AVJennings

AVJennings Limited
ABN: 44 004 327 771

Annual Financial Report
30 June 2020

Contents

Directors' Report

The Directors of AVJennings Limited present their report together with the Financial Report of the Group (referred to hereafter as "AVJennings","Group" or "Company") and the Auditor's Report thereon for the year ended 30 June 2020. The Group comprises AVJennings Limited ("Company" or "Parent") and its controlled entities.

DIRECTORS

The Directors of AVJennings Limited during the financial year and up until the date of this Report are as follows. 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 (retired on 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

PRINCIPAL ACTIVITY

The principal activity of the Group during the year was Residential Development.

OPERATING RESULTS

The consolidated Profit After Tax for the financial year was $9.0 million (2019: $16.4 million).

DIVIDENDS

Dividends paid during the financial year were as follows:

	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 cent 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**

Directors' Report

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.

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.

Directors' Report

OPERATING AND FINANCIAL REVIEW (continued)

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 FY20. The next apartment building, Empress, is due for completion in late FY21.

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.

Directors’ Report

OPERATING AND FINANCIAL REVIEW (continued)

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 (FY19: net outflow ($45.8M)), assisted by solid settlements and reduced expenditure on production, acquisitions and overheads.

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.

Directors' Report

OPERATING AND FINANCIAL REVIEW (continued)

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.

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.

Directors' Report

SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

The contract for the acquisition of 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 as 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.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The prospects and business strategies of the Group are discussed in the operating and financial review of this Report.

ENVIRONMENTAL REGULATION

The Group's operations are subject to various environmental regulations under both Commonwealth and State legislation, particularly in relation to its property development activities. The Group's practice is to ensure that where operations are subject to environmental regulations, those obligations are identified and appropriately addressed. This includes the obtaining of approvals, consents and requisite licences from the relevant authorities and complying with their requirements.

To the best of the Directors' knowledge, property development activities have and are being undertaken in compliance with these requirements.

CHANGE IN STATE OF AFFAIRS

The Australian Federal Government began introducing COVID-19 pandemic-related constraints on certain activities from early February 2020. Since then, various levels of Government in Australia and New Zealand have implemented a variety of measures aimed at protecting public health. These have had the effect of restricting business and social activity. Public perception of the prevalence and seriousness of the virus and the legally enforceable measures introduced to contain its spread have negatively affected consumer and business confidence and outlook. This has had, and (for the foreseeable future) will continue to have, implications for the way in which the Company conducts business as well as an adverse effect upon trading conditions generally.

Directors' Report

INFORMATION ON THE DIRECTORS

Simon Cheong *B.Civ.Eng. MBA*

Director since 20 September 2001. Mr Cheong has over 35 years experience in real estate, banking and international finance. He currently serves as Chairman and Chief Executive Officer of SC Global Developments Pte Ltd. He has formerly held positions with Citibank (Singapore) as their Head of Real Estate Finance for Singapore as well as with Credit Suisse First Boston as a Director and Regional Real Estate Head for Asia (excluding Japan). In 1996, Mr Cheong established his own firm, SC Global Pte Ltd, a real estate and hotel advisory and direct investment group specialising in structuring large and complex transactions worldwide. He was twice elected President of the prestigious Real Estate Developers' Association of Singapore (REDAS) for 2 terms from 2007 till 2010. He served on the Board of the Institute of Real Estate Studies, National University of Singapore from 2008 to 2011 and was a board member of the Republic Polytechnic Board of Governors from 2008 to 2011. He was also a Council Member of the Singapore Business Federation, a position he held from 2007 to 2010. On 1 June 2017, Mr Cheong was appointed a Non-Executive Director of Singapore Airlines Limited. Resident of Singapore.

Responsibilities
Chairman of the Board, Non-Executive Director, Chairman of Investments Committee, Member of Remuneration Committee, Member of Nominations Committee.

Directorships held in other listed entities
Singapore Airlines Limited since 1 June 2017.

Jerome Rowley *SF Fin, FAICD*

Director since 22 March 2007. Mr Rowley has been a career banker since the early 1970s with Citigroup, Morgan Grenfell and ABN Amro. From 1992 until 2002, he served as Managing Director and CEO of ABN Amro Australia and Head of Relationship Management and Structured Finance for ABN Amro, Asia Pacific. He has been active in both wholesale and investment banking domestically and internationally. During his career, Mr Rowley devoted considerable effort towards the recognition, understanding and management of risk as a means of profit optimization. Of particular significance was his involvement in advising and funding including debt, equity and hybrids, of infrastructure projects in both Australia and Asia Pacific. Resident of Sydney.

Responsibilities
Deputy Chairman of the Board, Non-Executive Director, Chairman of Risk Management Committee, Member of Audit Committee, Member of Investments Committee, Member of Nominations Committee.

Directorships held in other listed entities:
None.

Peter K Summers *B.Ec. CA*

Director since 27 August 1998. Mr Summers is a Chartered Accountant and has been employed with the Company and its related corporations since 1984, when he joined the Jack Chia Australia Ltd Group from Price Waterhouse (now PricewaterhouseCoopers). During Mr Summers' early period with the group, he held various management and directorship roles within the group. Following the acquisition of the AVJennings residential business in September 1995, Mr Summers was appointed Chief Financial Officer, becoming Finance Director of AVJennings in August 1998. He was appointed Managing Director and Chief Executive Officer of the Company on 19 February 2009. Mr Summers has extensive experience in general and financial management as well as mergers and acquisitions. Resident of Melbourne.

Responsibilities
Managing Director and Chief Executive Officer.

Directorships held in other listed entities:
None.

Directors' Report

INFORMATION ON THE DIRECTORS (continued)

Elizabeth Sam *B.A. Hons. (Econ)*

Director since 20 September 2001. Mrs Sam has over 40 years experience in international banking and finance. She has served on numerous high level Singaporean government financial and banking review committees and was the Chairman of the International Monetary Exchange from 1987-1990 and 1993-1996. Mrs Sam was a Director of SC Global Developments Pte Ltd, the Company's major shareholder. Resident of Singapore.

Mrs Sam retired from her role as a Director of the Company on 30 June 2020.

Responsibilities
Non-Executive Director, Chairman of Nominations Committee, Member of Remuneration Committee.

Directorships held in other listed entities:
None.

Bobby Chin *CA (ICAEW) B.Acc.*

Director since 18 October 2005. Mr Chin is currently the Chairman of NTUC Fairprice Co-operative Ltd, NTUC Fairprice Foundation Ltd and the Housing & Development Board. He is the Deputy Chairman of NTUC Enterprise Co-operative Ltd and a Director of Singapore Labour Foundation. He also serves as Chairman of the Singapore Corporate Governance Advisory Committee. Mr Chin served 31 years with KPMG Singapore and was its Managing Partner from 1992 until September 2005. He is an Associate Member of the Institute of Chartered Accountants in England and Wales. Resident of Singapore.

Responsibilities
Non-Executive Director, Chairman of Audit Committee, Member of Nominations Committee.

Directorships held in other listed entities:
Yeo Hiap Seng Limited, since 15 May 2006.
Ho Bee Land Limited, since 29 November 2006.

Other Directorships:
Temasek Holdings (Private) Limited, since 10 June 2014.
Frasers Logistics & Commercial Asset Management Pte Ltd since 29 April 2020.

Directors' Report

INFORMATION ON THE DIRECTORS (continued)

Bruce G Hayman

Director since 18 October 2005. Mr Hayman has many years of commercial management experience with over 20 of those at operational Chief Executive or General Manager Level. He is currently Chairman of Chartwell Management Services. He has fulfilled senior management roles both in Australia and overseas for companies such as Nicholas Pharmaceutical Group, Dairy Farm Group, Hong Kong Land and Seagram Corporation. During his time in Singapore, he held the position of Foundation President of the Singapore Australia Business Council, now known as AUSTCHAM Singapore. He has also served as CEO of the Australian Rugby Union and as Chairman of the Board of the Rugby Club Ltd. He is Chairman of the Ella Foundation and a Director of Diabetes NSW. Resident of Sydney.

Responsibilities:
Non-Executive Director, Member of Remuneration Committee, Member of Nominations Committee, Member of Investments Committee, Member of Risk Management Committee.

Directorships held in other listed entities:
None.

Lai Teck Poh *BA Hons. (Economics)*

Director since 18 November 2011. Mr Lai has been a career banker since the late 1960s. He joined Citibank Singapore in April 1968, rising through the ranks to become Vice President and Head of the Corporate Banking Division. During his time with Citibank, Mr Lai undertook international assignments with Citibank in Jakarta, New York and London. His last position with Citigroup was as Managing Director of Citicorp Investment Banking Singapore Ltd (Corporate Finance and Capital Market Activities) from 1986 to 1987.

Mr Lai joined Oversea-Chinese Banking Corporation (OCBC) in January 1988 as Executive Vice President and Division Head of Corporate Banking. He moved on to various other senior management positions in OCBC, such as Head of Information Technology and Central Operations and Risk Management. He was head of Group Audit prior to retiring in April 2010. Resident of Singapore.

Responsibilities
Non-Executive Director, Chairman of Remuneration Committee, Member of Audit Committee, Member of Investments Committee.

Directorships held in other listed entities:
PT Bank OCBC NISP Tbk (Commissioner) since 4 September 2008.

Other Directorships:
Bank of Singapore Limited since 1 January 2020.

Directors’ Report

INFORMATION ON THE DIRECTORS (continued)

Tan Boon Leong *DipUrbVal (Auckland University, NZ)*

Director since 9 June 2017. Mr Tan has over 36 years of experience in real estate investment and asset management. He is a Non-Executive Director of SC Global Developments Pte Ltd., the Company’s major shareholder.

Mr Tan last held the position of Group Chief Operating Officer cum Chief Executive Officer (Singapore Investments) in Mapletree Investments Pte Ltd, a real estate company wholly-owned by Temasek Holdings (Private) Limited. Prior to his career in Mapletree Investments, Mr Tan served in Temasek Holdings (Private) Limited from 1995 to 2003 and held the position of Managing Director (Strategic Investments). His portfolio included Temasek Holdings' investments in real estate in Asia and Australia. His eight-year career in Temasek Holdings included stints in venture capital investments in the IT sector, infrastructure investments in the energy and transportation sectors, and investments in financial services.

Mr Tan had also served in the Inland Revenue Authority of Singapore (IRAS) from 1975 to 1995 where he last held the position of Tax Director in the Superscale grade. Resident of Singapore.

Responsibilities:
Non-Executive Director, Member of Investments Committee.

Directorships held in other listed entities:
None.

Philip Kearns AM *BA (Economics); Grad Dip (Applied Finance)*

Director since 21 March 2019. Mr Kearns has over fifteen years’ experience leading financial services organisations where he led significant cultural change and was instrumental in building a client base and introducing investors to innovative opportunities, including in the property sector. He is a Director of Venues NSW, a Government Board that owns and operates multiple sports and entertainment venues across New South Wales and Coolabah Capital Investments, a private funds management business. He was previously the Managing Director and CEO of InterRISK Australia Pty Ltd, a division of ASX listed AUB Group.

Mr Kearns was appointed a member of the Order of Australia in 2017 for significant service to the community through support for charitable organisations, to business, and to rugby union at the elite level. He played 67 tests for the Australia national rugby union team, Wallabies (1989-1999) and captained the team ten times. Resident of Sydney.

Responsibilities:
Non-Executive Director, Member of Investments Committee, Member of Risk Management Committee.

Directorships held in other listed entities:
None.

INFORMATION ON THE COMPANY SECRETARY

Carl D Thompson *LLB B. Comm*

Company Secretary since 12 January 2009. Mr Thompson previously held the company secretary and general counsel role at Downer EDI Ltd. Prior to that he was a partner at national law firm Corrs Chambers Westgarth, practising in corporate and commercial work. Resident of Melbourne.

Directors' Report

REMUNERATION REPORT (Audited)

A. Introduction

The AVJennings Limited Board is pleased to present the Remuneration Report for FY20 in accordance with the requirements of the *Corporations Act 2001* (the Act). The Report has been audited as required by section 308(3C) of the Act.

The effects of the COVID-19 pandemic have been significant, impacting considerably on the Company's operations and its results for the year ended 30 June 2020. This Report not only sets out the long term approach to remuneration, but also the actions taken by the Remuneration Committee, Key Management Personnel ("KMP") and all staff in relation to COVID-19, in particular those actions set out in Section I.

The Board intends that the Report provides clear and transparent communication of the remuneration arrangements in place for the Company's Directors and Executives. These arrangements are intended to align remuneration with the Company's values, purpose, strategy and performance.

Our purpose is straightforward: "Housing Matters. Community Matters." This is supported by our Values which include: integrity, trustworthiness and being a good corporate citizen.

The Company's remuneration arrangements are structured to attract and retain high quality people and remunerate them for achieving against our objectives and acting consistently with our values and purpose. Remuneration arrangements are reviewed regularly by the Remuneration Committee and adjustments and redesign made where considered appropriate, balancing alignment with the Company's own specific circumstances, fairness to executives and taking into account market expectations and industry standards.

B. Persons covered by the Report

This Report sets out the remuneration arrangements in place for KMP, which comprises the Directors of the Company (executive and non-executive) and those members of the AVJennings executive officers who have authority and responsibility for planning, directing and controlling the activities of the Company ("Executive KMP").

The name and position of each KMP for FY20 whose remuneration is disclosed in this Report are set out below:

(i) Directors

S Cheong	Non-Executive Chairman
RJ Rowley	Non-Executive Deputy Chairman
PK Summers	Managing Director and Chief Executive Officer
E Sam	Non-Executive Director (retired 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

(ii) Executives

CD Thompson	Company Secretary/General Counsel
SC Orlandi	Chief Operating Officer
L Mahaffy	Chief Financial Officer
L Hunt	General Manager, Human Resources

REMUNERATION REPORT (Audited) (continued)

C. Remuneration Framework

1. Remuneration Governance

The Board has established a Remuneration Committee comprising not less than three Non-Executive Directors (NEDs) which is responsible for determining and reviewing remuneration arrangements for KMP, other senior management personnel and general staff.

2. Remuneration objectives

AVJennings' remuneration objectives are to remunerate fairly, attract and retain talent, drive performance, promote adherence to values, and is aligned with shareholder interests. They are also designed to provide an appropriate balance between fixed and at-risk components to support the Company's objectives and strategy and promote sustained growth in shareholder value.

3. Securities Trading Policy

The Company has adopted a Securities Trading Policy (available on the Company's website Investor Centre). In accordance with this policy, Executives are prohibited from hedging the risk associated with unvested equity-based incentives. Breach of this requirement could lead to disciplinary action including dismissal and forfeiture of equity-based incentives. The Policy also provides for blackout periods for trading in the Company's shares around reporting season as well as prohibitions on insider trading and breach of confidentiality obligations to the Company.

4. Cessation of Employment

Where an executive resigns or is terminated for cause, any unvested awards are forfeited unless otherwise determined by the Board. In exercising this discretion, the Board considers the circumstances of the cessation of employment.

