

ASX Release

27 February 2009

**Lend Lease Primelife Half Year Financial Report and Appendix 4D**

Please find attached the Lend Lease Primelife (LLP) Half Year Financial Period and Appendix 4D for the period ending 31 December 2008.

**ENDS**

Further information:-      Mr Rod Fehring CEO - LLP  
03 8699 3300 or 0417 118 335



# **Half-Year Financial Report Appendix 4D**

**Lend Lease Primelife Limited and its controlled entities**  
(formerly Babcock & Brown Communities Limited)  
ABN 16 010 622 901

and

**Lend Lease Primelife Trust**  
(formerly Babcock & Brown Communities Trust)  
ARSN 124 896 733

together

**Lend Lease Primelife Group**

**31 December 2008**

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**APPENDIX 4D:****Half Year Report of Lend Lease Primelife Group for the period ended 31 December 2008****Results for Announcement to the Market**

			<b>\$'000</b>
<b>2.1 Revenue</b> from ordinary activities	up 30%	to	99,893
<b>2.2 Loss</b> from ordinary activities	N/A	to	(204,244)
<b>2.3 Net loss</b> for the period to members	N/A	to	(204,244)
<b>2.4 Distribution</b>			
	<b>Amount per security</b>	<b>Franked amount per security at 30% tax</b>	
Current period	Nil		Nil
Previous corresponding period:	Interim 4.2 cents		Nil
Consistent with previous guidance no distribution has been proposed for the half year.			
<b>2.5 Record date for determining entitlements to the interim distribution:</b>			N/A
<b>2.6 Explanation of result</b>			
Please refer to the separate commentary within the Directors' Report for an explanation of the results.			
<b>3. Net asset backing (NAB) per security with the comparative figure for the previous corresponding period</b>			
	<b>Current period</b>	<b>Previous corresponding period*</b>	
NAB per security	\$0.60		\$0.83
* Based on the Pro-forma net assets in the Notice of AGM dated 28 November 2008, being the last release by the Group.			
<b>4. Controlled entities acquired or disposed of</b>		<b>\$'000</b>	
<b>Acquired (Refer below)</b>		<b>RBD</b>	
Date control gained	30 Dec 08		
Contribution to profit from ordinary activities after tax in current period, where material		-	
Profit from ordinary activities after tax during the whole of the previous corresponding period, where material		2,000*	
* Represents RBD's EBITDA for the 6 months ended 31 December 2008 (the corresponding period prior to acquisition) excluding fair value adjustments on investment properties.			
As part of the combination of transactions with Lend Lease Corporation (LLC) the Group acquired their Retirement by Design (RBD) portfolio. Refer to the notes to the financial report for further details.			
There was no loss of control of entities for the six months ended 31 December 2008 (2007: nil).			

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**5. Additional distribution information**

Apart from the payment of the final FY08 distribution paid via issuance of securities under a distribution reinvestment plan (DRP), no distributions have been declared or paid during or subsequent to the half-year ended 31 December 2008. The final FY08 distribution for which provision had been recognised at 30 June 2008, was fully satisfied during the period through the issuance of securities under the DRP including underwriting.

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**6. Distribution reinvestment plans**

N/A (Dec 07: N/A)

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**7. Associates and joint venture entities**

There has not been any change in the investment held in associates and joint ventures since that reported in the 30 June 2008 year-end financial report.

There are no material contingent liabilities in respect of associates at 31 December 2008 (previous corresponding period: \$Nil).

There are no material commitments in respect of associates at 31 December 2008 (previous corresponding period: \$Nil).

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**8. Foreign Accounting Standards**

For foreign entities only, details of the accounting standards used in compiling the report (e.g. International Accounting Standards).

The Group has a number of New Zealand registered controlled entities. NZ IFRS is used in compiling the report. The accounting policies applied are consistent with that of the Group.

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**9. Audit Alert**

If applicable, details and an explanation of why the auditor's review or audit report contains a dispute/qualification to the half-year financial report for the period ended 31 December 2008.

N/A

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## Directors' Report

### Half-Year Directors' Report

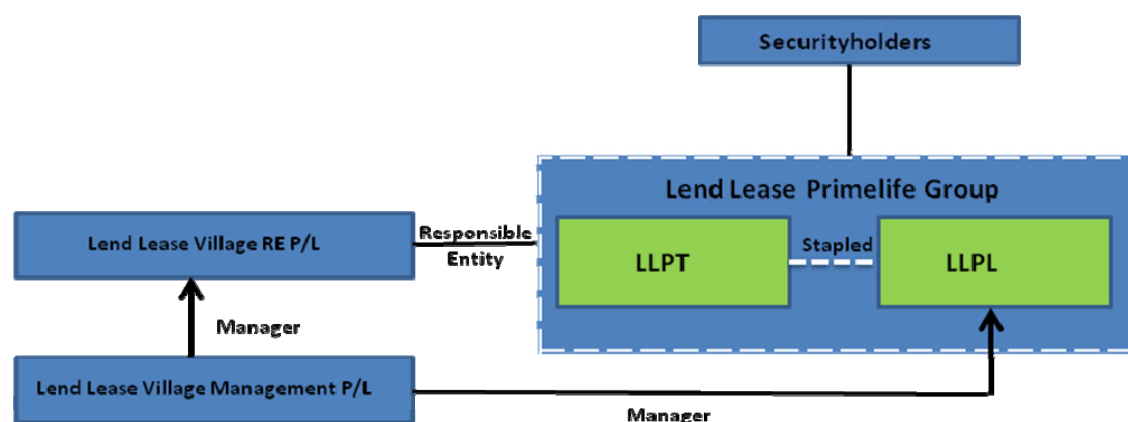
The Directors of Lend Lease Primelife Limited (LLPL or the Company) (formerly Babcock & Brown Communities Limited) and its controlled entities (LLPG or the Group) present their Directors' Report together with the consolidated half year financial statements for the half year ended 31 December 2008. The LLPT financial statements for the same period will be available on [www.llprimelife.com](http://www.llprimelife.com).

During the half year, the restructure of Babcock & Brown Communities to Lend Lease Primelife (the Restructure) became effective. The Restructure included;

- Lend Lease Corporation (LLC) acquiring the management rights from Babcock & Brown to provide LLPG with property, development, asset management, financial advisory and investment banking services on a preferred basis;
- Raising \$169,980,000 of LLPG stapled securities from LLC, including the final tranche of \$22,280,000 issued on 20 February 2009 following New Zealand OIO approval;
- The acquisition of the Retirement by Design (RBD) portfolio from LLC;
- Changing their names to Lend Lease Primelife Limited (LLPL) and Lend Lease Primelife Trust (LLPT) (formerly Babcock & Brown Communities Limited and Babcock & Brown Communities Trust); and
- Restructuring its existing corporate debt facilities and interest rate derivative facilities.

Since becoming the manager, LLC has worked closely with the Board and the existing management team to initiate a thorough review of the business to ensure it is best positioned to deal with the very difficult market and economic conditions prevailing today. This review has included a complete overhead review, deferment of various development projects, cash flow management initiatives and identification of potential asset divestments and a detailed balance sheet review.

The following diagram provides an overview of the Group's structure.



The implementation of the Restructure resulted in:

- A substantial increase in the Group's retirement living and aged care assets through the acquisition of the RBD portfolio with the addition of 7 retirement villages with 1,154 units and 1 aged care facility with 43 beds;
- Increased diversification providing improved exposure to east coast metropolitan areas, as well as synergies; and
- Strengthening of the Group's asset management expertise and leveraging LLC's development expertise to deliver value.

### Nature of operations and principal activities

The principal activities of the Group consisted of the continuing management, ownership and development of senior living facilities which provide accommodation and/or care to individuals over 55 in a retirement village or aged care facility.

There have been no significant changes in the nature of those activities during the half year.

**Review of operating results**

A summary of consolidated results for the half year by significant industry segment is set out below:

	31 Dec 2008	31 Dec 2007
	\$'000	\$'000
Retirement Living	20,414	36,448
Aged Care	8,044	4,989
Development	6,397	10,470
Corporate / Other	(19,023)	(24,172)
Annual fees to facility owners	(6,696)	(6,596)
<b>Total Operating EBITDA</b>	<b>9,136</b>	<b>21,139</b>
Fair value adjustments to retirement villages – gain / (loss)	(49,886)	25,137
Mark to market on interest rate swaps	(40,196)	-
Impairments	(83,386)	(5,999)
Restructure costs	(6,770)	-
Depreciation and amortisation	(4,762)	(2,823)
Finance costs	(23,730)	(17,426)
<b>Profit / (loss) before income tax</b>	<b>(199,594)</b>	<b>20,028</b>
Income tax (expense) / benefit	<b>(4,650)</b>	<b>(1,790)</b>
<b>Profit / (loss) attributable to security holders of LLPG</b>	<b>(204,244)</b>	<b>18,238</b>

**MANAGEMENT DISCUSSION AND ANALYSIS****RETIREMENT LIVING****Financials**

- The Retirement Living Business achieved 150 resales for the six months to 31 December 2008, generating \$13.2m in deferred management fees (DMF) cash inflow for sites where it is entitled to 100% of the DMF. This compares to 222 resales and \$10.5m for the prior comparative period (pcp).
- The Retirement Living Business also derived \$2.7m in management fee revenue for the period.

