AVJennings Limited
ABN: 44 004 327 771

30 June 2020 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 2019 and any public announcements made by AVJennings Limited during the year ended 30 June 2020 in accordance with the continuous disclosure requirements of the Listing Rules of the Australian Securities Exchange.

AVJennings®

Contents

AVJennings®

Results for Announcement to the Market

Appendix 4E for the year ended 30 June 2020

	2020 $'000	2019 $'000	Decrease $'000	%
Revenues	262,354	296,467	(34,113)	(11.5)%
Profit after tax	9,041	16,439	(7,398)	(45.0)%
Net profit attributable to owners of the Company	9,041	16,439	(7,398)	(45.0)%

Dividends	Cents per share	Franked amount per share at 30% tax
Current period		
Interim dividend	1.2	1.2
Final dividend	0.0	0.0
Total dividend	**1.2**	**1.2**
Previous period		
Interim dividend	1.0	1.0
Final dividend	1.5	1.5
Total dividend	**2.5**	**2.5**

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 2020

The Directors present their Report on the Company and its controlled entities for the year ended 30 June 2020.

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 (resigned 30 June 2020)
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

OPERATING AND FINANCIAL REVIEW

Financial Results

The Company recorded Net Profit Before Tax of $13.2M for the year ended 30 June 2020 down 44.8% on the previous corresponding year (30 June 2019: $23.8M), and Profit After Tax of $9.0M (30 June 2019: $16.4M). The result includes $1.6M of the Federal Government JobKeeper subsidy over the period April to June 2020.

As we entered FY20 we had expectations of exceeding the FY19 result. This was on the back of:

- improving market conditions, especially in NSW and Victoria;
- better results from our Qld operations from actions taken in FY19; and
- timing of revenue recognition in NZ, which would see the next significant recognition of superlot sales to builders,

although we knew we would see reduced turnover and results from our sole apartment project, 'Waterline Place' Williamstown, Melbourne as FY19 benefited from completion of the 'GEM' apartments, whereas the next building, 'Empress', isn't due for completion until the latter part of FY21.

FY20 did, however, toss up unforeseen challenges including drought, bushfire and a global pandemic. Although our original expectations for FY20 didn't materialise, the results achieved are considered to be good in the circumstances and were in part due to important improvements in operations and efficiency.

Directors' Report

For the year ended 30 June 2020

OPERATING AND FINANCIAL REVIEW (continued)

Revenue

While revenue reduced by 11.5% overall, compared to the previous corresponding period, it requires a deeper analysis.

Land and Traditional Housing	**FY20**	**FY19**
• New South Wales	$113.6m	$123.5m
• Victoria	$43.4m	$59.1m
• Queensland	$40.1m	$32.0m
• South Australia	$16.2m	$19.1m
• New Zealand	$33.1m	$1.2m
Sub-Total	$246.4m	$234.9m
Apartments	$13.2m	$56.7m
Total Australia & NZ (excl. other services income)	$259.6m	$291.6m

Turnover from land and traditional housing of $246.4M was higher than the prior year (30 June 2019: $234.9M).

In relation to New South Wales and Victoria, the anticipated recovery was slower to materialise than hoped. Early signs of this recovery in late calendar year 2019 were subdued by the bushfires which impacted on consumer confidence and also attendances at sales offices as people stayed indoors due to poor air quality. The early months of 2020 did see growing momentum and results were starting to strengthen just when the first stages of the pandemic hit, draining the last three and a half months of FY20 of their anticipated strong finish.

Despite initial concerns, settlements held up well in the second half, with only moderate extensions to contracted settlement periods required in some cases that pushed some settlements into FY21. While the contract rescission rate increased, the value and number of affected contracts remains very low as a proportion of turnover and lots settled during the period.

Pleasingly, our efforts in FY19 addressing certain issues in Queensland, resulted in much improved outcomes before the pandemic arrived. These actions included the acquisition of the balance 50% interest in the 'Riverton' JV at Jimboomba, following which the project was relaunched with good outcomes. Other projects also performed well. The mix of new projects and the early stage of their development did see less built form, which dampened the overall revenue increase as average contract value declined. Nevertheless, the improvement in results off the back of work done in FY19 leaves our Queensland operation well placed for continued growth.

