5 cents per share to be paid on 20 September 2019. The Dividend Reinvestment Plan is suspended.

COMPARATIVE FIGURES

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

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

Directors' Report

For the year ended 30 June 2019

OPERATING AND FINANCIAL REVIEW (continued)

ROUNDING

ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 is applicable to the Group and in accordance with that Instrument, amounts in the Financial Report and the Directors' Report are rounded to the nearest thousand dollars, unless otherwise stated.

The Report is made in accordance with a resolution of the Directors.

Peter Summers
Director
20 August 2019

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Continuing operations			
Revenue from contracts with customers	3	296,467	-
Sales of land and built form	4	-	371,190
Management fees	4	-	977
Revenue		**296,467**	**372,167**
Cost of sales	4	(223,900)	(282,710)
Gross profit		**72,567**	**89,457**
Share of net (loss)/gain of joint ventures	11	(274)	226
Provision for loss on equity accounted investments	4	(607)	-
Change in inventory loss provisions	4	-	1,111
Fair value adjustment to financial assets		(669)	-
Fair value adjustment to investment property	12	800	-
Selling and marketing expenses		(6,865)	(7,285)
Employee expenses		(25,711)	(24,392)
Other operational expenses		(8,591)	(7,534)
Management and administration expenses		(8,071)	(8,192)
Depreciation expense		(252)	(269)
Finance income	4	1,315	1,410
Finance costs	4	(159)	(190)
Other income	4	356	740
Profit before income tax		**23,839**	**45,082**
Income tax	5	(7,400)	(13,735)
Profit after income tax		**16,439**	**31,347**
Net profit		**16,439**	**31,347**
Other comprehensive income (OCI)			
Foreign currency translation		1,246	(714)
Other comprehensive income/(loss)		**1,246**	**(714)**
Total comprehensive income		**17,685**	**30,633**
Profit attributable to owners of the Company		**16,439**	**31,347**
Total comprehensive income attributable to owners of the Company		**17,685**	**30,633**
Earnings per share (cents per share):			
Basic earnings per share		4.09	8.13
Diluted earnings per share		4.08	8.13

Consolidated Statement of Financial Position
For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents		18,209	8,491
Receivables		15,088	95,096
Inventories		194,748	193,340
Other assets		2,392	7,150
Total current assets		**230,437**	**304,077**
Non-current assets			
Receivables		10,033	24,329
Inventories		430,261	295,037
Investment Property	12	1,770	-
Equity accounted investments		6,649	10,721
Financial assets		2,211	2,880
Plant and equipment		1,059	536
Intangible assets		2,816	2,816
Total non-current assets		**454,799**	**336,319**
Total assets		**685,236**	**640,396**
Current liabilities			
Payables		41,234	34,508
Borrowings		543	13,407
Tax payable		3,179	10,597
Provisions		6,547	9,869
Total current liabilities		**51,503**	**68,381**
Non-current liabilities			
Payables		22,009	23,397
Borrowings		199,792	125,799
Deferred tax liabilities		15,173	23,079
Provisions		482	742
Total non-current liabilities		**237,456**	**173,017**
Total liabilities		**288,959**	**241,398**
Net assets		**396,277**	**398,998**
Equity			
Contributed equity	7	174,509	167,943
Reserves		8,882	6,906
Retained earnings		212,886	224,149
Total equity		**396,277**	**398,998**