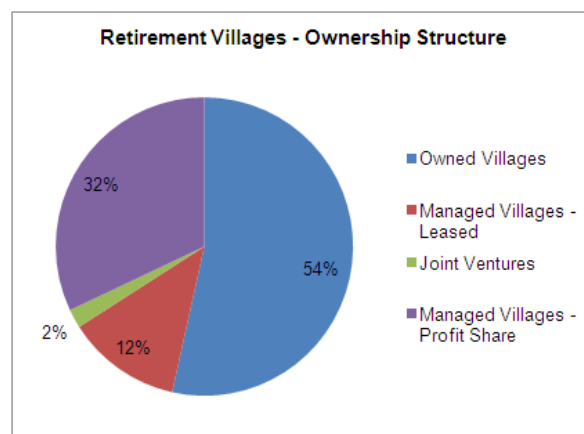
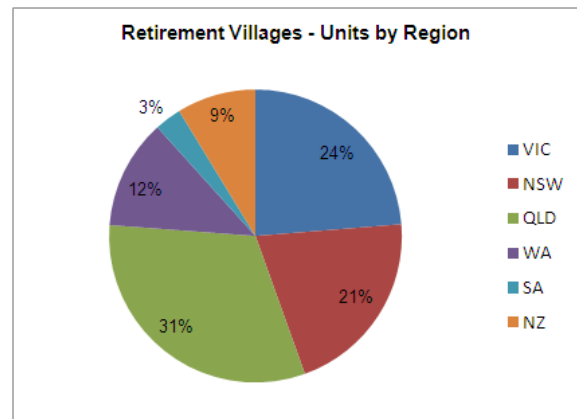
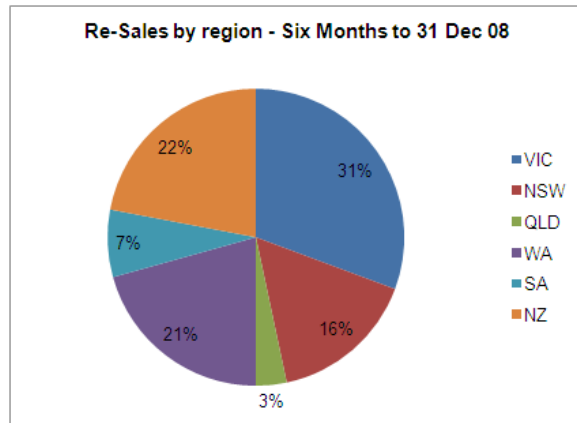
**Village Portfolio**

	Net Valuation		Villages	Units
	Dec-08	Jun-08		
Owned Villages	652,220	578,798	37	6004
Managed Villages - Leased	62,239	70,828	11	1398
Joint Ventures	-	-	3	230
Managed Villages - Profit Share	-	-	12	3598
<b>Total</b>	<b>714,460</b>	<b>649,626</b>	<b>63</b>	<b>11230</b>

- The acquisition of 7 retirement villages from Retirement by Design (RBD) has increased LLP's portfolio by 7 villages and 1,154 residences.
- Village occupancy as at 31 December 2008 was 93.4% across all the Retirement Living Business sites. This comprised of 94.7% for ILUs and 82.82% for ILAs and SAs.

**Integration of former RBD sites**

- The integration of the former RBD sites is progressing well.
- The portfolio is well positioned for future growth with increased geographic diversity for the LLP portfolio and, in particular, provides LLP with an increased presence in metropolitan Sydney.
- LLP expects to be able to leverage off the combined expertise of the existing LLP and RBD operating platforms in order to produce a stronger and more focussed business heading into the future.





## Retirement Village Portfolio

Village	Region	No of Units	DMF Exposure
<b>Owned</b>			
Bayside	NSW	248	100%
Henry Kendall ILU's	NSW	646	100%
Annesley	NSW	72	100%
Coastal Waters	NSW	73	100%
Glenaeon	NSW	270	100%
Lutanda Manor	NSW	133	100%
Pittwater	NSW	85	100%
Trowella Gardens	NSW	21	100%
Camberwell Green	VIC	26	100%
Evelyn Ridge	VIC	26	100%
Goodwin Close	VIC	43	100%
Lexington	VIC	290	100%
Waterford Valley Lakes	VIC	185	100%
Burwood Terrace	VIC	106	100%
Forest Hills	VIC	160	100%
Highvale	VIC	190	100%
Peppertree Hill	VIC	210	100%
Waterford Park	VIC	67	100%
Woodlands Park	VIC	55	100%
<b>Managed Villages - Leased</b>			
Riverwood	NSW	130	100%
Cumberland	VIC	192	100%
Geelong-Tannoch Brae	VIC	88	100%
Heathglenn - Village	VIC	114	100%
K-Tang Crt	VIC	122	100%
Meadowvale	VIC	204	100%
Port Phillip	VIC	162	100%
Viewbank	VIC	52	100%
Williamstown	VIC	141	100%
Glen Woodley	SA	75	100%
Vermont	SA	118	100%

Village	Region	No of Units	DMF Exposure
<b>Owned</b>			
Allora Gardens	QLD	240	100%
Eaglemount	QLD	96	100%
The Lakes - Bundaberg	QLD	281	100%
Bibra Lake	WA	288	100%
Harbourside Mindarie	WA	140	100%
Homestay	WA	80	100%
Parkland - Mandurah	WA	121	100%
Parkland Booragoon	WA	185	100%
Parkland Ellenbrook	WA	29	100%
Parkland Woodlands	WA	240	100%
The Pines Ellenbrook	WA	139	100%
Timberside Woodvale	WA	140	100%
Elliot Gardens	SA	139	100%
Knightsbridge	NZ	245	100%
Mayfair	NZ	168	100%
Ocean Shores	NZ	206	100%
Parklane	NZ	155	100%
Peninsula Club	NZ	206	100%
<b>Managed - Profit Share</b>			
Bellflower	QLD	460	12%
Buderim Gardens	QLD	400	12%
Carlyle Gardens - Mackay	QLD	257	12%
Carlyle Gardens - Townsville	QLD	394	12%
Hibiscus Buderim Meadows	QLD	203	12%
Hibiscus Chancellor Park	QLD	404	12%
Hibiscus Nambour	QLD	55	12%
Hibiscus Noosa Outlook	QLD	235	12%
Lindfield	QLD	130	12%
<b>Joint Ventures</b>			
Brighton on the Bay	VIC	76	50%
Claremont Terrace	VIC	79	50%
Martha's Point	VIC	75	50%

## **DEVELOPMENT**

### **Financials**

- \$24m gross proceeds, compared to \$32m for pcg.

### **Sales**

- LLP had 96 first time settlements for the six months to 31 December 2008 compared to 129 for pcg.
- First time settlements achieved an average margin of 16% (not including future DMFs) (pcg 18%).
- Projected total first time settlements for full year to 30 June 2009 of 180, expected to generate gross revenue of \$46m. The projections for 2H09 include sales already settled since 31 December 2008 and committed sales looking forward, of which 100% are contracted or reserved.

### **Stock Levels**

- LLP had unsold stock (retirement village units) of 234 at 30 June 2008. As this was higher than optimal, development activity was reduced during the six months to 31 December 2008 to manage stock levels to better reflect demand conditions in the current market environment and to preserve cash.
- Unsold stock as at 31 December 2008 was 223 units. Inventory levels are projected to be further reduced as part of LLP's inventory management initiatives, to around 140 units by 30 June 2009, a reduction of 40% from 30 June 2008.
- Optimum stock levels of approximately 100 - 120 for the overall portfolio would reflect a reasonable balance between supply and demand in current market conditions.
- Development at a small number of projects will recommence in the second half of FY09 where demand warrants further stock. These projects will be Woodlands Park in Berwick (Vic), Waterford Park in Knoxfield (Vic) and Martha's Point in Mount Martha (Vic).

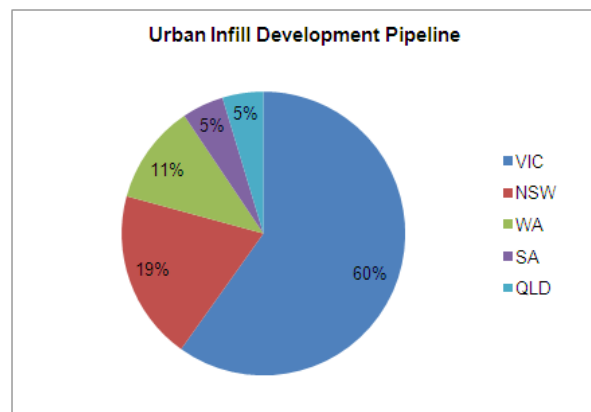
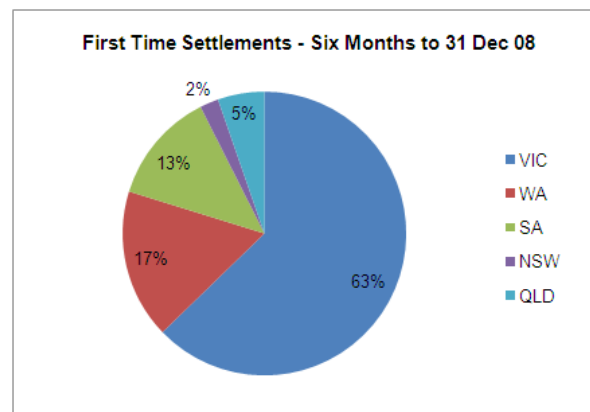
### **Detailed Review of Projects**

- Prolonged settlement periods have continued to be experienced as the impact of a slowing property market negatively impacts incoming residents' ability to sell their existing homes within their time and price expectations. The expectation is that this scenario will continue for at least the remainder of FY09, which has been factored into LLP's inventory and development management decisions and projections.
- Divestments of approximately \$30m in non-core development assets are planned for the next 12 to 24 months.