The anticipated lift in revenue and profit from our New Zealand operations also occurred. The New Zealand business is dominated by lumpy transactions relating to sales of superlots to other builders, and revenue and profit recognition for contract signings in previous financial years arising from the last stage of our Hobsonville Point, Auckland project, that occurred in the second half of FY20. While substantial contract signings were achieved for our new 'Ara Hills' project during FY20, revenue and profit recognition will only commence in FY21.

The apartments segment, as shown above, is more a reflection of project delivery timing than market conditions. Revenue from apartments was down $43.5M to $13.2M (30 June 2019: $56.7M) due to the completion and substantial settlement of the GEM apartment building in financial 2019, with only residual apartment stock available for settlement in financial 2020. The next apartment building, Empress, is due for completion in late FY21.

Directors' Report

For the year ended 30 June 2020

OPERATING AND FINANCIAL REVIEW (continued)

Margins

Margins increased for land and traditional housing in all States and New Zealand with the exception of New South Wales. The margins achieved in New South Wales reflect the impact of some price corrections plus the relative impact of some projects that have slightly lower margins. The other area to see margins decrease was apartments as some lower value remaining apartments in Gem were sold in FY20. Overall, margins decreased 1.7% to 22.8%.

Provisions

Whilst our commitment to rational and conservative land acquisitions has seen the value of most acquisitions protected from writedowns or provisions, the FY20 result does include an increase in provisions of $1.6M (FY19: nil) relating to regional projects in Queensland and South Australia. Additionally, $0.5M (FY19 $0.7M) was provided against the Otan investment and $0.9M (FY19 $0.6M) against the Pindan Investment, both in Perth.

Overheads and JobKeeper

There continued to be a strong focus on overheads, and the pre-tax result included an amount of $1.6M in relation to JobKeeper for the April to June period. The Senior Executive Team and the Board took significant reductions in entitlements. In addition, all staff other than sales and site staff accepted accelerated leave arrangements to reduce labour expenses, which extend into FY21.

The Company has substantially restructured in recent years and continues to look for ways to improve outcomes and efficiencies.

Balance Sheet and Land Holdings

Controlled land inventory at 30 June 2020 was 12,134 lots (30 June 2019: 13,031 lots). This includes land at Caboolture, Queensland (approximately 3,500 lot equivalents) over which the Company holds options that are subject to the achievement of certain planning milestones. Total inventory excluding land under option stood at 8,634 lots (30 June 2019: 9,531 lots).

As a response to the pandemic, the Company sharply wound back physical production in early March to conserve cash in the face of pandemic-induced uncertainty, although production continued for those projects necessary to facilitate settlements of existing presales. This capability demonstrates the strength and flexibility of the Company's focus on horizontal development.

Work in progress was down year-on-year to 1,117 lots (30 June 2019: 1,600 lots), however, planning and design work continued largely unabated, leaving the Company well placed to resume physical works in key locations as Government stimulus measures were introduced and buyer confidence began to return.

Net debt remained comparable with the prior year at $184.4M (30 June 2019: $182.1M) and gearing remained moderate with net debt to total assets of 28.1% (30 June 2019: 26.6%).

Net cash from operations turned around strongly year-on-year to positive $10.0M (30 June 2019: net outflow ($45.8M)), assisted by solid settlements and reduced expenditure on production, acquisitions and overheads.

Directors' Report
For the year ended 30 June 2020

OPERATING AND FINANCIAL REVIEW (continued)

Outlook

From a structural and financial strength aspect, AVJennings remains in a sound financial position, with moderate gearing and adequate undrawn banking facilities. Our flexible, horizontal delivery bias allowed us to respond quickly to the pandemic, and then change gears as early signs of a recovery emerged. Additionally, our focus on traditional customer segments and a conservative and responsible approach to acquisitions are important aspects of our ability to cope with the ongoing challenges presented by COVID-19.