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Note	Attributable to equity holders of AVJennings Limited				Total Equity
		Contributed Equity	Foreign Currency Translation Reserve	Share-based Payment Reserve	Retained Earnings	
		$'000	$'000	$'000	$'000	$'000
At 1 July 2017		**160,436**	**3,724**	**2,898**	**213,945**	**381,003**
Comprehensive income:						
Profit for the year		-	-	-	31,347	31,347
Other comprehensive loss for the year		-	(714)	-	-	(714)
Total comprehensive income for the year		**-**	**(714)**	**-**	**31,347**	**30,633**
Transactions with owners in their capacity as owners:						
- Ordinary share capital raised		7,688	-	-	-	7,688
- Treasury shares acquired	7(b)	(181)	-	-	-	(181)
- Share-based payment expense		-	-	998	-	998
- Dividends paid	6	-	-	-	(21,143)	(21,143)
Total transactions with owners in their capacity as owners		**7,507**	**-**	**998**	**(21,143)**	**(12,638)**
At 30 June 2018		**167,943**	**3,010**	**3,896**	**224,149**	**398,998**
At 1 July 2018		**167,943**	**3,010**	**3,896**	**224,149**	**398,998**
Effect of adoption of new accounting standard	2	-	-	-	(11,792)	(11,792)
At 1 July 2018 (restated)		**167,943**	**3,010**	**3,896**	**212,357**	**387,206**
Comprehensive income:						
Profit for the year		-	-	-	16,439	16,439
Other comprehensive income for the year		-	1,246	-	-	1,246
Total comprehensive income for the year		**-**	**1,246**	**-**	**16,439**	**17,685**
Transactions with owners in their capacity as owners:						
- Ordinary share capital raised	7(a)	7,480	-	-	-	7,480
- Treasury shares acquired	7(b)	(914)	-	-	-	(914)
- Share-based payment expense reversed (lapsed rights)		-	-	(402)	-	(402)
- Share-based payment expense		-	-	1,132	-	1,132
- Dividends paid	6	-	-	-	(15,910)	(15,910)
Total transactions with owners in their capacity as owners		**6,566**	**-**	**730**	**(15,910)**	**(8,614)**
At 30 June 2019		**174,509**	**4,256**	**4,626**	**212,886**	**396,277**

Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		355,943	450,776
Payments to other suppliers and employees (inclusive of GST)		(371,307)	(378,354)
Interest paid		(12,663)	(12,212)
Income tax paid		(17,757)	(12,575)
Net cash (used in)/from operating activities		**(45,784)**	**47,635**
Cash flows from investing activities			
Payments for plant and equipment		(790)	(15)
Interest received		1,315	1,410
Amounts received from joint venture entities		1,536	-
Dividends received from joint venture entity		1,655	-
Investments in joint venture entities		-	(2,047)
Net cash from/(used in) in investing activities		**3,716**	**(652)**
Cash flows from financing activities			
Proceeds from borrowings		162,128	154,182
Repayment of borrowings		(101,000)	(194,599)
Payment for treasury shares	7(b)	(914)	(181)
Dividends paid	6	(15,910)	(21,143)
Proceeds from issue of shares	7(a)	7,480	7,688
Net cash from/(used in) financing activities		**51,784**	**(54,053)**
Net increase/(decrease) in cash and cash equivalents		**9,716**	**(7,070)**
Cash and cash equivalents at beginning of the year		8,491	15,562
Effects of exchange rate changes on cash and cash equivalents		2	(1)
Cash and cash equivalents at end of the year		**18,209**	**8,491**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

1. CORPORATE INFORMATION

The Consolidated Report of AVJennings Limited for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 20 August 2019. The Company is a for profit company limited by shares domiciled and incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange and the Singapore Exchange through SGX GlobalQuote.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and the requirements of the *Corporations Act 2001*.

It is recommended that this Report be read in conjunction with the Annual Report for the year ended 30 June 2018 and considered together with any public announcements made by AVJennings Limited during the year ended 30 June 2019 in accordance with the continuous disclosure obligations of the ASX listing rules.

This Report is presented in Australian Dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated. Except for the application of AASB 9 and AASB 15 from 1 July 2018, the accounting policies adopted are consistent with those of the previous financial year.

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

The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

AASB 9 Financial Instruments: (applied to the Group 1 July 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets, financial liabilities and hedging and a new impairment model for financial assets.

Financial assets at fair value through profit or loss include financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value.

Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value with net changes in fair value recognised in the Statement of Profit or Loss.

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables, the Group applies the Standard's simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The adoption of AASB 9 did not have a material impact and no adjustments have been made on transition.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

AASB 15 Revenue from Contracts with Customers: (applied to the Group 1 July 2018)

AASB 15 supersedes AASB 11 Construction Contracts, AASB 118 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The core principle of AASB 15 is that revenue is recognised when control of goods or services passes to the customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. In addition, the standard requires extensive disclosures.