**Retirement Village (ILU) Development Pipeline**

Completed Units					
Project	Stock on Hand	Future Stock	Expected year of sales completion	Ave sale price ('\$'000)	Gross Sales (\$'000)
Bayside	2	0	2009		
Lexington	12	0	2010		
Camberwell	13	0	2009		
Brighton	32	0	2011		
Claremont Terrace	18	0	2011		
<b>TOTAL</b>	<b>77</b>	<b>0</b>		<b>362</b>	<b>27,844</b>

Urban Infill					
Project	Pipeline units to be sold	Future Stock	Expected year of sales completion	Ave sale price	Gross Sales
Martha's Pt	15	35	2011		
The Lakes	27	27	2011		
Evelyn	13	83	2014		
Elliot	4	51	2011		
Waterford	18	60	2011		
Woodlands	7	150	2014		
Ellenbrook	40	91	2014		
Coastal	22	202	2017		
Pt Cook	0	263	2016		
Toorak	0	48	2013		
<b>TOTAL</b>	<b>146</b>	<b>1,010</b>		<b>469</b>	<b>473,255</b>

**AGED CARE**

- Comparisons between the six months to 31 December 2008 and the pcp should take note of the acquisition of the Conform portfolio on 27 November 2007, in which LLP effectively doubled the number of beds under management. Impact of this is that pcp includes contribution from the Conform portfolio for only one month.
- Integration of Keperra aged care facility, acquired on 30 December 2008, will occur over the next period.

**Financials**

- EBITDA (excluding interest income on bonds received and rent on leased facilities) per occupied bed was \$3,450 for the first half, compared to \$836 for the pcp. The 12 month rolling EBITDA per occupied bed is forecasted to be \$7,651.
- Net accommodation bonds received for the six months to 31 Dec 08 was \$5.8m at an average bond amount of \$211,000. This compares to net accommodation bonds of (\$3.9m) and an average bond amount of \$178,000 for the pcp.
- Aged Care generated operating cash flow of \$1.9m for the half year.

**Operational Efficiencies / Strengths**

- Average occupancy rates for the six months to 31 December 2008 remain strong at 93.3% excluding ramp up facilities and 89.6% when ramp up facilities are included. Since 31 December, total occupancy (including ramp up) has improved further. Occupancy rates for the pcp were 90% excluding ramp-ups and 85.6% including ramp-ups.
- Labour cost as a percentage of revenue was 67% for the six months to 31 December 2008, compared to 67.8% at FY08 and 67.7% for the pcp. Further efficiency gains are expected through the continued implementation of our new operating systems across the Conform portfolio.
- The implementation of new operating systems (Kronos and TRAX), has been completed across the entire Victorian portfolio and rollout across our NSW sites is tracking well with completion expected by the end of the calendar year. Synergies from the operating systems rollout and other operational integration initiatives are expected to release further efficiencies and ease the administrative burden, which will enable resident care teams to focus more time and energy on their primary role of caring for residents.

**Facilities**

- The portfolio of facilities maintained 100% accreditation by the Department of Health & Ageing, with the 4 facilities assessed and accredited in the six months to 31 December passing all 44 standards.
- The portfolio currently consists of 33 facilities, with a total of 2,313 beds under management.
- 38% of LLP's facilities are co-located with LLP retirement villages. Co-location is a key advantage of the portfolio, enabling a continuum of care offering to prospective residents as they make decisions about all aspects of their future care requirements.

**Aged Care Statistics as at 31 December 2008**

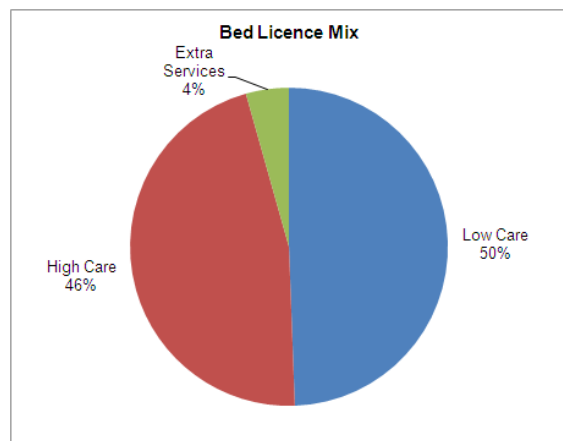
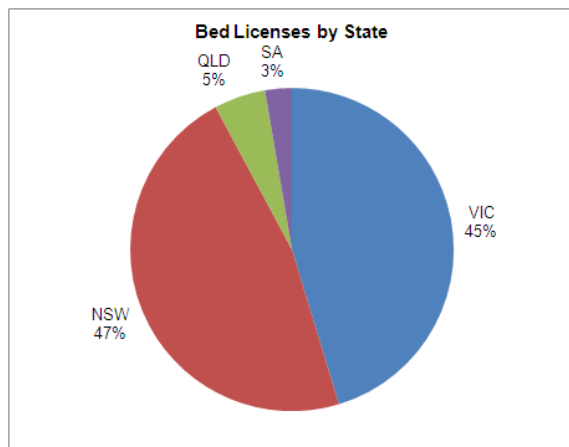
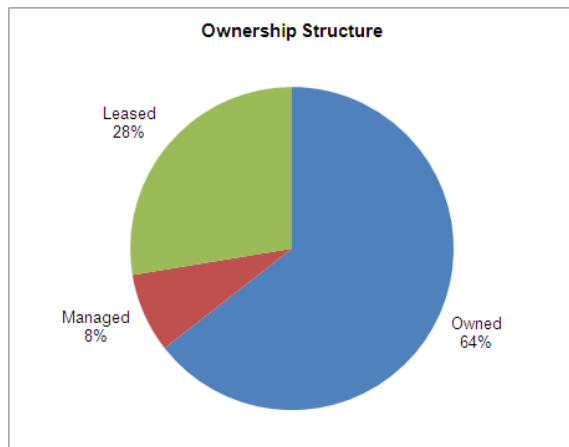
Aged Care Portfolio Statistics	
No. of facilities	33
No. of beds	2,313
Portfolio occupancy	89.6%*
Average age of residents	84 years

*\*Figure includes ramp-up facilities.*

*\*Portfolio occupancy is 93.3% excluding ramp-up facilities.*

LLP Aged Care Portfolio									
Facility	Location	Number of beds*			Facility	Location	Number of beds*		
		LC	HC	ExS			LC	HC	ExS
Owned					Leased				
Bass Hill	NSW		78		Riverwood	NSW	29		
Bayside (Conform)	NSW	40	84		Trevi Court	VIC	52		
Beechwood	NSW	40	70		Tannoch Brae	VIC	50		
Brentwood	NSW		84		Summerwood	VIC	31		
Calare	NSW		66		Riddell Gardens	VIC	74		
Coastal Waters (Jervis Bay)	NSW	42	84		Orden on Glendale	VIC	105		
Greenwood	NSW		53		Lilydale Nursing Home	VIC		30	
Henry Kendall (Wyoming)	NSW		110		Glendale	VIC	120	15	
Pendle Hill	NSW		84		Cumberland NH	VIC		30	
Redleaf Manor	NSW			65	Bayside (Primelife)	VIC	41		
Rosemore	NSW		90		Little Para	SA	62		
Willandra	NSW		64		<b>Total Leased</b>		<b>564</b>	<b>75</b>	<b>0</b>
Avonlea	VIC	70			<b>Managed</b>				
Highwood Court	VIC	75			Clarmont Terrace	VIC	57		
Lexington	VIC	60			Medina Manor	VIC	45		
Montclair Hostel	VIC			36	Villa del Sole	VIC	52		
Princeton View	VIC	69	37		Keperra	QLD	30		
Sylvan Woods	QLD		89		<b>Total Managed</b>		<b>184</b>	<b>0</b>	<b>0</b>
<b>Total Owned</b>		<b>396</b>	<b>993</b>	<b>101</b>			<b>LC</b>	<b>HC</b>	<b>ExS</b>
					<b>Totals</b>		<b>1144</b>	<b>1068</b>	<b>101</b>
					<b>Total Number of Beds</b>	<b>2313</b>			
* LC = Low Care, HC = High Care, ExS = Extra Services									

\* LC = Low Care, HC = High Care, ExS = Extra Services



**CORPORATE**

- Interest revenue was largely sourced from interest charged on overdue Aged Care accommodation bonds and Retirement Living. As the capital raising from LLC was approved on 30 December 2008, only 1 day of interest revenue on the significant cash on hand was included in the half year result.
- Interest expense (excluding the LLC convertible notes) comprises primarily the interest on the corporate debt facilities, including hedges. Minimal interest was incurred on the LLC convertible notes as the majority were issued on 30 December 2008.
- LLP hedges interest rate risk in accordance with Board approved hedging policies. At 31 December 2008, 29% of debt was hedged (excluding the LLC convertible notes).
- The mark to market of the structured interest rate hedging instruments put in place under the previous manager in early 2008 increased significantly in the period to 31 December 2008 due to the rapid reduction in market interest rates.
- Prior to 31 December 2008, LLP closed out \$150m of these hedges effective 16 January 2009 resulting in cash payment of \$16.5m as it was deemed uneconomic to keep these hedges in place. The current view is to increase the level of hedging in line with the results of a strategic review currently being undertaken, taking advantage of the current low market rates.
- Average interest rate from hedging was 6.92% on \$150m or 29% of debt (excluding the LLC convertible notes) at 31 December 2008, compared with 6.02% on \$371.2m or 65% of debt at 30 June 2008. As a result 71% of debt was unhedged at 31 December 2008 (compared to 35% at June 2008) with the Group benefiting from the current low variable rates.
- Net debt (excluding LLC convertible notes) reduced by \$149.5m down to \$422.9m as at 31 December 2008 and Net debt including convertible notes increased by \$5.4m to \$577.8m.
- As a result of the LLC transaction:
  - The balance outstanding and commitment available under LLP's corporate debt facilities (refer note 7 for further details) was reduced by \$74.m in the period ended 31 December 2008.
  - Convertible notes with a face value of \$158.4m and 5 year term were issued to LLC (refer to note 5 for details of the AIFRS split accounting treatment and note 7).
  - LLP had cash on hand of \$96.3m as at 31 December 2008 and received a further \$22.3m in cash on 20 February 2009 following New Zealand OIO approval which resulted in the issue of the remaining ordinary securities to LLC.
- Corporate debt facilities are in 2 tranches and are due to mature in December 2010 and December 2012.
- Gearing on corporate debt facilities and hire purchase loans reduced by 7% to 35% (based on total assets less resident loans and accommodation bonds).
- Workcover trends in LLP continued to show positive year on year improvements. Integration of the Conform Group of Aged Care facilities now allows sufficient scale for an effective comparison of performance in managing Occupational Health & Safety compared against industry benchmarks.

