BABCOCK & BROWN
COMMUNITIES

Babcock & Brown Communities Group comprising
Babcock & Brown Communities Limited ABN 16 010 622 901 and
Babcock & Brown Communities Investor Services Limited ACN 080 737 042
as responsible entity of the Babcock & Brown Communities Trust ARSN 124 896 733
Registered Office: Level 23 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia
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ASX Release

30 September 2008

BABCOCK & BROWN COMMUNITIES – 2008 ANNUAL REPORT

Please find attached the Babcock & Brown Communities Limited 2008 Annual Report which has been dispatched to Securityholders.

ENDS

Further Information:
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Investor Relations
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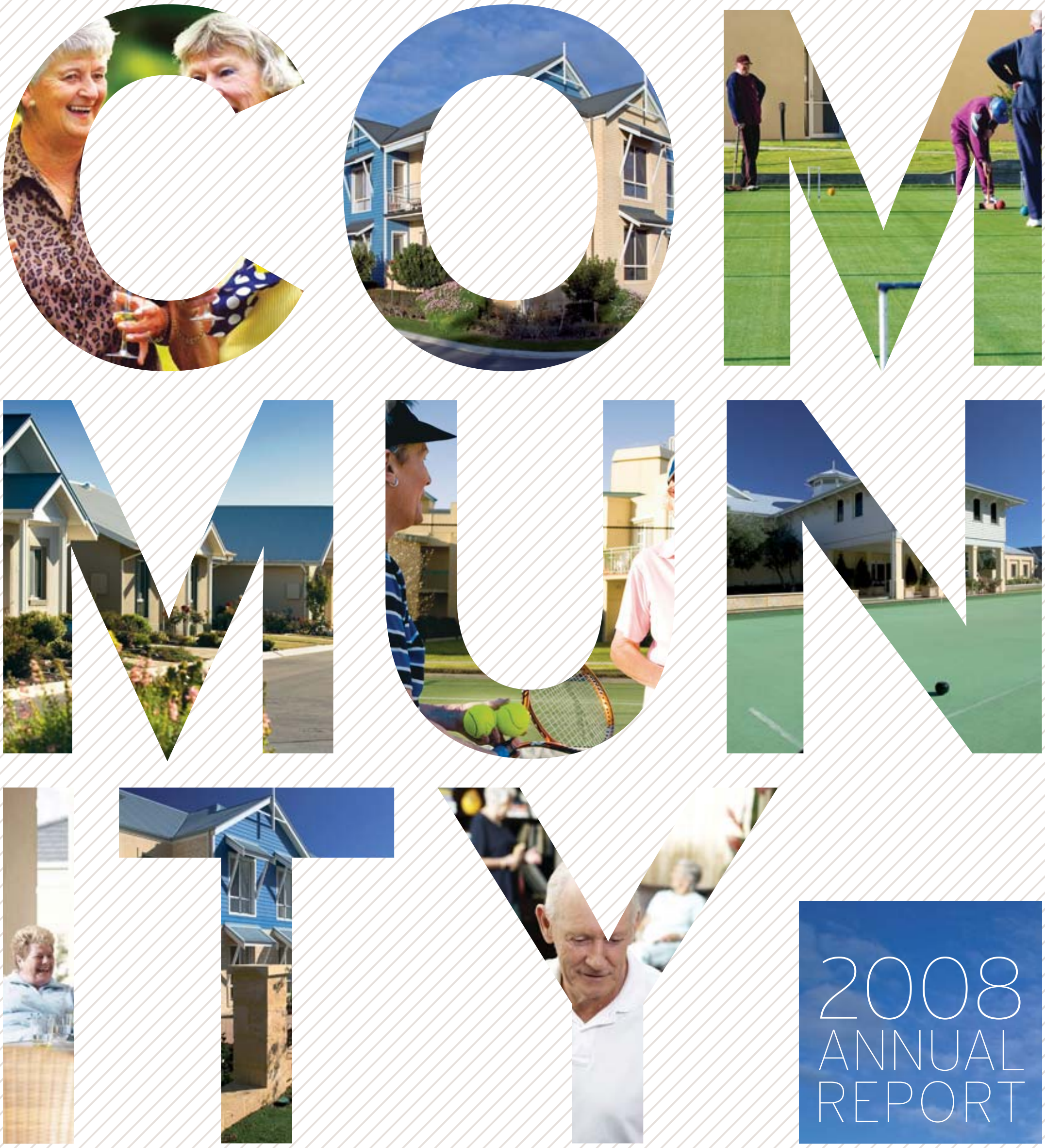
About Babcock & Brown Communities Limited
Babcock & Brown Communities Group (**BBC**) is an integrated owner, operator and developer of senior living communities listed on ASX. BBC owns and manages a portfolio of 56 retirement villages and 29 aged care facilities across Australia and New Zealand comprising approximately 10,000 retirement units and 2,200 residential aged care beds. Within the retirement portfolio, BBC has full exposure to the deferred management fees of approximately 6,800 units and receives management fees in relation to the remaining units.

BBC's growth is supported by its development pipeline of approximately 2,200 retirement units and 344 aged care beds which is expected to be delivered over the next 6 years.

For further information please see our website: www.bbcommunities.com

BABCOCK & BROWN
COMMUNITIES

IT'S ALL ABOUT...



2008 ANNUAL REPORT

Waterford Valley Lakes Retirement Village, Rowville, Victoria.

Contents

National platform across Australian mainland states and New Zealand. 56 retirement communities with 9,930 retirement village units. 29 aged care facilities with 2,213 aged care beds under management. Development pipeline of 2,200 retirement units and 347 aged care beds to be delivered over the next six years. Demand driven by rapidly ageing population of Australians over 65 to double by 2052. Opportunity for increased market penetration with only 5% of over 65s living in retirement communities.

BABCOCK & BROWN COMMUNITIES   Primelife   fini FINI VILLAGES   CONFORM health group

Chairman's Report

BBCG is uniquely positioned to take advantage of favourable demographics. It is one of the largest integrated owners, operators and developers of senior living communities listed on the ASX.

On behalf of my fellow Directors, I am pleased to report on the events that have occurred over the financial year.

MARKET CONDITIONS

Since Babcock & Brown Communities Group (**BBCG**) commenced trading as a new stapled security on 10 August 2007, it has experienced challenging market conditions. This has been mainly due to the impact of the United States subprime mortgage crisis that affected global financial markets from late August 2007. The subprime fall-out has resulted in much tighter credit markets and volatile equity markets for this financial period. Both the financial services and the listed property trust sectors have been significantly affected by these factors as the market has become increasingly concerned about complicated financial models, debt levels, rising funding costs and weaker property markets. These concerns have impacted the price of BBCG's securities and the timing of sales in the retirement business.