5. External Advisers

No remuneration consultant made any remuneration recommendation as defined in Section 9B of the *Corporations Act 2001* during the year ended 30 June 2020.

6. Employment Contracts

i) Chief Executive Officer

Mr Summers' employment contract does not have a termination date and does not stipulate a termination payment. However, it specifies a six-month notice period. Details regarding the remuneration paid to Mr Summers are contained in the table on page 27.

ii) Other Executives

Other Executives are full time permanent employees with employment contracts. Their employment contracts do not have termination dates or termination payments. However, they specify a notice period of three months.

REMUNERATION REPORT (Audited) (continued)

7. Remuneration of KMP

Details of the nature and amount of each element of remuneration of Directors and Executives are set out in the tables on pages 20 and 27. The Directors are the same as those identified in the *Directors' Report*.

The discussion in this Report mainly addresses the formal remuneration structure which is in place and applies to remuneration arrangements in a typical year. The unexpected COVID-19 crisis has had a dramatic impact on the Company, the residential property industry and more broadly, on the Australian economy in FY20. Senior management put forward to the Remuneration Committee, which it accepted, a number of measures to help the Company navigate this challenging period of uncertainty. These and other relevant arrangements were approved by the Remuneration Committee at its May 2020 meeting.

The measures included a number of changes to remuneration arrangements and these are outlined below:

- NED fees were reduced by 20% for the three months May to July 2020.
- The SC Global Management and Consultancy fee was reduced by 20% for the three months May to July 2020.
- Executive KMP and other senior executives agreed to forego any Short Term Incentive ("STI") award in respect of FY20.
- Executive KMP and other senior executives agreed to cancel all Retention Rights due to be tested for vesting in July 2020.
- Executive KMP and other senior executives agreed to cancel all Long Term Incentive ("LTI") Rights due to be tested for vesting in September 2020.
- Implemented Annual Leave management strategies.

Cancellation of the Retention Rights and the Performance Rights will save the Company the cost of acquiring shares on market to meet vesting obligations. Refer to Section I for full details.

8. Remuneration Options: Granted and Vested During the Year

No options were either granted or exercised during the year. There are currently no unexercised or outstanding options. None of the Directors or Executives hold any options.

9. Remuneration Report at FY19 Annual General Meeting (AGM)

At the Company's 2019 Annual General Meeting ("AGM"), of the eligible votes cast on the Remuneration Report, 38.9% were against the Report. This meant that the Company recorded a First Strike on the Report. The vote against the Report represented 6.2% of the Company's total shares and approximately one-half of that 6.2%, represented one particular shareholder. That shareholder has voted against the Remuneration Report at previous AGM's. As a consequence, the Company has on a number of occasions reached out to the shareholder to ascertain whether there were any specific concerns, but no response has been provided. The Company did not receive any specific feedback at the AGM on its remuneration arrangements.

REMUNERATION REPORT (Audited) (continued)

10. Addressing feedback

The Company became aware of separate commentary on the FY19 Remuneration Report from proxy advisers. This feedback indicated that concerns were held in relation to the following:

- The Return on Equity ("ROE") component of the LTI Plan was not considered appropriate. In response to this, the Remuneration Committee determined at a meeting in February 2020 to replace the ROE hurdle with a Total Shareholder Return ("TSR") hurdle for all grants made in FY21 and beyond. Further details are provided on page 23;

- The Retention component was said not to satisfy the generally accepted term of measurement (3 years) for an LTI Plan. The Retention component of the remuneration structure is not part of the LTI Plan. It was designed as a tool to promote stability in executive ranks; minimise disruption, cost and adverse effects of high turnover in executive ranks; and to ensure that all senior executives had a meaningful shareholding in the Company to align interests with shareholders. For this reason, it was determined to make the retention award as a grant of rights rather than a cash payment; and

- The readability of the Report could be improved. As a result, the Report has been revamped to make it easier to follow and with improved disclosure.

The Company will continue to consult with shareholders and their representatives to ensure its remuneration practices balance the need to meet the objectives of the remuneration practices and the need to be consistent with prevailing community standards.

11. Framework

The remuneration framework is designed to align executive interests with Company success and long-term shareholder value. The framework discussed below is the structure which applies in a typical year. It should be noted that, as a result of the impact of the COVID-19 crisis, this structure was effectively modified for FY20, as discussed below. The structure consists of several components:

For NEDs – this is Directors' fees. These are annual fees paid monthly to Australian based Directors (together with the superannuation guarantee payment) and paid quarterly to Singapore based Directors (to which no superannuation payment is applicable). These arrangements do not include SC Global nominated Directors, as noted in D2 below. NEDs agreed to a reduction in their fees of 20% for the period 1 May to 31 July 2020.

For Executive KMP, this is made up of:

Fixed remuneration – which is made up of base salary and superannuation payments. Target fixed remuneration is set at or below market median which creates a deferred salary component which is "at risk" under the STI component.

Short Term Incentives – which is at risk and is based on satisfying key performance measures which include a range of financial and non-financial targets. This award is paid in cash. For the FY20 year, Executives agreed to forgo any STI payment.

REMUNERATION REPORT (Audited) (continued)

Long Term Incentives – this is a long term (3 year) equity plan under which Performance Rights are granted annually subject to performance conditions. The Rights are granted as to 50% subject to the Earnings Per Share ("EPS") hurdle and as to 50% to the TSR hurdle from FY21 onwards (previously subject to an ROE hurdle). The Rights are tested against performance hurdles at the end of 3 years from grant date in the September of the relevant year. In June 2020, Executives agreed to cancel all Performance Rights which were due to be tested in September 2020 to determine vesting.

The TSR measure was introduced in February 2020 to replace the former ROE component of the Performance Rights which uses market capitalisation as a proxy for equity. The TSR hurdle will apply to grants under the LTI from FY21 onwards. The old ROE hurdle will apply to grants which were made in FY19 and FY20.

Retention Component – this is an equity award and is granted annually and vesting as to one third after the first, second and third anniversaries of the grant. Rights are granted and these may vest into shares once the service conditions are met. The Retention Rights are a retention tool designed to promote stability in the executive ranks and minimise disruption, cost and adverse effects of high turnover. In June 2020, Executives agreed to cancel all Retention Rights which were due to vest in July 2020.

In lieu of a higher fixed remuneration base, a portion of remuneration is "at risk". The variable "at risk" component of executive remuneration ensures that a proportion of remuneration varies with performance (both of the individual and, as appropriate, the business unit and the Company as a whole).

Allocation of Remuneration between Components is as follows:

	Fixed Remuneration (%)	Total at Risk (%)	Split of Total at Risk		
			STI at Risk (%)	Retention at Risk (%)	LTI at Risk (%)
CEO	**50**	**50**	35	25	40
Other Senior Executives	**75**	**25**	50	25	25

The proportions of STI, LTI and retention components take into account:

- The objectives that the Board seeks to achieve and the behaviours which support that outcome;
- The desirability of Senior Executives having equity interest in the Company so as to better align their interest with shareholders;
- Market practice; and
- The service period before Executives can receive equity rewards.

12. Group Performance

The STI and LTI are linked to performance against Key Performance Measures ("KPMs"). These are itemised in F and G below. KPMs include performance measures linked to the financial performance of the Company and to shareholder value and are structured to foster achievement of certain financial metrics. The STI is focussed on short term performance over the preceding 12 months. The KPMs under the LTI are measured over the 3 years from grant date.

The KPMs are also linked to other non-financial metrics considered critical, such as safety performance, as well as alignment with values, Company purpose and implementation of Company strategy. The criteria involved in assessment of Group Performance has altered in FY20 as a result of the impact of COVID-19. Once the impact of the crisis became apparent, safety of the Company's employees, customers, contractors and the public became paramount, which involved establishing procedures and protocols for visiting sales offices, attending offices and conducting operations at site. It also involved ensuring compliance with these new requirements.

The uncertainty created by the ongoing crisis also meant a re-prioritisation of relevant remuneration criteria. The Remuneration Committee met on several occasions during FY20 to consider changes to the structure proposed by Management. These involved a greater focus on short term management, whilst also maintaining focus to set the Company on path to longer term success. This has involved setting and assessing performance on quarterly targets in addition to annual for FY21. The Board will assess targets and performance quarterly and re-set targets as is considered necessary or appropriate in the circumstances, to ensure the Company adapts to the changing environment.

The table below shows the Group's earnings performance as well as the movement in the Group's EPS, TSR and Market Capitalisation over the last 5 years.

Financial Report Date	Profit After Tax $'000	Basic EPS Cents	TSR* Cents	Market Capitalisation $'000	Return on Market Capitalisation %
30 June 2016	40,912	10.71	(4.0)	213,968	19.12
30 June 2017	35,717	9.31	15.0	253,164	14.11
30 June 2018	31,347	8.13	10.0	278,074	11.27
30 June 2019	16,439	4.09	(12.5)	218,953	7.51
30 June 2020	9,041	2.23	(4.8)	188,897	4.79

* TSR is the aggregate of the movement in the share price and dividends paid per share during the year ended 30 June.

D. NED Remuneration Arrangements

1. *NED Fee Pool*

At the AGM in 2019, shareholders approved an increase in the maximum annual aggregate fee pool to $650,000 for NEDs. The allocation to individual NEDs is determined after considering factors such as time commitment, the size and scale of the Company's operations, skill sets, participation in committee work, in particular chairmanship of committees and fees paid to directors of comparable companies.

NEDs do not receive any leave entitlement benefits or performance-based remuneration. Australian based NEDs receive superannuation payments.

2. *SC Global Nominee Directors*

For FY20, SC Global had three nominees on the Board, Mr S Cheong, Mrs E Sam and Mr BL Tan. Mrs Sam also served on the SC Global Board and effective 30 June 2020, Mrs Sam retired from the SC Global Board and as a consequence, from the Company's Board. These three Directors do not receive fees. However, AVJennings pays a consulting fee to the Ultimate Parent Entity, SC Global Developments Pte Ltd. This consulting fee is not included in the NEDs fee pool. The fees are paid pursuant to a consultancy and advisory agreement for the provision of the following:

REMUNERATION REPORT (Audited) (continued)

- Services of at least two directors on the Board;
- Assistance in sourcing and facilitating financial and banking requirements particularly from Asian-based and other institutions;
- Assistance in secretarial and administrative matters in connection with the Company's Singapore listing;
- Sourcing and facilitating business, commercial and investment opportunities; and
- Ancillary advice.

The appropriateness of the agreement and the reasonableness of the fees is assessed annually by the Australian-based independent NEDs taking into account the actual services provided, comparable market data for similar services, the benefits to the Company and the likely cost of replacement of the services provided. This review has been undertaken annually over the past few years and the Australian-based NEDs have, on each occasion, concluded that the fee is appropriate in all the circumstances. The annual fee payable is $600,000 and has been fixed at this level for over ten years. The agreement may be terminated by either party giving six months' notice or by the Company on 30 days' notice for cause. SC Global agreed to a 20% reduction in the consulting fee for the period 1 May to 31 July 2020.

3. NEDs Remuneration

(a) Approach to setting fees

NEDs receive a base fee for service as a Director and an additional fee for participation in a Committee. The Chair of a Committee receives a higher fee, reflecting the additional responsibility of that position. The Company's policy is to pay fees which are reflective of peer practice in the property sector and similarly sized entities, and which attract and retain directors with the desired attributes, skills and experience. The fees also reflect the time commitment which directors are expected to provide and the increased complexities and expectations of the office.

(b) Review

NED fees are reviewed on an ad hoc basis as considered necessary. As a matter of practice, fees have been stable for some years and the NED fee pool cap was not increased for almost 20 years until 2019.

(c) Board and Committee fees

Board		Audit		Risk		Nominations		Remuneration		Investments	
Deputy Chair	Member	Chair	Member	Chair	Member	Chair	Member	Chair	Member	Chair	Member
$70,000	$60,000	$30,000	$12,000	$30,000	$12,000	N/A	$6,000	N/A	$6,000	N/A	$8,000

As noted above, NEDs agreed to a 20% reduction in fees for the period 1 May to 31 July 2020.
No fee is payable for chairing the Nominations Committee, the Remuneration Committee and the Investments Committee.

(d) Indemnification

Article 112 of the Company's constitution provides that to the extent permitted by law, it indemnifies a person who is or has been, an officer of the Company or any related bodies corporate against any liability incurred by the person as such an officer, to another person and against a liability for costs and expenses incurred by the person in successfully defending proceedings.

REMUNERATION REPORT (Audited) (continued)

(e) Insurance premiums

Article 112 of the Company's constitution also provides that to the extent permitted by law the Company may pay or agree to pay a premium in respect of a contract insuring a person who is or has been an officer of the Company or its related bodies corporate against a liability incurred by the person as such an officer, and for costs and expenses incurred by the person in defending proceedings as such an officer, whatever the outcome.

During the year the Company paid premiums for policies insuring directors and officers of the Company and its related bodies corporate against certain liabilities, to the extent permitted by law and subject to certain exclusions. The amount of the premiums paid in respect of these policies has not been disclosed in accordance with usual practice.

(f) Fees paid

Fees paid to NEDs in FY20 is set out in the table below:

		Short-Term	Post Employment	
		Fees	Superannuation [(2)]	Total
	Year	$	$	$
S Cheong[(1)]	**2020**	**-**	**-**	**-**
	2019	-	-	-
RJ Rowley[(3)]	**2020**	**111,233**	**10,567**	**121,800**
	2019	115,069	10,931	126,000
E Sam[(1)]	**2020**	**-**	**-**	**-**
	2019	-	-	-
B Chin[(3)(4)]	**2020**	**116,800**	**-**	**116,800**
	2019	72,000	-	72,000
BG Hayman[(3)]	**2020**	**81,218**	**7,716**	**88,934**
	2019	84,018	7,982	92,000
TP Lai[(3)(4)]	**2020**	**104,200**	**-**	**104,200**
	2019	64,500	-	64,500
BL Tan [(1)]	**2020**	**-**	**-**	**-**
	2019	-	-	-
P Kearns[(3)]	**2020**	**70,624**	**6,709**	**77,333**
	2019	20,294	1,928	22,222
Total	**2020**	**484,075**	**24,992**	**509,067**
Total	2019	355,881	20,841	376,722

(1) These Directors were not paid fees. A consulting fee of $50,000 per month is payable to the Ultimate Parent Entity SC Global Developments Pte Ltd which covers the services of these Directors. The fee for the months of May and June 2020 were reduced by 20% to $40,000 per month as part of actions taken to manage overheads in response to the COVID-19 pandemic. Total fees paid for the year was $580,000.
(2) Payments to Defined Contribution Plans consist of Superannuation Guarantee Contribution payments as well as employee voluntary contributions.
(3) NEDs also agreed to a 20% reduction in fees for the period 1 May to 31 July 2020.
(4) A portion of the FY20 increase in fees paid to B Chin and TP Lai were due to a one-off timing of a payment.

Directors are also reimbursed for airfares (other than the international airfares for those Directors referred to in (1) above), and other expenses relating to the provision of their services.

