AVJennings

23 November 2012

The Manager
Company Announcements
Australian Stock Exchange Limited
Level 4, Rialto North Tower
525 Collin Street
Melbourne Vic 3000.

Dear Sir,

AVJENNINGS LIMITED
ANNUAL GENERAL MEETING
.

Please find attached the Chairman's and Managing Director's address made at the Annual General Meeting of AVJennings Limited on 23 November 2012.

Yours faithfully,

Carl Thompson
Company Secretary.

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Chairman's Address – Mr Simon Cheong

Good morning ladies and gentlemen and welcome to the 2012 Annual General Meeting of AVJennings Limited. My name is Simon Cheong and as Chairman of the Board and Chair of the meeting I am delighted to welcome you here today. As there is a quorum present I declare this meeting open.

Firstly, and to start the proceedings, I would like to introduce my fellow Directors. They are:

Mr Jerome Rowley – who is an independent Director and Deputy Chairman of the Board
Mr Peter Summers – the Company's Managing Director and Chief Executive Officer
Mr Bobby Chin – an independent Director
Mr Bruce Hayman – an independent Director
Mr Teck Poh Lai – an independent Director
Mrs Elizabeth Sam – a non-executive Director

Mr Carl Thompson who is the Company Secretary is also in attendance as well as Mr Mark Conroy, from Ernst and Young, the Company's External Auditor. Also here today are a number of senior executives and staff.

Secondly, what more fitting way to begin the meeting than with AVJennings' 80 year presentation you have just seen. This year it has featured prominently in all our offices and it is with great pride that we celebrate 80 years of creating residential communities. The 80 years has seen many changes in Australia and the Australian residential property market. There have been many cycles through the period and the current one has clearly been challenging. Ours is a cyclical industry and at this point in the cycle, it is worth remembering that since 2000, the Company had paid out over $151 million in fully franked dividends on the back of profits of $252 million after tax. Despite this past year's performance, I look forward, together with my Board and management team, to leading AVJennings to a brighter future ahead.

I will now provide a brief overview of AVJennings' performance during the year and Peter Summers will then expand on this by discussing our business operations. Following Peter's address, there will be a general forum for questions and comments. I will then proceed with the meeting's formal agenda as set out in the Notice of Meeting.

FY12 RESULTS SUMMARY

The 2012 financial year provided many challenges, not just for the Company, but also for the Australian residential property industry in general. The continued uncertainty of weak global economic conditions, the impact of the high Australian dollar on certain components of the Australian economy, and the European debt crisis have had significant impact on consumer confidence.

As a result, the Company recorded a loss after tax of $29.8 million which included a provision for loss on inventory and investments of $34.9 million. Net profit after tax and prior to provisioning was $5.1 million.

Revenues came in at $188.8 million, down from $215.9 million in the prior year. This was as a result of subdued market conditions and the Group's strategy to reduce exposure to the weak market conditions by reducing work in progress levels.

The provisioning is a result of a review of the carrying values of all assets and investments and represents a 10.2% reduction in the book value of the Group's inventory. As a result, the NTA at 30 June 2012 was 97 cents per share.

The Group remains compliant with its banking covenants.

During the year, the Group paid an interim fully franked dividend of 0.5 cents per share. No final dividend was declared.

PURE RESIDENTIAL PROPERTY DEVELOPER

As mentioned earlier, throughout the 8 decades our iconic brand has been around, it has endured the cyclical nature of the residential property industry and there is no doubt that the current cycle is presenting a number of challenges. However, with the strength of our people, processes, strategies and brand behind us, we continue to remain true to our core business of creating residential communities by offering diversity of land and housing options as well as focusing on the deepest sectors of the market. We have realised substantial economies of scale through our ability to control the built form in our projects and by maximising the use of land available. Investing in our design and internal building capabilities has also allowed us to build a deep knowledge across all aspects of our business, ultimately meeting the needs of our customers. This experience and knowledge provides us with the expertise to work through both the high and low cycles.

OUR PEOPLE

Before handing over to Peter, I would like to make a few final comments.

In respect of our People and on behalf of the Board, I would like to recognize the drive and enthusiasm of Peter and all the AVJennings staff during a difficult year. They have worked hard and remained fully focused and committed to adapting to challenging market conditions. Together with our business partners, they form the backbone to our long term success and creation of long term sustainable shareholder value. I am confident we have the right leadership, structure, skills and experience to take us not only through the current challenges, but also provide the vision for a greater future.

In respect of our Board I would also like to acknowledge the support of my fellow Directors. Additionally, I welcome Mr Teck Poh Lai who joined the Board in November 2011. With a wealth of banking experience in senior management roles, he has expanded the Board's collective knowledge and acumen.

In conclusion, I would like to thank my fellow shareholders for your continued support and reassure you that both the Board and Management remain focused on improving shareholder value.

I now invite Peter to provide his update and expand on performance and operations.

Managing Director's Address – Mr Peter Summers

Thank you Simon.