FINANCIAL HIGHLIGHTS

BBCG recorded a profit of $41.1 million for the period to 30 June 2008, which represents a 19% increase to the restated Product Disclosure Statement (**PDS**) forecast of $34.5 million. The results include acquisitions made in the period that were not forecast in the PDS. Highlights of the year's results were:

- EBITDA of $109.1 million which represents a 45% increase to restated PDS forecast of $75.1 million;
- revenue of $263.6 million, including $61.5 million revaluation in investment property portfolio;
- active capital management process instituted to reduce debt, including sale of surplus land holdings and sale of Aevum shareholding; and
- Net Asset Value of $0.94 per security and Net Tangible Assets of $0.57 per security as at 30 June 2008.

SENIOR LIVING INDUSTRY

The Australian senior living industry had, until recently, been the domain of a large number of small operators, mostly from the not-for-profit sector. The entry of several large, for-profit private sector organisations has meant the industry is now undergoing significant change, with consolidation emerging as the central theme. These operators have been drawn to the industry by the compelling demographic trends of increased life expectancy leading to the projection that by 2050, over one third of Australia's population will be over the age of 55. Currently in Australia, it is estimated only around 5% of the age qualified population live in retirement communities. This compares to around 12% of age qualified individuals in the United States, where the senior living industry is significantly more mature. Even if the penetration rate of the Australian market remains constant, by 2050, Australia will require a further 280,000 retirement village units to meet demand.

Central to this industry growth will be the entry of the baby boomers to the retirement market. The oldest baby boomers are currently 62 years old and their influence on the retirement sector is only just beginning to be felt. It is anticipated they will have a high level of affluence and a propensity to spend, but will expect an equally high standard of accommodation and services to be provided by operators.

Opportunities exist for large scale, integrated operators and developers of retirement communities and aged care services to position themselves to take advantage of this future demand.


Waterford Park Retirement Village, Victoria.

BBCG is uniquely positioned to take advantage of these favourable demographics. It is one of the largest integrated owners, operators and developers of senior living communities listed on the ASX with 56 retirement villages and 29 aged care facilities across Australia and New Zealand.

DISTRIBUTIONS

A first half distribution of 4.2 cents was paid to Securityholders on 18 March 2008. BBCG announced a final distribution of 2.1 cents, bringing total distributions for the year to 6.3 cents per stapled security compared with the forecast 8.4 cents per stapled security in the PDS dated June 2007.

In light of the slowing property market and tighter credit environment, the Board and Management believed that this reduced distribution level would help strengthen the balance sheet and is a more prudent distribution policy in the current market.

The final distribution of 2.1 cents per stapled security is expected to be fully tax-deferred and paid on 25 September 2008. A Dividend Reinvestment Plan (**DRP**) has been activated for the final distribution. Securities issued under the DRP will be issued at a discount of 2.5%.

STRATEGIC REVIEW

The Board has been disappointed by the trading performance of BBCG's securities, particularly in the second half of the year. This resulted in the announced appointment of ABN AMRO in June 2008 to conduct a strategic review to narrow the gap between the security price and the value of BBCG's underlying assets. To assist with the management of any real or perceived conflicts of interest between BBCG and Babcock & Brown Limited (Babcock & Brown) arising from the outcomes of the review, the Board established a sub-committee of Independent Directors with authority to negotiate with Babcock & Brown and oversee the implementation of the initiatives.

On 28 August 2008, the Board announced that it had reached agreement with Babcock & Brown, to internalise the management arrangements for a consideration of $17.5 million. The internalisation is subject to a number of conditions precedent, including BBCG Securityholder approval. The resolutions (together with an explanatory memorandum) to approve the internalisation will be considered at the Annual General Meeting of BBCG, which is expected to be held on 20 November 2008. The internalisation will not proceed if BBCG has received and recommended a takeover offer which becomes unconditional for the whole of BBCG.

During the course of the strategic review, Babcock & Brown and ABN AMRO were approached by several parties interested in acquiring BBCG as a whole. In light of these approaches and current market conditions, the Independent Directors believed it would be in Securityholders' best interests to fully explore this interest. The Board announced on 28 August 2008 that before proceeding with internalising the management rights, it will allow a limited period of due diligence and price discovery for qualified parties commencing on 1 September 2008. The Independent Directors have agreed with Babcock & Brown an arrangement under which parties interested in making an offer for the whole of BBCG can engage in negotiations with the Independent Directors, with certainty that, subject to the recommendation, they can acquire Babcock & Brown's rights under the existing management agreements for $17.5 million.

PRIME TRUST OFFER

On 4 September 2008, BBCG received an unsolicited proportional offer for BBCG securities from Australian Property Custodian Holdings Ltd (**APCH**) as responsible entity for The Prime Retirement and Aged Care Property Trust (Prime Trust). Prime Trust is offering to acquire 40% of each Securityholder's interest in BBCG on the basis of one Prime Trust unit for one BBCG stapled security. Prime Trust's offer is subject to a number of conditions. BBCG manages 15 retirement villages and seven aged care facilities for Prime Trust. Following the announcement of the recommendations from the strategic review, Prime Trust did not seek to participate in the due diligence and price discovery process initiated by the Board. The Board has advised Securityholders to take no action until the Board has assessed the offer.

OUTLOOK

While the final outcomes of the strategic review will have significant implications for the business going forward, the short-term priorities of BBCG are to focus on:

- performance of underlying assets;
- maximising earnings from existing businesses; and
- capital management to reduce debt.

The Board continues to believe that the senior living sector provides strong growth potential, but is conscious of the recent trading performance of BBCG securities and is focused on delivering the best outcome to maximise value for Securityholders. BBCG has a portfolio of high quality retirement villages and aged care facilities across Australia and New Zealand.

In closing, the Board acknowledges and would like to thank the staff and management team for the hard work and dedication during the challenging last 12 months.

Judith Sloan
Chairman
12 September 2008

Managing Director's Report

Our goal is simple: to create a positive experience for residents at our retirement and aged care communities.

Babcock & Brown Communities Group (**BBCG**) reported a profit of $41.1 million for the 12 months to 30 June 2008, which marks the first full year result since BBCG became the largest "pure play" integrated owner, operator and developer of senior living communities listed on the ASX. The result (which includes acquisitions not forecast in the PDS is ahead of the restated PDS forecast of $34.5 million announced in November 2007 and reaffirmed in the half year results in February 2008.