While contract signings in the second half were lower than was anticipated in early January, they were stronger than management expected they might have been when the Company revised its internal forecast in March, after the first lockdown period was triggered in Australia. Contract signings strengthened in the period leading up to 30 June, as Government support and stimulus measures, such as HomeBuilder and State Government Stamp Duty and other measures were announced, with net contract signings in March, April, May and June of 57, 51, 86 and 97 respectively.

There is short term uncertainty and volatility, but we are encouraged by recent contract signings and schemes such as HomeBuilder. A total of 385 contracts were carried over 30 June 2020, with a further 76 contracts signed in July 2020.

As lockdown restrictions eased in June 2020, well ahead of what many thought likely when first introduced, we saw a return to strong enquiry levels. No doubt the Federal Government's HomeBuilder scheme contributed to this, although we believe it fundamentally represents the strong level of underlying demand for housing that we had started to see in the early months of 2020. To a large extent, such schemes don't so much create demand as bring forward the timing of buyers' decisions.

In many areas around Australia, the improved enquiry level and sales momentum that followed the easing of lockdown restrictions has continued. The reintroduction of tighter restrictions in Victoria has slowed that State's recovery and shows that the short term remains uncertain and volatile. Net migration is also unlikely to be a short term positive although the continuing low cost of capital and strength in a number of employment sectors not impacted, at least directly, by the pandemic will provide a solid short term base.

Critical to the short term are support mechanisms provided by various levels of Australian Government, including the national HomeBuilder scheme. Apart from influencing buyers not to delay their purchasing decisions, they also act as a strong incentive for first home buyers who have found entering the market difficult in recent years.

Internally, we have taken steps to advance project planning and approvals to be well placed to respond to improving conditions. Two important components of the FY21 result will be the first profit recognition from Ara Hills, New Zealand, and the Empress Apartments, Williamstown Victoria. The timing of our results will remain very heavily weighted towards the second half and may be affected by any extensions to, or reintroduction of lockdown conditions, especially if they slow project delivery.

The Company believes that the longer-term outlook remains bright. As employment levels rise as the economy gradually recovers from the shock of the pandemic, the fundamentals that drove the early stages anticipated of the FY20 recovery, which may have been temporarily stalled, remain generally intact.

Directors' Report

For the year ended 30 June 2020

OPERATING AND FINANCIAL REVIEW (continued)

Net migration is a key driver of underlying housing demand that the Company anticipates is also likely to recover strongly when international borders reopen, as Australia and New Zealand are relatively less affected by the virus than comparable jurisdictions. Additionally, the significant trend towards high density, inner city living over the last 5 years, which was starting to abate before the pandemic, is unlikely to continue. Renewed focus on community, safety and increased flexibility in working arrangements is likely to see stronger support for traditional housing, which AVJennings is well placed to deliver.

DIVIDENDS

A fully franked final dividend of 1.5 cents per share for the year ended 30 June 2019 was paid on 20 September 2019, and a fully franked interim dividend of 1.2 cents per share paid on 27 March 2020 (30 June 2019 interim dividend: 1.0 cent).

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

The contract for the acquisition land at 280 Bridge Inn Road Mernda, Victoria became unconditional on 24 July 2020. The purchase price is $28.3 million and the project yield which is currently under review, is expected to be about 231 lots. A deposit of 10% was paid at 30 June 2020 and the balance is to be settled in May 2021.

