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Metroland Annual Shareholder Report: **A Year of Positives**



Metroland Australia Limited

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# CHAIRMAN & CEO'S ADDRESS

## Dear Shareholders

We are pleased to report to you that the 2006 financial year has been a productive period for the Company.

The Company sold two of its investment properties (Gladesville and Bay Plaza in Neutral Bay). The sale of the Gladesville property was completed in November 2005. The sale of the Neutral Bay property was completed in July 2006 with profits to be recorded in the 2007 financial year.

The Company has also procured the sale of Building X in Ultimo and completion is expected to take place in 2007 following refurbishment works to be carried out by the Company. The major part of the profits from the refurbishment and sale of Building X will be realised in the 2007 financial year.

The net profit after tax for the 2006 financial year was \$734,000.00 compared to last year's result of \$352,000.00.

The Company has not been able to record in its books a profit of approximately \$4 million for the 2006 financial year as the settlement of the Neutral Bay property occurred in July 2006. It is therefore to be noted that the 2007 accounts will show a substantial profit compared with the Company's 2006 profit.

The fluctuating or lumpy financial results are essentially the nature of a property development company, especially for the Company where capital is limited due to its size.

With these constraints in mind, the Company, with its limited resources, has therefore shifted its focus and resources towards the creation of recurring rental income through the acquisition of shopping centres and at the same time temporarily reducing its exposure in residential development whilst the residential property sector is relatively weak. In this respect, the Company has managed to increase its rental revenue from \$700,000.00 in 2003 to \$3.32 million in 2006.

The Financial Highlights in the Directors' Report which sets out a five-year comparative financial summary gives an interesting overview on the performance and direction of the Company.

Although the Company is currently not able to repeat the profit earnings of 2003 and 2004, which were mainly derived through the completion of a sizable residential development, the Company's current earnings are derived from activities of a relatively lower risk as a higher component of the Company's earnings is from recurring rental revenue rather than one-off development profits derived from relatively more risky activities. In other words, although the Company's earnings in absolute terms are lower than what they were 2 to 3 years ago, the quality of the earnings could be said to be much better as there is less dependence upon development activities.

While concentrating on its core business of property investment and development, the Company has also further expanded into the related area of building management and at the same time further strengthening our strata management business.

Your Company is constantly seeking opportunities to raise additional capital to fund further activities but we are mindful of the fact that such raising under the prevailing market conditions may result in raising capital at a significant discount to fair value. The net tangible asset per share as shown in the accounts is also calculated using historical value for the Company's properties.

The board of directors will work towards achieving further growth of the Company and in ensuring that shareholders continue to receive income from their shareholdings.

We thank all shareholders for their continuing support and look forward to another successful year ahead.



**EDDIE LEE**  
Chairman



**FRANK SHIEN**  
CEO and Managing Director

# DIRECTOR'S REPORT

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The directors present their report together with the financial report of Metroland Australia Limited ("the company") and of the consolidated entity, being the company and its controlled entities, for the year ended 30 June 2006 and the auditor's report thereon.

## DIRECTORS

The directors of the company at any time during or since the financial year are:

### **Eddie Lee (Chairman and Independent Non-Executive Director) Aged 59**

**B.E.Civil B.Sc.Dip.Bldg.Sc. (Sydney)**

Mr Lee is a graduate of Sydney University majoring in Civil Engineering and has extensive experience in corporate management. He is the Australian representative of several substantial Asian investment groups and maintains a wide networking in the Asian business area. Mr Lee is also director of Allegiance Mining NL and Gullewa Limited, both companies listed on the ASX. He has wide experience in the fields of civil engineering, project management, construction, finance and equity markets.

Member of Audit Committee. Director since 1994.

### **Frank Shien (Deputy Chairman and Chief Executive Officer) Aged 54**

**BA (Lon)**

Mr Shien has extensive construction and property development experience and has business associates in Indonesia, Malaysia, Hong Kong and China. Mr Shien is a director of a number of property companies and during the last twelve years has been successfully developing commercial and residential property in Sydney. He is also a director of Xenolith Gold Limited, a company involved in mining and oil exploration listed on the ASX.

Director since 1997.

### **John Wardman (Independent Non-Executive Director) Aged 46**

**B.Econ, FAICD**

Mr Wardman has extensive experience in finance, including capital markets, corporate development and stockbroking. He holds a Degree in Economics from Macquarie University, and is a Fellow of the Australian Institute of Company Directors.

Member of Audit Committee. Director since 1996.

### **Steam Leung (Independent Non-Executive Director) Aged 47**

**LREA**

Mr Leung has 18 years experience in real estate in Australia, is a Licensed Real Estate Agent and Auctioneer, and is a Director of Colliers International (NSW) Pty Limited. He has extensive experience in sales and marketing of commercial properties and residential projects.

Mr Leung has an extremely strong involvement with the local Chinese community and is well connected to overseas Asian investors and developers. He is also one of the founders of the Australian NSW Chinese Real Estate Agent Society and is an important senior member of Colliers Jardine's International team.

Director since 1997.

### **Da Cheng Zhang (Independent Non-Executive Director) Aged 52**

Mr Zhang is of Chinese nationality. He is president of the HIT Group, which has two companies listed on the China Stock Exchange, one in Shanghai and the other in Shenzhen. The market capitalisation of the two companies is approximately \$600m. Mr Zhang is also the vice-principal of the Harbin Institute of Technology in Harbin, PRC.

Director since February 2000.

## COMPANY SECRETARY

Ms Helen Lay was appointed to the position of company secretary in January 2005. Ms Lay is also employed in the administrative and accounting functions of the company.

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial year were property development and sales, property rental, residential strata management and financial services.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

## REVIEW AND RESULTS OF OPERATIONS

### Overview and Investments for Future Performance

The consolidated entity is continuing its direction in property development, property management and related property management services.

The profit after tax of the Group for the financial year 2006 is \$734,000, compared to the previous year's profit of \$493,000.

The Company, in the financial year of 2006, concluded a number of significant transactions. These are the selling of two properties: Gladesville and Neutral Bay properties for \$3.2 and \$12.2 million respectively; the purchase of Building X for \$8.45million and its re-sale with refurbishment for \$19.62 million. The majority of the profit will be reflected in the 2007's financial accounts. The Company also committed to the purchase of Campbelltown Shopping Square in August 2006 (see below).

Set out below is a summary of some of the specific projects that the company is currently involved in:

#### The Greenway Supacenta

The Greenway Supacenta, which is the amalgamation of three properties: Greenway Plaza, the Glendale Chemical Factory site and the Abruzzi Sports Club is in an advanced stage of planning and implementation. Re-zoning of the Abruzzi Sports Club site from 4(A) to 4(C) was submitted to the Council in 2005 and was approved and gazetted by the Minister of Planning on 22 September 2006. The development application for the site was lodged in October 2005 and is expected to be approved in the coming months. Pre-lease commitment includes a national stationery outlet, childcare centre, a gym and a furniture store giving a total annual rent of \$640,000. The parties are at the stage of executing agreements to lease. It is expected that construction will commence in early 2007 with the Supacenta expected to be opened to the public in early 2008. The Supacenta, when completed and leased, is expected to generate a rental income of around \$5 million per annum taking into account the fact that the existing Greenway Plaza is now generating an annual net rent of around \$1.7 million.

#### Bay Plaza, Neutral Bay

The sale of our Neutral Bay property for \$12.2 million was settled in July 2006, after the close of the 2006 financial year. The profit of approximately \$4 million will be reflected in the company's 2007 accounts.

#### Gladesville Property

The Gladesville property was sold and settled in November 2005 for \$3.2 million. It realised a gross profit of approximately \$700,000.00 which partly contributed to the 2006 financial year's performance.

#### Wentworthville Mall, Wentworthville

The Mall was acquired in September 2004 when it returned a net rent of \$1.42 million per annum. In the two years' period of managing the Mall, the Company has increased its net rental income to \$1.6 million per annum. A development application for the extension of the retail area by 500 sqm and the erection of 109 residential units on top of the shopping centre with additional parking was submitted to the Council in July 2006.

#### Building X, Ultimo

Building X at Ultimo was acquired by a wholly owned subsidiary, Kings Properties (Australia) Pty Ltd, in June 2005 for \$8.45 million. In June 2006 Kings entered into a conditional contract for the sale and refurbishment of Building X to Australasian Performing Rights Association Limited for a total consideration of \$19.62 million. Kings will carry out the refurbishment work and it has entered into a contract with One Build for the carrying out of the building works. The development application was lodged in July 2006 and building work is expected to take 48 weeks to complete from the commencement of same. It is anticipated that the major part of the profit generated from Building X will be accounted for in the 2007 financial year.

#### Campbelltown Square Shopping Centre

In August 2006, a wholly owned subsidiary, Campbelltown Metro Pty Limited, entered into a conditional contract to acquire Campbelltown Square at 218-240 Queen Street, Campbelltown, NSW, for a consideration of \$14.8 million. Part of the funding for the acquisition was from the sale of the Neutral Bay property. The Campbelltown Square is situated at Campbelltown CBD with three street frontages: Queen Street, Dumaresq Street and Lithgow Street. It has a site area of 6,579 sqm and a lettable area of 5380 sqm generating a gross income of \$1.2 million per year.

# DIRECTOR'S REPORT

## Stratawide Management Pty Limited

Stratawide, in which Metroland has a 55% interest, has entered into its fourth year of operation. It has now secured services as a strata manager for 38 blocks of residential/commercial buildings, an increase of 18 buildings since last financial year. It is anticipated that more management business will be secured in 2007 and it will therefore further contribute to the overall performance of Metroland.

## Metro Facilities Management Pty Limited

During the year, the Company entered into a joint venture whereby it holds 51% in a business providing building management services to the real estate industries. Metro Facilities Management Pty Limited, which commenced operation in July 2006, will have the financial backing of the Company as well as having access to the Company's contacts to enable new business to be generated with the view of contributing to the overall performance of the Company in the future.

## Review of Financial Condition

### Financial Highlights

	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
<b>RESULTS</b>					
Revenue from sale of property	5,009	1,203	8,935	42,169	7,750
Rental Revenue	3,319	2,869	883	786	728
Other Revenue	370	392	602	208	67
<b>Group Turnover</b>	<b>8,698</b>	<b>4,464</b>	<b>10,420</b>	<b>43,163</b>	<b>8,545</b>
<b>Net Profit after Tax</b>	<b>734</b>	<b>493</b>	<b>2,833</b>	<b>3,068</b>	<b>2,928</b>
Total Assets	54,397	55,981	32,334	61,677	27,359
Total Liabilities	40,761	42,760	22,318	51,042	19,792
Shareholders' Fund	11,692	11,532	8,362	8,362	8,362
Retained Profit	1,944	1,689	1,654	2,273	(795)
<b>Total Equity</b>	<b>13,636</b>	<b>13,221</b>	<b>10,016</b>	<b>10,635</b>	<b>7,567</b>
Dividend Paid	479	473	3,452	–	1,181
Tax Paid / (Refund)	282	(177)	1,240	1,345	244
<b>PER SHARE</b>					
Earning (cents)	0.77	0.54	3.6	3.9	3.8
Dividend (cents) – Fully Franked	0.5	0.5	2.0	2.0	1.5
Net tangible assets per shares(cents)	14.2	13.9	12.7	13.5	9.7
<b>STATISTICS</b>					
Return on Equity	5.38%	3.73%	28.28%	28.85%	38.69%
Net tangible assets per share (cents)	14.2	13.9	12.7	13.5	9.7
Number of shareholders	785	841	889	602	612
Employees	6	5	5	5	4
Group turnover per employee	1,449	892	2,084	8,632	2,136
<b>SHARE PRICE (cents)</b>					
Last done	15	15.5	23	24.04	14.4
High	15.5	23.0	25.9	29.8	18.7
Low	10.0	14.0	19.2	14.4	9.61
Volume	9,941,784	7,888,516	8,829,689	6,643,509	10,719,456

## Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Notes 2 in this report.