Following the completion of the Restructure outlined in the PDS on 30 July 2007 and acquisitions in the first half, BBCG now owns and manages 56 retirement villages and 29 aged care facilities across Australia and New Zealand, comprising 9,930 Independent Living Units (**ILUs**) and 2,213 residential aged care beds. BBCG has direct exposure to the Deferred Management Fees (**DMFs**) of approximately 6,800 ILUs, and receives management fees in relation to the balance of the portfolio. The existing portfolio is complemented by a development pipeline of approximately 2,200 ILUs and 350 residential aged care beds. BBCG's collection of high quality retirement living and aged care assets continues to provide investors with a unique platform to gain direct exposure to a sector of the market that will maintain strong growth rates as the Australian and New Zealand populations' continue to age.

BBCG strengthened its senior management team during the year. Michael Horwood joined BBCG as General Manager Development and Phil Williamson as National Human Resources Manager. Both commenced with BBCG in January 2008 and bring extensive experience and skill to the business.

OPERATIONAL HIGHLIGHTS

RETIREMENT LIVING

The retirement living business performed well over the course of the year producing an earnings before interest, tax, depreciation and amortisation (**EBITDA**) result of $111.7 million including a $61.5 million increase in the value of BBCG's underlying investment property portfolio. This increase was primarily due to price growth on resales of ILUs and implementation of new resident agreements across certain parts of the portfolio.

DMF cash inflow of $33.1 million for the year was driven by 425 resales (an increase of 200%) across the owned, leased and profit share portfolio representing an annualised portfolio turnover of 6.3%. A further 145 resales were achieved in the managed portfolio.

The level of resales activity and the time taken between contract and settlement across the portfolio has been effected by softer property market conditions. During the period, we achieved weighted average property growth rates of 5.2% for ILUs and 2.8% for serviced apartments based on resales data.

Our ongoing refurbishment program of older units continues to deliver benefits to our villages and residents as well as BBCG's DMF book, by accelerating the resales process and maximising prices.

Brighton on Bay, Brighton, Victoria.

DEVELOPMENT

Full year EBITDA of $19.2 million for the development business was significantly below expectations. This was mainly due to less sales and settlements than forecast as a result of slowing property market conditions particularly in the second half. New incoming residents are seeking extended settlement periods as a result of longer lead times required to sell their own homes within their price expectations.

First time sales achieved 250 settlements for the year (an increase of 91%) representing gross proceeds of $94.1 million with an average development margin in excess of 18%. Sales were made across 13 sites. Notwithstanding weaker property market conditions, we are carrying a pipeline of 56 contracted first time sales and 54 reservations into the new Financial Year.

Our development team delivered 201 units for the year, as well as commencing the construction of community facilities at four sites. The community centres will be a key driver of sales at these sites as they near completion over the coming months. We are bringing forward an inventory of 234 units across 15 sites for the new Financial Year with 28% of the stock subject to sale or reservation. We will monitor stock levels closely in the current environment to make sure that any new stock is delivered to those sites where there is strong demand.

The intention for the year ahead is to focus our sales and marketing activity in the first half to ensure we convert our existing reservations into settlements (factoring in the extended settlement periods).

AGED CARE

Our aged care business performed in line with expectations with a full year EBITDA before rent result of $12.4 million and EBITDA of $5.78 million. At an operating level, the business continued to improve with an operating profit of $6,711 per bed, compared to $4,956 per bed for the previous year. A primary focus for the year was the integration of the 13 Conform aged care facilities into BBCG's operating systems, which will achieve significant operational and cost synergies. This process is well underway with benefits already evident and will continue over the first half of this year.

We also made a smooth transition to the Federal Government's new aged care funding model thanks to the successful roll out of ACFI Trax across our Victorian facilities. The system will be rolled out across the Conform facilities over the next period.

In November 2007, we opened Princeton View, a new 127 bed facility in Brighton, Victoria that offers both high and low care accommodation. The facility is still in ramp up, with occupancy tracking strongly as expected. During the year we also opened a further 24 beds at Riddell Gardens in Sunbury and an additional 42 bed wing at Coastal Waters, near Jervis Bay, New South Wales.

Our facilities maintained 100% accreditation by the Department of Health & Ageing. During the year, six BBCG sites were subject to accreditation assessment, with each one passing all 44 aged care accreditation standards. A further three sites passed accreditation in July 2008.

Managing Director's Report

Parkland Villas Ellenbrook, Western Australia.

NEW ACQUISITIONS

During the year, BBCG made several acquisitions of retirement village and aged care assets, all in the first half. In September 2007, we strengthened our geographic diversity with two acquisitions that were not included in the June 2007 PDS. The first was the acquisition of the village management rights to 3,600 retirement living units across 10 villages in Queensland and two villages in New South Wales, owned by the Prime Retirement and Aged Care Property Trust. Under the terms of the management rights, which are for a period of 25 years, BBCG receives a fixed fee component of $520 per ILU per annum, and a variable component of 12% of the DMFs and capital gain from the resales of the ILUs. BBCG also has the pre-emptive acquisition rights over the underlying villages, should Prime Trust wish to sell.

The second was the acquisition of The Lakes Retirement Village in North Bundaberg, Queensland, a 259 ILU village with development approval for a further 78 ILUs, a residential aged care facility and a medical centre. The Lakes is considered one of the region's premier retirement villages.

Complimenting the Fini portfolio of retirement villages in Western Australia, was the settlement on the purchase of the Homestay Village in Perth, announced on 2 October 2007. This acquisition was referred to in the June 2007 PDS as "WA village", with Homestay earnings and cash forecast included in the BBCG FY08 forecast.

Significantly, on 1 November 2007 BBCG announced it had doubled its aged care business with the acquisition of the Conform Health Group. The predominantly high care portfolio of 13 aged care facilities, with 12 in New South Wales and one in Queensland, adds 1,126 beds to BBCG, doubling our beds under management to 2,123 and making BBCG the fifth largest for-profit aged care operator in Australia. Not only do the Conform facilities enhance our cash earnings by increasing our proportion of high care beds under management, it significantly increases BBCG's exposure to 100% owned facilities, as well as expanding our aged care footprint throughout New South Wales and introducing us to Queensland's aged care market.

A unique feature of the acquisition of the Conform portfolio was the opportunity to increase our proportion of co-located aged care facilities with existing BBCG retirement communities. Since the integration of the Conform portfolio, 35% of BBCG's managed aged care beds are co-located with nine of our retirement communities. This allows us to enhance our continuum of care offering to prospective residents, giving us a competitive advantage as older Australians make decisions about their future retirement and care needs.

The Lakes Retirement Village, North Bundaberg, Queensland.