The adoption of AASB 15 did not have any impact on land and built form revenue previously recognised on settlement.

However, the standard materially impacted revenue from land sales previously recognised before settlement. Under the previous standard, AVJennings recognised revenue when the contract for sale was unconditional, significant risks and rewards of ownership had transferred to the buyer, and there was no managerial involvement to a degree usually associated with ownership. AASB 15 is based on the principle that revenue is recognised at a point in time when control of the land or built form passes to the customer. For each sales contract, the relevant facts and circumstances are considered in determining the point at which control passes. Summarised below are the types of contractual arrangements where revenue will continue to be recognised prior to settlement:

- Revenue from land sold on deferred terms to builders in New Zealand. The builder gains control of the land on completion of the physical works and can commence building at that point.
- Sales of englobo land on deferred terms. Control passes when the contract is unconditional, physical works are complete and the purchaser has unfettered rights to the land before settlement.
- Revenue from land sales to builders in Australia under put and call arrangements, where the builder is the ultimate purchaser and not a conduit between AVJennings and a retail purchaser. The builder gains control of the land on completion of the physical works and can commence building at that point.

Except for those circumstances detailed above, all sales will be recognised on settlement under AASB 15.

The Group adopted AASB 15 using the modified retrospective method of adoption with the date of initial application of 1 July 2018.

The cumulative effect of initially applying AASB 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information is not restated and continues to be reported under AASB 118 and related interpretations.

Revenue (and associated costs of sales) recognised on sales contracts with builders in Australia which were unconditional but where control had not passed at 30 June 2018, have been reversed through opening retained earnings. The reversal has impacted balance sheet accounts that recorded the original recognition.

The effect of adopting AASB 15 as at 1 July 2018 was as follows:

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

AASB 15 Revenue from Contracts with Customers (continued)

Assets	**Note**	**Increase/ (decrease) $'000**
Receivables	(a)	(64,475)
Inventories	(b)	47,533
Total adjustment on assets		**(16,942)**
Liabilities		
Payables	(c)	(96)
Deferred tax liabilities	(d)	(5,054)
Total adjustment on liabilities		**(5,150)**
Equity		
Retained earnings	(e)	(11,792)
Total adjustment on equity		**(11,792)**

(a) Revenue from land sales contracts reversed.
(b) Cost, including capitalised costs relating to contracts reversed.
(c) Sales commissions on contracts reversed.
(d) Tax effect of profit on reversed contracts.
(e) The post tax profit on contracts reversed.

The adoption of AASB 15 did not have a material impact on OCI or the Group's operating, investing and financing cash flows.

Set out on the next page, are the amounts by which each financial statement line item is affected as at, and for, the year ended 30 June 2019 as a result of the adoption of AASB 15. The first column shows amounts prepared under AASB 15 and the second column shows what the amounts would have been had AASB 15 not been adopted.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

AASB 15 Revenue from Contracts with Customers (continued)

		Amounts prepared under:		
	Note	AASB 15 $'000	Previous AASB $'000	Increase/ (decrease) $'000
Continuing operations				
Revenue from contracts with customers	(a)	296,467	-	(296,467)
Sales of land and built form	(a)	-	246,110	246,110
Management fees	(a)	-	4,824	4,824
Revenue		**296,467**	**250,934**	**(45,533)**
Cost of sales	(b)	(223,900)	(189,678)	34,222
Gross profit		**72,567**	**61,256**	**(11,311)**
Share of net loss of joint ventures		(274)	(274)	-
Provision for loss on equity accounted investments		(607)	(607)	-
Fair value adjustment of financial asset		(669)	(669)	-
Fair value adjustment to investment property		800	800	-
Selling and marketing expenses	(c)	(6,865)	(6,806)	59
Employee expenses		(25,711)	(25,711)	-
Other operational expenses		(8,591)	(8,591)	-
Management and administration expenses		(8,071)	(8,071)	-
Depreciation expense		(252)	(252)	-
Finance income		1,315	1,315	-
Finance costs		(159)	(159)	-
Other income		356	356	-
Profit before income tax		**23,839**	**12,587**	**(11,252)**
Income tax	(d)	(7,400)	(4,024)	**3,376**
Profit after income tax		**16,439**	**8,563**	**(7,876)**
Net profit		**16,439**	**8,563**	**(7,876)**
Other comprehensive income (OCI)				
Foreign currency translation		1,246	1,246	-
Other comprehensive income		**1,246**	**1,246**	-
Total comprehensive income		**17,685**	**9,809**	**(7,876)**
Profit attributable to owners of the Company		**16,439**	**8,563**	**(7,876)**
Total comprehensive income attributable to owners of the Company		**17,685**	**9,809**	**(7,876)**
Earnings per share (cents per share):				
Basic earnings per share		4.09	2.13	(1.96)
Diluted earnings per share		4.08	2.12	(1.96)