**ASSET MANAGEMENT**

- The scale of LLP's business and portfolio of assets is now such that opportunity exists to extract benefits from asset management initiatives that will enhance the overall value of the portfolio into the future.
- Asset Management focuses on ensuring that village amenity and place defining elements are optimised by making strategic and timely investments in village amenities and other infrastructure.
- It is expected that once operational the initiatives will begin to contribute value to LLP from FY2010 and beyond.

**VALUATIONS****HY09 Valuations – Retirement Village Investment Properties**

- As at the end of the half year, approximately 37% of the portfolio was independently valued.
- Adjustments to LLP's valuation assumptions given the current market climate has resulted in a reduction in the valuation of retirement villages totalling \$55.8m. Australian (\$51.3m) and New Zealand Retirement (\$4.5m) valuation reductions are the result of:
  1. Growth Rate Reduction – taking into account the growth rate achieved on resales in the 6 months to December 2008, from the individual unit values in the June 2008 valuations and the expectation of reduced growth rate in the short term, long term average future growth rates have been reduced by 0.5% for the Australian Portfolio.
  2. Discount Rate Increase – The following were taken into account:
    - Risk free rates have fallen sharply in recent months while risk premiums, although difficult to assess in the current climate of uncertainty, have increased;
    - The valuers appointed to value LLP's New Zealand villages, increased discount rates across the portfolio;
    - Discussions with valuers in Australia, show that valuers in Australia believe that discount rates in Australia have increased in the 6 months to December 2008;
    - Various listed companies that have released their results in the last few weeks have all pointed to an increase in discount rates applicable to this asset class; and
    - With minimal transaction activity and that transaction activity being assessed as distressed transaction, it is hard to include those transactions in the decision set.

Taking all the above into account, on the balance of probabilities it was considered appropriate to increase discount rates by 0.25% across our portfolio to a weighted average of 12.5%.

**GROUP****Net Asset Backing (NAB) per security**

The NAB at 31 December 2008 was \$0.60 per security. This represents a \$0.23 decrease from the Pro-forma net assets in the Notice of AGM dated 28 November 2008, being the last release by the Group.

**Distribution**

Consistent with prior advice no interim distribution has been proposed (Dec 2007: An interim distribution of 4.2 cents per stapled security).

**Earnings Per Security**

LLPG	31 Dec 2008 Cents	31 Dec 2007 Cents
Basic earnings/(loss) per security	(30.50)	3.19
Diluted earnings/(loss) per security	(30.25)	2.91

**Directors**

The following persons were Directors of the Group in office during the period and up to the date of this report:

J Sloan	Chairman (independent non-executive)
G J Martin	Director (independent non-executive)
A J Love	Director (independent non-executive)

R N Topfer resigned as Director on 12 September 2008.

A J Schwartz resigned as Director on 15 September 2008.

J D Martin resigned as Managing Director on 30 December 2008.

The following persons were appointed as Directors of the Group during the period and held office up to the date of this report:

D Hutton	Director (non-executive) (appointed on 30 December 2008).
A Lombardo	Director (non-executive) (appointed on 30 December 2008).

No other person has been a Director of the Company at any time during or since the end of the half-year.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 16.

**Rounding of Amounts**

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Signed in accordance with a resolution of the Directors.



**J Sloan**  
**Chairman**

27 February 2009  
Sydney



PricewaterhouseCoopers  
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## Auditor's Independence Declaration

As lead auditor for the review of Lend Lease Primelife Limited for the half-year ended 31 December 2008, I declare that 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Lend Lease Primelife Limited and the entities it controlled during the period.



Gareth Winter  
Partner  
PricewaterhouseCoopers

Sydney  
27 February 2009

**Consolidated Income Statements  
for the period ended 31 December 2008**

	Notes	31 Dec 2008 \$'000	31 Dec 2007 \$'000
<b>Revenue</b>		<b>99,893</b>	<b>77,024</b>
Fair value adjustment to investment property - gain / (loss)	2	(49,886)	25,137
		<b>50,007</b>	<b>102,161</b>
Employee benefits expense		(48,911)	(24,780)
Interest expense excluding LLC convertible notes		(23,145)	(17,426)
Interest expense on LLC convertible notes		(147)	-
Fair value adjustment on interest rate derivative gain/(loss)		(40,196)	-
Costs of developing senior living facilities		(5,069)	(5,818)
Transaction costs		(1,441)	(7,550)
Annual fees to facility owners		(6,696)	(6,596)
Professional fees and consultants		(3,718)	(2,108)
Depreciation and amortisation expense		(4,762)	(2,823)
Bad & doubtful debts	3	(18,032)	-
Restructure costs		(6,770)	-
Impairment of development projects	3	(65,354)	-
Impairment of management rights		-	(5,999)
Marketing & promotion expenses		(4,833)	(1,455)
Repairs & maintenance		(3,265)	(1,470)
Catering costs		(2,895)	(1,821)
Rent, rates & taxes		(2,589)	(931)
Other expenses from ordinary activities		(9,010)	(2,102)
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	3	(2,768)	(1,254)
<b>Profit/(loss) before income tax</b>		<b>(199,594)</b>	<b>20,028</b>
Income tax (expense)/benefit	4	(4,650)	(1,790)
<b>Profit/(loss) after income tax</b>		<b>(204,244)</b>	<b>18,238</b>

<b>Earnings per security</b>	<b>Cents</b>	<b>Cents</b>
------------------------------	--------------	--------------

Earnings per stapled security for profit attributable to the stapled security holders of LLPG (the Group):

Basic earnings/(loss) per stapled security	(30.50)	3.19
Diluted earnings/(loss) per stapled security	(30.25)	2.91

The above consolidated income statements are to be read in conjunction with the attached Notes.

**Consolidated Balance Sheets  
as at 31 December 2008**

	Notes	31 Dec 2008 \$'000	30 Jun 2008 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		96,327	19,391
Receivables		47,371	52,920
Deferred management fees		7,291	7,083
Inventories		32,673	29,113
Other		2,072	1,421
<b>Total Current Assets</b>		<b>185,734</b>	<b>109,928</b>
<b>Non Current Assets</b>			
Receivables		553	446
Deferred management fees		54,948	63,745
Other financial assets		11,272	11,770
Investments accounted for using the equity method		15,783	18,551
Property, plant and equipment		322,886	396,527
Investment property	6	2,264,822	1,786,868
Deferred tax assets	4	64,011	81,794
Intangible assets		259,379	238,482
<b>Total Non Current Assets</b>		<b>2,993,654</b>	<b>2,598,183</b>
<b>Total Assets</b>		<b>3,179,388</b>	<b>2,708,111</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Resident loans		1,587,517	1,188,762
Accommodation bond liabilities		117,771	105,560
Interest rate derivatives financial liability		43,642	3,446
Payables		71,819	62,319
Borrowings	7	521,701	432
Provisions		15,741	22,829
<b>Total Current Liabilities</b>		<b>2,358,191</b>	<b>1,383,348</b>
<b>Non Current Liabilities</b>			
Deferred revenue		25,084	19,318
Borrowings	7	155,381	591,298
Deferred tax liabilities	4	82,214	97,111
Provisions		4,692	4,190
<b>Total Non-Current Liabilities</b>		<b>267,371</b>	<b>711,917</b>
<b>Total Liabilities</b>		<b>2,625,562</b>	<b>2,095,265</b>
<b>Net Assets</b>		<b>553,826</b>	<b>612,846</b>
<b>Equity</b>			
Parent entity interest:			
Contributed equity	8	561,161	478,847
Reserves	9	213	(8,495)
Retained profits/(accumulated losses)		(299,265)	(95,021)
Minority Interest (Equity Holders of LLPT)		291,717	237,515
<b>Total Equity</b>		<b>553,826</b>	<b>612,846</b>

The above consolidated balance sheets are to be read in conjunction with the attached Notes.

**Consolidated Statements of Changes in Equity  
for the period ended 31 December 2008**

	Notes	31 Dec 2008 \$'000	31 Dec 2007 \$'000
<b>Total equity at the beginning of the financial period</b>		<b>612,846</b>	<b>104,656</b>
Changes in the fair value of foreign currency reserve, net of tax – gain / (loss)	9	5,200	(474)
Changes in asset revaluation reserve	9	(20)	8
Changes in LLC convertible notes reserve	9	3,528	-
Transfer out profits relating to an associate accounted for using the equity method now accounted as a subsidiary			
<b>Net income / (expense recognised directly in equity)</b>		<b>8,708</b>	<b>(466)</b>
(Profit / (loss) for the financial period		(204,244)	18,238
<b>Total recognized income and expense for the financial period</b>		<b>195,536</b>	<b>17,772</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>			
Contributions of equity, net of transaction costs and tax		82,314	242,520
Minority interest, net of transaction costs		54,202	251,275
Distributions			
Employee share options expense	9	-	58
<b>Total equity at the end of the financial period</b>		<b>553,826</b>	<b>616,281</b>

The above consolidated statements of changes in equity are to be read in conjunction with the attached Notes.