REMUNERATION REPORT (Audited) (continued)

E. Executive Fixed Remuneration

Executive remuneration includes a mix of fixed and variable remuneration. Variable remuneration includes short term incentives, long term incentives and retention components.

Fixed Remuneration is represented by Total Employment Cost ("TEC") which comprises base remuneration and superannuation contributions.

TEC is reviewed annually or on promotion/appointment to the role. TEC is benchmarked against market data for comparable roles in the market. The Company sets TEC based on relevant market analysis, the scope and nature of the role and the individual's performance, skills and responsibilities. As a starting point, the TEC is typically set at or below market median for the position with adjustment as necessary to take account of the factors above, the need to secure talent and to motivate the right people to deliver on the Company's strategy.

The fixed component of remuneration of Executive KMPs is detailed on page 27.

F. Short Term Incentive (STI)

Executives participate in a STI plan which assesses achievement against KPMs. Each executive has KPMs that are aligned to company, business unit and individual performance. An STI payment is made to the extent performance is achieved against the KPMs set at the beginning of the financial year, as appropriate, and with regards to relevant business units and company performance.

As a response to the impact of COVID-19, Executive KMP and other senior executives agreed to forgo any STI award in respect of FY20. In addition, the Remuneration Committee has decided that for FY21, STIs and the associated KPMs will be set and determined on a quarterly basis, to ensure the Company remains nimble and is responsive to changes in the operating environment

STI payments are based on the scorecard measures and weightings disclosed below. These targets are set by the Remuneration Committee and align with the Group's strategic and business objectives. They are reviewed annually.

The CEO has a target STI opportunity of 35% of TEC and other Executives have a STI opportunity of 17% of TEC.

The performance conditions are designed to promote achievement of the Company's financial and strategic goals, which in turn should lead to shareholder returns. Targets are also designed to achieve strong operational disciplines. Non-financial targets are focussed on maintaining a sustainable business through improved safety performance, focus on customer satisfaction and service and to implementation of strategy.

The table below provides an overview of the STI against key financial and non-financial performance measures and the weightings for each component.

Directors' Report

REMUNERATION REPORT (Audited) (continued)

Financial and Business Performance

		CEO	COO	Other SET(1)
Underlying Profit Performance	• Group Profit Before Tax. • Return on Net Funds Employed ("NFE").	40%	50%	30% to 40%
Business Performance	• Operating cashflow. • Gross margins. • Appropriate and efficient capital management (efficiency of the Balance Sheet). • Alignment of priorities and allocation of resources to bring about implementation of company strategy. • Time (operational delivery against agreed timeframes) and quality (built form product). • Improvement in underlying health of the Company. • Risk management.			
Strategic Initiatives	• Strategy objectives focussed on exploring growth opportunities for AVJennings. • Development and implementation of strategy plans including growth through organic and corporate means, new business streams and strategic alignments. • Growth in lots under control (three year).	30%	10%	-
Individual Performance objectives	• Aligned to strategic objectives.	-	20%	40% to 50%

Organisational Performance

		CEO	COO	Other SET(1)
Customer and Stakeholder Performance	• Customer Advocacy.	30%	20%	20%
People	• Employee retention and engagement. • Progress longer term inclusion and diversity objectives. • Leadership – maintain a high performing team. • Succession planning for key positions.			
Safety and Environment	• Providing a safe work environment. • Minimise the impact of our activities on the environment.			

(1) SET is an abbreviation for the Senior Executive Team.

The Remuneration Committee determines the STI to be paid based on an assessment of the extent to which the KPMs are met. The STI payment is made within two months of the financial year end. The Committee has the discretion to adjust STIs upwards or downwards in light of unexpected circumstances or unintended consequences.

REMUNERATION REPORT (Audited) (continued)

In making its assessments, the Committee considers the following factors:

- Performance in implementing Company strategy.
- Performance in the prevailing market.
- The financial result.
- Performance against individual KPMs.

G. Long Term Incentive (LTI)

LTI grants are only made to Executives who have the ability to impact the Group's performance and create shareholder value over the longer term.

LTI remuneration is provided by the issue of Rights with performance conditions. The use of Performance Rights as an incentive reduces upfront cash requirements (as shares do not need to be acquired for allocations). Shares are acquired on market by the Plan Trustee to satisfy the grant of shares in respect of rights which have vested. Participants do not receive dividends on Rights (as distinct from shares).

The allocation of Performance Rights is designed to align executives' interests with shareholders and to consider themselves like shareholders. The Rights are subject to real risk of forfeiture during the vesting period.

In response to the impact of COVID-19, Executive KMP and other senior executives agreed to cancel all Performance Rights due to be tested for vesting in September 2020. These Performance Rights were cancelled in June 2020.

LTI and Performance

The TSR measure was introduced in February 2020 to replace the former ROE component of the Performance Rights which used market capitalisation as a proxy for equity. The TSR hurdle will apply to grants under the LTI from FY2021 onwards. The old ROE hurdle will apply to grants which were made in FY19 and FY20. The grants made under the LTI Plan in 2017 were cancelled in accordance with amended remuneration arrangements to deal with the COVID-19 crisis set out in the STI section above.

50% of Performance Rights granted vest depending on AVJennings' average growth rate in EPS over the three financial years of performance measurement.

50% of Performance Rights granted vest depending on AVJennings' TSR over the three financial years of performance measurement against the ASX 300 Real Estate Index, a comparator group including peers in the residential property sector. The comparator group is not directly comparable to AVJennings as the Index contains non-residential property participants. However, this comparator group was chosen as the best approximation as the pool of directly comparable listed developers was too small to provide a reliable and meaningful comparator group.

Both elements of the Performance Rights (EPS and TSR, formerly ROE) are also subject to a service condition. The recipient must be employed by AVJennings as at 30 June of the year in which the performance conditions of the Rights are tested. The Rights only vest if both the service condition and the performance conditions are satisfied.

The performance conditions are tested at the end of the three-year measurement period, in the September following release of the financial statements for that year. There is no re-testing. If the conditions are not satisfied when they are tested, the Rights are immediately forfeited.

In the event of a change in control of the Company, the Board can elect to vest unvested Rights.

Directors' Report

REMUNERATION REPORT (Audited) (continued)

The operation of the EPS, ROE and the new TSR hurdles are set out below.

AVJennings' EPS growth rate over the three year performance period	Percentage of rights vesting
< 5%	Nil
5%	50% of the allocation for the hurdle
5% - 10%	Pro-rata between 50% and 100%
> = 10%	100% of the allocation for the hurdle

AVJennings' ROE over the three year performance period	Percentage of rights vesting
< 12%	Nil
12%	50% of the allocation for the hurdle
15%	75% of the allocation for the hurdle
> = 18%	100% (Straight line interpolation between 12% and 18%)

This ROE hurdle was removed in February 2020 and replaced with TSR hurdle for grants for FY21 and beyond.

AVJennings TSR rank against ASX 300 RE Index at 30 September	Percentage vesting
< median	Nil
At the median	50% of the allocation for the hurdle
> median but < 75^{th} percentile	Pro-rata between 50^{th} and 75^{th} percentiles
> 75^{th} percentile	100% of the allocation for the hurdle

Directors’ Report

REMUNERATION REPORT (Audited) (continued)

H. Retention

Retention Rights are granted in three equal tranches which vest in each of the three succeeding years following the year of grant.

In response to the impact of COVID-19, Executive KMP and other senior executives agreed in June 2020 to cancel all Retention Rights due to vest in July 2020

Retention component - years of service	Percentage of rights vesting
One year	33.33%
Two years	33.33%
Three years	33.34%

Rationale for Retention Rights

The Company recognises that the TEC is generally set at around mid-market. It is also recognised that the market for quality executives is dynamic and that high turnover in executive ranks is undesirable, costly and disruptive. Accordingly, Retention Rights are granted to support a number of objectives:

- Address the issue of retaining executives;
- Avoid the disruption of turnover in executive ranks;
- Avoid the costs of recruitment of replacement executives; and
- Avoid the impact on operations, performance and productivity of executive turnover.

Unvested retention rights are subject to real risk of forfeiture, for example where an executive ceases employment for any reason.

REMUNERATION REPORT (Audited) (continued)

I. Remuneration related Measures taken in response to COVID-19

	Maximum STI Opportunity Forgone	Rights Cancelled	
		Service Rights	LTI Performance Rights
	$	Number	Number
PK Summers	218,397	268,505	403,993
CD Thompson	71,393	61,440	57,777
SC Orlandi	66,667	53,044	46,758
L Mahaffy	65,272	56,174	52,825
L Hunt	44,121	37,970	35,706
Executive KMP	**465,850**	**477,133**	**597,059**
Other Executives	**272,784**	**256,927**	**255,635**
Total	**738,634**	**734,060**	**852,694**

Senior executives agreed to a number of changes to remuneration arrangements in response to the COVID-19 crisis. The measures are outlined below:

- Executive KMP and other senior executives agreed to forgo any STI award in respect of FY20
- Executive KMP and other senior executives agreed to cancel all Retention Rights due to vest in 2020
- Executive KMP and other senior executives agreed to cancel all LTI Rights due to be tested for vesting in 2020
- All office-based staff (including Executive KMP) agreed to take one day of annual leave per week for the period 1 May to 31 July 2020 thereby reducing the Company's leave liabilities

The cancelled Retention Rights were due to vest in early July 2020, subject to the executives being employed by the Company at 30 June 2020. All relevant executives including all Executive KMP remained employed at that date and so all the Retention Rights would have vested, but for their cancellation in late June.

Cancellation of the Retention Rights saved the Company the cost of acquiring shares on market to meet vesting obligations. The share price at the time when those shares would have been acquired (early July) being the Volume Weighted Average Price for the first 5 trading days of July was $0.4753. If shares had been acquired at around that price, just for the Executive KMP (excluding other executives) the Company would have acquired 477,133 shares at a cost of $226,781 plus brokerage in acquiring those shares. In addition, the cancellation resulted in additional savings being made by avoiding the acquisition of shares for other executives. That is a real cash saving to the Company.

Under the accounting standards, the cancellation of Service Rights **does not result** in the expense being reversed in the Income Statement. Therefore, the accounts will not reflect the saving to the Company even though the cancellation of retention rights saved the Company the cash cost of buying those shares on market.

The Performance Rights were due to have the performance conditions tested to determine vesting in September 2020. The Performance Rights were cancelled in late June and therefore no testing will take place in September 2020. It is not possible to determine what percentage, if any, of the Performance Rights might have vested. In any event, executives including Executive KMP agreed to cancellation of the Performance Rights and so saved the Company the cost of acquiring shares on market to meet any vesting obligation which may have arisen.

In addition, all employees (other than site and sales staff) including Executive KMP agreed to leave management arrangements, in particular a 4 day week from 1 May until 31 July 2020. Other leave arrangements have been put in place from 1 August 2020.

Directors’ Report

REMUNERATION REPORT (Audited) (continued)

J. Remuneration table

Executive KMP Awards (The Table should be read in conjunction with Section I as not all actions taken (as noted in Section I) are reflected in the Table below).

		Short-Term				Post Employment	Other Long-Term	Share-Based	Total	Performance Related
	Year	Salary $	Accrued Annual Leave $	STI $	Other (2) $	Superannuation (1) $	Accrued Long Service Leave $	LTI (3) (includes Retention) $	$	%
PK Summers	**2020**	**565,294**	**(2,131)**	**-**	**34,696**	**21,003**	**29,460**	**308,857**	**957,179**	**16.02**
	2019	540,495	32,158	170,457	44,747	20,531	30,541	198,102	1,037,031	20.71
CD Thompson	**2020**	**407,354**	**(10,194)**	**-**	**-**	**21,003**	**14,608**	**57,513**	**490,284**	**4.47**
	2019	397,377	3,170	62,686	-	20,531	17,163	44,945	545,872	13.27
SC Orlandi	**2020**	**378,997**	**30,488**	**-**	**-**	**21,003**	**33,921**	**50,829**	**515,238**	**3.72**
	2019	324,243	30,753	57,462	-	20,531	15,556	36,859	485,404	13.50
L Mahaffy	**2020**	**370,637**	**(15,775)**	**-**	**-**	**21,003**	**19,009**	**52,584**	**447,458**	**4.48**
	2019	361,556	(9,003)	47,761	-	20,531	17,209	41,093	479,147	11.83
L Hunt	**2020**	**242,522**	**(6,326)**	**-**	**-**	**21,003**	**8,652**	**35,543**	**301,394**	**4.50**
	2019	236,536	11,757	38,740	-	20,531	10,377	27,776	345,717	12.95
Total	**2020**	**1,964,804**	**(3,938)**	**-**	**34,696**	**105,015**	**105,650**	**505,326**	**2,711,553**	
Total	2019	1,860,207	68,835	377,106	44,747	102,655	90,846	348,775	2,893,171	

(1) Payments to Defined Contribution Plans represent Superannuation Guarantee Contribution payments.
(2) ‘Other’ relates to the value of motor vehicle benefits.
(3) The LTI figures represent the amount expensed by the Company in respect of the rights granted. The Rights are subject to service and performance conditions and accordingly, not all the Rights may vest. The amount the Executive receives is different and is based on the shares that vest.

REMUNERATION REPORT (Audited) (continued)

K. Equity disclosures

Rights have been granted to KMP as detailed in the table below.

The September 2016 Grant was made for the FY17 year (with final performance conditions testing in September 2019).
The September 2017 Grant was made for the FY18 year (with final performance conditions testing in September 2020).
The September 2018 Grant was made for the FY19 year (with final performance conditions testing in September 2021).
The September 2019 Grant was made for the FY20 year (with final performance conditions testing in September 2022).

The fair value of the Rights at the date of the Grant is determined by the Plan manager using an appropriate valuation model. The fair value is expensed over the period in which the performance and/or service conditions are fulfilled with a corresponding increase in share-based payment reserve in equity. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the *Consolidated Statement of Comprehensive Income* represents the movement in cumulative expense recognised between the beginning and end of that period.