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

AASB 15 Revenue from Contracts with Customers (continued)

(a) Revenue from "sales of land and built form" as well as "management fees" disclosed separately under the previous standard, are now included in "revenue from contracts with customers".
The transition to AASB 15 resulted in a net revenue increase of $45,533,000 for the year in comparison to the revenue that would have been recognised had AASB 118 continued to apply. The increase results from the following offsetting items:

- AASB 15 was adopted on 1 July 2018 using the modified retrospective approach. Under this approach, revenue previously recognised under AASB 118 on sales contracts with builders in Australia which did not satisfy the recognition criteria under AASB 15 at 30 June 2018, were reversed through opening retained earnings. During the year to 30 June 2019, $51,693,000 of revenue previously recognised under AASB 118 (which formed part of the $11,792,000 opening retained earnings reversal as disclosed on page 14), has been recognised under AASB 15 thereby increasing comparable revenue.

- $6,160,000 of revenue relating to contracts at hand would have satisfied the revenue recognition criteria in the year to 30 June 2019 if AASB 118 continued to apply as significant risks and rewards were deemed to have passed. These contracts however, did not satisfy the recognition criteria under AASB 15 as control had not passed and thereby reduced the comparable revenue.

(b) Cost and capitalised cost effects in relation to (a) above.
(c) Sales commission adjustments in relation to (a) above.
(d) Tax effect of (a), (b) and (c) above.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

AASB 15 Revenue from Contracts with Customers (continued)

		Amounts prepared under:		
		AASB 15	Previous AASB	Increase/ (decrease)
	Note	$'000	$'000	$'000
Current assets				
Cash and cash equivalents		18,209	18,209	-
Receivables	(a)	15,088	34,030	18,942
Inventories	(b)	194,748	181,437	(13,311)
Other assets		2,392	2,392	-
Total current assets		**230,437**	**236,068**	**5,631**
Non-current assets				
Receivables		10,033	10,033	-
Inventories		430,261	430,261	-
Investment property		1,770	1,770	-
Equity accounted investments		6,649	6,649	-
Financial assets		2,211	2,211	-
Plant and equipment		1,059	1,059	-
Intangible assets		2,816	2,816	-
Total non-current assets		**454,799**	**454,799**	**-**
Total assets		**685,236**	**690,867**	**5,631**
Current liabilities				
Payables	(c)	41,234	41,271	37
Borrowings		543	543	-
Tax payable		3,179	3,179	-
Provisions		6,547	6,547	-
Total current liabilities		**51,503**	**51,540**	**37**
Non-current liabilities				
Payables		22,009	22,009	-
Borrowings		199,792	199,792	-
Deferred tax liabilities	(d)	15,173	16,851	1,678
Provisions		482	482	-
Total non-current liabilities		**237,456**	**239,134**	**1,678**
Total liabilities		**288,959**	**290,674**	**1,715**
Net assets		**396,277**	**400,193**	**3,916**
Equity				
Contributed equity		174,509	174,509	-
Reserves		8,882	8,882	-
Retained earnings	(e)	212,886	216,802	3,916
Total equity		**396,277**	**400,193**	**3,916**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

AASB 15 Revenue from Contracts with Customers (continued)

(a) Trade receivables are higher as more revenue is recognisable prior to settlement, under the recognition criteria in the previous standard.
(b) Lower inventory under the previous standard is a consequence of more revenue being recognisable as per (a) above.
(c) Sales commissions payable are higher under the previous standard as more revenue is recognisable.
(d) Tax effect of higher revenue recognisable under the previous standard.
(e) The post tax effect of higher revenue recognisable under the previous standard.