For some time you will have heard from a number of sources, including myself, how difficult the market has been. This is true and I will touch on that shortly. It would be improper not to do so. However, I will also address some areas of better news, both in terms of external factors as well as some that relate to internal actions and positions.

RESIDENTIAL MARKET FUNDAMENTALS

It is true residential markets are traditionally cyclical. But we cannot just assume the future will bring improved market conditions if indeed fundamentals don't support that. Our key approach is to focus firstly on developing strategies before moving to implementation of those strategies. Part of the development of those strategies is not just to assume the past will repeat itself for the world changes. And we are not adverse to making tough decisions if we believe that change is required, either short term or long term. This was demonstrated a little over 2 years ago when we exited the contract building market.

So, where do we see market fundamentals in terms of residential markets?

The most important starting point for any discussion about market fundamentals is whether, as we enter the next period, the current industry profile is one of stock surplus or deficiency. There has been much debate about the changing Australian residential market including housing formation rates. This is all valid discussion. But our strong view is that whilst the extent of the housing deficiency can be argued, on the whole Australia has developed significantly less land and built less houses than is required to fulfil long term underlying demand.

Added to this, migration numbers are on the way up. Again, there is healthy debate as to the likely levels but in most rational debates the outcome is that barring a significant shift in other drivers of the economy, Australia is facing a stronger growth period in terms of population and underlying demand.

All of this will play out in different ways in different sub-markets around Australia. But at least in aggregate, to meet the need of an increasing population, increased production levels will be required in many areas of Australia. It is up to the industry and governments and significant other participants such as finance providers to work together to make this happen.

Whilst underlying fundamentals may be strong, they will never fully lead to a strong recovery if affordability isn't dealt with properly. Affordability relates to both investors/renters and the owner-occupier.

Affordability is a key platform of our business. We focus on appealing to the deepest part of the market by offering affordable, quality product and innovative product and community design. Many factors impact on affordability, including interest rates. I will touch on that later. The main factor we can have some impact on is land, particularly its efficient use. Efficient land use is a critical skill for us and the primary means of achieving our goal of offering affordable product. Our internal building capability also means we can lower costs through efficiencies in the built form, through procurement strategies and improved processes. We believe this strategy is the most appropriate, but particularly so when times are tough.

In summary, we believe the market fundamentals to be strong and that our business model is sound to tackle the main issue, in fundamental terms – affordability.

SHORT TERM TRADING CONDITIONS

There are some signs of improving market conditions in the short term.

In FY12, poor market conditions driven by lack of consumer confidence prevailed in all markets in which we operate. Industry participants, advisory bodies, government instrumentalities and the press have all acknowledged the poor state of the market in our industry over the year. This has led to a generally poor results season for our sector and we are no exception.

Many factors have been said to contribute to the poor state of the market. These range from macro issues such as concerns over global economic conditions and the impact of the high Australian dollar on the tourism and manufacturing sectors, to entirely local factors such as the lingering effects of floods. The effects have lingered for much longer than we all expected. The depth and persistence of the downturn has been challenging for the industry and for our business.

But let me mention some specific measures which we have taken over the last year or more to position the company for the challenges it has faced in a tough environment.

As we explained in our half year results announcement in August 2012, one strategy we adopted to meet market conditions was to prioritise our development expenditure. A consequence of this is that short term profits are affected as we have less product in the market to sell. This is reflected in our June 2012 result and it will continue to have an impact over the short term. This strategy has enabled us to manage our cash sensibly and not to overproduce.
Cost reduction has also been a focus. And to ensure the pain is shared, our executive salaries have been frozen since July 2011 and directors fees remain unchanged. Management has also been restructured to reduce reporting lines and improve accountability. This has, for example, included reducing the level of state management and administration as well as providing greater depth of skills in other areas such as the appointment of Larry Mahaffy as CFO. Larry joins us with significant previous experience in property finance.

As we approach the close of calendar 2012 we believe there are some early signs for cautious optimism. At the recent mid-year economic review, the Federal Government indicated that as the mining boom begins to weaken, the government expected the economy to rely heavily on the housing sector to provide growth. It has been commented in the media that the Federal Government's delivery of a FY13 budget surplus will rely heavily on a housing recovery. Supporting this, most state governments have recently introduced significant incentives to support new house construction and first home buyers. Stamp duty incentives have also been introduced to support new home construction. Importantly, these are mostly targeted at the affordable segment of the market.

Changes in government in NSW and Qld have led to some improvement in confidence that restrictive planning laws and procedures will be overhauled. Some progress is already evident in NSW. Such improvements are critical to tackling affordability. Flat pricing over recent times has also improved affordability, particularly in NSW and Qld.

The New Zealand market is showing signs of recovery and our Auckland based project is performing well.

Despite the many fears and concerns that have prevailed over the past year or more, economic conditions remain benign. Unemployment remains stubbornly low. Interest rates have continued to decline to historically low levels. GDP growth, though more subdued than expected, remains high by comparable world standards.