**Consolidated Cash Flow Statements  
for the period ended 31 December 2008**

	Notes	Period ending	
		31 Dec 2008 \$'000	31 Dec 2007 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		116,154	70,181
Payments to suppliers and employees (inclusive of goods and services tax)		(109,751)	(41,289)
Accommodation bonds received		23,310	18,658
Accommodation bonds paid		(17,908)	(15,840)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>11,805</b>	<b>31,710</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment		(2,697)	(11,420)
Payment for investment properties		(5,935)	-
Purchase of business, net of cash acquired		(12,628)	(457,359)
Payments for settlements		(854)	-
Other investing cashflows		166	(43)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(21,948)</b>	<b>(468,822)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of securities		145,298	442,681
Proceeds from issue of convertible notes		38,400	-
Interest received		1,606	2,127
Interest paid		(25,015)	(18,060)
Proceeds from borrowings		-	590,487
Repayment of borrowings		(73,381)	(553,965)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>86,908</b>	<b>463,270</b>
<b>Net increase/(decrease) in cash held</b>		<b>76,765</b>	<b>26,158</b>
Cash and cash equivalents at the beginning of the period	10	18,474	17,207
Effects of exchange rate movements in cash		171	-
<b>Cash and cash equivalents at the end of the period</b>	10	<b>95,410</b>	<b>43,365</b>

The above consolidated cash flow statements are to be read in conjunction with the attached Notes.

**Notes to the Consolidated Financial Statements  
for the period ended 31 December 2008****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a) An Overview of the LLPG Accounts**

Lend Lease Primelife Group includes two listed entities Lend Lease Primelife Limited (LLPL) (formerly Babcock & Brown Communities Limited) and Lend Lease Primelife Trust (LLPT) (formerly Babcock & Brown Communities Trust).

The issued securities in these entities have been stapled together and trade as one listed security on the Australian Stock Exchange (ASX code: LLP). The stapled security represents one share in LLPL and one unit in LLPT. The stapled securities cannot be traded or transferred independently and are quoted at a single price.

AASB Interpretation 1002, *Post-Date-of-Transition Stapling Arrangements*, applies to stapling arrangements occurring during annual reporting periods ending on or after 31 December 2006 where the identified parent does not obtain an ownership interest in the entity whose securities have been stapled. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interests of the equity holders in the LLPT securities are treated as minority interests.

**b) Basis of Preparation**

This general purpose financial report for the interim reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the period ended 30 June 2008 and any public announcements made by Lend Lease Primelife Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of LLPL as at 31 December 2008. LLPL and its controlled entities together with LLPT are together referred to in this financial report as the Group or the Consolidated Entity. The accounting policies adopted are consistent with those of the previous financial period and corresponding interim reporting period.

As a result of asset impairments and other charges recognised in the half year ended 31 December 2008, the Group was required to seek a waiver from its lenders to exclude these items from the calculation of one of its financial covenants with respect to its corporate debt facilities. Without the waiver, the Group would have been in breach of this covenant based on the results reported in the interim financial report for the half year ended 31 December 2008. Charges recognised in the period include impairments of development projects, investments in development project joint ventures, fair value adjustment to the valuation of retirement village investment properties, restructure costs and other provisions.

In February 2009, the Group received written confirmation from the relevant banks as well as an interest rate derivative counterparty that a potential breach of a financial covenant was waived. The covenant requirements for 30 June 2009 have also been revised to exclude the impact of the asset impairments recognised as at 31 December 2008. The Group has satisfied its other covenants under its debt facilities as at 31 December 2008. As the waiver was obtained after 31 December 2008, the Group has re-classified these borrowings as current liabilities as required under AIFRS, as the Group did not have an unconditional right to defer its settlement for at least 12 months at that date. As at the date of this report the corporate debt facilities would be re-classified back to non-current under AIFRS requirements. As at 31 December 2008 the Group had \$524.4 million of borrowings outstanding under these facilities (limit of \$525 million) that mature in December 2010 and December 2012.

The Group had cash on hand of \$96.3 million as at 31 December 2008 following the implementation of the Lend Lease capital restructure approved by security holders on 30 December 2008.

The Group has complied with all other debt covenants as at 31 December 2008 and according to the Group's forecast for the financial years ending 30 June 2009 and 30 June 2010 (the "Forecast") will continue to comply throughout these financial years. However, the margin between compliance and non-compliance in relation to certain financial debt covenants is such that some uncertainty exists in relation to the Group's ability to remain compliant with all debt covenants throughout the financial years ending 30 June 2009 and 30 June 2010. The Forecast on which the Directors have formed their view is forward looking and by its very nature is based on best estimate assumptions of transactions and events that may or may not occur as expected and is subject to influences and events outside of the control of the Group. Actual results may differ from the Forecast and may result in a breach of a debt covenant.

If a debt covenant is breached in the future, there is a risk that the providers of the debt facilities may require the Group to repay some or all of the outstanding balance of the debt under the terms of the relevant facilities prior to the contractual maturity dates in respect of each tranche of the facilities being, \$349 million in December 2010 and \$175.4 million in December 2012. If the debt facilities providers do not waive a debt covenant breach the outstanding debt will be classified as a current liability. If the Group is required to repay the debt, the Group may have to realise assets or seek alternative funding sources to fund the early repayment of debt which may or may not be available at that time. Consequently, if these events occur there is inherent material uncertainty in relation to the Group's ability to continue as a going concern and therefore it may not realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report. However, the Directors reasonably believe mitigating actions are available to the Group.

Therefore, after taking into account all available current information and based on the advice of management, the Directors have concluded that there are reasonable grounds to believe:

- The Group will comply with the debt covenants during the period to 30 June 2009 and the financial year ending 30 June 2010;
- The Group will be able to pay its debts as and when they become due and payable; and
- The basis of preparation of this general purpose financial report on a going concern basis is appropriate. No adjustments have been made relating to the recoverability and classification of recorded amounts or to the amounts of liabilities that might be necessary if the entity does not continue as a going concern.

The Directors have formed this view based on a number of factors including:

- A review of the Forecast, including the key assumptions and an assessment of the reasonable likelihood of future transactions occurring as estimated.
- The performance of the Group's business since LLC became manager.
- The findings since LLC became manager, working closely with the LLP Board and the management, of the thorough review of the business initiated to ensure the Group is best positioned to deal with the very difficult market and economic conditions prevailing. This review has included a complete overhead review, deferment of various development projects, cash flow management initiatives, identification of potential asset divestments and a detailed balance sheet review.
- Expectations that the Group will be able to meet its financial commitments or obtain appropriate additional finance for any short term liquidity needs prior to significant assets sales such that post these asset realisations the Group's overall level of gearing will be such that it may be attractive to alternative lenders.

### **c) Resident loans and Accommodation bonds**

Resident loans are non interest bearing and are repayable out of the amounts paid by the incoming residents. Resident loans are classified as current liabilities as required under AIFRS because it is assumed that an outgoing resident is repaid within 12 months (as the Group does not have an unconditional right to defer settlement), notwithstanding that history has shown that residents stay for an average period of 11 years in independent living units (ILUs) and five years in serviced apartments.

Accommodation bonds are recognised at an amount equal to the proceeds received and classified as a

current liability as they are repayable on demand. History has shown the residents stay for an average period of four years.

#### d) Critical Accounting Estimates

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

In preparing these Consolidated Financial Statements the significant judgments made by the Directors in applying LLPL's accounting policies were the same as those that applied to the Financial Report for the period ended 30 June 2008.

Refer to Note 3, Note 5 and Note 6 for further details on critical accounting estimates made by the Directors during the period.

## 2. OTHER INCOME / (LOSS)

	Period ending	
	31 Dec 2008	31 Dec 2007
	\$'000	\$'000
<b>Other income / (loss):</b>		
Profit before income tax includes the following specific income items:		
Fair value adjustment to investment property – gain / (loss)	(49,886)	25,137

Refer to Note 6 for details on the basis of valuation of investment property as at 31 December 2008.

## 3. IMPAIRMENT REVIEW

As detailed in Note 1(b), since LLC became manager, working closely with the LLP Board and management, a thorough review of the business was initiated to ensure the Group is best positioned to deal with the very difficult market and the economic conditions prevailing today. This review has included a complete overhead review, deferment of various development projects, cash flow management initiatives, identification of potential asset divestments and a detailed balance sheet review.

As part of the detailed balance sheet review, an impairment review of all significant assets was completed, including detailed impairment tests where required each reporting date under AIFRS, or where indications of a potential impairment were identified. The basis of the impairment reviews and impairment tests are detailed below by asset type.

#### (a) Retirement village investment properties held at fair value

Refer to Note 6 for the valuation basis and resulting fair value adjustment – loss on retirement village investment properties held at fair value recognised as at 31 December 2008.

#### (b) Impairment of development projects

Land and projects held for resale are classified as inventory and stated at the lower of cost and net realisable value. Land and projects held for development to be held as an investment property (Retirement) or as property, plant and equipment (Aged Care), are classified as assets under construction in property, plant and equipment.

The impairment of development projects represents the difference between the carrying amount and the present value of the estimated future cash flows, including selling and other costs incurred to



realise the projects. Estimated future cash flows within 12 months are not discounted. Estimated future cash flows beyond 12 months are discounted using an appropriate risk adjusted discount rate specific to the asset. The risk adjusted discount rate adopted by the Group for future stages was higher than the rate adopted for completed stock as at 31 December 2008. The Directors believe that this appropriately reflects the assessed risks associated with development activities going forward given current market conditions.

The key assumptions apart from the risk adjusted discount rate include, the realisable values (sales values), sales rates, development costs for future stages that are uncontracted (fixed price contracts are typically taken out) and development completion. These reflect results achieved over the period to 31 December 2008 and expectations going forward given current market conditions.

The impairment determined and recognised as at 31 December 2008 in respect of development projects totalled \$65,354,000. This has been recognised for projects where sales rates, pricing and product mix have failed to meet the needs of the market. The re-positioning and/or selling of these assets will form part of an ongoing asset rationalisation program for which LLP will leverage the expertise of Lend Lease to maximise returns.

### **(c) Impairment of receivables**

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Collectability of receivables is reviewed on an ongoing basis. An allowance account (provision for impairment) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired.