AASB 16 Leases: (applicable for the Group 1 July 2019)

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. AASB 16, requires more extensive disclosures than under AASB 117.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., computers, printing and photocopying machines) that are considered of low value.

AVJennings has performed an assessment of AASB 16 on its existing operating lease arrangements as a lessee. Based on the assessment and using a discount rate of 5.68%, the Group would recognise right of use assets of under 1% of total assets and lease liabilities under 2% of total liabilities if the Standard were to be implemented at 30 June 2019.

The Group intends to adopt AASB 16 from 1 July 2019 using the modified retrospective approach.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

3. REVENUES FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregated revenue information

The disaggregation of the Group's revenue from contracts with customers is set out below:

Operating Segments 30 June 2019	**NSW $'000**	**VIC $'000**	**QLD $'000**	**SA $'000**	**NZ $'000**	**Total $'000**
Types of goods or service						
Sale of land	77,693	44,269	2,104	7,608	1,217	132,891
Sale of integrated housing	45,849	14,845	29,846	11,504	-	102,044
Sale of apartments	-	56,708	-	-	-	56,708
Property development & other services	238	4,381	185	20	-	4,824
Total revenue from contracts with customers	**123,780**	**120,203**	**32,135**	**19,132**	**1,217**	**296,467**
Timing of revenue recognition						
Goods transferred at a point in time	123,542	115,822	31,950	19,112	1,217	291,643
Services transferred over time	238	4,381	185	20	-	4,824
Total revenue from contracts with customers	**123,780**	**120,203**	**32,135**	**19,132**	**1,217**	**296,467**

(b) AASB 15 revenue recognition accounting policy

(i) Sale of land, integrated housing and apartments

Revenue from the sale of land, houses and apartments is recognised at a point in time when control is transferred to the customer. Except for certain contractual arrangements discussed below, this occurs at settlement when legal title passes and an enforceable right to payment exists.

For the following contractual arrangements, revenue is recognised prior to settlement where the customer has obtained control, and a right to payment exists:

- Revenue from sales of land on deferred terms to builders in New Zealand. The builder gains control of the land on completion of physical works and can commence building at that point.
- Sales of englobo land on deferred terms. Control passes when the contract is unconditional, physical works are complete and the customer has unfettered rights to the land before settlement.
- Revenue from sales of land to builders in Australia under put and call arrangements where the builder is the ultimate purchaser and not a conduit between AVJennings and a retail purchaser. The builder gains control of the land on completion of the physical works and can commence building at that point.

(ii) Property development and other services

AVJennings Properties Ltd provides property development and other services to joint venture arrangements entered into by other entities within the Group. The performance obligation is satisfied over-time and revenue is progressively recognised based on the terms of the service agreement.

(iii) Financing components

The Group does not expect to have any contracts for the sale of land, integrated housing and apartments where the duration between the transfer of the goods to the customer and payment by the customer exceeds one year in Australia.

In the case of certain contracts for the sale of land in New Zealand and the provision of services in Australia, the duration may exceed one year. The group discounts the balances in respect of these contracts to reflect the present value of expected cash inflows.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

4. INCOME AND EXPENSES

	2019 $'000	2018 $'000
Revenues		
Sales of land and built form	-	371,190
Management fees	-	977
Revenue from contracts with customers	296,467	-
Total revenues	**296,467**	**372,167**
Cost of sales include:		
Credit from utilisation inventory provisions	(791)	(2,369)
Amortisation of finance costs capitalised to inventories	12,181	17,220
Impairment of assets		
Provision for loss on equity accounted investments	607	-
Net decrease in inventory loss provisions	-	1,111
Finance income		
Interest from financial assets at amortised cost	1,315	1,410
Finance costs		
Bank loans and overdrafts	12,663	12,212
Less: Amount capitalised to inventories	(12,504)	(12,022)
Finance costs expensed	**159**	**190**
Other income		
Sundry income	356	740
Total other income	**356**	**740**