No other matter or circumstance has arisen since 30 June 2020 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 2020

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 2020

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Continuing operations			
Revenue from contracts with customers	3	262,354	296,467
Revenue		**262,354**	**296,467**
Cost of sales	4	(202,461)	(223,900)
Gross profit		**59,893**	**72,567**
Share of net loss of joint ventures	11	(66)	(274)
Provision for loss on equity accounted investments	4	(947)	(607)
Change in inventory loss provisions	4	(1,629)	-
Fair value adjustment to financial asset		(516)	(669)
Fair value adjustment to investment property	12	(190)	800
Selling and marketing expenses		(5,044)	(6,865)
Employee expenses		(23,531)	(25,711)
Other operational expenses		(6,210)	(8,591)
Management and administration expenses		(7,805)	(8,071)
Depreciation and amortisation expenses	4	(2,125)	(252)
Finance income	4	1,264	1,315
Finance costs	4	(393)	(159)
Other income	4	457	356
Profit before income tax		**13,158**	**23,839**
Income tax	5	(4,117)	(7,400)
Profit after income tax		**9,041**	**16,439**
Net profit		**9,041**	**16,439**
Other comprehensive income (OCI)			
Foreign currency translation		(1,228)	1,246
Other comprehensive (loss)/income		**(1,228)**	**1,246**
Total comprehensive income		**7,813**	**17,685**
Profit attributable to owners of the Company		**9,041**	**16,439**
Total comprehensive income attributable to owners of the Company		**7,813**	**17,685**
Earnings per share (cents per share):			
Basic earnings per share		2.23	4.09
Diluted earnings per share		2.23	4.08

Consolidated Statement of Financial Position

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents		5,703	18,209
Receivables		23,036	15,088
Inventories		185,366	194,748
Tax receivable		1,223	-
Other assets		4,191	2,392
Total current assets		**219,519**	**230,437**
Non-current assets			
Receivables		14,742	10,033
Inventories		401,997	430,261
Investment Property	12	1,580	1,770
Equity accounted investments		5,636	6,649
Financial assets		1,695	2,211
Plant and equipment		1,214	1,059
Right-of-use assets	2	5,978	-
Intangible assets		2,816	2,816
Total non-current assets		**435,658**	**454,799**
Total assets		**655,177**	**685,236**
Current liabilities			
Payables		16,540	41,234
Borrowings		-	543
Lease liabilities	2	1,542	-
Tax payable		413	3,179
Provisions		5,848	6,547
Total current liabilities		**24,343**	**51,503**
Non-current liabilities			
Payables		27,846	22,009
Borrowings		190,110	199,792
Lease liabilities	2	5,060	-
Deferred tax liabilities		14,039	15,173
Provisions		649	482
Total non-current liabilities		**237,704**	**237,456**
Total liabilities		**262,047**	**288,959**
Net assets		**393,130**	**396,277**
Equity			
Contributed equity	7	174,179	174,509
Reserves		8,408	8,882
Retained earnings		210,543	212,886
Total equity		**393,130**	**396,277**

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

		Attributable to equity holders of AVJennings Limited				Total equity
		Contributed Equity	Foreign Currency Translation Reserve	Share-based Payment Reserve	Retained Earnings	
	Note	$'000	$'000	$'000	$'000	$'000
At 1 July 2018		**167,943**	**3,010**	**3,896**	**224,149**	**398,998**
Effect of adoption of new revenue accounting standard		-	-	-	(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**
At 1 July 2019		**174,509**	**4,256**	**4,626**	**212,886**	**396,277**
Effect of adoption of new leases accounting standard	2	-	-	-	(416)	(416)
At 1 July 2019 (restated)		**174,509**	**4,256**	**4,626**	**212,470**	**395,861**
Comprehensive income:						
Profit for the year		-	-	-	9,041	9,041
Other comprehensive loss for the year		-	(1,228)	-	-	(1,228)
Total comprehensive income for the year		**-**	**(1,228)**	**-**	**9,041**	**7,813**
Transactions with owners in their capacity as owners:						
- Treasury shares acquired	7(b)	(330)	-	-	-	(330)
- Share-based payment expense reversed (lapsed rights)		-	-	(225)	-	(225)
- Share-based payment expense		-	-	979	-	979
- Dividends paid	6	-	-	-	(10,968)	(10,968)
Total transactions with owners in their capacity as owners		**(330)**	**-**	**754**	**(10,968)**	**(10,544)**
At 30 June 2020		**174,179**	**3,028**	**5,380**	**210,543**	**393,130**