## Other

Metroland is continuing to seek opportunities to further strengthen its revenue base and to achieve further growth.

## DIVIDENDS

Dividends paid or declared by the company to members since the end of the previous financial year were:

Type	Cents Per Share	Total Amount \$'000	Date of Payment	Tax Rate for Franking Credit
Paid during the year:				
Final – 2005 ordinary	0.5	473	28/10/2005	30% Fully Franked
Declared and provided in the current year:				
Final – 2006 ordinary	0.5	479	15/07/2006	30% Fully Franked

# DIRECTOR'S REPORT

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

The consolidated entity's total assets decreased by \$1.584million to \$54.397million (2005: \$55.981million) over the year. The decrease in total assets principally comprised:

- Decrease in cash at bank of \$1.176million and in trade and other receivables of \$0.797million.

Partially offsetting this decrease was:

- An increase in the consolidated entity's investment in Gaintak Investments Unit Trust of \$0.528million

Total liabilities of the consolidated entity have also decreased, by \$1.999million during the year to \$40.761million (2005: \$42.760million). This decrease is principally due to:

- Repayment of bank loans during the year of \$2.62million from the proceeds of properties sold during the year.

The consolidated entity's equity increased by \$0.415million over the year.

## EVENTS SUBSEQUENT TO REPORTING DATE

- On 7 July 2006, the Group's sale of its property at Neutral Bay was settled for \$12.2million. The proceeds were used to repay bank loans of \$8.5million, and of loans from director-related entities of \$1.02million.
- A final fully franked dividend of 0.5cents/share was paid on 15 July 2006, resulting in the allotment of a further 1,565,519 shares pursuant to the Company's dividend reinvestment plan.
- A conditional contract was exchanged on 26 July 2006 for the purchase of property in Campbelltown for \$14.8million. A deposit of \$1.48million was paid on exchange, with settlement expected in either January 2007 or July 2007 depending on the satisfactory resolution of the special conditions of the contract.

Other than the above there were no significant events subsequent to 30 June 2006 outside the ordinary course of business.

## LIKELY DEVELOPMENTS

The consolidated entity will continue to pursue opportunities in the rental and commercial property investment and development sectors, and to continue to pursue the company's policy of increasing revenue and profitability during the next financial year.

Further information as to likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years has not been included in this report because, the directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the company.

## MEETINGS OF DIRECTORS

The number of directors' meetings, including meetings of committees of directors and number of meetings attended by each of the directors of the company during the financial year are:

Director	Board Meetings		Audit Committee	
	Held	Attended	Held	Attended
Mr E Lee	6	6	2	2
Mr S Leung	6	6	–	–
Mr F Shien	6	6	–	–
Mr J Wardman	6	6	2	2
Mr D C Zhang	6	6	–	–

## AUDIT COMMITTEE

The members of the audit committee during the year comprised of two independent non-executive directors, Mr John Wardman and Mr Eddie Lee.

## ENVIRONMENTAL REGULATIONS

The consolidated entity's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation in relation to its property development activities. The directors are not aware of any significant breaches during the period covered by this report.



## DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

As provided by the Constitution of the company, the remuneration of directors is determined by shareholders. The broad remuneration policy is to ensure the remuneration package properly reflects the directors and senior executives duties and responsibilities and level of performance.

There are currently no performance-based or equity-based remuneration to directors and senior executives based on the performance of the consolidated entity.

Details of the nature and amount of each major element of the emoluments of each director of the company and each of the named officers of the company and the consolidated entity receiving the highest emoluments are as follows:

	<b>Base Remuneration (salary &amp; fees) \$</b>	<b>Superannuation Contributions \$</b>	<b>Total Remuneration \$</b>
<b>Directors</b>			
<b>Executive</b>			
Frank Shien	70,800	–	70,800
<b>Non-executive</b>			
Eddie Lee	12,000	–	12,000
John Wardman	10,920	1,080	12,000
Steam Leung	24,000	–	24,000
<b>Executive Officers (excluding directors)</b>			
<b>Company</b>			
Tjing Hong Ong	97,709	6,750	104,459
<b>Consolidated</b>			
Anthony Maroon	120,000	10,800	130,800
Tjing Hong Ong	97,709	6,750	104,459

# DIRECTOR'S REPORT

## SHARE OPTIONS

### Unissued shares under Option

At the date of this report, unissued ordinary shares of the company under option are:

Expiry Date	Exercise Price	Number of Options
28 May 2009	\$0.26	15,744,774

Each option may be exercised by the option-holder at any time prior to the expiry date, but not before the "first exercise date" of 8 March 2006; and shall entitle the holder to subscribe for and to be allotted one share in the capital of the company upon the payment to the company of the exercise price.

These options do not entitle the holder to participate in any share issue of the company or any other body corporate. During or since the end of the financial year, the company did not issue any ordinary shares by virtue of the exercise of an option.

## DIRECTORS' INTERESTS

The relevant interest of each director in the shares of the companies within the consolidated entity and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with section S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Metroland Australia Limited	
	Ordinary Shares	Options over Ordinary Shares
Mr. E Lee	527,500	87,916
Mr. S Leung	955,000	142,500
Mr. F Shien	9,891,611	1,478,040
Mr. J Wardman	1,343,568	218,388
Mr D C Zhang	9,600,000	1,600,000

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The company has executed a Deed of Indemnity and Access with each director, except Mr D C Zhang. The Deed provides:

- an indemnity against any legal proceedings, damage, loss, liability, cost, charges, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred in connection with being a director of the company, the employment with the company or a breach of the company of its obligations under the Deed;
- a right of access to Board papers relating to the directors period of appointment as a director for a period of seven years following that directors cessation of office.

No indemnities have been given for any other person during or since the end of the financial year, who is or has been an officer or auditor of the company. No insurance premiums have been paid during or since the end of the financial year. The company does not have any external insurance cover for the indemnification and insurance of officers.

## NON-AUDIT SERVICES

During the year, Gould Ralph & Company, the company's auditor and its associated entity, Gould Ralph Pty Limited has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services by the auditor is compatible with, and did not compromise the auditor independence requirements of the Corporations Act 2001 for the reason that the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1:- Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as an advocate for the company or jointly sharing risks and rewards.

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is included in the Directors' Report.

Details of the amounts paid to the auditor of the company, Gould Ralph & Company and its related entities for audit and non-audit services provided during the year are set out below.

	Consolidated	
	2006	2005
	\$	\$
<b>Statutory audit:</b>		
Audit and review of financial reports	<b>54,474</b>	<b>62,514</b>
<b>Services other than statutory audit:</b>		
Other assurance services:		
– IFRS accounting services	–	3,500
– Other assurance services	–	12,092
– Due diligence services	–	–
Other services:		
– Taxation compliance services	4,278	4,760
– Share registry	20,642	30,904
– Corporate statutory	–	1,730
	<b>24,920</b>	<b>52,986</b>

## REMUNERATION REPORT

Details of the remuneration and remuneration policies is disclosed in Note 31 – Directors' and Executives' Disclosures, of the financial report.

## ROUNDING OFF

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollar, unless otherwise stated.

Dated at Sydney this 29th day of September 2006.

Signed in accordance with a resolution of the directors.



**FRANK SHIEN**  
Director

# DIRECTOR'S REPORT

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GOULD RALPH & COMPANY  
Chartered Accountants  
100 Pitt Street  
Sydney NSW 2000  
Tel: (02) 9230 9000  
Fax: (02) 9230 9001  
www.grc.com.au

29th September 2006

The Board of Directors  
Metroland Australia Limited  
Suite 3 261 Harris Street  
PYRMONT NSW 2009

Dear Members of the Board

## AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

As lead auditor for the audit of Metroland Australia Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Metroland Australia Limited and any entities it controlled during the year.

Yours faithfully

GOULD RALPH & COMPANY

**MALCOLM BEARD** M.Com., F.C.A.  
Partner

# INCOME STATEMENTS

for the year ended 30 June 2006

	Note	Consolidated		The Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from sale of property	3	<b>5,009</b>	1,203	<b>881</b>	1,203
Rental revenue	3	<b>3,319</b>	2,869	–	–
Other revenues from ordinary activities	3	<b>370</b>	392	<b>2,459</b>	1,809
<b>Total Revenue</b>	3	<b>8,698</b>	4,464	<b>3,340</b>	3,012
Cost of property sold		<b>(3,484)</b>	(1,463)	<b>(820)</b>	(1,560)
Employee expenses		<b>(441)</b>	(331)	<b>(173)</b>	(166)
Borrowing costs	4(b)	<b>(2,160)</b>	(1,643)	<b>(981)</b>	(824)
Property expenses		<b>(992)</b>	(904)	<b>(11)</b>	–
Directors fees		<b>(119)</b>	(119)	<b>(119)</b>	(119)
Legal and professional fees		<b>(88)</b>	(190)	<b>(97)</b>	(185)
Other expenses from ordinary activities		<b>(540)</b>	(450)	<b>(331)</b>	(378)
Share of net profit/(loss) of joint venture entities accounted for using the equity method	27	<b>142</b>	952	–	–
<b>Profit/(loss) from ordinary activities before related income tax expense</b>		<b>1,016</b>	316	<b>808</b>	(220)
Income tax benefit/(expense) relating to ordinary activities	5(a)	<b>(282)</b>	177	<b>(269)</b>	171
<b>Net profit/(loss) attributable to members of the parent entity</b>		<b>734</b>	<b>493</b>	<b>539</b>	<b>(49)</b>
<b>Total changes in equity from non-owner related transactions attributable to the members of the parent entity</b>		<b>734</b>	<b>493</b>	<b>539</b>	<b>(49)</b>
Ordinary Shares:	6				
Basic earnings per share		<b>\$0.0077</b>	\$0.0054		
Diluted earnings per share		<b>\$0.0077</b>	\$0.0054		

The income statements are to be read in conjunction with the accompanying notes.