CAPITAL MANAGEMENT

While BBCG has no refinancing requirements until 2010, due to the level of uncertainty surrounding the extent of the tightening credit markets going forward and the implications for the broader economy, BBCG began a number of initiatives to reduce its debt levels. The first of these was a review of our distribution policy, announced in June 2008, which cut the final distribution for the six months to 30 June 2008 to 2.1 cents per security, compared to the PDS forecast 4.2 cents. The decision to preserve cash flow to reduce debt and strengthen the balance sheet was seen as a more prudent distribution policy given the current economic conditions.

To accelerate our degearing program, we decided in July 2008 to divest our 7.1% investment in retirement village operator Aevum Limited, which was held in a joint venture with a member of the Babcock & Brown Group. BBCG has maintained a first right of refusal over the shares.

A number of other non-core assets and land sites have also been identified with some sales already completed. The remaining sales are expected to be completed over the coming months.

MANAGEMENT FEES

No management fees were paid to Babcock & Brown during the period.

OUR PEOPLE

On behalf of the Board and management I would like to thank our staff for their commitment and contributions made during the year, a period in which BBCG grew significantly. The hard work undertaken to seamlessly integrate the large portfolios of new assets acquired, while at the same time continuing to provide the operational expertise that underpins our business, demonstrates a dedication and commitment that is vital for a successful organisation.

John Martin
CEO and Managing Director
12 September 2008

IT'S ALL ABOUT...

The retirement living division strengthened its portfolio in the 2008 financial year by adding 4,184 retirement living units to its investment property portfolio and a further 3,530 units under management.

A total of 425 resales in the BBCG portfolio during the financial year. A further 145 resales were achieved in the managed portfolio from 11 September 2007 to 30 June 2008.

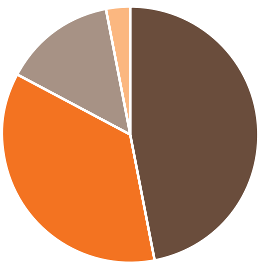
BBCG has undertaken a review and subsequent implementation of new resident agreements across the portfolio resulting in a significant improvement in future earnings potential and revaluation of the portfolio.

A new marketing campaign combined with new resident agreements, specifically tailored for our serviced apartment residents, has led to increased occupancy.

Our buy-back and refurbishment program at established villages continues to be successful by accelerating resales.

Number of villages	56
Number of units	9,930
Average age of villages	11.2 years
Occupancy	98%
Average age of current residents	79.5 years

OWNERSHIP STRUCTURE

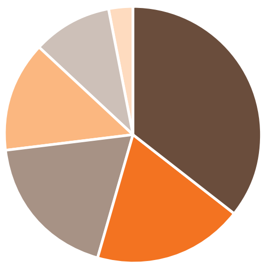


47%	Fully owned
36%	Under management
14%	Leased
3%	Profit share

MATURITY PROFILE

7%	1 to 2 years
18%	2 to 5 years
27%	5 to 10 years
25%	10 to 20 years
23%	Over 20 years

GEOGRAPHIC DIVERSIFICATION



36%	Queensland
19%	Victoria
19%	New South Wales
14%	Western Australia
10%	New Zealand
3%	South Australia

"Retirement should be the best years of your life. Our goal is to make sure that they are."

Pam Barry, General Manager Operations

Waterford Valley Golf Course situated in front of Waterford Park Retirement Village, Knoxfield, Victoria.

IT'S ALL ABOUT...

DEVELOPMENT

First-time sales achieved 250 settlements for the financial year (an increase of 91%) across 13 sites, representing gross proceeds of $94.1 million with an average development margin in excess of 18%.

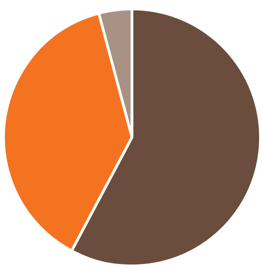
We continue to focus our sales and marketing at resident and local community levels as a high proportion of sales come from resident referrals.

201 new villas were constructed along with the commencement of four new community facility buildings and one extension. These facilities will all be completed in the coming year and lay the foundation for the future development pipeline at these sites.

First-time sales activity will continue to take advantage of a diverse geographical base, with sales forecast from development sites in Victoria, New South Wales, Queensland, South Australia and Western Australia.

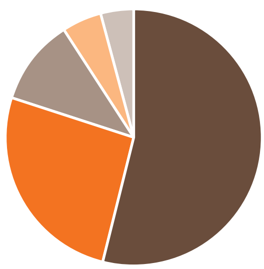
Total number of retirement units	2,225
6 x completed projects	93
10 x brownfield developments	1,297
6 x greenfield developments	835
Average sale price	$414,000
Gross sale value	$922.0 million

DEVELOPMENT PIPELINE



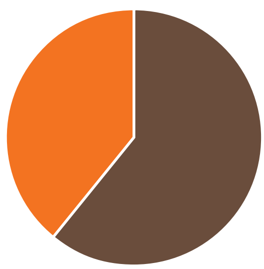
58% Brownfields
38% Greenfields
4% Completed

LOCATION OF BROWNFIELDS



54% Victoria
26% New South Wales
11% Western Australia
5% Queensland
4% South Australia

LOCATION OF GREENFIELDS



61% Victoria
39% New South Wales

"Our in-house development arm is one of BBC's key competitive advantages."

Michael Horwood, General Manager Development

Knightsbridge, Auckland, New Zealand.

IT'S ALL ABOUT...

Performance continues to be driven by an experienced management team that has developed better systems, documentation and ageing in place strategies while maintaining a high quality of residential care.

BBCG proposes to develop facilities for a further 321 beds in New South Wales and 26 beds in Victoria over the next few years.

Aged care has a secure government funded revenue stream and while the business is operationally intensive, BBCG now has strong operating leverage through the scale and size of the business.

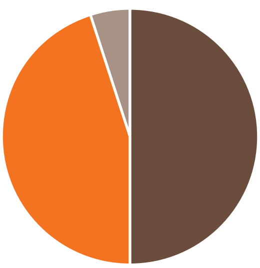
Following the Conform acquisition, we now have a unique opportunity to enhance the continuum of care offering with 35% of our aged care beds co-located with our retirement communities.

The key factors that impact the performance of the aged care business are occupancy, the level of care provided to residents, and costs.

The key drivers for revenue are maintaining high occupancy, due to the minimum fixed costs, and claiming the correct government funding levels, which are based on the resident mix.