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		275,933	355,943
Payments to other suppliers and employees (inclusive of GST)		(247,127)	(371,307)
Interest paid		(9,809)	(12,663)
Income tax paid		(9,031)	(17,757)
Net cash from/(used in) operating activities		**9,966**	**(45,784)**
Cash flows from investing activities			
Payments for plant and equipment		(476)	(790)
Interest received		1,264	1,315
Amounts received from joint venture entities		-	1,536
Dividends received from joint venture entity		-	1,655
Net cash from investing activities		**788**	**3,716**
Cash flows from financing activities			
Proceeds from borrowings		85,460	162,128
Repayment of borrowings		(95,685)	(101,000)
Principal elements of lease payments		(1,761)	-
Net payment for treasury shares	7(b)	(330)	(914)
Dividends paid	6	(10,968)	(15,910)
Proceeds from issue of shares	7(a)	-	7,480
Net cash (used in)/from financing activities		**(23,284)**	**51,784**
Net (decrease)/increase in cash and cash equivalents		**(12,530)**	**9,716**
Cash and cash equivalents at beginning of the year		18,209	8,491
Effects of exchange rate changes on cash and cash equivalents		24	2
Cash and cash equivalents at end of the year		**5,703**	**18,209**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

1. CORPORATE INFORMATION

The Consolidated Report of AVJennings Limited for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 20 August 2020. 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

These Consolidated Financial Statements have been prepared using accounting policies which are consistent with those adopted in the annual financial statements for the year ended 30 June 2019, except for the application of AASB 16 from 1 July 2019. The nature and effect of the changes as a result of adoption of AASB 16 are described below.

It is recommended that this Report be read in conjunction with the Annual Report for the year ended 30 June 2019 and considered together with any public announcements made by AVJennings Limited during the year ended 30 June 2020 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.

Several other amendments and interpretations apply for the first time in 2020, but do not have a significant 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 16 Leases: (adopted by the Group on 1 July 2019)

AASB 16 supersedes AASB 117 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard 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.

Lessor accounting under AASB 16 is substantially unchanged from that under AASB 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in AASB 117.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The effect of the adoption of AASB 16 as at 1 July 2019 is as follows:

	Note	Increase/ (decrease) $'000
Assets		
Right-of-use assets	(a)	3,524
Total adjustment on assets		**3,524**
Liabilities		
Lease liabilities	(b)	4,118
Deferred tax liabilities	(c)	(178)
Total adjustment on liabilities		**3,940**
Equity		
Retained earnings	(d)	(416)
Total adjustment on equity		**(416)**

(a) Right-of-use assets recognised relating to operating leases.
(b) Lease liabilities recognised relating to operating leases.
(c) Tax effect of the difference between right-of-use assets and lease liabilities at adoption.
(d) The post tax effect of the adoption on opening retained earnings.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate applied to lease liabilities on 1 July 2019 was 5.68%.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Applied the short-term lease exemptions to leases with lease terms that end within 12 months at the date of initial application.
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Lease liabilities as at 1 July 2019 can be reconciled to operating lease commitments as at 30 June 2019 as follows:

	$'000
Operating lease obligations at 30 June 2019	**4,262**
Recognition exemptions:	
- Leases of low-value assets	(387)
- Leases with remaining lease term of less than 12 months	(426)
Cost of service type non-lease components and other adjustments	(166)
Reasonably certain lease extensions	1,231
Sub-total	**4,514**
Effect of discounting	(396)
Lease liability opening balance reported as at 1 July 2019 under AASB 16	**4,118**

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of plant and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below $5,000). Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its office leases to lease the assets for additional terms of up to three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of office space due to the significance of these assets to its operations. The renewal options if any, for leases of plant and equipment and motor vehicles were not included as part of the lease term because the Group has a record of not exercising any renewal options for such leases.