The amount of the impairment allowance is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect is immaterial. Subsequent recoveries of amounts previously impaired or written off are credited against the relevant expense account in the income statement.

The impairment determined and recognised as at 31 December 2008 in respect of receivables totalled \$18,032,000.

### **(d) Impairment of investments in associates and joint venture partnerships accounted for using the equity method**

A detailed balance sheet review was also performed over material investments in associates and joint venture partnerships accounted for using the equity method. In addition the Group assessed the recoverable amount of these investments (ie; the higher of value in use and fair value less costs to sell) on the following basis:

- Retirement associates and joint ventures – based on the Group's share of the fair value of the investment property as detailed in Note 3(a) above plus the recoverable amount of any other assets held by the joint venture.
- Development associates and joint ventures – based on the Group's share of the recoverable amount of the development project as detailed in Note 3(b) above plus the recoverable amount of any other assets held by the joint venture.

The impairment determined and recognised as at 31 December 2008 in respect of investments in associates and joint ventures using the equity method totalled \$4,300,000.

### **(e) Impairment of deferred tax assets in respect of tax losses**

Refer to Note 4 for the basis of testing deferred tax assets in respect of tax losses for impairment and the resulting impairment (de-recognition) recognised as at 31 December 2008.

**(f) Impairment tests for goodwill and intangible assets with indefinite useful lives**

Goodwill and intangible assets with indefinite useful lives are allocated to cash-generating units (CGUs) based on the specific assets or group of assets to which they relate. The only intangible assets with indefinite useful lives are the owned bed licences and goodwill.

There was \$15,530,000 of goodwill (or portfolio premium) (included in the table below) recognised in the period resulting from the RBD acquisition. As this acquisition occurred on 30 December 2008 the fair values recognised on acquisition were not subject to impairment testing as at 31 December 2008. Refer to Note 5 for further details.

A segment summary of the allocation of goodwill and indefinite life intangible assets is presented below:

<b>Segment / CGU</b>	<b>Goodwill \$'000</b>	<b>Bed Licences \$'000</b>
Retirement living	90,340	-
Aged care	36,468	55,906
<b>Total</b>	<b>126,808</b>	<b>55,906</b>

During the period ending 31 December 2008, the Group determined that there is no impairment of any of its cash-generating units or group of cash-generating units containing goodwill or intangible assets with indefinite useful lives. The recoverable amounts (i.e. higher of value in use and fair value less costs to sell) of those units and group of units are determined on the basis of fair value less costs to sell calculations.

**Key assumptions used for fair value less cost to sell calculations**

The Group has determined that the fair value less costs to sell calculations are most sensitive to changes in the following assumptions:

<b>Key assumptions for determination of fair value less cost to sell</b>	<b>Managements approach to determining the values assigned to each key assumption</b>
<b><i>Retirement Living - Goodwill</i></b> <ul style="list-style-type: none"> <li>Average length of stay (years)</li> <li>Capital growth rate of units (%)</li> <li>Pre-tax discount rate (%)</li> </ul>	<ul style="list-style-type: none"> <li>Average length of stay is determined based on historical evidence of each individual village or for new villages is based on averages for similar villages.</li> <li>Forecast capital growth for individual retirement villages are based on independent valuations.</li> <li>Discount rate calculated based on independent valuations</li> </ul>
<b><i>Aged Care - Goodwill</i></b> <ul style="list-style-type: none"> <li>Accommodation bonds</li> </ul>	<ul style="list-style-type: none"> <li>Actual value of accommodation bonds relating to acquired aged care facilities.</li> </ul>
<b><i>Aged Care – Bed Licences</i></b> <ul style="list-style-type: none"> <li>Pre-tax discount rate (%)</li> <li>Forecast financial performance</li> </ul>	<ul style="list-style-type: none"> <li>Discounted cashflow analysis based on forecast financial performance of the aged care facilities</li> <li>Discount rate calculated based on independent valuations</li> </ul>

**Retirement Living goodwill (or portfolio premium) – Changes in key assumptions during the period**

The discount rate adopted for Retirement Living goodwill (or portfolio premium) was increased by 25 Basis points as at 31 December 2008 reflecting:

- Market based changes in risk premiums associated with such annuity income streams as the underlying future DMF receipts increasing the discount rate; and
- Increased diversification and synergies from the RBD acquisition which strategically increased the Group's portfolio of retirement villages by approximately 18% reducing the discount rate.

Refer to Note 6 for changes in key assumptions in respect of the valuation basis for assessing the fair value of the underlying retirement villages included in the determination of fair value less costs to sell of the Retirement Living goodwill (or portfolio premium).

**Impact of possible change in key assumptions**

The carrying value of goodwill is sensitive to changes in discount rate assumptions applied to the retirement village portfolio. A future increase in the portfolio discount rate of 0.15%, would result in a decrease of the recoverable amount of goodwill by approximately \$9,320,000 to equal its carrying amount.

**(g) Impairment review of Aged Care other intangible assets and property, plant and equipment**

For the Aged Care segment, other intangible assets and property, plant and equipment were included in the total carrying amount of assets tested for impairment with goodwill and indefinite life intangibles as at 31 December 2008 as detailed at (f) above. The Group determined that there was no impairment of the carrying value of Aged Care other intangible assets and property, plant and equipment.

**(h) Impairment review of other Retirement intangible assets (management contracts)**

Management contracts acquired in respect of managed retirement villages are carried at historical cost of the acquisition and are amortised on a units of production basis over the term of the management agreement. These management contracts are classified as other intangible assets for Retirement living. The recoverable amount valuation basis adopted is similar to that for Retirement Living – goodwill detailed above. The key difference is that a risk adjusted discount rate appropriate to the managed village is adopted instead of the portfolio discount rate applied for goodwill.

The Group determined that there was no impairment of the carrying amount of Retirement other intangible assets.

**(j) Impairment review of other assets**

Other assets were reviewed in detail for indicators of impairment as at 31 December 2008. The Group determined that there was no impairment of the carrying amount of other assets.

**4. INCOME TAX**

		Period ending	
		31 Dec 2008	31 Dec 2007
		\$'000	\$'000
<b>(a) Income tax expense</b>			
Current tax		(18,665)	(7,201)
Deferred tax		23,315	8,991
		<b>4,650</b>	<b>1,790</b>
Deferred income tax (benefit) / expense included in income tax expense/(benefit) comprises:			
Decrease / (increase) in deferred tax assets		38,212	1,276
(Decrease) / increase in deferred tax liabilities		(14,897)	7,715
		<b>23,315</b>	<b>8,991</b>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>			
Profit / (loss) from continuing operations before income tax expense		(199,594)	20,028
Tax expense / (benefit) at the Australian tax rate of 30% (2007: 30%)		(59,878)	6,008
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:			
Depreciation and amortisation		424	364
Write-off of intangibles		1,200	1,800
Non-taxable (income) / loss		1,310	(5,130)
Other non-temporary differences		(251)	400
Deferred tax balances de-recognised		-	(1,652)
Current period tax losses not recognised		18,665	-
Prior period tax losses de-recognised		43,180	-
<b>Income tax expense / (benefit) for the period</b>		<b>4,650</b>	<b>1,790</b>
<b>(c) Tax Losses</b>			
Tax losses for which a deferred tax asset has been recognised (gross)		85,361	229,294
Potential tax benefit from unused tax losses for which no deferred tax asset has been recognized (gross)		348,369	142,219

The Group had accumulated Group tax losses over the years (up to and including 30 June 2008) and recognised these as a deferred tax asset on its Balance Sheet for an extended period. After assessing the current projected rate of utilisation of Group tax losses, the Directors as at 31 December 2008 have decided to write-back approximately \$43,180,000 of the related deferred tax asset. The Group tax losses will continue to remain available for LLPL to utilise in future periods.

**(d) Tax Consolidation legislation**

LLPL and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors is a valid tax sharing agreement, and thereby limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, LLPL.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate LLPL for any current tax payable assumed and are compensated by LLPL for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to LLPL under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial period. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments.

**5. CAPITAL RAISING AND BUSINESS COMBINATION**

**(a) The Lend Lease Corporation transaction**

On 30 December 2008 security holders approved a number of resolutions in connection with Lend Lease Corporation (LLC) taking over as Manager of the Group, providing additional funding to the business and acquiring their Retirement by Design (RBD) portfolio. Details of these are as set out in the Notice of Annual General Meeting dated 28 November 2008. The original Implementation Agreement ascribing a value was signed on 1 October 2008.

Due to the combination of transactions completed as part of the LLC transaction, subsequently the Directors have assessed the fair value of each component separately taking into account the overall transaction at the effective date (30 December 2008).

**(i) Business combination – RBD portfolio**

As set out in the Implementation Agreement the contractual amount for the RBD portfolio was \$133.4 million. In preparing these financial statements the Directors of the Group have ascribed a fair value of \$113,123,000. As the business was acquired on 30 December 2008 it did not contribute a material EBITDA to the Group for the half year. If the acquisitions had occurred on 1 July 2008, contributed EBITDA (excluding fair value adjustments on investment properties) for the half year ended 31 December 2008 would have been \$2,000,000. The fair values below are preliminary and will be finalised within 12 months in accordance with AASB 3 requirements.

Details of net assets acquired and goodwill are as follows:

<b>Purchase consideration</b>	<b>\$'000</b>
Consideration *	113,123
Direct costs relating to the acquisition	9,687
Total cost of acquisition	122,810
Fair value of net identifiable assets acquired (refer below)	107,280
Goodwill (or portfolio premium)	15,530

\* This includes \$13,400,000 of cash.

This acquisition was part of the strategic development of the Group. Main focuses were on long-term cash-flow stability, profitability and increased portfolio diversification. The goodwill (or portfolio premium) amount is attributable to the market position, increased portfolio diversification and synergies expected to arise after the acquisition.