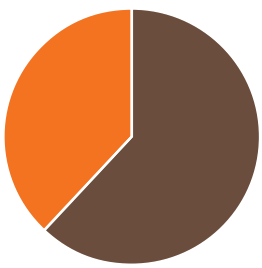
Number of facilities	29
Number of beds	2,213
Beds under development	347
Portfolio occupancy (excluding ramp up facilities)	94.5%
Average age of current residents	84 years

PORTFOLIO LEVEL OF CARE



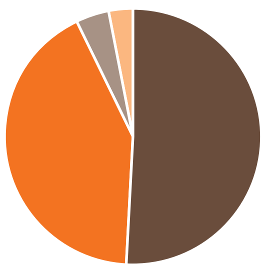
- 50% High care
- 45% Low care
- 5% Extra service

OWNERSHIP STRUCTURE



- 62% Owned
- 38% Leased

GEOGRAPHIC DIVERSIFICATION



- 51% New South Wales
- 42% Victoria
- 4% Queensland
- 3% South Australia

"High quality care is
our number one priority."
Pam Barry, General Manager Operations

Princeton View Aged Care Facility, Brighton East, Victoria.

Property Showcase

PRINCETON VIEW, VIC
29 Heathfield Road, Brighton East

Opened in November 2007, Princeton View offers the local aged care community the opportunity to remain within their area and benefit from 24-hour care in a safe and supportive environment.

Key Points

- 125 beds; 88 low care and 37 high care
- Permanent and respite care
- All rooms with ensuites
- Caters for couples

THE LAKES, QLD

21 Walters Street, North Bundaberg

The Lakes offers state of the art facilities that are the best in the region. A first class air-conditioned clubhouse, a variety of social events and a range of services to help you remain independent and secure.

Key Points

- 172 x 2br and 138 x 3br villas completed; 13 x 2br and 14 x 3br villas still to be completed
- Caravan and boat storage, lap pool, hair salon, library, auditorium

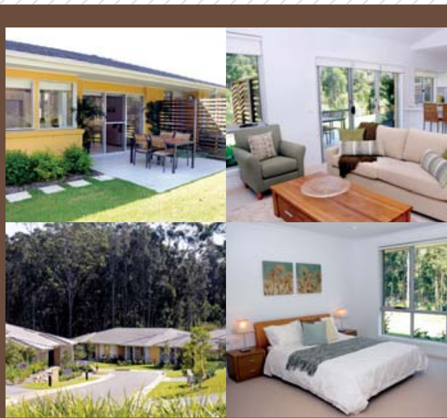
COASTAL WATERS, NSW

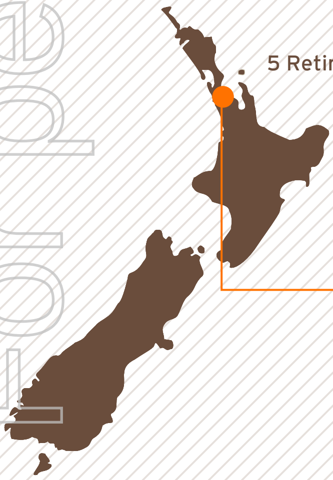
110a The Wool Road, Worrowing Heights

Views to St Georges Basin and close proximity to Vincentia shopping and Huskisson restaurant and cafes. Due for completion in 2017.

Key Points

- 93 x 2br and 3br villas
- 207 x 2br and 3br villas still to be completed
- Surrounded by pristine beaches and parklands
- Co-located with aged care facility





5 Retirement villages

KNIGHTSBRIDGE, NZ

21 Graham Collins Drive, Albany, North Shore, Auckland

Knightsbridge Village provides residents with independent lifestyle options along with facilities and privileges that are more akin to those of a resort.

Key Points

- 154 1br and 2br villas
- 90 apartments
- Restaurant and bar
- Pool, spa, gym and bowling green

Board of Directors

JUDITH SLOAN
CHAIRMAN (INDEPENDENT NON-EXECUTIVE)
Professor Sloan is a Commissioner of the Productivity Commission, Commissioner of the Australian Fair Pay Commission, a director of Santos Limited, a director of Westfield Limited and is also a member of the Lowy Institute for International Policy. She has held a number of academic appointments, including Professor of Labour Studies and director of the National Institute of Labour Studies at Flinders University of South Australia. Her previous appointments include Chair of SGIC Limited, Deputy Chair of the Australian Broadcasting Corporation, and director of Mayne Health Group Limited, SGIO Insurance Limited and South Australian Ports Corporation. Professor Sloan has been a member of the BBCL Board since May 2006.

ANDREW SCHWARTZ
NON-EXECUTIVE DIRECTOR
Mr Schwartz joined the Board in May 2007. Mr Schwartz is Babcock & Brown's Head of Property for the Asia Pacific region including Australia. He has more than 20 years' experience in high end value asset financing, cross-border real estate financing, project financing, acquisition and advisory work. He has been involved in numerous transactions involving both the private and government sectors. Prior to joining Babcock & Brown in 1997, Mr Schwartz was employed by AIDC Ltd (a Government-owned financier), where he was a Director – Risk, and prior to that Mr Schwartz was a Senior Manager at Bank of America.

ROBERT TOPFER
NON-EXECUTIVE DIRECTOR
Mr Topfer joined the Board of Directors in December 2003. Mr Topfer is a senior executive of Babcock & Brown, where he is Global Head, Corporate and Structured Finance Group. He has over 17 years of high level experience in corporate finance, including structured equity and debt raisings, delivering large projects and takeovers.

Mr Topfer was a founding partner of Atanaskovic Hartnell and formerly a partner of Allen Allen & Hemsley. Mr Topfer is also a Director of Babcock & Brown Capital Limited, Eircom Group Limited and Assetinsure Limited.

Left to right: Andrew Schwartz, Robert Topfer, Judith Sloan, Andrew Love, Graeme Martin, John Martin

JOHN MARTIN

MANAGING DIRECTOR

Mr Martin joined BBCL in December 2004 as General Counsel and General Manager Corporate and was appointed Managing Director and CEO in October 2006. As part of the restructure in July 2007, Mr Martin joined Babcock & Brown who seconded him to BBCG as MD and CEO. Mr Martin has extensive experience as an executive manager, corporate lawyer, company director and as a former executive and corporate partner of Allen Allen & Hemsley, where he specialised in mergers and acquisitions, and fundraising.

GRAEME MARTIN

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Martin joined the BBCL Board of Directors in June 2005. Mr Martin is currently National Consultant, Healthcare and Retirement Living, Colliers International. Mr Martin is a former Managing Director of Colliers International Valuation and Consultancy, past National President and a Life Fellow of the Australian Property Institute, and former executive member of the Commonwealth Association of Surveying and Land Economy. He has had some 35 years' experience in providing professional advice to the aged care, retirement and hospital industry sectors.