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

5. INCOME TAX

	2019 $'000	2018 $'000
Income tax expense		
The major components of income tax are:		
Current income tax		
Current income tax charge	10,266	17,955
Adjustment for prior year	93	(7)
Deferred income tax		
Current temporary differences	(2,959)	(4,212)
Adjustment for prior year	-	(1)
Income tax reported in the *Consolidated Statement of Comprehensive Income*	**7,400**	**13,735**

Numerical reconciliation between aggregate tax recognised in the *Consolidated Statement of Comprehensive Income* and tax calculated per the statutory income tax rate:

	2019	2018
Accounting profit before income tax	**23,839**	**45,082**
Tax at Australian income tax rate of 30%	7,152	13,525
Net share of equity accounted joint venture losses/(gains)	82	(69)
Other non-deductible items	57	363
Foreign jurisdiction gains/(losses)	49	(21)
Effect of lower tax rate in foreign jurisdictions	(33)	(55)
Adjustment for prior year	93	(8)
Income tax expense	**7,400**	**13,735**
Effective tax rate	**31%**	**30%**

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

6. DIVIDENDS

	2019 $'000	2018 $'000
Cash dividends declared and paid		
2017 final dividend of 3.5 cents per share, paid 19 September 2017. Fully franked @ 30% tax	-	13,455
2018 interim dividend of 2.0 cents per share, paid 19 April 2018. Fully franked @ 30% tax	-	7,688
2018 final dividend of 3.0 cents per share, paid 11 October 2018. Fully franked @ 30% tax	11,848	-
2019 interim dividend of 1.0 cent per share, paid 22 March 2019. Fully franked @ 30% tax	4,062	-
Total cash dividends declared and paid	**15,910**	**21,143**
Dividends proposed		
2018 final dividend of 3.0 cents per share, paid 11 October 2018. Fully franked @ 30% tax	-	11,848
2019 final dividend of 1.5 cents per share, to be paid 20 Sepmber 2019. Fully franked @ 30% tax	6,093	-
Total dividends proposed	**6,093**	**11,848**

The Company's Dividend Reinvestment Plan remains suspended.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

7. CONTRIBUTED EQUITY

	2019 Number	2018 Number	2019 $'000	2018 $'000
Ordinary shares	406,230,728	394,926,905	177,961	170,481
Treasury shares	(762,619)	(495,632)	(3,452)	(2,538)
Share capital	**405,468,109**	**394,431,273**	**174,509**	**167,943**

(a) Movement in ordinary share capital	**Number**	**Number**	**$'000**	**$'000**
As at the beginning of the year	394,926,905	384,423,851	170,481	162,793
Issued under the Dividend Reinvestment Plan	11,303,823	7,252,488	7,480	5,309
Issued pursuant to the underwriting agreement	-	3,250,566	-	2,379
As at the end of the year	**406,230,728**	**394,926,905**	**177,961**	**170,481**

On 17 August 2018, the Company declared a fully franked final dividend of 3.0 cents per share to be paid on 11 October 2018. The Dividend Reinvestment Plan (DRP) was reactivated for this dividend.

The DRP offered shares in the capital of the Company (Shares) to each shareholder of the Company with a registered address in Australia and New Zealand (and otherwise as determined pursuant to the DRP) by way of reinvestment of some or all of their dividend entitlement.

The issue price under the DRP was $0.6616 per share, being the average of the daily volume weighted average price of all AVJennings' shares sold on the ASX during the Pricing Period, which commenced on 14 September 2018 and concluded on 20 September 2018, less a 2.5% discount.

On 11 October 2018, AVJennings issued 11,303,823 shares to shareholders of AVJennings under the DRP. The issued shares raised $7,480,000 in total.