# BALANCE SHEET

as at 30 June 2006

	Note	Consolidated		The Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	9	189	1,365	72	1,130
Trade and other receivables	10	771	1,568	1,089	891
Income tax receivable	5(b)	145	145	145	145
Property inventories	11	17,630	3,335	–	786
Other current assets	13	222	209	–	–
<b>Total Current Assets</b>		<b>18,957</b>	6,622	<b>1,306</b>	2,952
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	10	186	–	26,373	25,831
Properties held for development	14	28,456	43,501	–	–
Investments accounted for using the equity method	12	5,292	4,764	–	–
Financial assets	15	329	242	340	253
Property, plant & equipment	16	41	41	21	24
Deferred tax assets	5(d)	1,136	811	1,124	786
<b>Total Non-Current Assets</b>		<b>35,440</b>	49,359	<b>27,858</b>	26,894
<b>TOTAL ASSETS</b>		<b>54,397</b>	55,981	<b>29,164</b>	29,846
<b>CURRENT LIABILITIES</b>					
Trade and other payables	17	563	1,212	219	818
Short-term borrowing	18	21,946	16,151	10,694	3,922
Short-term provisions	20	510	492	479	473
<b>Total Current Liabilities</b>		<b>23,019</b>	17,855	<b>11,392</b>	5,213
<b>NON-CURRENT LIABILITIES</b>					
Trade and other payables	17	1,176	536	1,234	574
Long-term borrowing	18	15,729	24,145	1,995	10,345
Deferred tax liabilities	5(c)	819	213	819	213
Long-term provisions	20	18	11	14	11
<b>Total Non-Current Liabilities</b>		<b>17,742</b>	24,905	<b>4,062</b>	11,143
<b>TOTAL LIABILITIES</b>		<b>40,761</b>	42,760	<b>15,454</b>	16,356
<b>NET ASSETS</b>		<b>13,636</b>	13,221	<b>13,710</b>	13,490
<b>EQUITY</b>					
Contributed equity	21	11,692	11,532	11,692	11,532
Retained profits	22	1,944	1,689	2,018	1,958
<b>TOTAL EQUITY</b>	23	<b>13,636</b>	13,221	<b>13,710</b>	13,490

The balance sheets are to be read in conjunction with the accompanying notes.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2006

	Share Capital Ordinary \$'000	Retained earning \$'000	Total equity \$'000
<b>CONSOLIDATED</b>			
<b>Balance at 1 July 2004</b>	<b>8,362</b>	<b>1,669</b>	<b>10,031</b>
Shares issued	3,170	–	3,170
Profit for the year	–	493	493
	11,532	2,162	13,694
Dividends paid or provided for	–	(473)	(473)
<b>Balance at 30 June 2005</b>	<b>11,532</b>	<b>1,689</b>	<b>13,221</b>
Shares issued – DRP	160	–	160
Profit for the year	–	734	734
	11,692	2,423	14,115
Dividends paid or provided for	–	(479)	(479)
<b>Balance at 30 June 2006</b>	<b>11,692</b>	<b>1,944</b>	<b>13,636</b>
<b>THE COMPANY</b>			
<b>Balance at 1 July 2004</b>	<b>8,362</b>	<b>2,480</b>	<b>10,842</b>
Shares issued	3,170	–	3,170
Profit for the year	–	(49)	(49)
	11,532	2,431	13,963
Dividends paid or provided for	–	(473)	(473)
<b>Balance at 30 June 2005</b>	<b>11,532</b>	<b>1,958</b>	<b>13,490</b>
Shares issued – DRP	160	–	160
Profit for the year	–	539	539
	11,692	2,497	14,189
Dividends paid or provided for	–	(479)	(479)
<b>Balance at 30 June 2006</b>	<b>11,692</b>	<b>2,018</b>	<b>13,710</b>

# CASH FLOW STATEMENT

for the year ended 30 June 2006

	Note	Consolidated		The Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts in the course of operations		<b>9,371</b>	3,499	<b>1,626</b>	584
Cash payments in the course of operations		<b>(2,493)</b>	(2,575)	<b>(758)</b>	(1,128)
Interest received		<b>33</b>	473	<b>451</b>	455
Borrowing costs paid		<b>(2,377)</b>	(2,122)	<b>(973)</b>	(644)
Dividends received		<b>423</b>	–	–	–
Income taxes paid		–	(2,689)	–	(2,689)
Net cash provided by/ (used in) operating activities	8(a)	<b>4,957</b>	(3,414)	<b>346</b>	(3,422)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		<b>(22)</b>	(27)	<b>(5)</b>	(4)
Acquisition of investments		<b>(93)</b>	(236)	<b>(93)</b>	(236)
Loans to other entity		<b>(698)</b>	–	<b>(698)</b>	–
GST refunded		<b>845</b>	–	–	–
Acquisition of properties held for development		<b>(1,588)</b>	(26,848)	–	–
Proceeds from/(payments to) joint ventures		<b>(606)</b>	4,056	<b>(606)</b>	4,056
Net cash provided by/ (used in) investing activities		<b>(2,162)</b>	(23,055)	<b>(1,402)</b>	3,816
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Loans (to)/from related entities		<b>(732)</b>	(140)	<b>1,658</b>	(8,522)
Proceeds from borrowings		<b>16,949</b>	26,019	<b>2,449</b>	5,688
Repayment of borrowings		<b>(19,875)</b>	(2,455)	<b>(3,796)</b>	(803)
Hire purchase repayments		–	(5)	–	(5)
Dividends paid		<b>(313)</b>	(1,886)	<b>(313)</b>	(1,886)
Proceeds from issue of shares		–	3,164	–	3,164
Net cash provided by/ (used in) financing activities		<b>(3,971)</b>	24,697	<b>(2)</b>	(2,364)
<b>Net (decrease) in cash held</b>		<b>(1,176)</b>	(1,772)	<b>(1,058)</b>	(1,970)
Cash at beginning of the financial year		<b>1,365</b>	3,137	<b>1,130</b>	3,100
<b>Cash at the end of the financial year</b>	8(b)	<b>189</b>	1,365	<b>72</b>	1,130

The statements of cash flows are to be read in conjunction with the accompanying notes.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the economic entity of Metroland Australia Limited and controlled entities, and Metroland Australia Limited as an individual parent entity. Metroland Australia Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Metroland Australia Limited and controlled entities, and Metroland Australia Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (a) Basis of Preparation

#### First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Metroland Australia Limited and controlled entities, and Metroland Australia Limited as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Metroland Australia Limited to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. Refer to Note 35 for further details.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

#### Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### (b) Principles of Consolidation

#### Controlled Entities

A controlled entity is any entity Metroland Australia Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

The consolidated financial statements are those of the consolidated entity, comprising Metroland Australia Limited (the parent entity) and the entities which Metroland Australia Limited controlled from time to time during the year.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

#### Joint Ventures

A joint venture is either an operation or entity that is jointly controlled by the consolidated entity.

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The economic entity's interests in joint ventures entities are brought to account using the equity of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

### Changes in Ownership Interest

*Loss of control, joint control or significant influence retained*

When control ceases but significant influence or joint control is retained, the carrying amount at the date of change in status of the investment is determined as if it had been an associate/joint venture entity since the acquisition date, opening equity amounts are restated and any remaining effect of the change in status is recognised as a revenue or expense.

### (c) Taxation

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit

to be realised and comply with the conditions of deductibility imposed by the law.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

Metroland Australia Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2002. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

### (d) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

### (e) Investment in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised group's share of post-acquisition reserves of its associates.

### (f) Inventories

Property inventories, and properties held for development are carried at the lower of cost and net realisable value. Cost includes the cost of acquisition and for property inventories also includes, development and holding costs such as borrowing costs, rates and taxes until the point of time that the property is ready for sale. Borrowing costs and other holding costs incurred after completion of development are expensed. Profits are only brought to account upon the completion of the development project, when the unconditional contracts of sale is settled, with the substantial risk and rewards being passed to the purchaser.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (g) Depreciation and Amortisation

#### Useful Lives

All assets have limited useful lives and are depreciated using the straight line or diminishing value method over their estimated useful lives taking into account estimated residual values. Assets are depreciated from the date of acquisition. Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed.

The depreciation rates used for each class of asset is as follows:

	2006	2005
Plant and Equipment	17-40%	17-40%

### (h) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 90 days.

### (i) Interest Bearing Liabilities

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and is included in "Other creditors and accruals".

### (j) Cash

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet. Investments in money market instruments with less than thirty days to maturity.

### (k) Receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

### Trade debtors

Trade debtors to be settled within 90 days are carried at amounts due.

### (l) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

### Sale of Property

Revenue from the sale of property is only recognised upon the completion of the project, when the unconditional contracts of sale is settled, and the substantial risks and rewards is passed to the purchaser of the property.

### Rental Revenue

Rental revenue comprises rent received from entities outside the consolidated entity and is recognised when the rental is receivable.

### Interest Income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

### Dividend

Dividend revenue is recognised net of any franking credits. Revenue from dividends from controlled entities is recognised by the parent entity when they are declared by the controlled entities. Revenue from dividends and distributions from joint venture entities is recognised when they are declared by the joint venture entities.

### (m) Goods & Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (n) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive ordinary shares adjusted for any bonus issue.

### (o) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

### (p) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless to the extent to which they will be paid in cash.

### (q) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### (r) Use and Revision of Accounting Estimates

The preparation of the financial report requires the making of estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (s) Rounding of amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$'000.

## NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

	Note	Previous GAAP at 1 July 2004 \$000	Effect of Transition to AIFRS \$000	AIFRS at 1 July 2004 \$000
<b>CONSOLIDATED</b>				
<b>Reconciliation of Equity at 1 July 2004</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		3,137	–	3,137
Trade and other receivables		641	–	641
Property inventories		1,958	–	1,958
Other current assets		93	–	93
<b>TOTAL CURRENT ASSETS</b>		<b>5,829</b>	<b>–</b>	<b>5,829</b>
<b>NON-CURRENT ASSETS</b>				
Trade and other receivables		129	–	129
Properties held for development		18,489	–	18,489
Investments accounted for using the equity method		7,387	–	7,387
Financial assets		6	–	6
Property, plant and equipment		48	–	48
Deferred tax assets	2(a)	446	15	461
<b>TOTAL NON-CURRENT ASSETS</b>		<b>26,505</b>	<b>15</b>	<b>26,520</b>
<b>TOTAL ASSETS</b>		<b>32,334</b>	<b>15</b>	<b>32,349</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		699	–	699
Short-term borrowings		1,842	–	1,842
Current tax liabilities		2,544	–	2,544
Short-term provisions		1,894	–	1,894
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,979</b>	<b>–</b>	<b>6,979</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term borrowings		15,289	–	15,289
Deferred tax liabilities		41	–	41
Long-term provisions		9	–	9
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>15,339</b>	<b>–</b>	<b>15,339</b>
<b>TOTAL LIABILITIES</b>		<b>22,318</b>	<b>–</b>	<b>22,318</b>
<b>NET ASSETS</b>		<b>10,016</b>	<b>15</b>	<b>10,031</b>
<b>EQUITY</b>				
Issued capital		8,362	–	8,362
Retained earnings	2(a)	1,654	15	1,669
<b>TOTAL EQUITY</b>		<b>10,016</b>	<b>15</b>	<b>10,031</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

	Previous GAAP at 30 June 2005	Effect of Transition to AIFRS	AIFRS at 30 June 2005
Note	\$000	\$000	\$000
<b>CONSOLIDATED</b>			
<b>Reconciliation of Equity at 30 June 2005</b>			
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	1,365	–	1,365
Trade and other receivables	1,568	–	1,568
Income tax receivable	145	–	145
Property inventories	3,335	–	3,335
Other current assets	209	–	209
<b>TOTAL CURRENT ASSETS</b>	<b>6,622</b>	<b>–</b>	<b>6,622</b>
<b>NON-CURRENT ASSETS</b>			
Properties held for development	43,536	(35)	43,501
Investments accounted for using the equity method	4,764	–	4,764
Financial assets	242	–	242
Property, plant and equipment	41	–	41
Deferred tax assets	620	191	811
<b>TOTAL NON-CURRENT ASSETS</b>	<b>49,203</b>	<b>156</b>	<b>49,359</b>
<b>TOTAL ASSETS</b>	<b>55,825</b>	<b>156</b>	<b>55,981</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	1,212	–	1,212
Short-term borrowings	16,151	–	16,151
Short-term provisions	492	–	492
<b>TOTAL CURRENT LIABILITIES</b>	<b>17,855</b>	<b>–</b>	<b>17,855</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	536	–	536
Long-term borrowings	24,145	–	24,145
Deferred tax liabilities	213	–	213
Long-term provisions	11	–	11
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>24,905</b>	<b>–</b>	<b>24,905</b>
<b>TOTAL LIABILITIES</b>	<b>42,760</b>	<b>–</b>	<b>42,760</b>
<b>NET ASSETS</b>	<b>13,065</b>	<b>156</b>	<b>13,221</b>
<b>EQUITY</b>			
Issued capital	11,532	–	11,532
Retained earnings	1,533	156	1,689
<b>TOTAL EQUITY</b>	<b>13,065</b>	<b>156</b>	<b>13,221</b>

## NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

Note	Previous GAAP at 1 July 2004 \$000	Effect of Transition to AIFRS \$000	AIFRS at 1 July 2004 \$000
<b>THE COMPANY</b>			
<b>Reconciliation of Equity at 1 July 2004</b>			
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3,100	–	3,100
Trade and other receivables	90	–	90
Inventories	2,055	–	2,055
<b>TOTAL CURRENT ASSETS</b>	<b>5,245</b>	<b>–</b>	<b>5,245</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	19,568	–	19,568
Financial assets	17	–	17
Property, plant and equipment	28	–	28
Deferred tax assets	443	–	443
<b>TOTAL NON-CURRENT ASSETS</b>	<b>20,056</b>	<b>–</b>	<b>20,056</b>
<b>TOTAL ASSETS</b>	<b>25,301</b>	<b>–</b>	<b>25,301</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	294	–	294
Short-term borrowings	1,806	–	1,806
Current tax liabilities	2,544	–	2,544
Short-term provisions	1,880	–	1,880
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,524</b>	<b>–</b>	<b>6,524</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	7,885	–	7,885
Deferred tax liabilities	41	–	41
Long-term provisions	9	–	9
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>7,935</b>	<b>–</b>	<b>7,935</b>
<b>TOTAL LIABILITIES</b>	<b>14,459</b>	<b>–</b>	<b>14,459</b>
<b>NET ASSETS</b>	<b>10,842</b>	<b>–</b>	<b>10,842</b>
<b>EQUITY</b>			
Issued capital	8,362	–	8,362
Retained earnings	2,480	–	2,480
<b>TOTAL EQUITY</b>	<b>10,842</b>	<b>–</b>	<b>10,842</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

	Note	Previous GAAP at 30 June 2005 \$000	Effect of Transition to AIFRS \$000	AIFRS at 30 June 2005 \$000
<b>THE COMPANY</b>				
<b>Reconciliation of Equity at 30 June 2005</b>				
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		1,130	–	1,130
Trade and other receivables		891	–	891
Income tax receivable		145	–	145
Property inventories		786	–	786
<b>TOTAL CURRENT ASSETS</b>		<b>2,952</b>	<b>–</b>	<b>2,952</b>
<b>NON-CURRENT ASSETS</b>				
Trade and other receivables		25,831	–	25,831
Financial assets		253	–	253
Property, plant and equipment		24	–	24
Deferred tax assets	2(b)	615	171	786
<b>TOTAL NON-CURRENT ASSETS</b>		<b>26,723</b>	<b>171</b>	<b>26,894</b>
<b>TOTAL ASSETS</b>		<b>29,675</b>	<b>171</b>	<b>29,846</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		818	–	818
Short-term borrowings		3,922	–	3,922
Short-term provisions		473	–	473
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,213</b>	<b>–</b>	<b>5,213</b>
<b>NON-CURRENT LIABILITIES</b>				
Trade and other payables		574	–	574
Long-term borrowings		10,345	–	10,345
Deferred tax liabilities		213	–	213
Long-term provisions		11	–	11
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>11,143</b>	<b>–</b>	<b>11,143</b>
<b>TOTAL LIABILITIES</b>		<b>16,356</b>	<b>–</b>	<b>16,356</b>
<b>NET ASSETS</b>		<b>13,319</b>	<b>171</b>	<b>13,490</b>
<b>EQUITY</b>				
Issued capital		11,532	–	11,532
Retained earnings	2(b)	1,787	171	1,958
<b>TOTAL EQUITY</b>		<b>13,319</b>	<b>171</b>	<b>13,490</b>



## NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

	Previous GAAP 2005 \$000	Effect of Transition to AIFRS 2005 \$000	AIFRS 2005 \$000
Note			
<b>CONSOLIDATED</b>			
<b>Reconciliation of Profit or Loss for 2005</b>			
Revenue from sale of property	1,203	–	1,203
Rental revenue	2,869	–	2,869
Other revenue from ordinary activities	392	–	392
Total revenue	4,464	–	4,464
Cost of property sold	(1,463)	–	(1,463)
Employee expenses	(331)	–	(331)
Finance costs	(1,643)	–	(1,643)
Property expenses	(869)	(35)	(904)
Directors fees	(119)	–	(119)
Legal and professional fees	(190)	–	(190)
Other expenses from ordinary activities	(450)	–	(450)
Share of net profits of associates and joint ventures	952	–	952
Profit before income tax expense	351	(35)	316
Income tax benefit/(expense) relating to ordinary activities	1	176	177
Net profit/(loss) attributable to members of the parent entity	352	141	493
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	352	141	493

### THE COMPANY Reconciliation of Profit or Loss for 2005

Revenue from sale of property	1,203	–	1,203
Other revenue from ordinary activities	1,809	–	1,809
Total revenue	3,012	–	3,012
Cost of property sold	(1,560)	–	(1,560)
Employee expenses	(166)	–	(166)
Finance costs	(824)	–	(824)
Directors fees	(119)	–	(119)
Legal and professional fees	(185)	–	(185)
Other expenses from ordinary activities	(378)	–	(378)
Profit before income tax expense	(220)	–	(220)
Income tax benefit/(expense) relating to ordinary activities	–	171	171
Net profit/(loss) attributable to members of the parent entity	(220)	171	(49)
Total changes in equity from non-owner related transactions attributable to the members of the parent entity	(220)	171	(49)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

### (i) Reconciliation of total equity as presented under previous AGAAP to that under AIFRS

	Notes	Consolidated	
		30 June 2005 \$'000	1 July 2004 \$'000
<b>Total equity under AGAAP</b>		<b>13,065</b>	<b>10,016</b>
Adjustments to equity (net of tax):			
De-recognition of capitalised marketing costs	(a)	(35)	–
Recognition of carry forward losses	(b)	191	15
<b>Total equity under AIFRS</b>		<b>13,221</b>	<b>10,031</b>

### (ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Notes	Consolidated Year Ended 30 June 2005 \$'000
<b>Profit after tax as previously reported under AGAAP</b>		<b>352</b>
Expensing of inventory items previously capitalised	(a)	(35)
Income tax benefit of recognition of carry forward losses	(b)	176
<b>Profit after tax under AIFRS</b>		<b>493</b>

(a) Under AASB 102 'Inventories', the deferral of some expenditure on specific assets is no longer available.

(b) Under AASB 112 'Income Taxes' where it is probable that a loss carried forward will be utilised the losses are recognised as a Deferred Tax Asset.

### (iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

## NOTE 3: REVENUE

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Rental revenue	3,319	2,869	–	–
Sale of property revenue	5,009	1,203	881	1,203
Other revenues:				
<b>From operating activities</b>				
Interest – other parties	35	91	28	73
– related parties	–	78	1,779	1,557
Dividends – joint venture entity	–	–	423	–
Property management fees	335	223	78	51
Trust distribution – related party	–	–	151	128
<b>Total Other Revenues</b>	<b>370</b>	<b>392</b>	<b>2,459</b>	<b>1,809</b>
<b>Total Revenue</b>	<b>8,698</b>	<b>4,464</b>	<b>3,340</b>	<b>3,012</b>

## NOTE 4: PROFIT BEFORE INCOME TAX

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Individually significant expense/(revenue) included in profit before income tax:				
Proceeds from sale of property	<b>(4,991)</b>	(1,203)	<b>(881)</b>	(1,203)
Cost of property sold	<b>3,472</b>	1,463	<b>820</b>	1,560
Net (gain)/loss	<b>(1,519)</b>	260	<b>(61)</b>	357
Interest income on loans to related parties	-	(78)	<b>(1,779)</b>	(1,557)
(b) Profit before income tax has been arrived at after charging/(crediting) the following items:				
Borrowing Costs:				
- Other parties	<b>2,997</b>	2,262	<b>981</b>	788
- Related parties	-	36	-	36
Less: Capitalised borrowing costs	<b>(837)</b>	(655)	-	-
	<b>2,160</b>	1,643	<b>981</b>	824
Borrowing costs were capitalised to property inventories and qualifying assets at a weighted average annual rate of 7.87% (2005: 8.26%).				
Amortisation and depreciation of:				
Plant and equipment	<b>21</b>	27	<b>7</b>	8
Net expense from movements in provisions for:				
- Employee entitlement	<b>19</b>	7	<b>3</b>	2
Write-down in value of inventories	-	200	-	200
Minimum operating lease payments	<b>36</b>	36	<b>36</b>	36

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 5: INCOME TAX EXPENSE

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Income Tax Expense				
Prima facie tax payable on profit before income tax at 30% (2005 – 30%)	<b>305</b>	95	<b>242</b>	(66)
Increase/(decrease) in income tax expense due to:				
– Division 43 capital allowance	<b>(24)</b>	(17)	<b>(24)</b>	(17)
– Other	–	3	<b>7</b>	3
Share of joint venture entities net profit/(loss)	<b>(43)</b>	(285)	–	–
Transfer of income from joint venture entities to equity accounted investments	<b>44</b>	40	<b>44</b>	–
Recovery of capital losses not previously brought to account	–	(13)	–	(13)
Tax expense on losses from wholly-owned subsidiaries within the tax-consolidated group	–	–	–	(78)
Income tax expense attributable to operating profit	<b>282</b>	(177)	<b>269</b>	(171)
(b) Current Tax Liabilities				
<b>Provision for Current Income Tax</b>				
Movements during the year:				
Balance at beginning of the year	<b>(145)</b>	2,544	<b>(145)</b>	2,544
Current year's income tax expense on operating profit	–	–	–	–
Income tax paid:				
– operating activities: prior year	–	(2,544)	–	(2,544)
– operating activities: current year	–	(145)	–	(145)
(Over) provision in prior year	–	–	–	–
	<b>(145)</b>	(145)	<b>(145)</b>	(145)
(c) Deferred Income Tax Liabilities				
<b>Provision for Deferred Income Tax</b>				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% (2005:30%) on the following items:				
Expenditure currently deductible for tax but deferred for accounting purposes	<b>819</b>	213	<b>819</b>	213
(d) <b>Deferred tax assets</b>				
Deferred tax assets have been recognised in respect of the following items:				
Deductible temporary differences	<b>443</b>	453	<b>441</b>	451
Tax losses carried forward	<b>693</b>	358	<b>683</b>	335
	<b>1,136</b>	811	<b>1,124</b>	786

## NOTE 6: EARNINGS PER SHARE

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

### Classification of securities as ordinary shares

Potential ordinary shares from the exercise of options are not considered dilutive, as their conversion to ordinary shares would not decrease earnings per share from continuing operations at 30 June 2006.