ANDREW LOVE

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr Love joined the BBCL Board of Directors in July 2005. Mr Love is a senior partner with Ferrier Hodgson and has had over 30 years' experience in corporate recovery and reconstruction. He has had experience at the public company level in the energy, mining and exploration, mortgage securitisation and international property sectors. Mr Love is currently Chairman and non-executive director of ROC Oil Company Limited, a director of Museum of Contemporary Art Sydney; Deputy Chairman and non-executive director of Riversdale Mining Limited and prior to its takeover in 2004, a non-executive director of Principal Real Estate Investors (Australia) Limited.

for the financial year ended 30 June 2008

FINANCIAL REPORT

Babcock & Brown Communities Limited ABN 16 010 622 901 and
Babcock & Brown Communities Trust ARSN 124 896 733,
together Babcock & Brown Communities Group

Directors' Report

The Directors of Babcock & Brown Communities Limited (**BBCL** or the **Company**) and its consolidated entities (**BBCG** or the **Group**) present their Directors' Report together with the consolidated financial statements for the year ended 30 June 2008.

DIRECTORS

The Directors of the Company who held office during the whole of the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Judith Sloan	Independent Non-Executive Chairman
John Martin	Managing Director
Andrew Love	Independent Non-Executive Director
Graeme Martin	Independent Non-Executive Director
Robert Topfer	Non-Executive Director
Andrew Schwartz	Non-Executive Director

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

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

During the year Primelife Corporation Limited and the PrimeLiving Trust were the subject of a restructure by way of a scheme of arrangement, whereby Primelife Corporation Limited shares were stapled to PrimeLiving Trust units on a one for one basis so that Primelife Corporation Limited shares and PrimeLiving Trust (renamed Babcock & Brown Communities Trust (**BBCT**)) units would be bought and sold on ASX as a single stapled security referred to as Babcock & Brown Communities Group (**BBCG** or the **Group**) stapled securities. BBCG also entered into management arrangements whereby the executive management and operations of BBCG would be carried out by Babcock & Brown Communities Management Pty Ltd, an entity associated with Babcock & Brown Limited (**B&B**). BBCG would have ongoing access to the investment and management expertise and resources of Babcock & Brown. This restructure was approved by Primelife Corporation Limited shareholders on 19 July 2007.

The Group proceeded to raise new capital of $475 million through the issue of new stapled securities. These proceeds were used to repay debt and make various acquisitions in the senior living space.

Review of operations for the year ended 30 June 2008

	Year ended 30 June 2008 $'000	Year ended 30 June 2007 $'000
Retirement Living	111,690	21,766
Aged Care	5,820	(1,384)
Development and Construction	19,194	10,702
Corporate/Other	(27,582)	(18,004)
Earnings before interest, tax, depreciation and amortisation expense (EBITDA)	**109,122**	**13,080**
Depreciation and amortisation	(8,067)	(2,067)
Net finance costs	(45,134)	(13,018)
Profit/(loss) before tax	**55,921**	**(2,005)**
Income tax (expense)/benefit	(14,848)	4,606
Profit/(loss) for the year	**41,073**	**2,601**
Basic earnings/(losses) per security	6.71 cents	1.69 cents
Diluted earnings/(losses) per security	6.66 cents	1.21 cents
NET ASSET VALUE (NAV) BACKING		
Net asset value per security	94 cents	63 cents
NET TANGIBLE ASSET (NTA) BACKING		
Net tangible asset value per security	57 cents	58 cents

Directors' Report

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

Revenue:

The Group generated total revenues of $263.6 million for the year. This included:

- $157.2 million from retirement living
- Aged care revenue of $77.3 million
- Net development and construction revenues of $27.2 million
- Corporate eliminations of $1.9 million

Operating Expenses

The Group incurred total expenses of $162.5 million before net finance costs. This included:

- retirement villages operating expenses of $52.2 million for the year. This consisted of $50.4 million in operating expenses and depreciation and amortisation of $1.8 million
- aged care operating expenses of $74.9 million for the year. This consisted of $72.1 million in operating expenses and depreciation and amortisation of $2.8 million
- development and construction operating expenses of $12.5 million for the year. This consisted of $11.5 million in operating expenses and $1.0 million in depreciation and amortisation
- corporate costs of $30 million before finance and borrowing costs, consisting of $27.6 million in operating costs, $2.4 million in depreciation and amortisation

No management fees were payable to Babcock & Brown Communities Management Pty Limited. $45.1 million was incurred in Finance and borrowing costs.

Review of Operations

Retirement Living

Retirement living performed very well delivering strong EBITDA results for the period. For the 12 months ended 30 June 2008, retirement living produced an EBITDA of $111.7 million.

BBCG managed 9,930 units at 30 June 2008 of which:

- 4,737 are owned, up from 639 at 30 June 2007 due to 4,011 units being acquired in the first half and 173 units being developed by BBCG and transferred into investment property on first time sale
- 3,530 subject to management agreements, up substantially in the year due to the acquisition in September 2007 of the management rights relating to Independent Living Units (**ILUs**) owned by Prime Retirement and Aged Care Property Trust
- 1,458 subject to sale and leaseback arrangements and 155 subject to profit share arrangements

The performance of this business was driven by a $61.5 million increase in the value of BBCG's underlying investment property portfolio. This is primarily due to good price growth experienced at the village level and successful review and subsequent implementation of new contracts across parts of the portfolio resulting in a significant improvement in future earnings potential.

Of the units BBCG owns, approximately 44% of the investment property value was subject to independent valuation as at 30 June 2008 (bringing the investment properties subject to independent valuation for the year ended 30 June 2008 to 95%). The properties selected were geographically diverse in order to provide a fair reflection of the portfolio as a whole.

Occupancy rates across BBCG's portfolio are 98%.

Deferred Management Fee (**DMF**) cash inflow of $33.1 million for the year was driven by 425 completed resales in the BBCG leased, owned and profit share portfolios during the respective ownership periods. A further 145 resales were achieved in the managed portfolio. This represents a 6.3% annualised turnover rate.

Revenue arising from accrued DMFs was $27.5 million for the year. This relates to the movement in the DMF and Capital Gain accrued book, less the DMF cash received.

The retirement living business earned $40.1 million in other revenues from management fees earned on the Prime Trust portfolio, management fees charged to villages, and revenues earned from equity accounted joint ventures and selling fees.

Expenses of $50.4 million (excluding depreciation and amortisation) incurred by the retirement living business relate to operating expenses of running the villages (consultants, repairs and maintenance, selling commissions, marketing and advertising) and lease payments. $1.8 million was incurred in depreciation and amortisation expenses.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Aged Care

BBCG's aged care business delivered a solid result for the year ending 30 June 2008 achieving EBITDA of $5.8 million. In November 2007, BBCG acquired an established aged care business of 1,126 operational beds across 13 facilities in New South Wales and Queensland operating under the name of Conform Health Group (**Conform**). 30% of these facilities were co-located with BBCG retirement villages.