The following is the status of Rights granted to KMP under the LTI Plans:

KMP	Year of Grant	Fair Value at Grant date	Rights at 1 July 2019	Rights granted	Rights vested	Rights forfeited	Rights cancelled(1)	Rights at 30 June 2020
PK Summers	**FY17**	$ 372,970	546,737	-	(317,023)	(229,714)	-	-
PK Summers	**FY18**	$ 384,170	559,000	-	(77,504)	-	(481,496)	-
PK Summers	**FY19**	$ 395,702	701,392	-	(85,162)	-	(85,162)	531,068
PK Summers	**FY20**	$ 405,605	-	871,565	-	-	(105,840)	765,725
CD Thompson	**FY17**	$ 65,649	85,685	-	(52,832)	(32,853)	-	-
CD Thompson	**FY18**	$ 67,621	93,246	-	(17,735)	-	(75,511)	-
CD Thompson	**FY19**	$ 69,652	122,234	-	(19,487)	-	(19,487)	83,260
CD Thompson	**FY20**	$ 71,395	-	151,894	-	-	(24,219)	127,675
SC Orlandi	**FY17**	$ 53,129	69,344	-	(42,757)	(26,587)	-	-
SC Orlandi	**FY18**	$ 54,725	75,463	-	(14,353)	-	(61,110)	-
SC Orlandi	**FY19**	$ 57,463	100,843	-	(16,077)	-	(16,077)	68,689
SC Orlandi	**FY20**	$ 66,669	-	141,839	-	-	(22,615)	119,224
L Mahaffy	**FY17**	$ 60,022	78,340	-	(48,303)	(30,037)	-	-
L Mahaffy	**FY18**	$ 61,825	85,254	-	(16,215)	-	(69,039)	-
L Mahaffy	**FY19**	$ 63,682	111,757	-	(17,817)	-	(17,817)	76,123
L Mahaffy	**FY20**	$ 65,275	-	138,874	-	-	(22,143)	116,731
L Hunt	**FY17**	$ 40,571	52,952	-	(32,649)	(20,303)	-	-
L Hunt	**FY18**	$ 41,789	57,626	-	(10,960)	-	(46,666)	-
L Hunt	**FY19**	$ 43,044	75,540	-	(12,043)	-	(12,043)	51,454
L Hunt	**FY20**	$ 44,122	-	93,871	-	-	(14,967)	78,904
Total		**$2,485,080**	**2,815,413**	**1,398,043**	**(780,917)**	**(339,494)**	**(1,074,192)**	**2,018,853**

(1) Refer to Section I.

Directors' Report

REMUNERATION REPORT (Audited) (continued)

Shareholdings of KMP

The number of shares in the Company held during the financial year by each KMP of the Group, including their related parties, are set out below.

	Opening Balance	Vested as Remuneration	On market Purchase/(disposal)	Other [(1)]	Closing Balance
For the year ended 30 June 2020					
Directors					
S Cheong	218,881,388	-	231,451	-	**219,112,839**
E Sam	224,820	-	-	-	**224,820**
PK Summers	4,830,262	479,689	(350,000)	-	**4,959,951**
RJ Rowley	270,223	-	100,000	-	**370,223**
BG Hayman	-	-	235,000	-	**235,000**
P Kearns	-	-	25,000	-	**25,000**
Executives					
CD Thompson	1,550,309	90,054	220,624	-	**1,860,987**
SC Orlandi	492,293	73,187	-	-	**565,480**
L Mahaffy	211,031	82,335	-	-	**293,366**
L Hunt	329,871	55,652	-	-	**385,523**
Total	**226,790,197**	**780,917**	**462,075**	**-**	**228,033,189**
For the year ended 30 June 2019					
Directors					
S Cheong	209,386,826	-	-	9,494,562	**218,881,388**
E Sam	215,068	-	-	9,752	**224,820**
PK Summers	4,200,316	576,804	-	53,142	**4,830,262**
RJ Rowley	258,502	-	-	11,721	**270,223**
BG Hayman	-	-	-	-	**-**
P Kearns	-	-	-	-	**-**
Executives					
CD Thompson	1,438,459	89,178	-	22,672	**1,550,309**
SC Orlandi	413,623	72,171	-	6,499	**492,293**
L Mahaffy	129,496	81,535	-	-	**211,031**
L Hunt	272,616	55,112	-	2,143	**329,871**
Total	**216,314,906**	**874,800**	**-**	**9,600,491**	**226,790,197**

(1) Includes shares acquired under the Dividend Reinvestment Plan in the prior year.

Directors' Report

MEETINGS OF DIRECTORS AND DIRECTORS' COMMITTEES

The number of meetings of Directors and Directors' committees held during the year, for the period the Director was a Member of the Board or a Committee, and the number of meetings attended by each Director are detailed below.

	Full Meetings of Directors		Meetings of Committees: Audit		Remuneration		Nominations		Risk Management	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
S Cheong	6	6	-	-	4	4	1	1	-	-
RJ Rowley	6	6	3	3	-	-	1	1	8	8
PK Summers	6	6	-	-	-	-	-	-	-	-
E Sam	6	5	-	-	4	4	1	1	-	-
B Chin	6	6	3	3	-	-	1	1	-	-
BG Hayman	6	6	-	-	4	4	1	1	8	8
TP Lai	6	6	3	3	4	4	-	-	-	-
BL Tan	6	6	-	-	-	-	-	-	-	-
P Kearns	6	5	-	-	-	-	-	-	8	8

Investments Committee

The Investments Committee does not formally meet in person. It conducts physical inspections of certain major development sites and receives detailed briefings from management on all major development sites prior to consideration of formal acquisition proposals which are dealt with by way of circular resolution.

DIRECTORS' INTERESTS

The relevant interests of the Directors in the shares of the Company at the date of this Report are:

Director	Number
S Cheong	219,112,839
E Sam	224,820
PK Summers	4,959,951
RJ Rowley	370,223
BG Hayman	235,000
P Kearns	25,000

INDEMNIFYING OFFICERS

During the year, the Group paid a premium in respect of a contract insuring its Directors and employees against liabilities that may be incurred in defending civil or criminal proceedings that may be brought against the Officers in their capacity as Officers of entities in the Group. In accordance with common practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors’ Report

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 indicated.

AUDITOR’S INDEPENDENCE DECLARATION

The Auditor’s Independence Declaration is set out on page 32.

NON-AUDIT SERVICES

The Group’s auditor, Ernst & Young provided certain non-audit services as outlined in note 33. The Board has considered these and based on advice received from the Audit Committee, is satisfied that provision of these services is compatible with, and did not compromise, the auditor independence requirements imposed by the *Corporations Act 2001*, for the following reason:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board as they do not involve reviewing or auditing the auditor’s own work, acting in a management or decision making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks or rewards.

Signed in accordance with a resolution of the Directors.

Simon Cheong
Director

Peter Summers
Director

1 September 2020

Ernst & Young
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Auditor's Independence Declaration to the Directors of AVJennings Limited

As lead auditor for the audit of the financial report of AVJennings Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of AVJennings Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Glenn Maris
Partner
1 September 2020

Consolidated Statement of Comprehensive Income

	Note	2020 $'000	2019 $'000
Continuing operations			
Revenue from contracts with customers	2	262,354	296,467
Revenue		**262,354**	**296,467**
Cost of sales	3	(202,461)	(223,900)
Gross profit		**59,893**	**72,567**
Share of net loss of joint ventures		(66)	(274)
Provision for loss on equity accounted investments	3	(947)	(607)
Change in inventory loss provisions	3	(1,629)	-
Fair value adjustment to financial asset	10	(516)	(669)
Fair value adjustment to investment property	8	(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	3	(2,125)	(252)
Finance income	3	1,264	1,315
Finance costs	3	(393)	(159)
Other income	3	457	356
Profit before income tax		**13,158**	**23,839**
Income tax	4	(4,117)	(7,400)
Profit after income tax		**9,041**	**16,439**
Other comprehensive income (OCI)			
Foreign currency translation (recyclable through profit and loss)		(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	34	2.23	4.09
Diluted earnings per share	34	2.23	4.08

To be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	5	5,703	18,209
Receivables	6	23,036	15,088
Inventories	7	185,366	194,748
Tax receivable	4(c)	1,223	-
Other assets	9	4,191	2,392
Total current assets		**219,519**	**230,437**
Non-current assets			
Receivables	6	14,742	10,033
Inventories	7	401,997	430,261
Investment property	8	1,580	1,770
Equity accounted investments	26	5,636	6,649
Financial asset	10	1,695	2,211
Plant and equipment	11	1,214	1,059
Right-of-use assets	12	5,978	-
Intangible assets	13	2,816	2,816
Total non-current assets		**435,658**	**454,799**
Total assets		**655,177**	**685,236**
Current liabilities			
Payables	14	16,540	41,234
Borrowings	15	-	543
Lease liabilities	16	1,542	-
Tax payable	4(c)	413	3,179
Provisions	17	5,848	6,547
Total current liabilities		**24,343**	**51,503**
Non-current liabilities			
Payables	14	27,846	22,009
Borrowings	15	190,110	199,792
Lease liabilities	16	5,060	-
Deferred tax liabilities	4(d)	14,039	15,173
Provisions	17	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	18	174,179	174,509
Reserves	19(a)	8,408	8,882
Retained earnings	19(c)	210,543	212,886
Total equity		**393,130**	**396,277**

To be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

		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		7,480	-	-	-	7,480
- Treasury shares acquired	18(b)	(914)	-	-	-	(914)
- Share-based payment expense reversed (lapsed rights)	32(a)	-	-	(402)	-	(402)
- Share-based payment expense	32(a)	-	-	1,132	-	1,132
- Dividends paid	20	-	-	-	(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	39	-	-	-	(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	18(b)	(330)	-	-	-	(330)
- Share-based payment expense reversed (lapsed rights)	32(a)	-	-	(225)	-	(225)
- Share-based payment expense	32(a)	-	-	979	-	979
- Dividends paid	20	-	-	-	(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**

To be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Note	2020 $'000	2019 $'000
Cash flow 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	3	(9,809)	(12,663)
Income tax paid	4(c)	(9,031)	(17,757)
Net cash from/(used in) operating activities	21	**9,966**	**(45,784)**
Cash flow from investing activities			
Payments for plant and equipment	11	(476)	(790)
Interest received	3	1,264	1,315
Amounts received from joint ventures	26	-	1,536
Dividends received from joint ventures	26	-	1,655
Net cash from investing activities		**788**	**3,716**
Cash flow 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	18(b)	(330)	(914)
Dividends paid	20	(10,968)	(15,910)
Proceeds from issue of shares	18(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 year		18,209	8,491
Effects of exchange rate changes on cash and cash equivalents		24	2
Cash and cash equivalents at end of year	5	**5,703**	**18,209**

To be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

Section A – How the numbers are calculated

Section A1 Segment information

1. 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

1. 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	1,532	80	32,551	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	-	-	-	-	-	-	(516)	(669)	(706)	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 income tax													13,158	23,839
Income tax													(4,117)	(7,400)
Net profit													**9,041**	**16,439**

Notes to the Consolidated Financial Statements

1. 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**

Notes to the Consolidated Financial Statements

Section A2 Profit and loss information

2. 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.

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.

Notes to the Consolidated Financial Statements

2. REVENUES FROM CONTRACTS WITH CUSTOMERS (continued)

- 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

3. INCOME AND EXPENSES

	Note	2020 $'000	2019 $'000
Revenues			
Revenue from contracts with customers	2	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	26	947	607
Increase in inventory loss provisions	7	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	11	284	252
Amortisation of right-of-use assets	12	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

4. INCOME TAX

	2020 $'000	2019 $'000
(a) 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**

(b) Numerical reconciliation between aggregate tax recognised in the Consolidated Statement of Comprehensive Income and tax calculated per the statutory income tax rate

	2020 $'000	2019 $'000
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%**

(c) Numerical reconciliation from income tax expense to income taxes paid

	2020 $'000	2019 $'000
Income tax expense	**4,117**	**7,400**
Timing differences recognised in deferred tax	931	2,959
Adjustment for prior year	(226)	(93)
Exchange rate translation difference	(7)	(23)
Current year tax payable at year end	(413)	(3,179)
Current year tax receivable at year end	1,223	-
Prior year tax paid in current year	3,406	10,693
Cash taxes paid per the *Consolidated Statement of Cash Flows*	**9,031**	**17,757**

Notes to the Consolidated Financial Statements

4. INCOME TAX (continued)

(d) Recognised deferred tax assets and liabilities

	Opening balance $'000	Expense /(benefit) $'000	Effect of [(1)] adoption of new accounting standards $'000	Foreign exchange variance $'000	Closing balance $'000
Deferred income tax movement for the year ended 30 June 2020:					
Deferred tax assets					
- inventories	2,835	352	-	-	3,187
- accruals	624	134	-	-	758
- provisions on employee entitlement	1,674	56	-	-	1,730
- fair value other assets	-	822	-	-	822
- lease liabilities	-	665	1,235	-	1,900
- other	455	(400)	-	-	55
Deferred tax assets	**5,588**	**1,629**	**1,235**	**-**	**8,452**
Deferred tax liabilities					
- inventories	(18,274)	275	-	-	(17,999)
- fair value investment property	-	(183)	-	-	(183)
- unearned revenue	(992)	(101)	-	25	(1,068)
- prepayments	(66)	22	-	-	(44)
- brand name	(845)	-	-	-	(845)
- right-of-use assets	-	(656)	(1,057)	-	(1,713)
- other	(584)	(55)	-	-	(639)
Deferred tax liabilities	**(20,761)**	**(698)**	**(1,057)**	**25**	**(22,491)**
Net deferred tax liabilities	**(15,173)**	**931**	**178**	**25**	**(14,039)**
Deferred income tax movement for the year ended 30 June 2019:					
Deferred tax assets					
- inventories	3,072	(237)	-	-	2,835
- accruals	867	(244)	-	1	624
- provisions on employee entitlement	1,626	47	-	1	1,674
- other	137	318	-	-	455
Deferred tax assets	**5,702**	**(116)**	**-**	**2**	**5,588**
Deferred tax liabilities					
- inventories	(20,257)	1,983	-	-	(18,274)
- unearned revenue	(7,486)	1,549	5,054	(109)	(992)
- prepayments	(148)	82	-	-	(66)
- brand name	(845)	-	-	-	(845)
- other	(45)	(539)	-	-	(584)
Deferred tax liabilities	**(28,781)**	**3,075**	**5,054**	**(109)**	**(20,761)**
Net deferred tax liabilities	**(23,079)**	**2,959**	**5,054**	**(107)**	**(15,173)**

(1) For the year ended 30 June 2020, this is the effect of the Leases Accounting Standard - refer to note 39. For the year ended 30 June 2019, the effect relates to the Revenue Accounting Standard.

Notes to the Consolidated Financial Statements

4. INCOME TAX (continued)

(e) Tax consolidation legislation

AVJennings Limited and its wholly owned Australian controlled entities are in a Tax Consolidated Group (TCG).

The entities in the TCG have entered into a Tax Sharing Agreement which limits the joint and several liabilities of the wholly owned entities in the case of a default by the head entity, AVJennings Limited.

The entities in the TCG have also entered into a Tax Funding Agreement to fully compensate/be compensated by AVJennings Limited for current tax balances and deferred tax assets or unused tax losses and credits transferred.

(f) Accounting

Income tax expense is calculated at the applicable tax rate and recognised in the profit and loss for the year, unless it relates to other comprehensive income or transactions recognised directly in equity.

The tax expense comprises current and deferred tax. Broadly, current tax represents the tax expense paid or payable for the current year. Deferred tax accounts for tax on temporary differences. Temporary differences generally occur when income and expenses are recognised by tax authorities and for accounting purposes in different periods.