### Earnings reconciliation

Basic earnings			<b>734</b>	352
Diluted earnings			<b>734</b>	352

### Weighted average number of shares used as the denominator

	Number	Number
Number for basic earnings per share:		
Ordinary Shares	<b>95,248,185</b>	92,003,453
Number for diluted earnings per share:		
Ordinary shares	<b>95,248,185</b>	92,003,453

## NOTE 7: AUDITORS REMUNERATION

	Consolidated		The Company	
	2006 \$	2005 \$	2006 \$	2005 \$

### Auditors of the Company:

Audit services				
Audit and review of financial reports	<b>54,474</b>	62,514	<b>54,474</b>	62,514
Other services				
Taxation services	<b>4,278</b>	4,760	<b>4,278</b>	4,760
Share registry services	<b>20,642</b>	30,904	<b>20,642</b>	30,904
Other assurance services	-	17,322	-	17,322
	<b>24,920</b>	52,986	<b>24,920</b>	52,986
	<b>79,394</b>	115,500	<b>79,394</b>	115,500

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 8: NOTES TO THE CASH FLOW STATEMENT

	Note	Consolidated		The Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Operating profit /(loss) after income tax	8(a)	<b>750</b>	352	<b>554</b>	(220)
Add/(less) items classified as investing/ financing activities:					
Interest paid capitalised in loans and property		<b>(361)</b>	(751)	-	-
Non-cash items					
Interest income capitalised		-	-	<b>(1,779)</b>	(1,401)
Loans forgiven		-	-	-	7
Depreciation		<b>21</b>	27	<b>7</b>	8
Provision for employee entitlements		-	8	-	2
Dividend from associate equity-accounted Equity accounted share of joint venture entities' results		<b>423</b>	-	-	-
		<b>(142)</b>	(952)	-	-
Changes in assets and liabilities:					
(Increase)/decrease in property inventories		<b>3,322</b>	1,268	<b>786</b>	1,268
(Increase)/decrease in receivables		<b>683</b>	(617)	<b>510</b>	(578)
Increase/(decrease) in payables		<b>(13)</b>	57	<b>(6)</b>	181
Increase/(decrease) in tax balances		<b>287</b>	(2,690)	<b>274</b>	(2,689)
(Increase)/decrease in prepayments		<b>(13)</b>	(116)	-	-
Net cash provided by / (used in) operating activities	8(b)	<b>4,957</b>	(3,414)	<b>346</b>	(3,422)
(b) Reconciliation of Cash					
Cash		<b>58</b>	80	<b>72</b>	32
Short term deposits		<b>131</b>	1,285	-	1,098
		<b>189</b>	1,365	<b>72</b>	1,130

## NOTE 9: CASH AND CASH EQUIVALENT ASSETS

### Current

Cash at bank and on hand	<b>58</b>	80	<b>72</b>	32
Bank short term deposits	<b>131</b>	1,285	-	1,098
	<b>189</b>	1,365	<b>72</b>	1,130

## NOTE 10: TRADE AND OTHER RECEIVABLES

### Current

Property trade debtors	-	672	-	672
Distributions receivable – related entity	-	-	<b>358</b>	207
Rent receivable	<b>42</b>	64	-	-
GST receivable	-	813	<b>5</b>	-
Other receivable	<b>31</b>	19	<b>28</b>	12
Loan to other entity	<b>698</b>	-	<b>698</b>	-
	<b>771</b>	1,568	<b>1,089</b>	891

### Non-Current

Loans to joint venture entities	<b>186</b>	-	<b>5,280</b>	4,255
Loans to controlled entities	-	-	<b>21,093</b>	21,576
	<b>186</b>	-	<b>26,373</b>	25,831

The weighted average effective interest rate on loans to all controlled entities is 9% (2005: 9%). All loans are repayable at call. The loans are not repayable within the next twelve months.

## NOTE 11: PROPERTY INVENTORIES

	Note	Consolidated		The Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current</b>					
Development properties, at lower of cost and net realisable value		<b>17,630</b>	3,335	–	786
Development properties held for sale comprises:					
Cost of acquisition		<b>16,149</b>	2,311	–	87
Development costs capitalised		<b>582</b>	862	–	639
Borrowing costs capitalised		<b>899</b>	162	–	60
		<b>17,630</b>	3,335	–	786

## NOTE 12: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

<b>Non-current</b>					
Joint venture entities	27	<b>5,292</b>	4,764	–	–

## NOTE 13: OTHER CURRENT ASSETS

<b>Current</b>					
Prepayments		<b>222</b>	209	–	–

## NOTE 14: PROPERTIES HELD FOR DEVELOPMENT AND RESALE

<b>Non-Current</b>					
Cost of acquisition		<b>26,650</b>	41,975	–	–
Development costs capitalised		<b>1,070</b>	978	–	–
Interest capitalised		<b>736</b>	548	–	–
		<b>28,456</b>	43,501	–	–

Borrowing costs were capitalised at a weighted average rate of 7.9% (2005:8.3%).

Properties held for development and resale comprise:

- A shopping complex known as Bay Plaza, located at 199-207 Military Road, Neutral Bay, and an adjoining property at 4 Rangers Road, Cremorne. The book value at 30 June 2006 is \$7,715,616. Subsequent to balance date the property was sold and settled in July 2006 for \$12.2 million.
- A sports club complex at 11-15 Elizabeth Street, Wetherill Park adjoining the company's joint venture investment property at Greenway Plaza, was purchased in June 2004. This property will form part of the Greenway Supacentra bulky goods centre re-development. The book value of the property at 30 June 2006 is \$7,431,160.
- The Wentworthville Mall, a shopping centre complex at 42-44 Dunmore Street, Wentworthville was purchased in September 2004. The development application for an increase in lettable retail area, and in the number of car spaces, together with the potential for the development of a residential high-rise apartment over the shopping centre complex was lodged with the local Council in July 2006. The book value of the property at 30 June 2006 is \$20,648,613.
- A vacant property at 16-20 Mountain Street, Ultimo was acquired in April 2005. The property is under a conditional contract of sale, and a refurbishment agreement. The contract of sale is conditional upon the receipt of DA and Construction Certificate for the refurbishment. The book value of the property at 30 June 2006 is \$10,077,725.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 15: FINANCIAL ASSETS

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Non-Current</b>				
<i>Investments in controlled entities</i>				
Unlisted shares at cost	-	-	-	-
<i>Investments in other entities</i>				
Units in unlisted unit trust	<b>293</b>	200	<b>293</b>	200
Joint venture entity	<b>36</b>	36	<b>36</b>	36
	<b>329</b>	236	<b>329</b>	236
Investment in Joint Venture Operation	-	6	-	6
<i>Investments in Associates</i>				
Unlisted shares at cost	<b>101</b>	101	<b>111</b>	111
Unlisted units at cost	-	-	<b>1</b>	1
Provision for diminution	<b>(101)</b>	(101)	<b>(101)</b>	(101)
	-	-	<b>11</b>	11
	<b>329</b>	242	<b>340</b>	253

## NOTE 16: PROPERTY, PLANT & EQUIPMENT

Plant and equipment – at cost	<b>99</b>	89	<b>70</b>	66
Accumulated depreciation	<b>(58)</b>	(48)	<b>(49)</b>	(42)
	<b>41</b>	41	<b>21</b>	24

### Reconciliations

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

#### *Plant and equipment*

Carrying amount at beginning of year	<b>41</b>	48	<b>24</b>	28
Additions	<b>10</b>	4	<b>4</b>	4
Depreciation	<b>(10)</b>	(11)	<b>(7)</b>	(8)
Carrying amount at end of year	<b>41</b>	41	<b>21</b>	24

## NOTE 17: TRADE AND OTHER PAYABLES

### Current

Trade creditors	<b>28</b>	193	-	82
Other creditors and accruals	<b>484</b>	374	<b>219</b>	116
GST payable	<b>51</b>	-	-	5
Owing to related entities	-	645	-	615
	<b>563</b>	1,212	<b>219</b>	818

### Non-current

Owing to related entities	<b>1,176</b>	536	<b>1,234</b>	574
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## NOTE 18: SHORT-TERM AND LONG-TERM BORROWINGS

	Note	Consolidated		The Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current</b>					
Bank loans – secured	18(b)	<b>19,752</b>	13,746	<b>8,500</b>	1,517
Loans from other entities – unsecured	18(a)	<b>1,174</b>	1,852	<b>1,174</b>	1,852
Loans from related entity – unsecured	18(c)	<b>1,020</b>	550	<b>1,020</b>	550
Hire purchase liabilities – secured		–	3	–	3
		<b>21,946</b>	16,151	<b>10,694</b>	3,922
<b>Non-current</b>					
Bank loans – secured	18(b)	<b>13,734</b>	22,668	–	8,868
Loan from other entities – unsecured	18(a)	<b>1,500</b>	1,356	<b>1,500</b>	1,356
Loans from related entities – unsecured	18(c)	<b>495</b>	121	<b>495</b>	121
		<b>15,729</b>	24,145	<b>1,995</b>	10,345

(a) Loans from other entities are unsecured. The non-current loan of \$1,500,000 is due for repayment in January 2008 and the balance of \$1,174,000 is due for repayment between February to June 2007. The weighted average interest rate on these loans at 30 June 2006 is 8.94% (2005: 9.54%).

(b) The bank loans are secured by registered first mortgages over properties of the controlled entities. The current portion of the bank loans is repayable in the next 12 months unless the term of the loans is extended. The non-current portion of the bank loans of \$500,000 is due for repayment by November 2015 and the balance of \$13,234,000 is repayable by 1 November 2010. The weighted average interest rate on these loans at 30 June 2006 is 7.72% (2005: 8.01%).

(c) The loans from related entities are unsecured and the current loan of \$1,020,000 was fully repaid in July 2006. The non-current portion of \$495,000 is due for repayment between January to June 2008. The weighted average interest rate on these loans at 30 June 2006 was 9.5% (2005: 9.0%).

The carrying amount of the pledged properties at reporting date are as follows:

Properties held for development	<b>46,074</b>	43,338	–	–
Property inventories	–	3,335	–	786
	<b>46,074</b>	46,673	–	786

## NOTE 19: FINANCING ARRANGEMENTS

The consolidated entity has access to the following lines of credit:

### Total facilities available:

Bank loans	<b>33,486</b>	37,745	–	10,385
	<b>33,486</b>	37,745	–	10,385

### Facilities utilised at balance date:

Bank loans	<b>33,486</b>	36,414	–	10,385
	<b>33,486</b>	36,414	–	10,385

### Facilities not utilised at balance date:

Bank loans	–	1,331	–	–
	–	1,331	–	–

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 20: SHORT-TERM AND LONG-TERM PROVISIONS

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current</b>				
Employee benefits	31	19	–	–
Dividends	479	473	479	473
	<b>510</b>	492	<b>479</b>	473
<b>Non-current</b>				
Employee benefits	18	11	14	11
Number of employees at year end	4	4	2	2
<b>Reconciliations</b>				
Reconciliations of the carrying amounts of each class of provision, except for employee benefits, is set out below:				
<i>Dividends</i>				
Carrying amount at beginning of year	473	1,880	473	1,880
Provisions made during the year:				
– Final dividend 2005	–	473	–	473
– Final dividend 2006	479	–	479	–
– Payments made during the year	(473)	(1,880)	(473)	(1,880)
Carrying amount at year end	479	473	479	473

## NOTE 21: CONTRIBUTED EQUITY

Share capital				
95,772,914 (2005:94,720,572) ordinary shares fully paid	11,692	11,532	11,692	11,532
<b>Movements during the year:</b>				
Balance at beginning of year:				
94,720,572 shares	11,532	8,362	11,532	8,362
<i>Shares issued:</i>				
– 15,275,000 for cash under the share purchase plan	–	3,016	–	3,016
– 1,052,342 Pursuant to the company dividend reinvestment plan	160	99	160	99
– 250,000 for cash pursuant to a share placement	–	55	–	55
Balance at end of the year	11,692	11,532	11,692	11,532

### *Terms and Conditions*

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

## NOTE 22: RETAINED PROFITS

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Retained profits at beginning of the year	<b>1,689</b>	1,669	<b>1,958</b>	2,480
Net profit/(loss) attributable to members of the parent entity	<b>734</b>	493	<b>539</b>	(49)
Dividends recognised during the year	<b>(479)</b>	(473)	<b>(479)</b>	(473)
Retained profits at the end of the year	<b>1,944</b>	1,689	<b>2,018</b>	1,958

## NOTE 23: TOTAL EQUITY RECONCILIATION

Total equity at beginning of the year	<b>13,221</b>	10,031	<b>13,490</b>	10,842
Total changes in parent entity interest in equity recognised in statement of financial position	<b>734</b>	493	<b>539</b>	(49)
Transactions with owners as owners:				
Contributions of equity	<b>160</b>	3,170	<b>160</b>	3,170
Dividends	<b>(479)</b>	(473)	<b>(479)</b>	(473)
Total equity at end of the year	<b>13,636</b>	13,221	<b>13,710</b>	13,490

## NOTE 24: DIVIDENDS

Dividends recognised in the current year by the company are:

	Cents per share	Total amount \$	Date of payment	Tax rate for franking credit	Franked/Unfranked
2006 – Final	0.5	478,865	15 July	30%	Fully franked

### Dividend Franking Account

30% franking credits available to shareholders of Metroland Australia Limited for subsequent financial years

	<b>1,348</b>	1,699
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The above available credit amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at year-end;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax-consolidated entity at year-end;
- (d) franking credits that the entity may be prevented by from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 25: INTEREST IN JOINT VENTURE OPERATION

The company held a 72.17% interest in Sydney Park Management Venture which was determined at 30 June 2006 following the completion and full sale of the property development at 221-229 Sydney Park Road, Alexandria, and a 74% interest in the Greenway Supacenta Joint Venture whose principle activity is the development of the proposed bulky goods supacenta at Elizabeth Street, Wetherill Park. For the year ended 30 June 2006 the contribution of the joint ventures to the operating result before tax of the company and consolidated entity was a profit of \$26,718 (2005: loss of \$372,571).