In our business we have noticed an increase in visitor flow in many projects. It is early days, but perhaps this is the start of a change in the wind. Market commentators such as BIS Shrapnel have forecast improvement in the sector in FY13 and beyond. Recent press commentary has adopted a more positive tone about residential property.

Perhaps we are seeing some green shoots begin to emerge. For our part, we plan to be ready when that occurs.

INVENTORY PROFILE

The Company has a very different look to its inventory profile as we enter the calendar 2013 year.

Although the company had avoided the need to write-down the value of its assets in the post GFC environment, the unexpected continuation of poor conditions caused us to re-assess key assumptions relating to many projects. In July 2012 we announced the write down which resulted from our year-end review of asset values. The projects affected were mostly older projects which had accumulated significant holding costs and regional projects which were experiencing more severe conditions. The effect was to reduce our asset values by around 10%. However as a result, the viability of those projects has improved.

Balancing the need for an adequate flow of development funds, prudence in the face of difficult economic conditions, conservatism in our approach to risk and our obligations to external stakeholders has required a strong focus on capital management. Some of the measures we have adopted have been discussed earlier. One consequence of our conservative approach has meant that we did not declare a final dividend for the year. We believe that this was the prudent and sensible approach to take in the circumstances. The Company continues to explore all capital management initiatives and funding possibilities to ensure the successful operation of our business well into the future.

Our focus will remain on the affordable segment of the market. And we will be alert to which markets are likely to move and focus our attention there. We have cleared away some of the constraints which hindered some of our older projects. Our newer projects are exciting and we believe will deliver good returns over their life and so I would like to give a short overview of just a few of them.

COBBITTY, NSW

Cobbitty is a 466 lot project in the south west growth corridor in NSW. The project is DA approved and is just entering the construction phase. The project has a 5-6 year life and will benefit from the improvement in the NSW market, particularly in the growth corridor. The project is expected to contribute to revenues from FY14.

THE MILL APARTMENTS, NSW

The exclusive Mill Apartments at Eastwood in Sydney, are expected to commence construction shortly, with strong pre-sales recorded. The 50 apartments form part of the successful 255 lot Cavanstone project. The release of the apartments has been very well received and should contribute to revenues in the second half of FY14.

EYRE AT PENFIELD, SA

Eyre at Penfield in South Australia, comprises 1,750 lots and will be a cornerstone project for a number of years. It is located approximately 25 kilometres north of the Adelaide CBD in the northern growth corridor. Under a Development Agreement, the Company has commenced marketing the project and Stage 1 development has commenced. The project will commence contributing to revenues in FY13.

HOBSOSNVILLE POINT, AUCKLAND

The picturesque waterfront Hobsonville project in Auckland in NZ has continued to enjoy improved sales of late. This is a 602 lot development project in conjunction with the NZ government instrumentality – The Hobsonville Land Company. The site is located on a former NZ Airforce Base on the harbour with excellent accessibility to the Auckland CBD.

BRAND

Our brand has been the subject of particular focus this year. We have a proud 80 year heritage. Our name stands for reliability, dependability, quality, integrity as confirmed by independent recent market research by Brand consultants, Doppio.

Our continued association with Steve Waugh, our Corporate Ambassador, and the Steve Waugh Foundation reinforces those attributes in the minds of our customers, our staff and our stakeholders. Steve's personal qualities reflect the qualities we hope to espouse. During the year we commenced construction of the Renee house in Wadalba NSW. The Foundation does immense good for families who struggle with children suffering from rare diseases. We are proud to be able to support such a worthy cause. Steve and the Foundation are very appreciative of our involvement and support. At the launch of The Renee project in August 2012, the event created enormous media interest with extensive coverage. Our return on investment indicators and subsequent visitor flow figures at our Wadalba project substantiated the ongoing positive affect our association with Steve and the Foundation has in the market. It is a happy aspect of our relationship that we each benefit from it.

In August 2013, the current agreement with Sekisui to allow the use of AVJennings' brand, exclusively for contract building purposes, ceases. We acknowledge the dual use of the brand by 2 organisations, whilst necessary for the transitional period, hasn't been ideal. There is a need to communicate with the market more clearly going forward and our recent work in this area will provide a very solid platform for this.

PEOPLE

Our people are critical to our success and we must therefore invest wisely in our staff. We have established programs to create learning opportunities for our staff and provide opportunities for them to broaden and deepen their knowledge, to become leaders in the business and in their communities and to expand their education. We have a scholarship awarded each year and named in honour of one of our former Chairmen – The Bob Sutton Scholarship – which supports further education in a business related discipline. We also work hard to foster a strong, vibrant culture which emphasizes hard work, innovation, commitment and above all, integrity. Our aim is to foster a culture whereby we are an employer of choice.

I am confident we are better positioned, with both the structure of the organisation and the calibre of our people, as a result of actions over the last few years.

CONCLUSION

In conclusion, I would like to thank all AVJennings employees and the Executive Team for their continued hard work and commitment throughout the year. Also, to my fellow Directors, thank you for your support and guidance. To our shareholders, we are well positioned to deliver better returns as market conditions improve and look forward to your continued support.

ENDS

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