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

		Right-of-use assets			
	Note	Motor vehicle lease $'000	IT equipment lease $'000	Office premises lease $'000	Total $'000
As at 1 July 2019		464	316	2,744	3,524
Additions		313	14	4,169	4,496
Amortisation expense	4	(296)	(136)	(1,409)	(1,841)
Disposal		-	(5)	(196)	(201)
As at 30 June 2020		**481**	**189**	**5,308**	**5,978**
Current		**-**	**-**	**-**	**-**
Non-current		**481**	**189**	**5,308**	**5,978**
Total		**481**	**189**	**5,308**	**5,978**

	Lease Liabilities			
	Motor vehicle lease $'000	IT equipment lease $'000	Office premises lease $'000	Total $'000
As at 1 July 2019	471	323	3,324	4,118
Additions	313	14	4,169	4,496
Payments	(299)	(134)	(1,328)	(1,761)
Disposal	-	(6)	(245)	(251)
As at 30 June 2020	**485**	**197**	**5,920**	**6,602**
Current	**253**	**107**	**1,182**	**1,542**
Non-current	**232**	**90**	**4,738**	**5,060**
Total	**485**	**197**	**5,920**	**6,602**

The Group recognised rent expense from short-term leases of $334,000 and leases of low-value assets of $244,000 for the year ended 30 June 2020.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

JobKeeper Payment Scheme

The government introduced a JobKeeper Payment scheme to support businesses significantly affected by the coronavirus to help keep more Australians in jobs. The JobKeeper Payment is available to eligible employers to enable them to pay their eligible employee's salary or wages of at least $1,500 (before tax) per fortnight. Eligible employers are reimbursed a fixed amount of $1,500 per fortnight for each eligible employee from 30 March 2020, for up to 13 fortnights.

Employers are required to pay eligible employees a minimum of $1,500 (before tax) per fortnight to claim the JobKeeper payment. This is paid to the employer in arrears each month by the ATO. If employers do not continue to pay their employees for each pay period, they cease to qualify for the JobKeeper payment.

The Group is eligible for this payment and has claimed a total amount of $1,556,000 to 30 June 2020. The credit has been recorded as an offset against employee expenses in the Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

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 2020	NSW $'000	VIC $'000	QLD $'000	SA $'000	NZ $'000	Total $'000
Types of goods or services						
Sale of land	48,324	19,512	31,409	7,457	25,317	132,019
Sale of integrated housing	65,299	23,909	8,700	8,759	7,747	114,414
Sale of apartments	-	13,161	-	-	-	13,161
Property development & other services	247	2,513	-	-	-	2,760
Total revenue from contracts with customers	**113,870**	**59,095**	**40,109**	**16,216**	**33,064**	**262,354**
Timing of revenue recognition						
Goods transferred at a point in time	113,623	56,582	40,109	16,216	33,064	259,594
Services transferred over time	247	2,513	-	-	-	2,760
Total revenue from contracts with customers	**113,870**	**59,095**	**40,109**	**16,216**	**33,064**	**262,354**

Operating Segments 30 June 2019	NSW $'000	VIC $'000	QLD $'000	SA $'000	NZ $'000	Total $'000
Types of goods or services						
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) 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.

3. REVENUES FROM CONTRACTS WITH CUSTOMERS (continued)

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 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.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

4. INCOME AND EXPENSES

	Note	2020 $'000	2019 $'000
Revenues			
Revenue from contracts with customers		262,354	296,467
Total revenues		**262,354**	**296,467**
Cost of sales include:			
Utilisation of inventory provisions		(456)	(791)
Amortisation of finance costs capitalised to inventories		7,730	12,181
Impairment of assets			
Provision for loss on equity accounted investments		947	607
Increase in inventory loss provisions		1,629	-

For the year ended 30 June 2020, the movement in inventory provision resulted from a realignment of future assumptions with current market conditions relating to projects in Queensland and South Australia.