Included in the assets and liabilities of the company and the consolidated entity are the following items which represent the company's and consolidated entity's interests in the assets and liabilities employed in the joint ventures, recorded in accordance with the accounting policies described in Note 1(b).

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current Assets</b>				
Cash	7	269	7	269
Property inventories	517	786	517	786
Receivables	12	672	12	672
Total Current Assets	536	1,727	536	1,727
Total Assets	536	1,727	536	1,727
<b>Current Liabilities</b>				
Trade and other creditors	306	-	306	-
Interest bearing liabilities	-	672	-	672
	306	672	306	672
<b>Non-current Liabilities</b>				
Interest bearing liabilities	-	368	-	368
Total Liabilities	306	1,040	306	1,040

Refer Note 29 for details of contingent liabilities.

## NOTE 26: CONTROLLED ENTITIES

### (a) Particulars in relation to controlled entities

Name	Ordinary share consolidated entity interest	
	2006 %	2005 %
<b>Parent entity</b>		
Metroland Australia Limited		
<b>Controlled entities</b>		
Metroland Properties Pty Limited	100	100
Kings Properties (Australia) Pty Limited	100	100
Greenway Australia Properties Pty Limited	100	100
Pacific Metronet Limited (de-registered in 2005)	-	-
Metroland Homes Pty Limited	100	100
Stratawide Management Pty Limited	55	55
Goldwest Metro Pty Limited	100	100
Metro Associates Pty Limited	45	-
Metro Facilities Management Pty Limited	51	-

All controlled entities are incorporated and carry on business in Australia.

## NOTE 26: CONTROLLED ENTITIES (CONT'D)

### (b) Acquisition of controlled entities

Metro Associates Pty Limited and Metro Facilities Management Pty Limited were acquired in the current financial year. Metro Associates Pty Limited, 45% owned by Metroland Australia Ltd, was incorporated with a fair value of net assets acquired of \$100. Metro Facilities Management Pty Limited, 51% owned by Metroland Australia, was incorporated with a fair value of net asset acquired of \$1,000.

### (c) Disposal of controlled entities

No controlled entities were disposed of during the current year.

In the previous financial year, a partly owned controlled entity, Pacific Metronet limited was de-registered.

## NOTE 27: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated		The Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

Share of net profit/(loss) accounted for using the equity method included in the statement of financial performance:

– Joint venture entities	142	952	–	–
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### Interest in Joint Venture Entities

Details of interests in joint venture entities are as follows:

	Principal Activities	Joint Venture Reporting Date	Ordinary Ownership		Investment Amount			
			Consolidated 2006	Consolidated 2005	Consolidated 2006	Consolidated 2005	The Company 2006	The Company 2005
			%	%	\$'000	\$'000	\$'000	\$'000
Metroland Investments P/L	Investment in property development entity	30 June	50	50	–	413	10	10
Gaintak Investments P/L ATF Gaintak Investment Unit Trust	Property investment and development	30 June	50	50	5,292	4,351	1	1
					5,292	4,764	11	11

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 27: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONT'D)

	<b>Consolidated</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Results of joint venture</b>		
Revenue from ordinary activities	<b>984</b>	2,202
Expenses from ordinary activities	<b>(842)</b>	(1,076)
Profit/(loss) from ordinary activities before income tax	<b>142</b>	1,126
Income tax expenses relating to ordinary activities	<b>-</b>	(174)
	<b>142</b>	952
<b>Statement of financial position</b>		
The consolidated entity's share of the joint venture entities assets and liabilities consists of:		
Current assets	<b>279</b>	771
Non-current assets	<b>13,477</b>	10,569
Total assets	<b>13,756</b>	11,340
Current liabilities	<b>(8,464)</b>	(541)
Non-current liabilities	<b>-</b>	(6,035)
Total liabilities	<b>(8,464)</b>	(6,576)
Net assets – accounted for using the equity method	<b>5,272</b>	4,764
Refer to notes 28 and 29 for details of commitments and contingencies.		
<b>Share of post-acquisition profit attributable to joint venture entities</b>		
Share of joint venture entities' retained profit/ (loss) at beginning of year	<b>904</b>	(48)
Share of joint venture entities' net profit/(loss)	<b>142</b>	952
Dividends paid by joint venture entity	<b>(423)</b>	-
Share of joint venture entities' retained profit/(loss) at end of year	<b>623</b>	904
<b>Movements in carrying amount of joint venture entities</b>		
Carrying amount at beginning of year	<b>4,764</b>	7,387
Cash contributions to joint venture entities during the year	<b>799</b>	481
Share of joint venture entities' net profit/(loss)	<b>142</b>	952
Repayment of contributions during the year	<b>-</b>	(4,056)
Realisation of joint venture investment during the year	<b>(413)</b>	-
Carrying amount at end of year	<b>5,292</b>	4,764

## NOTE 28: COMMITMENTS

The consolidated entity had no material commitment at 30 June 2006.

## NOTE 29: CONTINGENT LIABILITIES

Consolidated		The Company	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

The directors are of the opinion that provisions are not required in respect of these matters as it is not probable that a future sacrifice of economic benefits will be required.

### Joint and Several Liability

In the prior year, the company as a 72.17% venturer in the Sydney Park Joint Venture operation was jointly and severally liable for 100% of all liabilities incurred by the joint venture. The joint venture was determined at 30 June 2006:

-	401	-	401
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## NOTE 30: SEGMENT REPORTING

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

### Business Segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

<i>Property sales and development:</i>	Sales of properties developed and properties currently under development; or undergoing development approval and not generating rental income.
<i>Property rentals and management:</i>	Properties not currently under development, but generating rental income; and residential property management operations.
<i>Investment and financial services:</i>	Investments in joint venture entities; cash investments and general loan borrowings.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 30: SEGMENT REPORTING (CONT'D)

	Property Sales & Development		Property Rental & Management		Investment & Financial Services		Consolidated	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Primary Reporting Business Segments</b>	<b>5,009</b>	<b>1,203</b>	<b>3,654</b>	<b>3,092</b>	<b>35</b>	<b>169</b>	<b>8,698</b>	<b>4,464</b>
<b>External segment revenue</b>	<b>996</b>	<b>(504)</b>	<b>1,127</b>	<b>1,029</b>	<b>(315)</b>	<b>479</b>	<b>1,808</b>	<b>1,004</b>
Unallocated corporate expenses							<b>(792)</b>	<b>(688)</b>
Profit from ordinary activities before income tax							<b>1,016</b>	<b>316</b>
Income tax expense							<b>(282)</b>	<b>177</b>
<b>Net profit</b>							<b>734</b>	<b>493</b>
Depreciation	-	-	11	16	10	11	21	27
<b>Individually significant items:</b>								
Proceeds on sale of property	4991	-	-	-	-	-	4,991	-
Costs of property sold	(3,472)	-	-	-	-	-	(3,472)	-
	1,519	-	-	-	-	-	1,519	-
<b>Segment assets</b>	<b>10,788</b>	<b>11,785</b>	<b>35,717</b>	<b>37,754</b>	<b>6,591</b>	<b>5,868</b>	<b>53,096</b>	<b>55,407</b>
Unallocated corporate assets							<b>1,301</b>	<b>574</b>
<b>Consolidated total assets</b>							<b>54,397</b>	<b>55,98</b>
Liabilities								
<b>Segment liabilities</b>	<b>10,197</b>	<b>8,643</b>	<b>26,112</b>	<b>29,182</b>	<b>2,940</b>	<b>4,287</b>	<b>39,249</b>	<b>42,112</b>
Unallocated corporate liabilities							<b>1,512</b>	<b>648</b>
<b>Consolidated total liabilities</b>							<b>40,761</b>	<b>42,760</b>
Acquisition of non-current assets	<b>299</b>	<b>8,974</b>	<b>1,027</b>	<b>17,029</b>	<b>93</b>	<b>236</b>	<b>1,419</b>	<b>26,239</b>
<b>Secondary Reporting Geographical Segments</b>								
The company operates in the Sydney Region of New South Wales, Australia.								



## NOTE 31: DIRECTORS' AND EXECUTIVES' DISCLOSURES

### Remuneration of specified directors and specified executives by the consolidated entity

Remuneration levels are set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages only include fixed remuneration. There are currently no performance-based or equity-based remuneration for directors and executives.

The remuneration structures are designed to attract suitably qualified candidates, and to achieve the broader outcome of increasing the consolidated entity's net profit attributable to members of the parent entity. The remuneration structures took into account:

- the overall level of remuneration for each director and executive; and
- the executives' ability to control performance.

Fees for non-executive directors are presently between \$12,000 and \$24,000 per annum. Directors fees cover all main board activities and the membership of other committees, where applicable.

The company does not have any Retirement or Redundancy Schemes in operation for directors and senior executives.

The following table provides the details of all directors of the company and the executives of the consolidated entity with the greatest authority, and the nature and amount of the elements of their remuneration for the year ended 30 June 2006:

	Primary Salary & Wages		Post-employment Superannuation Benefits	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Specified directors</b>				
<i>Non-executive</i>				
Steam Leung	<b>24,000</b>	24,000	-	-
Eddie Lee	<b>12,000</b>	12,000	-	-
John Wardman	<b>10,920</b>	12,000	<b>1,080</b>	-
Da Cheng Zhang	-	-	-	-
<i>Executive</i>				
Frank Shien	<b>70,800</b>	70,800	-	-
Total, all specified directors	<b>117,720</b>	118,800	<b>1,080</b>	-
<b>Specified executives</b>				
Anthony Maroon, CEO, Stratawide Management Pty Ltd	<b>120,000</b>	120,000	<b>10,800</b>	10,800
Tjing Hong Ong, Development Manager, Metroland Australia Limited	<b>97,709</b>	90,000	<b>6,750</b>	8,100
	<b>217,709</b>	210,000	<b>17,550</b>	18,900

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 31: DIRECTORS' AND EXECUTIVES' DISCLOSURES (CONT'D)

### Equity Instruments

#### Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Metroland Australia Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2005	Purchases	Sales	Held at 30 June 2006
<b>Specified directors</b>				
Frank Shien	9,995,491	808,803	–	10,804,294
Steam Leung	1,439,310	100,000	–	1,539,310
Eddie Lee	527,500	–	–	527,500
John Wardman	1,310,333	33,235	–	1,343,568
Da Cheng Zhang	9,600,000	–	–	9,600,000
<b>Specified executives</b>				
Anthony Maroon	–	–	–	–
Tjing Hong Ong	1,140,000	106,263	–	1,246,263

#### Options and Rights Over Equity Instruments

The movements during the reporting period in the number of options over ordinary shares of Metroland Australia Limited, held directly, indirectly, or beneficially, by each director and specified executive, including their personally-related entities, granted on the same terms to all existing shareholders of Metroland Australia Limited, is as follows:

	Held at 1 July 2005	Granted	Sold/ Exercised	Held at 30 June 2006
<b>Directors</b>				
Frank Shien	1,665,912	–	–	1,665,912
Steam Leung	223,214	–	–	223,214
Eddie Lee	87,916	–	–	87,916
John Wardman	218,388	–	–	218,388
Da Cheng Zhang	1,600,000	–	–	1,600,000
<b>Specified Executives</b>				
Anthony Maroon	–	–	–	–
Tjing Hong Ong	189,998	–	–	189,998

All options were allotted on 22 October 2004 and have an expiration date of 28 May 2009, and an exercise price of \$0.26 per share. No options have been granted since the end of the financial year. The options were granted for no consideration, with the first exercise date of 8 March 2006.