Deferred tax assets, including those arising from tax losses, are only recognised to the extent it is probable that sufficient taxable profits will be available to utilise the losses in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Notes to the Consolidated Financial Statements

Section A3 Balance sheet information

5. CASH AND CASH EQUIVALENTS

	2020 $'000	2019 $'000
Cash at bank and in hand	**5,703**	**18,209**

Accounting

Cash and cash equivalents in the *Consolidated Statement of Financial Position* comprise cash at bank and in hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

6. RECEIVABLES

	2020 $'000	2019 $'000
Current		
Trade receivables	19,451	12,184
Related party receivables	822	1,681
Other receivables	2,763	1,223
Total current receivables	**23,036**	**15,088**
Non-current		
Trade receivables	8,963	7,173
Related party receivables	3,079	2,840
Other receivables	2,700	20
Total non-current receivables	**14,742**	**10,033**

(i) Accounting

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment.

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.

Notes to the Consolidated Financial Statements

6. RECEIVABLES (continued)

(ii) Expected credit losses

Negligible expected credit losses (2019: $Nil) have been recognised by the Group in the current year.

At 30 June, the ageing analysis of trade receivables is as follows:

		Number of days overdue					
	Total	**Not due**	**0-30**	**31-60**	**61-90**	**+ 91**	**+ 91#**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2020	28,414	28,414	-	-	-	-	-
2019	19,357	19,357	-	-	-	-	-

Considered impaired

The carrying value of receivables is assumed to approximate their fair value.

The Group does not have any significant credit risk exposure to a single customer. Receivables in respect of land and built form require full settlement prior to passing of title.

Notes to the Consolidated Financial Statements

7. INVENTORIES

	Note	2020 $'000	2019 $'000
Current			
Broadacres			
Land to be subdivided - at cost		19,577	4,454
Borrowing and holding costs capitalised	7(a)	2,858	1,028
Impairment provision		(1,983)	(387)
Total broadacres		20,452	5,095
Work-in-progress			
Land subdivided or in the course of being subdivided - at cost		31,860	31,741
Development costs capitalised		31,098	21,037
Houses and apartments under construction - at cost		29,749	15,613
Borrowing and holding costs capitalised	7(a)	6,436	5,134
Total work-in-progress		99,143	73,525
Completed inventory			
Completed houses and apartments - at cost		37,338	62,152
Completed residential land lots - at cost		25,069	46,057
Borrowing and holding costs capitalised	7(a)	3,497	8,075
Impairment provision		(133)	(156)
Total completed inventory		65,771	116,128
Total current inventories		**185,366**	**194,748**
Non-current			
Broadacres			
Land to be subdivided - at cost		295,363	309,044
Borrowing and holding costs capitalised	7(a)	30,631	30,252
Impairment provision		(8,473)	(8,877)
Total broadacres		317,521	330,419
Work-in-progress			
Land subdivided or in the course of being subdivided - at cost		30,464	45,592
Development costs capitalised		29,356	34,938
Houses and apartments under construction - at cost		5,194	6,112
Borrowing and holding costs capitalised	7(a)	14,502	11,811
Total work-in-progress		79,516	98,453
Completed inventory			
Completed houses and apartments - at cost		3,458	136
Completed residential land lots - at cost		1,190	1,190
Borrowing and holding costs capitalised	7(a)	345	92
Impairment provision		(33)	(29)
Total completed inventory		4,960	1,389
Total non-current inventories		**401,997**	**430,261**
Total inventories		**587,363**	**625,009**

Notes to the Consolidated Financial Statements

7. INVENTORIES (continued)

(a) Borrowing costs attributable to qualifying assets are capitalised. These include interest and fees and have been capitalised at a weighted average rate of 4.83% (2019: 6.36%).

Accounting

Inventories are carried at the lower of cost and net realisable value (NRV).

Cost includes costs of acquisition, development, interest capitalised and all other costs directly related to specific projects. Borrowing and holding costs such as rates and taxes incurred after completion of development and construction are expensed. Costs expected to be incurred under penalty clauses and rectification provisions are also included.

NRV is the estimated selling price in the ordinary course of business less the estimated costs to complete and sell the inventory. NRV is estimated using the most reliable evidence at the time, including expected fluctuations in selling price and estimated costs to complete and sell.

As at 30 June 2020, significant judgement was required in determining the appropriate estimates and assumptions to be used in determining the carrying value of inventory. COVID-19 and the Government's response to it significantly impacted our operations. Key assumptions and estimates impacted by COVID-19 include:

- forecast future sales and costs, based on the location, type and quality of residential property, recognise and incorporate the impact of COVID-19.
- the impact of government subsidies on the sale of residential property.

Movement in impairment provisions

	2020 $'000	2019 $'000
At beginning of year	9,449	9,982
Amounts utilised	(456)	(791)
Effect of adoption of AASB 15	-	258
Amounts provided	1,629	-
At end of year	**10,622**	**9,449**

8. INVESTMENT PROPERTY

The Group has an investment property at Waterline, Victoria. This relates to a retail space asset 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 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.

Notes to the Consolidated Financial Statements

8. INVESTMENT PROPERTY (continued)

	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**

Investment properties are measured as Level 3. Refer to note 23(v) for explanation of the levels of fair value measurement.

The impact of COVID-19 and the Government's response to it, has been incorporated in the measurement of fair value.

It is the policy of the Group for the Directors to review the fair value of each property every year, with reference to the most recent external valuation. Going forward, the fair value for investment properties will be based on periodic, but at least triennial, valuations by qualified external independent valuers.

9. OTHER ASSETS

	2020 $'000	2019 $'000
Prepayments	3,461	1,897
Deposits	730	495
Total other current assets	**4,191**	**2,392**

10. FINANCIAL ASSET

	2020 $'000	2019 $'000
Property Fund Units	**1,695**	**2,211**

These are units in an unlisted property fund which do not have an active market. They are measured at fair value through profit and loss.

The financial asset at fair value through Profit and Loss is carried in the *Statement of Financial Position* at fair value with net changes in fair value recognised in *Statement of Profit and Loss*. Expected future cash flows discounted using a rate of 12%, have been used in determining the fair value. The impact of COVID-19 and the Government's response to it, has been incorporated in the measurement of fair value.

Unlisted property fund units are measured as Level 3 financial instruments. Refer to note 23(v) for explanation of the levels of fair value measurement.

Notes to the Consolidated Financial Statements

11. PLANT AND EQUIPMENT

	2020 $'000	2019 $'000
Leasehold improvements		
At cost	1,488	1,075
Less: accumulated depreciation	(460)	(368)
Total leasehold improvements	**1,028**	**707**
Plant and equipment		
At cost	1,994	6,772
Less: accumulated depreciation	(1,808)	(6,420)
Total plant and equipment	**186**	**352**
Total plant and equipment	**1,214**	**1,059**

(i) Reconciliations

Reconciliations of the carrying amounts of each class of plant and equipment at the beginning and end of the year are set out below:

	Note	Leasehold improve-ments $'000	Plant and equipment $'000	Total $'000
For the year ended 30 June 2020				
Carrying amount at 1 July 2019		707	352	1,059
Additions		458	18	476
Disposals		(9)	(28)	(37)
Depreciation charge	3	(128)	(156)	(284)
Carrying amount at 30 June 2020		**1,028**	**186**	**1,214**
For the year ended 30 June 2019				
Carrying amount at 1 July 2018		62	474	536
Additions		720	70	790
Disposals		(13)	(2)	(15)
Depreciation charge	3	(62)	(190)	(252)
Carrying amount at 30 June 2019		**707**	**352**	**1,059**

(ii) Accounting

Plant and equipment are stated at historical cost less accumulated depreciation and impairment.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets using the following rates which are consistent with the prior year:

Plant and equipment	3-10 years
Leasehold improvements	5-10 years or lease term if shorter

Notes to the Consolidated Financial Statements

12. RIGHT-OF-USE ASSETS

The Group has lease contracts for various office premises, motor vehicles and IT equipment used in its operations. Lease of office premises generally have lease terms between 3 and 5 years, while motor vehicles and IT equipment have lease terms between 3 and 4 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Some of the lease contracts for office premises include extension options, which are discussed in note 39.

The Group also has certain leases with terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

		Right-of-use assets			
	Note	Motor vehicle lease $'000	IT equipment lease $'000	Office premises lease $'000	Total $'000
As at 1 July 2019[(1)]	39	**464**	**316**	**2,744**	**3,524**
Additions		313	14	4,169	4,496
Amortisation expense	3	(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**

(1) The Group adopted AASB 16 using the modified retrospective approach which does not require a restatement of prior year numbers.

Notes to the Consolidated Financial Statements

13. INTANGIBLE ASSETS

	2020 $'000	2019 $'000
Brand name at cost	9,868	9,868
Less: accumulated amortisation	(7,052)	(7,052)
Total intangible assets	**2,816**	**2,816**

The intangible asset relates to the value of the "AVJennings" brand name which was acquired as part of a business combination in 1995. On recognition, the asset was determined to have a finite life of 20 years and was amortised over the expected useful life. In accordance with the accounting policy discussed below, the amortisation period and the amortisation method are reviewed each year. A review carried out at 31 December 2009 determined that the brand name had indefinite life. This change in accounting estimate was applied prospectively with amortisation ceasing as of 31 December 2009.

At 30 June 2020, there were no indicators of impairment. However, an annual impairment test was performed and no impairment identified.

Accounting

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is their fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with indefinite useful lives are not amortised but tested annually for impairment. The assessment of indefinite life is reviewed annually to determine whether it continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Notes to the Consolidated Financial Statements

14. PAYABLES

	2020 $'000	2019 $'000
Current		
Unsecured		
Land creditors	1,323	21,323
Trade creditors	9,954	6,544
Related party payables	130	150
Deferred Income	38	1,253
Other creditors and accruals	5,095	11,964
Total current payables	**16,540**	**41,234**
Non-current		
Unsecured		
Land creditors	23,360	20,830
Deferred Income	589	1,167
Other creditors and accruals	3,897	12
Total non-current payables	**27,846**	**22,009**

Accounting

Trade and other payables are initially recognised at fair value and subsequently carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid.

Due to the short-term nature of current payables, their carrying amount is assumed to approximate their fair value. Non-current land creditors have been discounted using a rate of 3.84% (2019: 5.68%).

15. BORROWINGS

	2020 $'000	2019 $'000
Current		
Bank loans	-	543
Total current interest-bearing liabilities	**-**	**543**
Non-current		
Bank loans	190,110	199,792
Total non-current interest-bearing liabilities	**190,110**	**199,792**

Accounting

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset whilst in active development. Qualifying assets are assets that take a substantial period of time to get ready for their intended use or sale. Other borrowing costs are expensed as incurred.

Borrowing costs consist of interest and other costs incurred in connection with the borrowing of funds.

Notes to the Consolidated Financial Statements

15. BORROWINGS (continued)

Interest-bearing loans and borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Subsequently, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Fees paid on establishment of loan facilities are capitalised as a prepayment and amortised over the period of the facility.

Borrowings are classified as current liabilities unless there is an unconditional right to defer repayment for at least 12 months after the reporting date.

Financing arrangements

The Group has access to the following lines of credit:

	Note	Available $'000	Utilised $'000	Unutilised $'000
30 June 2020				
Main banking facilities	15(a)			
- bank overdraft		5,000	-	5,000
- bank loans		265,000	190,110	74,890
- performance bonds		30,000	16,925	13,075
		300,000	**207,035**	**92,965**
Contract performance bond facilities	15(c)			
- performance bonds		**60,000**	**30,377**	**29,623**
30 June 2019				
Main banking facilities	15(a)			
- bank overdraft		5,000	-	5,000
- bank loans		275,000	199,792	75,208
- performance bonds		20,000	17,325	2,675
		300,000	**217,117**	**82,883**
Project funding facilities	15(b)			
- bank loans		**4,978**	**543**	**4,435**
Contract performance bond facilities	15(c)			
- performance bonds		**45,000**	**39,812**	**5,188**

At 30 June 2020 main banking facilities are interchangeable up to $47 million (2019: $47 million) between the bank loans and performance bonds.

During the current and prior year, there were no defaults or breaches of any covenants relating to the facilities.

15. BORROWINGS (continued)

Significant terms and conditions

(a) Main banking facilities

$50,000,000 of the Group's main banking facilities currently matures on 30 September 2021 with the balance of $250,000,000 maturing on 30 September 2022. These facilities are secured by a fixed and floating charge over all the assets and undertakings of the entities within the Group that are obligors under the main banking facilities, and by first registered mortgages over various real estate inventories other than those controlled by the Group under project development agreements and those assets pledged as security for project funding (see note 15(b)). The Parent Entity has entered into a cross deed of covenant with various controlled entities to guarantee obligations of those entities in relation to the main banking facilities (see note 25). The weighted average interest rate including margin on the main banking facilities at 30 June 2020 was 1.47% (2019: 2.80%).

(*b) Project funding facilities*

Project funding facilities are secured by:

- a fixed and floating charge over the assets of the entities involved in the relevant projects, namely, AVJennings Properties Wollert SPV Pty Ltd; and
- a first registered mortgage over certain real estate inventories of the entities involved in the relevant projects, namely, AVJennings Properties Wollert SPV Pty Ltd.

The AVJennings Properties Wollert SPV Pty Ltd facility was repaid on 29 November 2019.

At reporting date there were no project funding facilities.

(c*) Contract performance bond facilities*

The Group has entered into Contract performance bond facilities of $60,000,000 (2019: $45,000,000) which are subject to review annually. $25,000,000 of the facilities expire on 31 December 2020 with the balance expiring on 27 February 2021. Management expects the annual review which is underway, to be completed shortly and the facilities extended for a further 12 months. The performance bond facilities are secured by Deeds of Indemnity between the Parent Entity and various controlled entities. Details of the controlled entities, included in the Deeds of Indemnity are set out in note 25.

Notes to the Consolidated Financial Statements

16. LEASE LIABILITIES

The Group has lease contracts for various office premises, motor vehicles and IT equipment used in its operations. Lease of office premises generally have lease terms between 3 and 5 years, while motor vehicles and IT equipment have lease terms between 3 and 4 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Some of the lease contracts for office premises include extension options, the effects which have been incorporated in calculating lease liabilities.

The Group also has certain leases with terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of lease liabilities recognised and the movements during the year:

		Lease Liabilities			
		Motor vehicle lease	IT equipment lease	Office premises lease	Total
	Note	$'000	$'000	$'000	$'000
As at 1 July 2019[(1)]	39	**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**

(1) The Group adopted AASB 16 using the modified retrospective approach which does not require a restatement of prior year numbers.

The Group recognised rent expense from short-term leases of $334,000 and leases of low-value assets of $224,000 for the year ended 30 June 2020.

Notes to the Consolidated Financial Statements

17. PROVISIONS

	Recification and maintenance $'000	Restructuring $'000	Annual leave and long service leave $'000	Total $'000
For the year ended 30 June 2020				
At 1 July 2019	**282**	**216**	**6,531**	**7,029**
Arising during the year	680	300	1,143	**2,123**
Utilised	(537)	(216)	(1,902)	**(2,655)**
At 30 June 2020	**425**	**300**	**5,772**	**6,497**
Current	**425**	**300**	**5,123**	**5,848**
Non-Current	**-**	**-**	**649**	**649**
Total	**425**	**300**	**5,772**	**6,497**
For the year ended 30 June 2019				
At 1 July 2018	**3,850**	**-**	**6,761**	**10,611**
Arising during the year	522	216	1,475	**2,213**
Utilised	(4,090)	-	(1,705)	**(5,795)**
At 30 June 2019	**282**	**216**	**6,531**	**7,029**
Current	**282**	**216**	**6,049**	**6,547**
Non-Current	**-**	**-**	**482**	**482**
Total	**282**	**216**	**6,531**	**7,029**

Accounting

A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The non-current portion is discounted using corporate bond rates.