With the exception of investment property, management contracts, resident loans, accommodation bonds and tax, the preliminary fair values below represent the acquiree's book values.

#### **Preliminary Fair Values**

The preliminary assets and liabilities arising from the acquisitions are as follows:	<b>\$'000</b>
Cash and cash equivalents	772
Receivables	1,978
Other current assets	62
Property, plant and equipment	2,259
Investment property	462,857
Intangible assets – Management contracts	10,158
Deferred tax asset	465
Resident loans	(358,854)
Accommodation bond liabilities	(6,485)
Payables	(436)
Deferred revenue	(4,584)
Provisions – Current	(890)
Provisions – Non-current	(22)

<b>Net identifiable assets acquired</b>	<b>107,280</b>
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The fair value of the individual RBD retirement village investment property was based on an independent assessment made by a member of the Australian Property Institute. The fair value of the Aged Care Keperra Hostel recognised as property, plant and equipment, was based on Directors' valuations taking into account current market effects.

#### **(ii) Equity issued**

LLC acquired an interest in the Group which included an interest from Babcock & Brown and the issue of new securities. The weighted average price at which LLC acquired its investment in the Group through the LLC deal was \$0.5176. The Directors believe that this best represents the fair value of the equity issued in accordance with the LLC deal. Refer to Note 8.

**(iii) Convertible notes issued**

Three separate tranches of convertible notes with a total face value of \$158,400,000 were issued to LLC in December 2008 with a 5 year term, a fixed interest rate of 9.5% and are sub-ordinated. They are subordinated to the corporate debt facilities. Each note is a compound financial instrument, requiring separate recognition of a debt and an equity component. The debt component is measured as the balance is measured at fair value and the equity component represents the balance.

Fair value is assessed with reference to prevailing market interest rates and the rate applicable on an instrument of similar terms. The debt component has been recognised at \$154,872,000 and the equity component at \$3,528,000.

**6. NON-CURRENT ASSETS – INVESTMENT PROPERTY**

	<b>31 Dec 2008</b>	<b>30 Jun 2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	1,786,861	192,945
Acquisitions	469,861	1,440,932
Capital expenditure	2,988	11,781
Transfer from property, plant and equipment	24,234	52,303
Incremental increase in resident's share of capital gain	4,521	25,216
Incremental increase in owner's share of capital gain	2,764	26,520
Revaluation amounts on first-time leases	3,450	10,788
Net gain / (loss) from fair value adjustment	(49,886)	70,889
Foreign exchange gain / (loss)	20,022	(44,506)
<b>Closing balance</b>	<b>2,264,822</b>	<b>1,786,868</b>

**(a) Amounts recognised in profit and loss for investment property**

Refer to Note 2 for details of amounts recognised in profit and loss for Investment Property.

**(b) Valuation Basis**

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar contractual arrangements. The 31 December 2008 valuations are based on both, Directors' valuations and independent valuations. The independent valuations represent an independent assessment made by members of the Australian Property Institute and the Property Institute of New Zealand. The Directors valuations have appropriately reflected current market effects and the key assumptions adopted by the independent valuers.

Refer to Note 5 for further details on the valuation basis of the RBD portfolio acquired at 30 December 2008.

The key assumptions adopted in the basis of valuation as at 31 December 2008 included:

- Discount rate – Average increased by approximately 25 Basis points
- Future growth rates – Average reduced by approximately 50 Basis points
- Average length of stay – No change during period

Approximately 37% of the investment property valuation was based on independent valuations as at the end of the half year. Approximately 94% of the investment property valuation was subject to independent valuation in the year ended 30 June 2008.

## 7. CURRENT AND NON-CURRENT BORROWINGS

The Group was required to obtain consent from lending banks and derivative counterparties to enter into the combination of transactions with LLC. These consents were obtained from the major parties to the corporate debt facilities being Australia & New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA) and National Australia Bank (NAB).

As detailed in note 1(b), in February 2009, the Group received written confirmation from these banks as well as Barclays Bank PLC (an interest rate derivative counterparty) that a potential breach of a financial covenant was waived. The covenant requirements for 30 June 2009 have also been revised to exclude the impact of the asset impairments and other charges recognised as at 31 December 2008. The Group has satisfied its other covenants under its debt facilities as at 31 December 2008. As the waiver was obtained after 31 December 2008, the Group has re-classified these borrowings as current liabilities as required under AIFRS, as the Group did not have an unconditional right to defer its settlement for at least 12 months after that date. As at the date of this report the corporate debt facilities would be re-classified back to non-current under AIFRS requirements.

	31 Dec 2008 \$'000	30 Jun 2008 \$'000
<b>Current - Secured</b>		
Hire purchase liability	290	399
<b>Total secured current borrowings</b>	<b>290</b>	<b>399</b>
<b>Current – Unsecured</b>		
Corporate debt facilities (a)	524,372	-
Deferred borrowing costs (net)	(2,994)	-
Other unsecured loans	33	33
<b>Total unsecured current borrowings</b>	<b>521,411</b>	<b>33</b>
<b>Total current borrowings</b>	<b>521,701</b>	<b>432</b>
<b>Non-Current - Secured</b>		
Hire purchase liability	509	604
<b>Total secured non-current borrowings</b>	<b>509</b>	<b>604</b>
<b>Non-Current - Unsecured</b>		
Corporate debt facilities (a)	-	593,998
LLC Convertible Notes *	154,872	-
Deferred borrowing costs (net)	-	(3,304)
<b>Total unsecured non-current borrowings</b>	<b>154,872</b>	<b>590,694</b>
<b>Total non-current borrowings</b>	<b>155,381</b>	<b>591,298</b>

\* Further information relating to LLC convertible note borrowings is set out in Note 5. The above carrying amount represents the debt component of these compound financial instruments, noting that their face value was \$158,400,000 as at 31 December 2008.



**(a) Assets pledged as security**

All borrowings under the corporate debt facilities are supported by guarantees and cross guarantees from the Group's controlled entities. In addition, these facilities include a negative pledge that restricts subsidiaries from providing security over assets as well as contain other financial ratios.

The Group's lenders and derivatives counterparties consented to the LLC deal subject to certain conditions and amendments to the Group's debt facility documents. The lenders and derivative counterparties consent included the requirement that the Group and its controlled entities grant first ranking security (over all assets and undertakings in the form of first ranking fixed and floating charges and registered real property mortgages (subject to certain exceptions). This security will be granted by the Group and its controlled entities by 30 June 2009.

Lease liabilities and hire purchase liabilities are effectively secured as the rights to the leased assets and hire purchase liabilities recognised in the financial statements revert to the lessor in the event of default.

The hire purchases are secured on assets under finance and the liability is effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

**(b) Financing arrangements**

The Group's corporate debt facilities and LLC Convertible Notes were both fully drawn as at 31 December 2008. As at 31 December 2008 the Group had \$96,327,000 available in cash and a further \$22,280,000 was received on 20 February 2009 in respect of the approved capital raising from LLC following the approval from the New Zealand Overseas Investments Office detailed in Note 8(c).

**(c) Interest Rate Derivatives**

During the period, the Group closed out two of the Group's interest rate swap contracts, with an effective date of 16 January 2009, resulting in a cash payment of \$16,480,000 on 16 January 2009 and realising a fair value (or mark to market) loss of \$15,064,000 in the period.

During the period, two of the Group's interest rate derivative contracts reached maturity.

After the above changes to the Group's interest rate derivative contracts, at period end, the Group had the following interest rate derivative contracts outstanding:

	31 Dec 2008			30 June 2008		
	Face Value	Weighted Average interest rate	Weighted Average Maturity	Face Value	Weighted Average Interest Rate	Weighted Average Maturity
	\$'000	(%)	(years)	\$'000	(%)	(years)
<b>Interest rate derivatives</b>	150,000	6.92	5.46	371,165	6.02	6.14

**8. CONTRIBUTED EQUITY**

The Group is a stapled entity in which the security holders hold direct interests and an equal number of securities in each of LLPL and LLPT.

As the stapling of LLPL and LLPT occurred after the introduction of AIFRS, AASB Interpretation 1002 *Post date of transition stapling arrangements* applies. For the purposes of AASB 1002, LLPL has been identified as the acquirer and the results and equity of LLPT are presented as minority interest in the consolidated financial statements on the basis that LLPL has not obtained an ownership interest as a result of the stapling.

All benefits and risks of ownership and operations of LLPT flow through to the consolidated result of the Group and form part of the profit attributable to stapled security holders. Accordingly, whilst the results and equity of LLPT are disclosed as minority interest, the stapled security holders of LLPL are the same as the stapled security holders of LLPT.

**Share Capital – LLPL**

Date	Details	Notes	31 Dec 2008 No. of Securities	Issue price \$	31 Dec 2008 \$'000
	Ordinary securities fully paid	(a)	929,119,333	-	561,163
	<b>Movement in ordinary securities on Issue</b>				
1 Jul 08	Opening balance		651,727,936	-	478,847
25 Sep 08	Distribution Reinvestment Plan	(b)	31,191,397	0.44	13,686
25 Sep 08	Less: Minority Interest (LLPT)		-	-	(5,474)
30 Dec 08	Capital Raising – LLC	(c)	246,200,000	0.52	127,443
	Less: Transaction costs arising on security issues		-	-	(5,625)
	Less: Minority Interest (LLPT)		-	-	(48,728)
	Deferred tax asset on transaction costs arising on security issues		-	-	1,012
31 Dec 08	Balance		929,119,333		561,161

Date	Details	Notes	30 Jun 2008 No. of Shares	Issue price \$	30 Jun 2008 \$'000
	Ordinary securities fully paid		651,727,936	-	478,847
	<b>Movement in ordinary securities on Issue</b>				
1 Jul 07	Opening balance		170,677,322	-	231,339
30 Jul 07	Capital Raising – Priority Offer		68,181,818	1.10	75,000
30 Jul 07	Capital Raising – Main Offer		347,826,087	1.15	400,000
30 Jul 07	Development JV Scrip Acquisition		4,347,826	1.15	5,000
30 Jul 07	PLT Scrip Acquisition		57,433,913	1.15	66,049
30 Jul 07	Less: Minority Interest (LLPT)		-	-	(278,647)
27 Nov 07	Conform Scrip Acquisition		3,260,970	1.07	3,500
	Less: Transaction costs arising on security issues		-	-	(28,494)
	Deferred tax asset on transaction costs arising on security issues		-	-	5,100
30 Jun 08	Balance		651,727,936		478,847

**TERMS AND CONDITIONS OF CONTRIBUTED EQUITY****a) Ordinary Securities**

Ordinary securities have the right to receive distributions as declared and, in the event of winding up the Group, to participate in the proceeds from sale of all surplus assets in proportion to the number of securities held and whether fully paid. Ordinary securities entitle their holder to one vote, either in person or by proxy, at a meeting of the Group.