#### Loans and other Transactions with Specified Directors and Specified Executives

##### Other transactions with the company or its controlled entities

A number of specified directors and executives, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or reporting policies of those entities.

## NOTE 31: DIRECTORS' AND EXECUTIVES DISCLOSURES (CONT'D)

A number of these entities transacted with the company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available in similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to specified directors, specified executives and their personally-related entities, were total expenses of \$116,572. Details of the transactions are as follows:

	Transaction	Note	2006 \$	2005 \$
<b>Specified directors</b>				
Frank Shien	Office rental and administration	(i)	36,200	36,200
	Property management	(ii)	31,121	34,716
	Interest	(iii)	49,251	35,756
			<u>116,572</u>	<u>106,672</u>

- (i) The company paid office rental to Tanesia Holdings Pty Ltd, and administration service fees to Premier Realty Pty Ltd for office support services provided. Frank Shien is a director of Tanesia Holdings Pty Limited; and Premier Realty Pty Ltd is controlled by a personally-related entity of Frank Shien.
- (ii) During the year, Premier Realty Pty Ltd provided property management services, at normal market rates, for certain properties owned by the consolidated entity.
- (iii) During the year, NX Holdings Pty Ltd and Tanesia Holdings Pty Ltd, companies of which Frank Shien is a director, loaned funds totalling \$1,515,000 to the company. The loans bear interest at 9.5%, is unsecured, and \$1,020,000 was repaid in July 2006.

### Assets and liabilities ensuing from the above transactions:

	30 June 2006 \$	30 June 2005 \$
<b>Current Liabilities:</b>		
Trade creditors	2,200	–
Interest payable	12,842	1,301
Owing to related entity	–	30,779
Loan from related entity	1,020,000	550,000
<b>Non-current Liabilities:</b>		
Loan from related entity	495,000	121,000

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 32: NON-DIRECTOR RELATED PARTIES

### (a) Wholly-owned, partly-owned and joint venture entities

Details of dealings with these non-director related parties are set out below:

#### Loans

Loans between wholly-owned and partly-owned entities, and a joint venture entity is charged interest at 9% on the balance outstanding, are unsecured, and are not repayable within the next twelve months.

#### Balances with non-director related entities

The aggregate amount receivable from non-director related entities by the company at reporting date:

	The Company	
	2006	2005
	\$'000	\$'000
Receivables		
<i>Current</i>		
Joint venture entity	<b>358</b>	207
<i>Non-current</i>		
Wholly- owned controlled entities	<b>20,878</b>	21,358
Partly-owned controlled entities	<b>215</b>	218
Joint venture entities	<b>5,280</b>	4,255
	<b>26,373</b>	25,831
Payables		
<i>Current</i>		
Joint venture entity	–	615
<i>The aggregate amounts included in the profit from ordinary activities before income tax expense that resulted from transactions with non- related parties are:</i>		
Interest revenue		
Wholly – owned controlled entities	<b>1,760</b>	1,383
Partly – owned controlled entities	<b>19</b>	18
Joint venture entity	–	156
Dividends received – joint venture entity	<b>423</b>	–
Trust distribution – Joint venture entity	<b>152</b>	127
Property management fees – Wholly owned controlled entity	<b>78</b>	36
Property management fees – Joint Venture Entity	–	15
Loan to partly-owned controlled entity forgiven	–	(7)

#### Percentage of equity interest

Details of equity interests held in controlled entities are set out in Note 26; and in joint venture entities are set out in Note 27.

## NOTE 33: ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURE

### (a) Interest Rate Risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rates for classes of financial assets and financial liabilities is set out below:

	Floating Interest Rate	1 Year or Less	1 to 5 Years	Non Interest Bearing	Total	Weighted Average Interest Rate
2006	\$'000	\$'000	\$'000	\$'000	\$'000	%
<b>(i) Financial Assets</b>						
Cash assets	189	–	–	–	189	3.2
Receivables						
– Other	–	–	–	916	916	–
Other financial assets	–	–	–	329	329	–
Total Financial Assets	189	–	–	1,245	1,434	–
<b>(ii) Financial Liabilities</b>						
Payables	–	–	–	1,453	1,453	–
Bank loans	28,430	5,056	–	–	33,486	7.7
Loans from related entities	–	1,020	495	–	1,515	9.5
Loans from other entities	–	1,174	1,500	–	2,674	8.9
Dividends payable	–	–	–	479	479	–
Employee benefits	–	–	–	49	49	–
Total Financial Liabilities	28,430	7,250	1,995	1,981	39,656	
<b>2005</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
<b>(i) Financial Assets</b>						
Cash assets	1,365	–	–	–	1,365	4.3
Receivables						
– Other	–	–	–	1,713	1,713	–
Other financial assets	–	–	–	242	242	–
Total Financial Assets	1,365	–	–	1,955	3,320	
<b>(ii) Financial Liabilities</b>						
Payables	–	–	–	1,748	1,748	–
Bank loans	31,358	56	5,000	–	36,414	8.1
Loans from related entities	–	550	121	–	671	9.0
Loan from other entities	–	3,026	182	–	3,208	9.5
Hire purchase liabilities	–	3	–	–	3	7.0
Dividends payable	–	–	–	473	473	–
Employee benefits	–	–	–	30	30	–
Total Financial Liabilities	31,358	3,635	5,303	2,251	42,547	

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 33: ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURE

(CONT'D)

### (b) Credit Risk Exposure

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted

#### *Recognised financial instruments*

The credit risk on financial assets excluding investments of the consolidated entity, which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties. The consolidated entity is not materially exposed to any individual customer.

### (c) Net Fair Values of Financial Assets and Liabilities

#### *Valuation approach*

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following basis:

#### *Recognised financial instruments*

Monetary financial assets and liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers or due to suppliers. The carrying amounts of bank term deposits, trade debtors, other debtors, bank overdrafts, accounts payable, bank loans, dividends payable and employee benefits approximate net fair value.

The valuation of financial instruments reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts, or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

### (d) Net Fair Values

#### *Recognised Financial Instruments*

The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:

	2006		2005	
	Carrying Amount \$'000	Net Fair Value \$'000	Carrying Amount \$'000	Net Fair Value \$'000
<i>Financial Assets</i>				
Cash assets	189	189	1,365	1,365
Receivables	916	916	1,713	1,713
Properties held for development	46,127	51,533	46,871	53,466
Investments – other	329	329	242	242
<i>Financial liabilities</i>				
Payables	1,739	1,739	1,748	1,748
Bank loans	13,516	13,516	36,414	36,414
Loans from related and other entities	24,158	24,158	3,879	3,879
Employee benefits	50	50	30	30
Dividends payable	479	479	473	473

Cash assets are readily traded on organised markets in a standardised form.

All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

## NOTE 34: EVENTS SUBSEQUENT TO BALANCE DATE

- On 7 July 2006, the Group's sale of its property at Neutral Bay was settled for \$12.2million. The proceeds were used to repay bank loans of \$8.5million, and of loans from director-related entities of \$1.02million.
- A final fully franked dividend of 0.5cents/share was paid on 15 July 2006, resulting in the allotment of a further 1,565,519 shares pursuant to the Company's dividend reinvestment plan.
- A conditional contract was exchanged on 26 July 2006 for the purchase of property in Campbelltown for \$14.8million. A deposit of \$1.48million was paid on exchange, with settlement expected in either January 2007 or July 2007 depending on the satisfactory resolution of the special conditions of the contract.

Other than the above there were no significant events subsequent to 30 June 2006 outside the ordinary course of business.

There has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

## NOTE 35: CHANGE OF ACCOUNTING POLICY

- (a) The group has adopted the following accounting standards for application on or after 1 January 2005:
- AASB 132: Financial Instruments: Disclosure and Presentation; and
  - AASB 139: Financial Instruments: Recognition and Measurement.

The changes resulting from the adoption of AASB 132 relate primarily to increased disclosures required under the standard and do not affect the value of amounts reported in the financial statements.

The adoption of AASB 139 has not resulted in material differences in the recognition and measurement of the groups financial instruments. The group has elected not to adjust comparative information resulting from the introduction of AASB 139 as permitted under the transitional provisions of this standard. As such, previous Australian accounting standards have been applied to comparative information.

- (b) The economic entity changed its accounting policy for the financial year ending 30 June 2006 relating to the measurement of inventories. Inventories previously included advertising promotional costs incurred for large property development projects, which were deferred until recognition of revenue occurred. Under AASB 102: "Inventories", these costs are now expensed in the period in which they are incurred.
- (c) The economic entity changed its accounting policy for the financial year ending 30 June 2006 relating to the measurement of revenue. Under UIG 53: "Pre-completion Contract for the Sale of Residential Properties", revenue in previous periods was recognised on the percentage of completion over the construction period of the project. In the current year, under AASB 118 "Revenue", revenue from property developments can only be recognised upon the completion of the development project and settlement of the project where the substantial risks and rewards are passed to the purchaser.

## NOTE 36: COMPANY DETAILS

The registered office of the company is:

Metroland Australia Limited  
Suite 3, 261 Harris Street,  
Pyrmont NSW 2009

The principal place of the business is:

Metroland Australia Limited  
Suite 3, 261 Harris Street,  
Pyrmont NSW 2009

# DIRECTOR'S DECLARATION

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In the opinion of the directors of Metroland Australia Limited ("the Company"):

1. the financial statements and notes, set out on pages 11 to 45 are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
  - (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. the directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the chief executive officer for the financial year ended 30 June 2006.

Signed in accordance with a resolution of the directors:



**FRANK SHIEN**  
Director

Dated at Sydney this 29th day of September 2006



# INDEPENDENT AUDIT REPORT

to the Members of Metroland Australia Limited

## SCOPE

### The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statements, accompanying notes to the financial statements, and the directors' declaration, for Metroland Australia Limited (the company) and Metroland Australia Limited and its controlled entities (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

## INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration on page 10 of the financial report has not changed as at the date of providing our audit opinion.

## AUDIT OPINION

In our opinion, the financial report of Metroland Australia Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006, and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

GOULD RALPH & COMPANY  
Chartered Accountants



**MALCOLM BEARD** M.Com. F.C.A.  
Partner

Dated at Sydney this 29th day of September 2006

Liability limited by a scheme approved under Professional Legislation

## Additional information

Additional information required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

### Shareholding

(a) Distribution of shareholders (as at 26 September 2006)

Category	Number of Security Holders	
	Shares	Options
1 – 1,000	39	187
1,001 – 5,000	143	295
5,001 – 10,000	99	127
10,001 – 100,000	394	146
100,001 – Over	110	39
	785	794

(b) The number of shareholdings less than a marketable parcel at 26 September 2006 was 93.

(c) The number of shares held by the substantial shareholders at 26 September 2006 were:

Shareholder	Number of Ordinary Shares
Da Cheng Zhang	9,600,000
Tanesia Holdings Pty Ltd	4,873,587
Shirley Tan	4,156,672

(d) Voting Rights

#### *On a show of hands*

Every member present in person or by proxy or attorney or being a corporation by its authorised representative shall have one vote.