Notes to the Consolidated Financial Statements

18. 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**
At beginning of year	406,230,728	394,926,905	177,961	170,481
Issued under the Dividend Reinvestment Plan	-	11,303,823	-	7,480
At end of year	**406,230,728**	**406,230,728**	**177,961**	**177,961**

(b) Movement in treasury shares	**2020 Number**	**2019 Number**	**2020 $'000**	**2019 $'000**
At beginning of 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	-	-
At end of year	**-**	**(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.

Holders of ordinary shares are entitled to dividends and to one vote per share at shareholder meetings.

Accounting

Incremental costs directly attributable to the issue of ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Shares held by the AVJDESP Trust are disclosed as treasury shares and deducted from contributed equity.

Notes to the Consolidated Financial Statements

19. RESERVES AND RETAINED EARNINGS

(a) Reserves

	Note	Foreign Currency Translation Reserve $'000	Share-based Payment Reserve $'000	Total $'000
At 1 July 2018		**3,010**	**3,896**	**6,906**
Foreign currency translation		1,246	-	1,246
Share-based payment expense	32(a)	-	730	730
At 30 June 2019		**4,256**	**4,626**	**8,882**
Foreign currency translation		(1,228)	-	(1,228)
Share-based payment expense	32(a)	-	754	754
At 30 June 2020		**3,028**	**5,380**	**8,408**

(b) Nature and purpose of reserves

Foreign currency translation reserve

Exchange differences arising on translation of foreign operations are recognised in other comprehensive income as explained in note 40(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the *Consolidated Statement of Comprehensive Income* when the net investment is disposed of.

Share-based payment reserve

The share-based payment reserve is used to recognise the fair value of rights to shares or shares issued to employees, with a corresponding increase in employee expense in the *Consolidated Statement of Comprehensive Income*.

(c) Retained earnings

	Note	2020 $'000	2019 $'000
Movements in retained earnings were as follows:			
At beginning of year		212,886	224,149
Effect of adoption of new revenue accounting standard		-	(11,792)
Effect of adoption of new leases accounting standard	39	(416)	-
At beginning of year (restated)		212,470	212,357
Profit after income tax		9,041	16,439
Dividends declared and paid		(10,968)	(15,910)
At end of year		**210,543**	**212,886**

Notes to the Consolidated Financial Statements

20. 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 cent 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**
Dividend franking account		
Franking credits available for subsequent financial years based on a tax rate of 30%	**28,730**	**27,029**

The above balance is based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from the payment of the amount provided for income tax; and
- franking debits that will arise from the payment of dividends proposed at year-end.

Notes to the Consolidated Financial Statements

Section A4 Cash flow information

21. CASH FLOW STATEMENT RECONCILIATION

Reconciliation of profit after tax to net cash flow from/(used in) operating activities	**2020 $'000**	**2019 $'000**
Profit after tax	**9,041**	**16,439**
Adjustments for non-cash items:		
Depreciation and amortisation	2,125	252
Net gain on disposal of right-of-use assets	(51)	-
Net loss on disposal of plant and equipment	37	15
Interest revenue classified as investing cash flow	(1,264)	(1,315)
Share of loss of joint ventures	66	274
Change in inventory loss provisions	1,173	(533)
Share-based payments expense	754	730
Fair value adjustment to investment property	190	(800)
Fair value adjustment to financial asset	516	669
Provision for loss on equity accounted investments	947	607
Change in operating assets and liabilities:		
Decrease/(increase) in inventories	36,473	(89,536)
(Increase)/decrease in receivables	(12,657)	29,829
(Increase)/decrease in other current assets	(1,799)	4,758
Decrease in deferred tax liability	(955)	(2,852)
Decrease in net current tax liability	(3,959)	(7,502)
(Decrease)/increase in payables	(20,139)	6,763
Decrease in provisions	(532)	(3,582)
Net cash from/(used in) operating activities	**9,966**	**(45,784)**

Notes to the Consolidated Financial Statements

Section B – Risk

22. JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements involves the use of certain critical accounting estimates and requires management to exercise judgement. These estimates and judgements are continually reviewed based on historical experience, current and expected market conditions as well as other relevant factors.

(i) Judgements

In applying the Group's accounting policies, management makes judgements, which can significantly affect the amounts recognised in the *Consolidated Financial Statements*.

Timing of revenue recognition:

This includes the determination of whether revenue recognition criteria have been satisfied on sales of land lots with deferred settlement terms.

(ii) Estimates and assumptions

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Estimates of net realisable value of inventories:

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made of the net amount expected to be realised from the sale of inventories, and the estimated costs to complete.

Significant judgement was required in determining the appropriate estimates and assumptions to be used in determining the carrying value of inventory. COVID-19 and the Government's response to it significantly impacted our operations. Key assumptions and estimates impacted by COVID-19 include:

- forecast future sales and costs, based on the location, type and quality of residential property, recognise and incorporate the impact of COVID-19
- the impact of Government subsidies on the sale of residential property.

Profit recognised on developments:

The calculation of profit for land lots and built form is based on actual costs to date and estimates of costs to complete.

Fair value measurement:

Judgement is exercised in determining:
- fair value of financial asset carried at fair value through profit and loss.
- fair value of investment property.

The impact of COVID-19 and the Government's response to it, has been incorporated in the measurement of fair value.

23. FINANCIAL RISK MANAGEMENT

The Group's principal financial assets and financial liabilities comprise receivables, payables, loans and borrowings, investment in property funds and cash.

Notes to the Consolidated Financial Statements

23. FINANCIAL RISK MANAGEMENT (continued)

The Group's treasury department focuses on the following main financial risks:

- interest rate risk,
- foreign currency risk,
- credit risk
- liquidity risk.

Financial risk activities are governed by appropriate policies and procedures and financial risks are identified, measured and managed in accordance with policies and risk objectives.

Responsibility for the monitoring of financial risk exposure and the formulation of appropriate responses rests with the Chief Financial Officer.

The Board reviews and approves these policies.

(i) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument or associated future cash flows will fluctuate because of changes in market interest rates. The exposure to market interest rates primarily relates to interest-bearing loans and borrowings issued at variable rates.

In assessing interest rate risk, the Group considers loan maturity and cash flow profiles and the outlook for interest rates.

The Group uses various techniques, including interest rate swaps, caps and floors to hedge the risk associated with interest rate fluctuations. These derivatives do not qualify for hedge accounting and changes in fair value are recognised in profit and loss. However, the forecast cash position together with the current benign outlook for medium term interest rates has resulted in the Group retaining all of the drawn debt at variable rates of interest.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and their fair value is reassessed at the end of each reporting period. Derivative financial instruments are not held for trading purposes.

At balance date, the Group had the following cash and variable rate borrowings:

	2020		2019	
	Weighted average interest rate	**Balance**	**Weighted average interest rate**	**Balance**
	%	**$'000**	**%**	**$'000**
Cash	0.36	(5,703)	0.89	(18,209)
Bank loans	1.47	190,110	2.80	200,335
Net financial liabilities		**184,407**		**182,126**
Borrowings not hedged		**184,407**		**182,126**

Notes to the Consolidated Financial Statements

23. FINANCIAL RISK MANAGEMENT (continued)

The following table shows the impact on profit after tax if interest rates changed by 50 basis points. The calculation is based on borrowings and cash held at year-end. It assumes that interest is capitalised to qualifying assets as disclosed in note 3:

	Profit After Tax Higher/(Lower)	
	2020	2019
	$'000	$'000
+50 basis points	(100)	(89)
-50 basis points	100	89

The effect on the basis that no interest is capitalised, would be as follows:

	Profit After Tax Higher/(Lower)	
	2020	2019
	$'000	$'000
+50 basis points	(645)	(637)
-50 basis points	645	637

(ii) Foreign currency risk

Foreign currency risk arises from NZD denominated assets (balance sheet risk) or from transactions or cash flows denominated in NZD (cash flow risk).

The following table demonstrates the sensitivity to a change in AUD/NZD exchange rates on exposures existing at balance date.

With all other variables held constant, Profit After Tax and equity would have been affected as follows:

	Profit After Tax Higher/(Lower)		Equity Higher/(Lower)	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
AUD/NZD +10%	(24)	-	(147)	(125)
AUD/NZD -10%	24	-	147	125

(iii) Credit risk

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument, leading to a financial loss. Credit risk arises from cash and cash equivalents, receivables, financial assets and from granting of financial guarantees.

Contracts for Land, Integrated Housing and Apartments usually require payment in full prior to passing of title to customers and collateral is therefore unnecessary. In the event that title is to pass prior to full payment being received, appropriate credit verification procedures are performed before contract execution.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with Group policy. Surplus funds are typically applied to repay drawn loans to minimise borrowing costs. Counterparties are limited to financial institutions approved by the Board.

23. FINANCIAL RISK MANAGEMENT (continued)

The granting of financial guarantees also exposes the Group to credit risk, being the maximum amount that would have to be paid if the guarantee is called on. As the amounts payable under the guarantees are not significantly greater than the original liabilities, this risk in not material. See note 37 for details regarding financial guarantees.

The Group has no significant concentrations of credit risk.

(iv) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages its liquidity risk by monitoring forecast cash flows on a fortnightly basis and matching the maturity profiles of financial assets and liabilities. These are reviewed by the Chief Financial Officer and presented to the Board as appropriate. The objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and committed available credit facilities.

$50,000,000 of the Group's main banking facilities currently matures on 30 September 2021 with the balance of $250,000,000 maturing on 30 September 2022 and are therefore non-current. In addition, the Group operated certain project funding facilities which are discussed in note 15(b). The maturity profile of all debt facilities is monitored on a regular basis by the Chief Financial Officer and ongoing financing plans presented to the Board for approval well in advance of maturity.

At 30 June 2020, none (2019: 0.3%) of the Group's interest-bearing loans and borrowings will mature in less than one year.

Notes to the Consolidated Financial Statements

23. FINANCIAL RISK MANAGEMENT (continued)

(iv) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial assets and liabilities based on contractual undiscounted payments.

Year ended 30 June 2020	< 6 months $'000	6-12 months $'000	> 1-5 years $'000	Total $'000
Financial Assets				
Cash and cash equivalents	5,703	-	-	5,703
Receivables	13,799	9,237	14,742	37,778
	19,502	**9,237**	**14,742**	**43,481**
Financial Liabilities				
Payables	14,996	1,544	28,959	45,499
Interest-bearing loans and borrowings*	1,398	1,391	193,594	196,383
Lease liabilities (note 16)	738	804	5,060	6,602
Financial Guarantees	1,031	-	-	1,031
	18,163	**3,739**	**227,613**	**249,515**
Net maturity	**1,339**	**5,498**	**(212,871)**	**(206,034)**

Year ended 30 June 2019	< 6 months $'000	6-12 months $'000	> 1-5 years $'000	Total $'000
Financial Assets				
Cash and cash equivalents	18,209	-	-	18,209
Receivables	10,688	4,400	10,033	25,121
	28,897	**4,400**	**10,033**	**43,330**
Financial Liabilities				
Payables	29,038	12,196	24,069	65,303
Interest-bearing loans and borrowings*	3,347	2,787	206,788	212,922
Financial Guarantees	1,148	-	-	1,148
	33,533	**14,983**	**230,857**	**279,373**
Net maturity	**(4,636)**	**(10,583)**	**(220,824)**	**(236,043)**

* Expected settlement amounts of interest-bearing loans and borrowings include an estimate of the interest payable to the date of expiry of the facilities.

At reporting date, the Group has approximately $123 million (2019: $93 million) of unused credit facilities available. Please refer to note 15.

23. FINANCIAL RISK MANAGEMENT (continued)

(v) Fair value

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities:

	Year ended 30 June 2020				Year ended 30 June 2019			
	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Financial assets								
Financial asset	-	-	1,695	1,695	-	-	2,211	2,211
	-	-	1,695	1,695	-	-	2,211	2,211
Financial liabilities								
Interest-bearing loans and borrowings	-	190,110	-	190,110	-	200,335	-	200,335
	-	190,110	-	190,110	-	200,335	-	200,335

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Investment property is considered Level 3. Refer to note 8.

24. CAPITAL MANAGEMENT

In managing capital, management's objective is to achieve an efficient capital structure which optimises the weighted average cost of capital commensurate with business requirements and prudential considerations.

During the year ended 30 June 2020, a total dividend of $10,968,000 was paid (2019: $15,910,000).