**b) Distribution Reinvestment Plan**

The distributions paid/declared during the financial year ended 30 June 2008 were made out of LLPT. This included the final distribution of 2.1 cents per security which was paid on 25 September 2008. A Distribution Re-investment Plan (DRP) was activated for this final distribution. Securities were issued at a discount of 2.5%.

**c) Capital Raising – the LLC transaction**

On 30 December 2008 the security holders approved the issue of 283,300,000 ordinary securities to Lend Lease Corporation (LLC) under the terms of the LLC deal as recommended by the Directors and disclosed in the Notice of Annual General Meeting (AGM) dated 28 November 2008. Effective 30 December 2008, 246,200,000 ordinary securities were issued to LLC. The issue of the remaining 37,100,000 ordinary securities or \$22,280,000 occurred on 20 February 2009 following New Zealand Overseas Investment Review Board approval of the LLC deal. The Directors determined fair value was \$0.52 per security. Refer to Note 5(a)(ii) for details of the basis of assessing the fair value attributed to the equity issued.

**9. EQUITY – RESERVES**

	31 Dec 08	30 Jun 08
	\$'000	\$'000
Asset revaluation reserve	1,213	1,233
Share-based payments reserve	1,917	1,917
Convertible notes reserve	3,528	-
Foreign currency translation reserve	(6,445)	(11,645)
	<u>213</u>	<u>(8,495)</u>

The convertible notes reserve represents the recognition of the fair value of the equity component of these compound financial instruments issued to LLC under the LLC transaction. Refer to Note 5 for further details. Refer to the year ended 30 June 2008 financial report for details on the other reserves.

**10. NOTES TO CASH FLOW STATEMENTS****Reconciliation of Cash**

Cash at the end of the period as shown in the cash flow statements is reconciled to the related items in the balance sheets as follows:

	Period ending	
	31 Dec 2008	31 Dec 2007
	\$'000	\$'000
Cash at bank and on hand	7,970	32,984
Deposit at call	87,440	10,381
Cash held in trust (refer below)	917	659
	<b>96,327</b>	<b>44,024</b>

The above figures are reconciled to cash at the end of the reporting period as shown in the cash flow statements as follows:

Balances above	96,327	44,024
Less: Cash held in trust	(917)	(659)
<b>Balances as per cash flow statements</b>	<b>95,410</b>	<b>43,365</b>

**Cash held in trust**

These funds are held to fund repairs and upgrades for senior living facilities owned by third parties.

**Non cash financing and investing**

The RBD portfolio acquired by the Group on 30 December 2008 as part of the combination of transactions with LLC was paid \$13,400,000 in cash and the balance was financed through the issue of convertible notes. Refer to Note 5 for further details.

**11. CONTINGENT LIABILITIES****(a) Legal Actions**

Over the last financial half year, the Group has been successful in resolving a number of outstanding legacy disputes in a satisfactory manner.

The resolution of all disputes is handled in a commercial manner and with the benefit of experienced external legal advice. In accordance with our accounting policies, all legal costs are expensed as incurred.

**Bufalo Dispute**

- In August 1999, Bufalo Corporation Pty Ltd (In Liquidation) (Receiver and Manager Appointed) brought proceedings against the Company for alleged wrongful appointment of a receiver and manager and alleged breaches of agreements in relation to various building projects and aged care facilities. The Company counterclaimed for damages in respect of alleged breaches of joint venture agreements and alleged failure to pay monies owing to the Company.
- The Company's principal exposure is damages, interest and the costs of all parties to the proceeding. Bufalo Corporation seeks damages in excess of \$4.2 million plus interest and costs or an alternative claim of \$2.4 million plus interest and costs.
- The Company intends to enter into negotiations or mediation with the parties to resolve this matter.

**Eduard Sent Litigation**

- In late 2003, Eduard Sent, the former CEO of the Company, brought proceedings against the Company for wrongful dismissal and for the payment of the balance of Mr Sent's contract plus damages of \$5,333,817. The Group successfully defended these claims which were dismissed with costs in the Company's favour.

- Mr Sent filed an appeal which was scheduled to be heard in September 2008. Mr Sent has entered into a Deed of Settlement with the Company and the appeal has been dismissed by consent orders.

### Australian Tax Ruling 94 / 24 Related Litigation

The Group is involved in a proceeding relating to an uncompleted contract of sale for Princeton View Aged Care Facility entered into with a managed investment syndicate relying upon the Australian Tax Office Ruling 94/24. The syndicate manager has commenced proceedings against the Group for specific performance of the contract. The court has ordered that these proceedings be heard at the same time as the ASIC proceedings relating to the winding up of this managed investment syndicate (refer note (b) below).

### Prime Trust Litigation

Prime Trust responsible entity, Australian Property Custodian Holdings Limited (APCH) and Glendale RV Syndication Pty Ltd (GRVS) have commenced a proceeding against the Group claiming failure to properly manage certain facilities because of the number of concessional residents above the government prescribed minimum. The Group has counterclaimed for breaches by APCH and GRVS in payment of monies under a bond reconciliation process agreed between the parties.

### (b) Settlement of Managed Investment Scheme Issues

On 1 April 2005, the Company settled proceedings brought by the Australian Securities and Investments Commission relating to the Group's association with allegedly non-compliant managed investment schemes established by promoters between 1998 and 2002 to invest in the development and ownership of a number of retirement and aged care facilities operated by the Group.

As at the end of the financial period, 22 schemes were wound up or resolved on terms acceptable to the Group. The hearing for the final winding-up of the remaining scheme relating to Princeton View is scheduled in April 2009.

## 12. SEGMENT INFORMATION

The Group operates predominantly in the senior living industry in Australia only (secondary segment). Revenue is mainly derived through development sales and subsequent deferred management fees. The company's business segments (primary segment) are:

- (i) Retirement – the operation of retirement villages.
- (ii) Aged Care – the operation of aged care facilities – including hostels and nursing homes.
- (iii) Development – the development and sale of senior living facilities or units.
- (iv) Corporate – costs incurred in the head office.

Segment accounting policies are the same as the Group's accounting policies. Inter-segment revenues are charged by the parent entity to business segments at market rates.

December 2008	Retirement Living	Aged Care	Development	Corporate / Eliminations	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales revenue	26,978	54,801	5,007	74	86,860
Other revenue/income	(44,999)	1,351	5,889	906	(36,853)
Total segment revenue/income	(18,021)	56,152	10,896	980	50,007
Segment result	(49,997)	1,233	(62,471)	(88,359)	(199,594)
Income tax (expense)/benefit					(4,650)
Group profit/(loss) from ordinary activities after income tax (expense)/benefit					(204,244)

December 2007	Retirement Living	Aged Care	Development	Corporate / Eliminations	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales revenue	45,769	22,457	13,437	(1,479)	80,184
Other revenue/income	18,685	797	998	(824)	19,656
Total segment revenue/income	64,454	23,254	14,435	(2,303)	99,840
Segment result	46,284	408	8,952	(35,616)	20,028
Income tax (expense)/benefit					(1,790)
Group profit/(loss) from ordinary activities after income tax (expense)/benefit					18,238

### 13. EVENTS OCCURRING AFTER REPORTING DATE

Since 31 December 2008, the significant event as detailed in Note 1(b) occurred.

Since 31 December 2008, New Zealand Overseas Investment Office (OIO) approval of the LLC deal was obtained. This resulted in the issue of the remaining 37,100,000 ordinary securities on 20 February 2009 with an additional cash receipt of \$22,280,000.

Except for the events discussed above, no other matter or circumstance has arisen since 31 December 2008 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.

**Director's Declaration**  
**For the half year ended 31 December 2008**

In the Directors' opinion:

- (a) The financial statements and Notes set out on pages 17 to 37 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance, for the half year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



**Judith Sloan**  
**Chairman**

27 February 2009  
Sydney NSW

## **Independent auditor's review report to the members of Lend Lease Primelife Limited Group**

### **Report on the Half-Year Financial Report**

**PricewaterhouseCoopers**  
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We have reviewed the accompanying half-year financial report of Lend Lease Primelife Limited (the company), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Lend Lease Primelife Limited Group (the consolidated entity or the group). The consolidated entity comprises both the company and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Lend Lease Primelife Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.



*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Lend Lease Primelife Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*Significant uncertainty regarding continuation as a going concern*

Without qualification to our conclusion expressed above, we draw attention to Note 1 b) in the financial report which comments on compliance with debt covenants, the current liability classification of bank debt, the risk and possible consequences of a breach of a debt covenant during the financial years ending 30 June 2009 and 30 June 2010 and the future actions proposed by the company to reduce the risk of breaching a debt covenant in the future. These conditions, along with other matters as set out in Note 1 b), indicate the existence of a significant uncertainty as to whether Lend Lease Primelife Limited and its controlled entities can continue as a going concern and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Gareth Winter*

Gareth Winter  
Partner

Sydney  
27 February 2009