#### *On a poll*

Every member who is present in person or by proxy or attorney or being a corporation by its authorised representative shall have one vote for every share held.

(e) Twenty largest shareholders as at 26 September 2006.

Shareholders	Number of Ordinary Fully Paid Shares Held	% Held of Total Issued
1. Da Cheng Zhang	9,600,000	9.87
2. Tanesia Holdings Pty Ltd	4,873,587	5.01
3. Shirley Tan	4,156,672	4.27
4. LJL Capital Pty Ltd	3,517,609	3.61
5. Formbell Pty Limited	3,156,364	3.24
6. Wincute International Development Limited	3,025,000	3.11
7. Cheptsow Properties Limited	2,820,000	2.90
8. NX Holdings Pty Ltd	2,315,084	2.38
9. Comm-Asia Limited	1,975,000	2.03
10. Ms Lee Eng Qua	1,753,856	1.80
11. MLD Holdings Pty Limited <Superannuation Fund>	1,608,823	1.65
12. Seow Hwee Tan	1,384,000	1.42
13. G H Kluge & Sons Limited	1,375,000	1.41
14. Dawes Investment Group Ltd	1,300,000	1.34
15. CN Investments Pty Limited	1,211,024	1.24
16. MDM Thie Tjie Hoa	1,208,000	1.24
17. Trevor McNally & Lyndall McNally <The McNally Family Superannuation Fund>	1,148,316	1.18
18. Janie Teo	1,110,000	1.14
19. John Wardman & Associates Pty Ltd <The Wardman Super Fund Account>	1,088,165	1.12
20. Mr Sabastian Chen	1,069,819	1.10
	49,696,319	51.06

(f) Stock Exchange

The company is listed on the Australian Stock Exchange. The Home Exchange is Brisbane.

(g) On-market Buy-Back

There is no current on-market buy-back.

# CORPORATE GOVERNANCE STATEMENT

## BOARD OF DIRECTORS

### Role of the Board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic directions, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The board has delegated responsibility for the operation and administration of the company to the Chief Executive Officer and executive management.

### Board Processes

To assist in the execution of its responsibilities, the board, in September 2004 established an Audit Committee. The board has not established any Nomination or Remuneration Committees.

Due to the size of the consolidated entity's operations in the past, the company did not have a separately constituted Audit Committee. With the current and projected increases in the group's operations, an Audit Committee was constituted in September 2004. The board is of the opinion that due to the size composition of the present board, that a separately constituted Nomination and Remuneration Committee is currently not required. The overseeing of the appointment and induction process for directors and committee members, and the selection, appointment and succession planning process of the company's Chief Executive Officer "CEO", including the setting of remuneration levels for directors and senior executives is taken by the full board.

The Audit Committee has a written charter and mandate, which is subject to regular review. The board has also an established framework, cognisant of the staff and operational size of the consolidated entity, for the management of the consolidated entity including an appropriate system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds at least five scheduled meeting each year and any extraordinary meeting at such other times as may be necessary to address any specific significant matters that may arise.

### Independent Professional Advice and Access to Company Information

Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. A copy of the advice received by the director is made available to all other members of the board.

## COMPOSITION OF THE BOARD

The names of the directors of the company in office at the date of this report are set out in the Directors' Report on page 2.

The composition of the board is determined using the following principles:

- a minimum of five directors, with a broad range of expertise, both nationally and internationally;
- a majority of independent non-executive directors;
- a majority of directors having extensive knowledge of the company's industries, and those which do not, have extensive experience in significant aspects of financial management, or risk management of similar sized companies;
- have a non-executive independent director as Chairperson;

An independent director is a director who is not a member of management (a non-executive director) and who:

- holds less than five % of the voting shares of the company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder who holds more than five % of the voting shares of the company;
- has not within the last three years been an employee in an executive capacity by the company or another group member;
- within the last three years has not been a principle or employee of a material professional adviser or a material consultant to the company or another group member;

# CORPORATE GOVERNANCE STATEMENT

- is not a material supplier or customer of the company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company;
- is free from any interest and any business or other relationships which could, or could reasonably be perceived to, materially interfere with the directors ability to act in the best interests of the company;

## NOMINATION PROCESS

The full board oversees the appointment and induction process for directors, and the selection, appointment and succession planning process of the company's CEO. When a vacancy exists or there is a need for particular skills, the board determines the selection criteria based on the skills deemed necessary. The board identifies potential candidates, and appoints the most suitable candidate, and if required, with advice from an external consultant. Board candidates must stand for election at the next general meeting of shareholders.

The board annually reviews the effectiveness of the individual directors. The review generates recommendations on the individual directors which is voted on by the full board. Directors displaying unsatisfactory performance are required to retire.

The full board with the exception of the CEO also conducts an annual review on the performance of the CEO, and the senior executives reporting directly to the CEO and the results are discussed at a board meeting.

## REMUNERATION PROCESS

The full board is responsible for determining and reviewing compensation arrangements for the directors themselves, and the remuneration of each director is governed by contract wherein each director provides a specific service for a fee and the reimbursement of expenses.

Remuneration levels are set to attract and retain appropriately qualified and experienced directors and senior executives, and takes into account given trends in comparative companies locally. Remuneration packages are currently of fixed remuneration, but may also include performance-based and equity-based remuneration.

The remuneration structures are designed to attract suitably qualified candidates and to effect the broader outcome of maintaining and increasing the consolidated entity's net profit attributable to members of the parent entity. The remuneration structures take into account:

- overall level of remuneration for each director and executive;
- the executives' ability to control the relevant segment's performance; and
- the amount of incentives within each executives remuneration.

There are currently no remuneration based on the achievement of specific performance hurdles or targets for executive directors and senior executives. Non-executive directors also do not receive any performance related remuneration.

The board considers that the above remuneration structure is generating the desired outcome, with the strong growth in profits in recent years. The board will also consider performance-based and equity-based remuneration for executive directors and senior executives as incentives in enhancing the company's performance.

Non-executive directors' base fees are presently up to \$24,000 per annum, with total remuneration of all non-executives of \$48,000. Directors fees currently cover all main board activities and membership of one committee.

The board does not have a Retirement Scheme for non-executive directors or a Redundancy Scheme for senior executives.

## AUDIT COMMITTEE

The Audit Committee has a documented charter, approved by the board. All members must be non-executive directors with a majority being independent. The committee advises on corporate risk management and compliance processes; the consolidated entity's compliance with all statutory and fiduciary requirements, and the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee are:

- John Wardman, B.Ecom, FAIC – Independent Non-Executive

- Eddie Lee, B.E.Civil B.Sc.Dip.Bldg.Sc – Independent Non-Executive

The external auditors and the CEO are invited to Audit Committee meetings at the discretion of the committee.

The responsibilities of the Audit Committee include reporting to the board on:

- reviewing the annual and half-year financial reports before submission to the board, focusing on changes in accounting policies and practices, major judgemental areas, significant adjustments and ASX and legal requirements;
- monitoring corporate risk and compliance processes, including an on-going assessment of the adequacy of internal control systems;
- reviewing the company's accounting and financial reporting practices and controls, and compliance with the Corporations Act 2001 and ASX Listing Rules and all other regulatory requirements;
- reviewing the nomination and performance of the external auditor and assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence;
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission and financial institutions.

The audit committee will review the performance of the external auditors on an annual basis and will normally meet with them during the year to:

- discuss external audit plans, identify any significant changes in structures, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- finalise half-year and annual reporting to review the results and findings of the auditors, the adequacy of accounting and financial controls and to monitor the implementation of any recommendations made; and to review the draft financial report and recommend board approval of the financial report;
- as required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

## RISK MANAGEMENT

The board oversees the establishment, implementation and annual review of the company's risk management system which assesses, monitors and manages operational, financial reporting and compliance risks for the consolidated entity. The CEO has declared in writing to the board, that the financial reporting risk management and associated compliance and control have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and up to the signing of the annual financial report for all material operations in the consolidated entity, and material joint ventures.

### Risk Management and Compliance Control

The board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The board's policy on internal control comprises the company's internal compliance and control systems, including:

- Investment Appraisal – Guidelines for capital expenditure include budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses and property investments are being acquired or divested;

Comprehensive practices, have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior board approval;
- financial exposures are controlled including the use of interest rate and credit risk management;
- business transactions are properly authorised and executed;
- management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- the quality and integrity of personnel;
- financial reporting, accuracy and compliance with the financial reporting regulatory framework;
- environmental regulation compliance.

# CORPORATE GOVERNANCE STATEMENT

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## Financial Reporting

The CEO has declared, in writing to the board that the company's financial report are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

## Environmental Regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either the Commonwealth or State legislation. However, the board believes that the consolidated entity has adequate systems in place for the management of its environment requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

## ETHICAL STANDARDS

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

## Conflict of Interest

Directors must keep the Board advised, on an ongoing basis of any interest that could potentially conflict with those of the company. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entities transactions with the company and consolidated entity are set out in Note 31.

## Trading in General Company Securities by Directors and Employees

The following are key elements of the company's policy in the trading in the company's securities by directors and employees:

- identification of those restricted from trading – directors and senior executives may acquire shares in the company, but are prohibited from dealing in the company's shares or exercising options:
  - except between seven and 14 days after either the release of the company's half-year and annual results to the Australian Stock Exchange ("ASX"), the annual meeting or any major announcement;
  - whilst in possession of price sensitive information not yet released to the market.

- raising the awareness of legal prohibitions including transactions with colleges and external advisors;
- requiring details to be provided in intended trading in the company's shares;
- requiring details to be provided of the subsequent confirmation of the trade

## COMMUNICATION WITH SHAREHOLDERS

The board provides shareholders with information using the Continuous Disclosure Policy which includes identifying matter that may have a material effect on the price of the company's securities and notifying them to the ASX.

In summary, the Continuous Disclosure policy operates as follows:

- the CEO is responsible for all communication with the ASX. Such matters are advised to the ASX on the day they are discovered;
- the full annual report is available to all shareholders should they request it;
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the ASIC and the ASX, and sent to any shareholder who requests it;
- proposed major changes in the consolidated entity which may impact on the share ownership rights are submitted to a vote of shareholders;
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report;

The board encourages full participation of shareholders at the AGM, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to shareholders as single resolutions.

The shareholders are requested to vote on the appointment and any changes to the aggregate remuneration of directors, the granting of any options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

# CORPORATE DIRECTORY

## **Board of Directors**

Eddie Lee  
Chairman  
B.E.Civil B.Sc.Dip.Bldg.Sc. (Syd.)

Frank Shien  
Deputy Chairman & CEO  
BA (Lon)

John Howard Robert Wardman  
B.Econ, FAICD

Steam Leung LREA

Mr Da Cheng Zhang

## **Company Secretary**

Helen Lay

## **Registered Office**

Suite 3  
261 Harris Street  
Pyrmont NSW 2009  
Tel (02) 9692 0020  
Fax (02) 9692 0084

## **Solicitors to the Company**

Hemming and Hart  
Level 2  
307 Queen Street  
Brisbane QLD 4000

## **Share Registry**

Gould Ralph Pty Ltd  
Level 42  
AAP Centre  
259 George Street  
Sydney NSW 2000  
Tel (02) 9032 3000  
Fax (02) 9032 3088

## **Auditors**

Gould Ralph & Company  
Level 42  
AAP Centre  
259 George Street  
Sydney NSW 2000

## **Home Stock Exchange**

Australian Stock Exchange Ltd  
Brisbane QLD 4000  
ASX Code: MTD  
ACN 009 138 149

## **Web Address**

[www.metroland.com.au](http://www.metroland.com.au)