Management monitors capital mix through the debt to equity ratio (net debt/total equity) and the debt to total assets ratio (net debt/total assets) calculated below:

	2020 $'000	2019 $'000
Interest-bearing loans and borrowings	190,110	200,335
Less: cash and cash equivalents	(5,703)	(18,209)
Net debt	184,407	182,126
Total equity	393,130	396,277
Total assets	655,177	685,236
Net debt to equity ratio	**46.9%**	**46.0%**
Net debt to total assets ratio	**28.1%**	**26.6%**

Notes to the Consolidated Financial Statements

Section C – Group structure

25. CONTROLLED ENTITIES

(a) Investment in controlled entities

The following economic entities are the controlled entities of AVJennings Limited:

	% Equity Interest		Included in Banking Cross Deed of Covenant [(2)]	
ECONOMIC ENTITY [(1)]	**2020**	**2019**	**2020**	**2019**
Entities included in the Closed Group				
A.V. Jennings Real Estate Pty Limited	100	100	No	No
AVJennings Real Estate (VIC) Pty Limited	100	100	No	No
AVJennings Holdings Limited[(3)]	100	100	Yes	Yes
AVJennings Properties Limited[(3)]	100	100	Yes	Yes
Jennings Sinnamon Park Pty Limited	100	100	No	No
Long Corporation Limited[(3)]	100	100	Yes	Yes
Orlit Pty Limited[(3)]	100	100	Yes	Yes
Sundell Pty Limited[(3)]	100	100	Yes	Yes
AVJennings Housing Pty Limited[(3)]	100	100	Yes	Yes
AVJennings Home Improvements S.A. Pty Limited[(3)]	100	100	Yes	Yes
AVJennings Mackay Pty Limited[(3)]	100	100	Yes	Yes
Entities excluded from the Closed Group				
Montpellier Gardens Pty Limited[(3)]	100	100	Yes	Yes
AVJennings (Cammeray) Pty Limited[(3)]	100	100	Yes	Yes
AVJennings Syndicate No 3 Limited	100	100	No	No
AVJennings Syndicate No 4 Limited[(3)]	100	100	Yes	Yes
AVJennings Officer Syndicate Limited[(3)]	100	100	Yes	Yes
AVJennings Properties SPV No 1 Pty Limited	100	100	No	No
AVJennings Properties SPV No 2 Pty Limited[(3)]	100	100	Yes	Yes
AVJennings Properties SPV No 4 Pty Limited[(3)]	100	100	Yes	Yes
AVJennings Wollert Pty Limited[(3)]	100	100	Yes	Yes
AVJ Erskineville Pty Limited[(3)]	100	100	Yes	Yes
AVJ Hobsonville Pty Limited[(3)]	100	100	Yes	Yes
AVJennings Properties SPV No 9 Pty Limited[(3)]	100	100	Yes	Yes
AVJennings SPV No 10 Pty Limited	100	100	No	No
AVJennings SPV No 19 Pty Limited[(3)]	100	100	Yes	Yes
AVJennings SPV No 20 Pty Limited	100	100	Yes	No
AVJennings SPV No 22 Pty Limited[(3)]	100	100	Yes	Yes
AVJennings SPV No 23 Pty Limited	100	100	Yes	No
AVJennings SPV No 24 Pty Limited	100	100	No	No
AVJennings SPV No 25 Pty Limited[(4)]	100	-	No	No
AVJennings SPV No 26 Pty Limited[(4)]	100	-	No	No
Creekwood Developments Pty Limited[(3)]	100	100	Yes	Yes
Portarlington Nominees Pty Limited[(3)]	100	100	Yes	Yes

Notes to the Consolidated Financial Statements

25. CONTROLLED ENTITIES (continued)

(a) Investment in controlled entities (continued)

ECONOMIC ENTITY [1]	% Equity Interest 2020	% Equity Interest 2019	Included in Banking Cross Deed of Covenant [2] 2020	Included in Banking Cross Deed of Covenant [2] 2019
Entities excluded from the Closed Group (continued)				
AVJennings St Clair Pty Limited[3]	100	100	Yes	Yes
St Clair JV Nominee Pty Limited[3]	100	100	Yes	Yes
AVJennings Properties Wollert SPV Pty Limited	100	100	No	No
AVJennings Waterline Pty Limited	100	100	Yes	No
Cusack Lane Nominees Pty Ltd	100	100	Yes	No
AVJennings NZ Management Services Ltd	100	100	No	No

(1) All entities with the exception of AVJennings NZ Management Services Ltd are incorporated in Australia. With the exception of AVJ Hobsonville Pty Limited which has a branch in New Zealand and AVJennings NZ Management Services Ltd which is incorporated and operates in New Zealand, all entities operate within Australia.
(2) These entities, including AVJennings Limited, are included under the Banking Cross Deed of Covenant referred to in note 15(a).
(3) These entities, including AVJennings Limited, are included in the Deeds of Indemnity for performance bond facilities referred to in note 15(c).
(4) Incorporated on 23 May 2020.

(b) Ultimate parent

AVJennings Limited is the ultimate Australian Parent Entity. SC Global Developments Pte Ltd is the ultimate parent entity.

(c) Deeds of cross guarantee

Certain entities within the Group are parties to deeds of cross guarantee under which each controlled entity guarantees the debts of the others. By entering into these deeds, the controlled entities are relieved from the requirement to prepare Financial Statements and Directors' Reports under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission (ASIC). Those entities included in the Closed Group are listed in note 25(a). These entities represent a "Closed Group" for the purposes of the Corporations Instrument, and as there are no other parties to the deeds of cross guarantee that are controlled by AVJennings Limited, they also represent the "Extended Closed Group".

Notes to the Consolidated Financial Statements

25. CONTROLLED ENTITIES (continued)

(d) Corporations Instrument closed group

Certain controlled entities were granted relief by ASIC (under provisions of the Corporations Instrument) from the requirement to prepare separate audited financial statements, where deeds of indemnity have been entered into between the Parent Entity and the Controlled Entities to meet their liabilities as required (refer to note 25(c)).

The Extended Closed Group referred to in the *Directors' Declaration* therefore comprises all of the entities within the Corporations Instrument. Certain entities falling outside of the Extended Closed Group are listed in note 25(a), and are therefore required to prepare separate annual financial statements.

The *Consolidated Statement of Comprehensive Income* for those controlled entities which are party to the deed is as follows:

	Closed Group	
	2020	**2019**
	$'000	**$'000**
Revenues	142,622	149,610
Cost of sales	(108,449)	(106,817)
Other expenses	(39,085)	(41,357)
(Loss)/profit before income tax	**(4,912)**	**1,436**
Income tax	1,197	(30)
(Loss)/profit after income tax	**(3,715)**	**1,406**

Notes to the Consolidated Financial Statements

25. CONTROLLED ENTITIES (continued)

(d) Corporations Instrument closed group (continued)

The *Consolidated Statement of Financial Position* for those controlled entities which are party to the deed is as follows:

	2020	2019
	$'000	$'000
Current assets		
Cash and cash equivalents	1,172	7,660
Receivables	189,845	185,479
Inventories	69,040	75,966
Tax receivable	1,223	-
Other assets	2,580	1,615
Total current assets	**263,860**	**270,720**
Non-current assets		
Receivables	5,488	9,036
Inventories	149,375	164,085
Equity accounted investments	5,636	6,649
Financial asset	1,695	2,211
Plant and equipment	1,214	1,059
Right-of-use assets	5,711	-
Intangible assets	2,816	2,816
Total non-current assets	**171,935**	**185,856**
Total assets	**435,795**	**456,576**
Current liabilities		
Payables	7,745	17,758
Lease liabilities	1,485	-
Tax payable	-	2,150
Provisions	5,410	6,348
Total current liabilities	**14,640**	**26,256**
Non-current liabilities		
Payables	19,860	15,143
Interest-bearing loans and borrowings	149,000	152,000
Lease liabilities	4,848	-
Deferred tax liabilities	13,002	14,224
Provisions	649	482
Total non-current liabilities	**187,359**	**181,849**
Total liabilities	**201,999**	**208,105**
Net assets	**233,796**	**248,471**
Equity		
Contributed equity	174,179	174,509
Reserves	5,380	4,626
Retained earnings	54,237	69,336
Total equity	**233,796**	**248,471**

Notes to the Consolidated Financial Statements

25. CONTROLLED ENTITIES (continued)

(d) Corporations Instrument closed group (continued)

The *Consolidated Statement of Changes in Equity* for those controlled entities which are party to the deed is as follows:

	Closed Group	
	2020	2019
	$'000	$'000
At beginning of year	248,471	265,812
Effect of adoption of new revenue accounting standard	-	(10,133)
Effect of adoption of new leases accounting standard	(416)	-
Comprehensive income:		
(Loss)/profit for the year	(3,715)	1,406
Total comprehensive (loss)/income for the year	(3,715)	1,406
Transactions with owners in their capacity as owners		
- Ordinary share capital raised	-	7,480
- Treasury shares acquired	(330)	(914)
- Share-based payment expense	754	730
- Dividends paid	(10,968)	(15,910)
Total transactions with owners in their capacity as owners	(10,544)	(8,614)
At end of year	**233,796**	**248,471**

26. EQUITY ACCOUNTED INVESTMENTS

	2020	2019
	$'000	$'000
Joint Ventures	**5,636**	**6,649**

Accounting

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Joint ventures are accounted for using the equity method. Under the equity method, investments in these entities are carried at cost plus post acquisition changes in the Group's share of net assets of these entities.

The aggregate of the Group's share of profit or loss after tax of joint ventures is disclosed in the *Consolidated Statement of Comprehensive Income.* Dividends received from a joint venture are recognised as a reduction in the carrying amount of the investment. Unrealised gains and losses resulting from transactions between the Group and joint venture are eliminated to the extent of the interest in the joint venture, until the underlying assets are realised by the joint venture on consumption or sale.

Notes to the Consolidated Financial Statements

26. EQUITY ACCOUNTED INVESTMENTS (continued)

If there is objective evidence that the investment in the joint venture is impaired, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment and it's carrying value and recognises it in the *Consolidated Statement of Comprehensive Income.*

Interest in Joint Ventures

	Interest held	
	2020	**2019**
Joint Venture and principal activities		
Pindan Capital Group Dwelling Trust - Building Construction	33.3%	33.3%

	2020	**2019**
	$'000	**$'000**
Movements in carrying amount		
At beginning of year	6,649	10,721
Dividends received	-	(1,655)
Amounts received	-	(1,536)
Share of loss	(66)	(274)
At end of year before provision for loss	6,583	7,256
Provision for loss on investment	(947)	(607)
At end of year(1)	**5,636**	**6,649**

(1) The difference between the carrying amount and the share of net assets in the table below relates to the provision for loss recognised by the Group.

The Group's share of the Joint Ventures' assets, liabilities, revenues and expenses are as follows:

	2020	**2019**
	$'000	**$'000**
Share of assets and liabilities		
Current assets	380	333
Non-current assets	8,552	9,161
Total assets	8,932	9,494
Current liabilities	218	252
Non-current liabilities	1,524	1,986
Total liabilities	1,742	2,238
Net assets	**7,190**	**7,256**
Share of revenues and expenses		
Revenues	1,447	3,606
Cost of sales	(1,093)	(2,815)
Expenses	(420)	(1,058)
Loss before income tax	(66)	(267)
Income tax	-	(7)
Loss after income tax	**(66)**	**(274)**

At 30 June 2020, there were no significant commitments entered into by the Joint Venture.

Notes to the Consolidated Financial Statements

27. INTEREST IN JOINT OPERATIONS

A controlled entity has entered into Joint Operation. Information relating to the Joint Operations is set out below:

	Interest held	
	2020	**2019**
Joint Operation name, principal place of business and principal activities		
Wollert Joint Venture (Victoria) - Land Development and Building Construction	49%	49%

Accounting

A Joint Operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities of the Joint Operation. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The proportionate interests in the assets, liabilities, revenues and expenses of Joint Operation have been recognised in the Financial Statements under the appropriate headings.

The Group's share of the Joint Operation's assets, liabilities, revenues and expenses are as follows:

	2020	**2019**
	$'000	**$'000**
Share of assets and liabilities		
Current assets	14,935	16,163
Non-current assets	24,714	27,097
Total assets	**39,649**	**43,260**
Current liabilities		
Current liabilities	2,889	6,826
Non-current liabilities	6,136	7,068
Total liabilities	**9,025**	**13,894**
Net assets	**30,624**	**29,366**
Share of revenues and expenses		
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**
Total comprehensive income for the year	**4,625**	**4,760**

Notes to the Consolidated Financial Statements

Section D – Other information

28. CORPORATE INFORMATION

The Consolidated Financial Statements of AVJennings Limited for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 1 September 2020.

AVJennings Limited (the Parent) 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. The Ultimate Parent is SC Global Developments Pte Ltd, a company incorporated in Singapore which owns 53.94% of the ordinary shares in AVJennings Limited.

The Group ("AVJennings" or "Group") consists of AVJennings Limited ("Company" or "Parent") and its controlled entities.

The nature of the operations and principal activities of the Group are provided in the *Directors' Report*.

29. STATEMENT OF COMPLIANCE

These Consolidated Financial Statements are general purpose financial reports. They have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

30. BASIS OF PREPARATION

These Financial Statements have been prepared on a going concern basis, using historical cost convention with the exception of financial assets at fair value through profit and loss. All figures in the Financial Statements are presented in Australian dollars and have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations Instrument 2016/191*, unless otherwise indicated.

Where necessary, comparative information has been restated to conform to the current year's disclosures.

Consistent accounting policies have been applied in the current and prior years with the exception of *AASB 16 Leases* (refer to note 39) and *JobKeeper Payment Scheme* (refer to note 40 (e)) for further details.

Notes to the Consolidated Financial Statements

31. RELATED PARTY DISCLOSURES

(a) Ultimate parent

AVJennings Limited is the ultimate Australian Parent entity. SC Global Developments Pte Ltd (incorporated in Singapore) is the Ultimate Parent entity.

(b) Share and share option transactions with Directors and Director-related entities

The aggregate number of shares and options held at the reporting date either directly or indirectly or beneficially by the Directors or by an entity related to those Directors of AVJennings Limited are as follows:

	Owned by Directors directly, or indirectly or beneficially	
	2020	**2019**
	Number	**Number**
Fully paid ordinary shares	224,927,833	224,206,692

(c) Entity with significant influence over AVJennings Limited

219,112,839 ordinary shares equating to 53.94% of the total ordinary shares on issue (2019: 218,881,388 and 53.88% respectively) were held by SC Global Developments Pte Ltd and its subsidiaries in the Parent Entity at 30 June 2020. Certain Directors of SC Global Developments Pte Ltd are also Directors of AVJennings Limited. Details of Directors' interests in the shares of the Parent Entity are set out in the *Directors' Report*.

(d) Parent Entity amounts receivable from and payable to controlled entities

The Group recognises an allowance for expected credit losses (ECLs) for all related party receivables. Negligible ECLs over these amounts have been assessed as at 30 June 2020.

31. RELATED PARTY DISCLOSURES (continued)

(e) Transactions with related parties

	Note	2020 $	2019 $
Entity with significant influence over the Group:			
SC Global Developments Pte Ltd			
Consultancy fee paid/payable		580,000	600,000
Joint Ventures:			
Woodville JV	(i)		
Accounting services fee received/receivable		-	19,500
Dividends received		-	1,389,669
Equity repatriations		-	1,601,719
Joint Operations:			
Wollert JV			
Management fee received/receivable		2,513,092	4,380,854
Accounting services fee received/receivable		50,000	50,000
Cusack Lane Development JV	(ii)		
Management fee received/receivable		-	185,282
Accounting services fee received/receivable		-	29,167

(i) Ceased to be a joint venture on 15 February 2020.
(ii) Ceased to be a joint venture on 27 June 2019.

(f) Joint ventures and Joint operations in which related entities in the Group are venturers

Joint arrangements in which the Group has an interest are set out in notes 26 and 27.

(g) Outstanding balances arising from provision of services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties.

	2020 $'000	2019 $'000
Current receivables		
Joint Ventures	822	1,681
Non-current receivables		
Joint Ventures and others	988	1,181
Current payables		
SC Global Developments Pte Ltd	130	150

Notes to the Consolidated Financial Statements

31. RELATED PARTY DISCLOSURES (continued)

(h) Amounts advanced to and received from related parties

	2020 $'000	2019 $'000
Amounts advanced		
Joint Ventures and others	2,090	1,659

(i) Remuneration of Key Management Personnel (KMP)

	2020 $	2019 $
Short-term		
- Salary/Fees	2,448,879	2,216,088
- Accrued annual leave	(3,938)	68,835
- STI	-	377,106
- Other (1)	34,696	44,747
Post employment		
- Superannuation (2)	130,007	123,496
Long-term		
- Accrued Long service leave	105,650	90,846
Share-based payment	505,326	348,775
	3,220,620	**3,269,893**

(1) 'Other' represents the value of motor vehicle benefits.
(2) Payments to Defined Contribution Plans represent Superannuation Guarantee Contribution payments.