	Note	2020 $'000	2019 $'000
Depreciation and amortisation expense			
Depreciation of owned assets		284	252
Amortisation of right-of use assets	2	1,841	-
Total depreciation and amortisation expense		**2,125**	**252**
Finance income			
Interest from financial assets held for cash management purposes		1,264	1,315
Finance costs			
Bank loans and overdrafts		9,809	12,663
Interest on lease liabilities		335	-
Less: Amount capitalised to inventories		(9,751)	(12,504)
Finance costs expensed		**393**	**159**
Other income			
Rent from investment property		125	10
Sundry income		332	346
Total other income		**457**	**356**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

5. INCOME TAX

	2020 $'000	2019 $'000
Income tax expense		
The major components of income tax are:		
Current income tax		
Current income tax charge	4,822	10,266
Adjustment for prior year	226	93
Deferred income tax		
Current temporary differences	(764)	(2,959)
Adjustment for prior year	(167)	-
Income tax reported in the *Consolidated Statement of Comprehensive Income*	**4,117**	**7,400**

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

	2020	2019
Accounting profit before income tax	**13,158**	**23,839**
Tax at Australian income tax rate of 30%	3,947	7,152
Net share of equity accounted joint venture losses	20	82
Other non-deductible items	205	57
Foreign jurisdiction (losses)/gains	(16)	49
Effect of lower tax rate in foreign jurisdiction	(98)	(33)
Adjustment for prior year	59	93
Income tax expense	**4,117**	**7,400**
Effective tax rate	**31%**	**31%**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

6. DIVIDENDS

	2020 $'000	2019 $'000
Cash dividends declared and paid		
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 cents per share, paid 22 March 2019. Fully franked @ 30% tax	-	4,062
2019 final dividend of 1.5 cents per share, paid 20 September 2019. Fully franked @ 30% tax	6,093	-
2020 interim dividend of 1.2 cents per share, paid 27 March 2020. Fully franked @ 30% tax	4,875	-
Total cash dividends declared and paid	**10,968**	**15,910**
Dividends proposed		
2019 final dividend of 1.5 cents per share, paid 20 September 2019. Fully franked @ 30% tax	-	6,093
Total dividends proposed	**-**	**6,093**

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

7. CONTRIBUTED EQUITY

	2020 Number	2019 Number	2020 $'000	2019 $'000
Ordinary shares	406,230,728	406,230,728	177,961	177,961
Treasury shares	-	(762,619)	(3,782)	(3,452)
Share capital	**406,230,728**	**405,468,109**	**174,179**	**174,509**

(a) Movement in ordinary share capital	**Number**	**Number**	**$'000**	**$'000**
As at the beginning of the year	406,230,728	394,926,905	177,961	170,481
Issued under the Dividend Reinvestment Plan	-	11,303,823	-	7,480
As at the end of the year	**406,230,728**	**406,230,728**	**177,961**	**177,961**

(b) Movement in treasury shares	**Number**	**Number**	**$'000**	**$'000**
At beginning of the year	(762,619)	(495,632)	(3,452)	(2,538)
On market acquisition of shares	(757,523)	(1,462,177)	(435)	(914)
Excess funds received from AVJDESP	-	-	105	-
Employee share scheme issue	1,520,142	1,195,190	-	-
As at the end of the period	**-**	**(762,619)**	**(3,782)**	**(3,452)**

During the year, 757,523 treasury shares were purchased by the AVJ Deferred Employee Share Plan Trust (AVJDESP) at a cost of $435,000.

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.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

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:

Land Development, Integrated Housing and Apartments Development activities are conducted within our jurisdictions.

Other:

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 2020

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	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenues														
External sales	113,623	123,542	56,582	115,822	40,109	31,950	16,216	19,112	33,064	1,217	-	-	259,594	291,643
Management fees	247	238	2,513	4,381	-	185	-	20	-	-	-	-	2,760	4,824
Total segment revenues	**113,870**	**123,780**	**59,095**	**120,203**	**40,109**	**32,135**	**16,216**	**19,132**	**33,064**	**1,217**	**-**	**-**	**262,354**	**296,467**
Results														
Segment results	16,433	24,043	8,612	21,293	1,889	(3,417)	(1,591)	(3,003)	5,676	2,280	1,533	80	32,552	41,276
Share of loss of joint ventures	-	-	-	-	-	-	-	(20)	-	-	(66)	(254)	(66)	(274)
Other non-segment revenue	-	-	-	-	-	-	-	-	-	-	1,596	1,661	1,596	1,661
Rent from investment property	-	-	125	10	-	-	-	-	-	-	-	-	125	10
Change in inventory loss provisions	-	-	-	-	(1,310)	-	(319)	-	-	-	-	-	(1,629)	-
Fair value adjustments	-	-	(190)	800	-	-	-	-	-	-	(517)	(669)	(707)	131
Provision for loss on equity accounted investments	-	-	-	-	-	-	-	-	-	-	(947)	(607)	(947)	(607)
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	-	-	(17,373)	(18,199)
Unallocated interest expense	-	-	-	-	-	-	-	-	-	-	-	-	(393)	(159)
Profit before tax													13,158	23,839
Income tax													(4,117)	(7,400)
Net profit													**9,041**	**16,439**

Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

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	
	2020 $'000	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Assets														
Segment assets	172,600	195,646	165,975	173,724	128,513	125,709	56,954	62,903	107,901	105,524	23,234	21,730	655,177	685,236
Total assets	**172,600**	**195,646**	**165,975**	**173,724**	**128,513**	**125,709**	**56,954**	**62,903**	**107,901**	**105,524**	**23,234**	**21,730**	**655,177**	**685,236**
Liabilities														
Segment liabilities	22,497	15,941	10,182	19,458	4,458	16,389	1,227	970	48,680	58,711	175,003	177,490	262,047	288,959
Total liabilities	**22,497**	**15,941**	**10,182**	**19,458**	**4,458**	**16,389**	**1,227**	**970**	**48,680**	**58,711**	**175,003**	**177,490**	**262,047**	**288,959**

9. NET TANGIBLE ASSET BACKING

	2020	2019
Net Tangible Asset backing (NTA) - cents per ordinary share	96.1	97.0

The number of ordinary shares used in the computation of NTA as at 30 June 2020 was 406,230,728 (30 June 2019: 405,468,109). Refer to note 7 for details.

Net tangible assets are calculated using the values of net assets less intangible assets, as per the respective balance sheet headings.

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:

	2020 $'000	2019 $'000
Revenues	20,826	34,797
Cost of sales	(13,069)	(25,856)
Other expenses	(1,150)	(2,141)
Profit before income tax	**6,607**	**6,800**
Income tax	(1,982)	(2,040)
Profit after income tax	**4,625**	**4,760**

Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The interests in a joint venture 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 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 loss	
	30 June 2020	30 June 2019	2020 $'000	2019 $'000
Woodville JV	-	-	-	(20)
Pindan Capital Group Dwelling Trust	33.3%	33.3%	(66)	(254)
Loss after income tax			**(66)**	**(274)**

12. INVESTMENT PROPERTY

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 using a capitalisation rate of 7.00% (30 June 2019: 6.00%), and Direct Comparison Approach methods have been adopted in determining the fair value.

	2020 $'000	2019 $'000
Opening balance at 1 July	1,770	-
Transfer from inventory	-	970
Net (loss)/gain from fair value remeasurement	(190)	800
Closing balance at 30 June	**1,580**	**1,770**

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.

Notes to the Consolidated Financial Statements
For the year ended 30 June 2020

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 2020, amounted to $15,894,000 (30 June 2019: $16,177,000). 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 2020, amounted to $1,031,000 (30 June 2019: $1,148,000). 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 2020, amounted to $30,377,000 (30 June 2019: $39,812,000). No material liability is expected to arise.

15. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

The contract for the acquisition land at 280 Bridge Inn Road Mernda, Victoria became unconditional on 24 July 2020. The purchase price is $28.3 million and the project yield which is currently under review, is expected to be about 231 lots. A deposit of 10% was paid at 30 June 2020 and the balance is to be settled in May 2021.

No other matter or circumstance has arisen since 30 June 2020 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.