On 11 February 2019, the Company declared a fully franked interim dividend of 1.0 cent per share which was paid on 22 March 2019. The DRP was suspended for this dividend.

7. CONTRIBUTED EQUITY (continued)

(b) Movement in treasury shares	2019 Number	2018 Number	2019 $'000	2018 $'000
As at the beginning of the year	(495,632)	(842,089)	(2,538)	(2,357)
On market acquisition of shares	(1,462,177)	(248,020)	(914)	(181)
Employee share scheme issue	1,195,190	594,477	-	-
As at the end of the period	**(762,619)**	**(495,632)**	**(3,452)**	**(2,538)**

During the year, 1,462,177 treasury shares were purchased by the AVJ Deferred Employee Share Plan Trust at a cost of $914,000.

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.

Treasury shares are shares in AVJennings Limited that are held by the AVJ Deferred Employee Share Plan Trust for the purpose of issuing shares to Executives.

The original cost of the shares is treated as a reduction in share capital and the underlying shares identified separately as treasury shares.

8. OPERATING SEGMENTS

The Group operates primarily in residential development.

The Group determines segments based on information that is provided to the Managing Director who is the Chief Operating Decision Maker (CODM). The CODM assesses the performance and makes decisions about the resources to be allocated to the segment. Each segment prepares a detailed finance report on a monthly basis which summarises the following:

- Historic results of the segment; and
- Forecast of the segment for the remainder of the year.

Reportable segments

Jurisdictions:

This includes activities relating to Land Development, Integrated Housing and Apartments Development.

Other:

This includes numerous low value items, amongst the most significant of which is interest.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

8. OPERATING SEGMENTS (continued)

The following table presents the revenues and results information regarding operating segments:

Operating Segments	NSW		VIC		QLD		SA		NZ		Other		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenues														
External sales	123,542	195,478	115,822	57,024	31,950	51,360	19,112	52,777	1,217	14,551	-	-	291,643	371,190
Management fees	238	-	4,381	644	185	318	20	15	-	-	-	-	4,824	977
Total segment revenues	**123,780**	**195,478**	**120,203**	**57,668**	**32,135**	**51,678**	**19,132**	**52,792**	**1,217**	**14,551**	**-**	**-**	**296,467**	**372,167**
Results														
Segment results	24,053	53,065	21,315	945	(3,316)	532	(2,978)	(411)	2,281	4,123	173	2,170	41,528	60,424
Share of (loss)/profit of joint ventures	-	-	-	(3)	-	-	(20)	(1)	-	-	(254)	230	(274)	226
Other non-segment revenue	-	-	-	-	-	-	-	-	-	-	1,671	2,150	1,671	2,150
Change in inventory loss provisions	-	720	-	-	-	391	-	-	-	-	-	-	-	1,111
Fair value adjustments	-	-	800	-	-	-	-	-	-	-	(669)	-	131	-
Provision for loss on equity accounted investments	-	-	-	-	-	-	-	-	-	-	(607)	-	(607)	-
Unallocated depreciation and amortisation	-	-	-	-	-	-	-	-	-	-	-	-	(252)	(269)
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	-	-	(18,199)	(18,370)
Unallocated interest expense	-	-	-	-	-	-	-	-	-	-	-	-	(159)	(190)
Profit before tax													23,839	45,082
Income tax													(7,400)	(13,735)
Net profit													**16,439**	**31,347**

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

8. OPERATING SEGMENTS (continued)

The following table presents the assets and liabilities information regarding operating segments:

Operating Segments	NSW		VIC		QLD		SA		NZ		Other		Total	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Assets														
Segment assets	195,646	221,638	173,724	170,326	125,709	108,063	62,903	71,028	105,524	44,128	21,730	25,213	685,236	640,396
Total assets	**195,646**	**221,638**	**173,724**	**170,326**	**125,709**	**108,063**	**62,903**	**71,028**	**105,524**	**44,128**	**21,730**	**25,213**	**685,236**	**640,396**
Liabilities														
Segment liabilities	15,941	26,224	19,458	54,611	16,389	6,507	970	4,992	58,711	18,032	177,490	131,032	288,959	241,398
Total liabilities	**15,941**	**26,224**	**19,458**	**54,611**	**16,389**	**6,507**	**970**	**4,992**	**58,711**	**18,032**	**177,490**	**131,032**	**288,959**	**241,398**

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

9. NET TANGIBLE ASSET BACKING

	2019	2018
Net Tangible Asset backing (NTA) - cents per ordinary share	97.0	100.4

The number of ordinary shares used in the computation of NTA as at 30 June 2019 was 405,468,109 (30 June 2018: 394,431,273). Refer to note 7 for details.