(j) Terms and conditions of transactions with related parties

Transactions with related parties are made at arm's length both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest free, at call and settlement occurs in cash.

32. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

Total expenses arising from share-based payment transactions and disclosed as part of employee benefit expenses are shown in the table below:

	2020 $'000	2019 $'000
Expense arising from equity-settled share-based payment transactions	979	1,132
Expense reversed on forfeiture of shares	(225)	(402)
Total expense arising from share-based payment transactions	**754**	**730**

The share-based payment plan is described in note 32(b).

(b) Type of share-based payment plan

LTI grants are only made to Executives who have the ability to impact the Group's performance and create shareholder value over the long term.

LTI remuneration is provided by the Issue of Rights with performance conditions. The use of Performance Rights as an incentive reduces the upfront cash requirements (as shares do not need to be acquired for allocations). Shares are acquired on market by the Plan Trustee to satisfy the grant of shares in respect of rights which have vested. Participants do not receive dividends on Rights (as distinct from shares).

LTI and performance

The TSR measure was introduced in February 2020 to replace the former ROE component of the Performance Rights which used market capitalisation as a proxy for equity. The TSR hurdle will apply to grants under the LTI from FY2021 onwards. The old ROE hurdle will apply to grants which were made in FY2019 and FY2020.

50% of Performance Rights granted vest depending on AVJennings' average growth rate in EPS over the three financial years of performance measurement.

50% of Performance Rights granted vest depending on AVJennings' TSR over the three financial years of performance measurement against the ASX 300 Real Estate Index, a comparator group including peers in the residential property sector. The comparator group is not directly comparable to AVJennings as the Index contains non-residential property participants. However, this comparator group was chosen as the best approximation as the pool of directly comparable listed developers was too small to provide a reliable and meaningful comparator group.

Both elements of the Performance Rights (EPS and TSR, formerly ROE) are also subject to a service condition. The recipient must be employed by AVJennings as at 30 June of the year in which the performance conditions of the rights are tested. The rights only vest if both the service condition and the performance conditions are satisfied.

The performance conditions are tested at the end of the three-year measurement period, in the September following release of the financial statements for that year. There is no re-testing. If the conditions are not satisfied when they are tested, the Rights are immediately forfeited.

Notes to the Consolidated Financial Statements

32. SHARE-BASED PAYMENT PLANS (continued)

(b) *Type of share-based payment plan* (continued)

The operation of the EPS, ROE and the new TSR hurdles are set out below.

AVJennings' EPS growth rate over the three year performance period	Percentage of rights vesting
< 5%	Nil
5%	50% of the allocation for the hurdle
5% - 10%	Pro-rata between 50% and 100%
> = 10%	100% of the allocation for the hurdle

AVJennings' ROE over the three year performance period	Percentage of rights vesting
< 12%	Nil
12%	50% of the allocation for the hurdle
15%	75% of the allocation for the hurdle
> = 18%	100% (Straight line interpolation between 12% and 18%)

This ROE hurdle was removed in February 2020 and replaced with TSR hurdle for grants for FY21 and beyond.

AVJennings TSR rank against ASX 300 RE Index at 30 September	Percentage vesting
< median	Nil
At the median	50% of the allocation for the hurdle
> median but < 75th percentile	Pro-rata between 50th and 75th percentiles
> 75th percentile	100% of the allocation for the hurdle

Retention

Retention Rights are granted in three equal tranches which vest in each of the three succeeding years following the year of grant.

Retention component - years of service	Percentage of rights vesting
One year	33.33%
Two years	33.33%
Three years	33.34%

Unvested retention rights are subject to real risk of forfeiture, for example where an Executive ceases employment for any reason.

Accounting

The fair value of the Rights at the date of the grant is determined using an appropriate valuation model. The fair value is expensed over the period in which the performance and/or service conditions are fulfilled with a corresponding increase in share-based payment reserve in equity. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the *Consolidated Statement of Comprehensive Income* represents the movement in cumulative expense recognised between the beginning and end of that period. No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance

32. SHARE-BASED PAYMENT PLANS (continued)

and/or service conditions are satisfied. Where an award is cancelled during the vesting period other than by forfeiture for failure to satisfy the vesting conditions, it is treated as an acceleration of vesting, and the entity recognises immediately the amount that would otherwise have been recognised for services received over the remainder of the vesting period.

(c) Summary of rights granted

The following is the status of rights granted (both KMP and other Executives) from FY17 onwards under the restructured share-based remuneration:

	Total rights granted	Rights vested to date	Rights forfeited to date	Rights cancelled to date	Unvested rights at 30 June 2020
FY2017 Grant	1,859,171	(1,285,626)	(573,545)	-	-
FY2018 Grant	1,671,573	(580,892)	(22,757)	(1,067,924)	-
FY2019 Grant	1,841,470	(402,130)	(25,117)	(236,510)	1,177,713
FY2020 Grant	1,978,415	-	-	(282,320)	1,696,095
Total	**7,350,629**	**(2,268,648)**	**(621,419)**	**(1,586,754)**	**2,873,808**

Notes to the Consolidated Financial Statements

32. SHARE-BASED PAYMENT PLANS (continued)

c) Summary of rights granted (continued)

The following table gives details and inputs in respect of the rights granted for the retention and performance components for the years ended 30 June 2020 and 2019.

	2020 Retention	2020 Performance
Number of rights granted	846,970	1,131,445
Weighted average fair value at measurement date	$0.4913	$0.4505
Dividend yield (%)	7.37	7.37
Risk-free interest rate (%)	0.67 to 0.77	0.67
Expected life (years)	0.90 to 2.89	3.09
Share price	$0.56	$0.56

	2019 Retention	2019 Performance
Number of rights granted	800,761	1,040,709
Weighted average fair value at measurement date	$0.5957	$0.5461
Dividend yield (%)	7.35	7.35
Risk-free interest rate (%)	1.91 to 2.03	2.05
Expected life (years)	0.88 to 2.89	3.09
Share price	$0.68	$0.68

33. AUDITOR'S REMUNERATION

	2020 $	2019 $
Fees to Ernst & Young		
Fees for auditing the statutory financial report of the parent covering the Group and audting the statutory financial reports of controlled entities	318,682	322,407
Fees for other services	6,367	8,468
Total fees to Ernst & Young	**325,049**	**330,875**

34. EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to ordinary equity holders of the Parent by the sum of the weighted average number of ordinary shares outstanding during the year (adjusted for treasury shares) and the weighted average number of ordinary shares, if any, that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Notes to the Consolidated Financial Statements

34. EARNINGS PER SHARE (EPS) (continued)

The following reflects the income and share data used in the basic and diluted EPS computations:

	2020 $'000	2019 $'000
Profit attributable to ordinary equity holders of the Parent	9,041	16,439

	2020 Number	2019 Number
Weighted average number of ordinary shares for diluted EPS	406,230,728	403,146,462
Treasury shares	-	(762,619)
Weighted average number of ordinary shares for basic EPS	406,230,728	402,383,843

35. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	2020 $'000	2019 $'000
Balance Sheet		
Current assets	69,679	69,255
Total assets	**232,965**	**232,541**
Current liabilities	6	6
Total liabilities	**6**	**6**
Shareholders' equity		
Contributed equity	174,179	174,509
Reserves		
Share-based payment reserve	5,380	4,626
Retained earnings	53,400	53,400
Total equity	**232,959**	**232,535**
Profit for the year	**-**	**-**
Total comprehensive income for the year	**-**	**-**

(b) Guarantees entered into by the Parent Entity

The Parent Entity has not provided any guarantees other than those mentioned in notes 15(a), 15(c), 25(c) and 37.

(c) Contingent liabilities of the Parent Entity

Please refer to note 37 for details of the Parent Entity's contingent liabilities.

Notes to the Consolidated Financial Statements

36. COMMITMENTS

Operating lease commitments – Group as lessee

Operating leases include property, display homes, computer equipment leases and leases for motor vehicles provided under novated leases. Certain property leases include inflation escalation and market review clauses. No renewal or purchase options exist in relation to operating leases, and no operating leases contain restrictions on financing or other leasing activities.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2020[1] $'000	2019 $'000
Operating leases		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities:		
Within one year	269	2,259
After one year, but not more than five years	92	2,003
Total operating leases	**361**	**4,262**
Represented by:		
Non-cancellable operating leases	350	3,822
Cancellable operating leases	11	440
Total operating leases	**361**	**4,262**

(1) The new leases Accounting Standard was adopted on 1st July 2019 - refer to note 39. Accordingly, lease liabilities for the year ended 30 June 2020 have been presented in note 16. Only liabilities in respect of short-term leases and leases of low-value assets, are presented here. The Group has applied the recognition exemption for these leases.

37. CONTINGENCIES

Unsecured

Cross guarantees

The Parent Entity has entered into deeds of cross guarantee in respect of the debts of certain of its controlled entities as described in note 25(c).

Contract performance bond facilities

The Parent Entity has entered into Deeds of Indemnity with various controlled entities to indemnify the obligation of those entities in relation to the Contract performance bond facilities. Details of these entities are set out in note 25(a). 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 (2019: $39,812,000). No liability is expected to arise.

Legal issues

From time to time a controlled entity defends actions served on it in respect of rectification of building faults and other issues. An accrual is taken up for legal costs if a present obligation exists and there is a high degree of certainty on the amount payable. In cases where costs have been estimated after the exercise of judgement, a provision is taken up.

Notes to the Consolidated Financial Statements

37. CONTINGENCIES (continued)

Secured

Banking facilities

The Parent Entity has entered into a cross deed of covenant with various controlled entities to guarantee the obligations of those entities in relation to the banking facilities. Details of these entities are set out in note 25(a).

Performance guarantees

Contingent liabilities in respect of certain performance guarantees, granted by the Group bankers in the normal course of business to unrelated parties, at 30 June 2020, amounted to $15,894,000 (2019: $16,177,000). No 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 (2019: $1,148,000). No liability is expected to arise.

38. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

The contract for the acquisition of 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 as 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.

39. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group applied AASB 16 for the first time from 1 July 2019. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

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').

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 the 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 the lease liabilities on 1 July 2019 was 5.68%.

Notes to the Consolidated Financial Statements

39. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

AASB 16 Leases (Continued)

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 assets at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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.

Notes to the Consolidated Financial Statements

39. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

AASB 16 Leases (Continued)

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.

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.

Other Accounting Standards, Interpretations and Amendments

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. The Group is currently assessing the impact of standards which will be effective in future years.

Notes to the Consolidated Financial Statements

40. OTHER ACCOUNTING POLICIES

Significant accounting policies relating to particular items are set out in the relevant notes. Other significant accounting policies adopted in the preparation of the Financial Report are set out below.

a) Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of AVJennings Limited and its subsidiaries as at 30 June 2020. Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date control ceases.

The Financial Statements of subsidiaries are prepared for the same period as the Parent, adopting consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows are fully eliminated in preparing the Consolidated Financial Statements.

The AVJ Deferred Employee Share Plan Trust was formed to administer the Group's employee share scheme. This Trust is consolidated, as the substance of the relationship is that the Trust is controlled by the Group. Shares held by the Trust are disclosed as treasury shares and deducted from contributed equity.

b) Business combinations

Business combinations are accounted for using the acquisition method. This involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. Acquisition-related costs are expensed as incurred.

c) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or as part of the cost of acquisition of the asset or the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the *Consolidated Statement of Financial Position*. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the *Consolidated Statement of Cash Flows* on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Notes to the Consolidated Financial Statements

40. OTHER ACCOUNTING POLICIES (continued)

d) Foreign currency translation

(i) Functional and presentation currency

The Group's functional and presentation currency is Australian Dollars.

(ii) Translation of Group Companies' functional currency to presentation currency

The results and financial positions of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each *Statement of Financial Position* presented are translated at the closing rate at the date of that *Statement of Financial Position*;
- income and expenses for each *Statement of Comprehensive Income* are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

e) JobKeeper Payment Scheme

The Federal Government introduced a JobKeeper Payment scheme to support businesses significantly affected by COVID-19 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 which has been accounted for in accordance with *AASB 120 – Accounting for Government Grants and Disclosure of Government Assistance.* A total amount of $1,556,000 has been claimed to 30 June 2020. The credit has been recorded as an offset against employee expenses in the *Statement of Comprehensive Income*.

Directors' Declaration

In accordance with a resolution of the Directors of AVJennings Limited, we state that:

1) In the opinion of the Directors:

   i) the Consolidated Financial Statements and Notes are in accordance with the *Corporations Act 2001*, including;

      a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of their performance for the year ended on that date; and

      b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*;

   ii) the Consolidated Financial Statements and Notes also comply with International Financial Reporting Standards as disclosed in note 29; and

   iii) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2020.

3) In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 25 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Simon Cheong
Director

Peter Summers
Director

1 September 2020

Building a better
working world

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Independent Auditor's Report to the Members of AVJennings Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of AVJennings Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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1. Net realisable value (NRV) of inventories

Why significant	How our audit addressed the key audit matter

Approximately 90% of the Group's total assets comprise inventories. Inventories are carried at the lower of cost and net realisable value and the directors assess this with reference to the following:
▶ Capitalised costs to date
▶ Forecast costs to complete
▶ Average historic and forecast selling price and sales rate for each project
▶ Changes to the underlying assumptions based on the impact of changing market conditions and changes to strategy, which includes the COVID-19 pandemic negatively impacting the residential real estate market in Australia.
 	
This was considered a key audit matter as the assessment involves a significant degree of judgment and can present a range of alternative outcomes.
 	
There is judgment involved in determining the appropriate allocation of cost of sales recognised upon the realisation of inventories.
 	
Disclosure of inventories is included in Note 7 of the financial report.
 	
Disclosure of significant judgments is included in Note 22 of the financial report.
	Our audit procedures focused on assessing the judgments and assumptions made by the Group in the feasibilities underpinning the net realisable value assessments.
	
	Our procedures included the following:
	▶ Assessed and tested the effectiveness of relevant controls over cost accumulation
	▶ Held discussions with Project Managers to understand the status and progress of a sample of developments
	▶ Assessed the impairment methodology, project margin analysis and feasibility models prepared by management for a sample of developments in progress
	▶ Identified higher risk projects, based on our judgment, and evaluated the assumptions adopted. In doing so, we:
	    ▶ Compared the forecast sales revenue assumptions to the most recent historical or comparable sales and external market data
	    ▶ Corroborated the costs projected to signed contracts or actual costs incurred for current or comparable projects
	    ▶ Assessed contingency estimates for remaining development risks
	    ▶ Selected a sample of identified higher risk projects in which we involved our internal real estate valuation specialists to evaluate the key sales revenue assumptions in these projects
	▶ Performed sensitivity analyses in relation to the key forward looking assumptions including sales price achieved, cost per lot and escalation rates.
	▶ Considered the impact of the market uncertainty arising from COVID-19 on the Group's forward looking assumptions.
	▶ Tested the mathematical accuracy of the feasibilities tested.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2020 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of AVJennings Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

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Glenn Maris
Partner
1 September 2020