As at 30 June 2008, BBCG managed 2,123 aged care beds across four states providing care to 1,907 residents, resulting in an occupancy level of 89.8% across the portfolio. During the year BBCG brought four new facilities on-line. Occupancy excluding these ramp-up facilities was 94.5% at year end.

The majority of aged care revenues of $77.9 million consisted of secure government funding. The aged care business is operationally intensive incurring $72.1 million in operating expenditure (excluding depreciation and amortisation) for the year. These operating costs are higher than what would normally be expected due to the ramp-up costs associated with the four new facilities coming on-line during the year. $2.8 million was incurred in depreciation and amortisation expenses.

BBCG expects to achieve operating efficiencies through the scale of and new management systems employed in its business going forward.

Development and Construction

Full year EBITDA in the development business was $19.2 million. This is significantly below expectations. The primary reason for reduced earnings has been less unit sales and settlements occurring than forecast due to a continuing slowdown in the property markets particularly in the second half of the year. New incoming residents are seeking extended settlement periods principally as a result of longer lead times in being able to sell their own homes within their price expectations.

Notwithstanding the poor real estate market conditions, BBCG made sales of 280 new units, 250 of which settled in the period. At 30 June 2008, BBCG's sales pipeline comprised a solid number of contracted sales and reservations. BBCG has not discounted pricing on units for sale and has achieved development margins in excess of 18% across its portfolio.

Corporate

BBCG's underlying expense base has been impacted by continuing growth in the scale of operations with six acquisitions having been made in the previous 12 months, and the ramping up of retirement villages and aged care facilities.

On 18 December 2008 BBCG signed a $600 million facility with ANZ, CBA and nabcapital. At 30 June 2008 BBCG was in compliance with all the covenants under this facility. The weighted average term remaining on this corporate debt is 3.13 years. BBCG has hedging in place over 62% of drawn debt. BBCG incurred $45.1 million in finance and borrowing costs in the year.

BBCG achieved a net effective tax rate of 27%, primarily due to results from BBCG's New Zealand operations being considered non-taxable.

Net Asset Value per security

The NAV per security is $0.94. This includes the intangible assets and liabilities as part of the Prime Trust management rights purchase, Conform Health Group bed licences and the portfolio premiums on BBCG's retirement living investment property portfolio.

NTA per security is $0.57. The NTA calculation excludes the intangibles included in NAV above.

Outlook and Expected Results from Operations

In the next half, the Group is expecting:

- solid earnings growth in the retirement living business
- increasing occupancy as new and redeveloped facilities fill up in its aged care business
- realising the synergies and efficiencies of integrating the Conform Health Group aged care business
- an uncertain real estate market to have an impact on the expected number of sales and settlements across BBCG's development business

Directors' Report

DISTRIBUTIONS

Distributions declared and/or paid during the period ended 30 June 2008 were:

	Cents per security	Total amounts $'000	Date of payment	Tax deferred %
Interim Distribution	4.20	27,373	18 March 2008	100
Final Distribution	2.10	13,686	25 September 2008	100

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In June 2008 the Board of BBCG appointed ABN AMRO to identify Options for reducing the gap between BBCG's underlying asset values and recent market trading prices. On 27 August 2008 the Board announced its recommendations from the strategic review undertaken in relation to the business.

The outcomes of the strategic review were:

- price discovery process for the whole of BBCG to assess against future Securityholder value
- internalisation and debt reduction program

Price Discovery Process

During the course of the strategic review ABN AMRO had been approached by several parties interested in acquiring BBCG as a whole. In light of these approaches and current market conditions, the Independent Directors believe that it would be in the best interests of Securityholders to explore this interest.

The Independent Directors have agreed with Babcock & Brown an arrangement under which parties interested in making an offer for the whole of BBCG can engage in negotiations with the Independent Directors, with certainty that, subject to the recommendation of the Independent Directors, they can acquire Babcock & Brown's rights under the existing management agreements. Babcock & Brown has agreed to dispose of its management rights to a purchaser acceptable to the Independent Directors, for a consideration of $17.5 million.

The arrangements are designed to ensure all potential buyers have an opportunity to understand the BBCG business and to bring forward offers. The Independent Directors have established a process with ABN AMRO to assess the capabilities of all prospective purchasers to carry on the business of BBCG and to ensure that all proper offers are subject to consideration by the Independent Directors within a known timetable.

A dataroom has been established under the management of ABN AMRO. It will open from 1 September 2008 for a concentrated period of time with a view to soliciting proposals to acquire BBCG as a whole.

If an acceptable takeover offer is received under the process described above, Securityholders will receive all further relevant information including details of the offer.

Internalisation and Debt Reduction Program

BBCG has entered into an agreement with wholly-owned Babcock & Brown subsidiaries for the internalisation of the management agreement between BBCG and its Manager and responsible entity (**Management Agreements**).

BBCG has agreed to pay Babcock & Brown $17.5 million as consideration for internalising the Management Agreements. The acquisition is expected to be earnings accretive over the medium term and will be funded at the option of BBCG through cash or scrip issued to Babcock & Brown.

Under the internalisation the core management team (including John Martin, MD) who are currently employed by Babcock & Brown, will transfer to BBCG.

The resolutions (together with an explanatory memorandum) to approve the internalisation will be considered at an Annual General Meeting of BBCG. This is expected to be held around 20 November 2008. The internalisation is subject to a number of conditions precedent including:

- BBCG Securityholder approval

The internalisation will not proceed if BBCG has received and recommended a takeover offer which becomes unconditional for the whole of BBCG.

As a consequence of the strategic review, BBCG will also pursue a debt reduction program to materially reduce debt levels over the short to medium term, and various capital management initiatives. These include the reduction of inventory levels, a reduction in the rate of development, and selective land sales which have been approved by the BBCG Board to reduce BBCG's debt levels during 2009.