10. INTEREST IN JOINT OPERATIONS

The Group's interest in the profits and losses of Joint Operations is included in the *Consolidated Statement of Comprehensive Income* under the following classifications:

	2019 $'000	2018 $'000
Revenues	34,797	898
Cost of sales	(25,856)	(672)
Other expenses	(2,141)	(786)
Profit/(loss) before income tax	**6,800**	**(560)**
Income tax	(2,040)	168
Profit/(loss) after income tax	**4,760**	**(392)**

On 17 April 2019, the Group contracted to purchase the 50% share held by the joint operation partner in the Cusack Lane Development Joint Venture. The transaction settled on 27 June 2019 and was accounted for as an asset acquisition.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2019

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The interests in a joint venture entity are accounted for using the equity method of accounting and are carried at cost. Under the equity method, the Group's share of the results of the joint venture entity are recognised in the *Consolidated Statement of Comprehensive Income*, and the share of movements in reserves is recognised in the *Consolidated Statement of Financial Position*. The information is set out below:

Equity accounted Joint Ventures	**Interest held**		**Share of net (loss)/profit**	
	30 June 2019	30 June 2018	2019 $'000	2018 $'000
Epping JV	-	10.0%	-	(3)
Woodville JV	-	50.0%	(20)	(1)
Pindan Capital Group Dwelling Trust	33.3%	33.3%	(254)	230
(Loss)/profit after income tax			**(274)**	**226**

12. INVESTMENT PROPERTY

The Group has recognised an investment property at Waterline Victoria in the period. This relates to a retail space asset, previously classified in inventory, which is now being held for long term yield and capital appreciation.

The Group accounts for its investment property at fair value and revaluations are recognised through profit and loss. The fair value at reporting date has been determined by the directors with reference to the most recent external valuation performed by Knight Frank as at 21 November 2018.

The Capitalisation Approach and Direct Comparison Approach methods have been adopted in determining the fair value.

	2019	**2018**
	$'000	**$'000**
Opening balance at 1 July	-	-
Transfer from inventory	970	-
Net gain from fair value remeasurement	800	-
Closing balance at 30 June	**1,770**	**-**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2019

13. BORROWINGS

The fair value for borrowings less than 12 months to maturity is deemed to equal the carrying value. All other borrowings are discounted if the effect of discounting is material. The fair value of borrowings are determined by using the discounted cash flow method with a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

Borrowings are classified as level 2 financial instruments.

The Group remains compliant with all lending covenants.

14. CONTINGENCIES

Secured

Performance guarantees

Contingent liabilities in respect of certain performance guarantees, granted by the Group's bankers in the normal course of business to unrelated parties, at 30 June 2019, amounted to $16,177,000 (30 June 2018: $4,943,000). No material liability is expected to arise.

Financial guarantees

Financial guarantees granted by the Group's bankers to unrelated parties in the normal course of business at 30 June 2019, amounted to $1,148,000 (30 June 2018: $2,135,000). No material liability is expected to arise.

Unsecured

Contract performance bond facility

The Parent Entity has entered into Deeds of Indemnity with various controlled entities to indemnify the obligation of those entities in relation to Contract performance bond facilities. Contingent liabilities in respect of certain performance bonds, granted by the Group's financiers, in the normal course of business as at 30 June 2019, amounted to $39,812,000 (30 June 2018: $28,531,000). No material liability is expected to arise.

15. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

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

16. STATUS OF REVIEW OF ACCOUNTS

This Report is based on accounts which are in the process of being audited.