INFORMATION ON DIRECTORS

Name, independence status and special responsibilities	Qualifications and experience
Judith Sloan **Non-Executive Independent Chairman** BA (Hons) Chairman of the Board Chairman of the People & Remuneration Committee Chairman of the Nomination & Governance Committee Member of the Audit, Risk & Compliance Committee	**Experience and expertise** Independent Non-Executive Director since May 2006. Professor Sloan has extensive board experience and is a Commissioner of the Productivity Commission and the Australian Fair Pay Commission and a member of the Lowy Institute for International Policy. Professor Sloan has also held a number of academic appointments. **Other current listed company directorships** Non-Executive Director Santos Limited (September 1994) Non-Executive Director Westfield Limited (February 2008) **Former listed company directorships in last three years** None
John Martin **Managing Director** BA, LLB (Hons)	**Experience and expertise** Mr Martin has been Managing Director and CEO since October 2006. Mr Martin has extensive experience as an executive manager, corporate lawyer, and company director including being a former corporate partner of Allen Allen & Hemsley where he specialised in mergers and acquisitions and fundraising. **Other current listed company directorships** Non-Executive Director Proteome Systems Limited **Former listed company directorships in last three years** None
Andrew Love **Non-Executive Independent Director** BCom, FCA, MAIDC Chairman of the Audit, Risk & Compliance Committee Member of the Nomination & Governance Committee	**Experience and expertise** Independent Non-Executive Director since July 2005. Mr Love was a senior partner with Ferrier Hodgson. Mr Love has had over 30 years' experience in corporate recovery and reconstruction. He has had experience at the public company level in the energy, mining and exploration, mortgage securitisation and international property sectors. **Other current listed company directorships** Non-Executive Director of ROC Oil Company Limited Non-Executive Director of Riversdale Mining Limited Non-Executive Director of Babcock & Brown Capital Limited **Former listed company directorships in last three years** None
Graeme Martin **Non-Executive Independent Director** Dip Agriculture, Grad Dip Bus Admin, MSC Member of the Audit, Risk & Compliance Committee Member of the People, Strategy & Remuneration Committee	**Experience and expertise** Independent Non-Executive Director since June 2005. Mr Martin is National Consultant, Healthcare and Retirement Living, Colliers International. Mr Martin was formerly Managing Director of Colliers International Valuation and Consultancy, past national President and a Life Fellow of the Australian Property Institute, and former executive member of the Commonwealth Association of Surveying and Land Economy. **Other current listed company directorships** None **Former listed company directorships in last three years** None

Directors' Report

INFORMATION ON DIRECTORS (CONTINUED)

Name, independence status and special responsibilities	Qualifications and experience
Robert Topfer Non-Executive Director BA, LLB Member of the Nomination & Governance Committee	**Experience and expertise** Director since December 2004. Mr Topfer has over 20 years of specialist structured and corporate finance experience across many industry sectors. **Other current listed company directorships** Non-Executive Director of Babcock & Brown Capital Limited Non-Executive Director of Assetinsure Limited **Former listed company directorships in last three years** Non-Executive Director of ERG Limited (October 2002 to January 2005), Commander Communications Limited (August 2003 to September 2005) and the responsible entity of the MTM Entertainment Trust (July 2005 to July 2007)
Andrew Schwartz Non-Executive Director Member of the People Strategy & Remuneration Committee	**Experience and expertise** Director since May 2007. Mr Schwartz is Babcock & Brown's Head of Property for the Asia Pacific region including Australia. He has more than 20 years' experience in high-end value asset financing, cross border real estate financing, project financing, acquisition and advisory work. **Other current listed company directorships** None **Former listed company directorships in last three years** None

INFORMATION ON SECRETARIES

Name, independence status and special responsibilities	Qualifications and experience
Simone Lander Company Secretary	Simone Lander was appointed Company Secretary of BBCG on 10 August 2007. **Experience and expertise** Ms Lander joined Babcock & Brown in August 2006 as Company Secretary for a number of the Group's listed and unlisted specialised funds and is responsible for the Company Secretarial function and corporate governance for the boards and committees of these Group entities. Prior to joining Babcock & Brown, Simone held Company Secretarial positions within the Investa Property Group from August 2001 and the position of Assistant Company Secretary of the Mirvac Group from 1998. Ms Lander studied a Bachelor of Economics and is an Affiliate of Chartered Secretaries Australia.
Gregor Dixon Alternate Company Secretary	Gregor Dixon was appointed Company Secretary in December 2004. **Experience and expertise** Mr Dixon commenced with BBCG in September 2003 as Corporate Investor Relations Manager and is now General Manager Corporate. Prior to joining BBCG, Mr Dixon held various corporate and investor relations positions with AWB Limited, WMC Limited and Crown Limited. Mr Dixon has been responsible for overseeing various investment community and stakeholder management issues. Mr Dixon has a Bachelor of Arts and Bachelor of Business Management from Monash University. Mr Dixon also has a Graduate Diploma in Applied Finance and Investment from Finsia and a Graduate Diploma in Company Secretarial Practice from Chartered Secretaries Australia.

DIRECTORS' MEETINGS

		Meetings of Committees		
	Scheduled Directors' Meetings	Audit, Risk & Compliance	People, Strategy & Remuneration	Nomination & Governance[1]
Number of meetings held:	11	5	1	0
Number of meetings attended:				
Judith Sloan	11	5	1	0
John Martin	10	*	*	*
Andrew Love	11	5	*	0
Graeme Martin	11	5	1	*
Robert Topfer	8	*	*	0
Andrew Schwartz	11	*	1	*

* Not a member of that Committee.

1 The Nomination & Governance Committee did not meet during the period but has subsequently met to consider and approve the Corporate Governance Statement for 2008.

Independent Non-Executive Directors frequently attended general business and transaction specific updates to maintain an understanding of business progress and activities.

REMUNERATION REPORT

The Remuneration Report for the Group details the remuneration policies and arrangements of the BBCG Directors, the BBCG executives provided by the Management Company (Babcock & Brown Communities Management Pty Ltd (**BBCM**)) and BBCG Group executives.

BABCOCK & BROWN SPECIALISED FUND PLATFORM

Babcock & Brown Limited has established a Specialised Funds Platform which consists of entities (**Funds**) established and managed by Babcock & Brown Limited wholly-owned subsidiaries under long-term Management Agreements. A number of staff who are employed full time in the management of the Funds or whose employment from time to time relates to the Funds are Babcock & Brown Limited employees and are remunerated in accordance with Babcock & Brown's remuneration policies. Accordingly, this section of the Remuneration Report details the philosophy and framework currently applicable to the Babcock & Brown Group. It should be noted that the employees of BBCG or its subsidiaries (**BBCG Group executives**) are remunerated on a different basis than that applicable to Babcock & Brown employees. These remuneration practices are also set out in this report.

Although BBCG's Directors are remunerated by the Group, BBCG does not employ its Company Secretary or a number of its executives and therefore does not directly remunerate these executives. This is a consequence of the Management Agreements that have been entered into with Babcock & Brown Communities Management Pty Ltd (the **Manager**) in July 2007.

The remuneration strategy of Babcock & Brown is critical to achieving BBCG's overall objective of producing enhanced returns for investors through a strong performance culture.

The Babcock & Brown remuneration philosophy seeks to focus on:

- driving performance over and above Securityholder and market expectations
- ensuring incentive remuneration is very directly linked to performance and that individuals who contribute to this performance are rewarded

Babcock & Brown remunerate their employees on a calendar year basis with annual incentive remuneration payments made in March each year following the previous 31 December financial year end of Babcock & Brown.

The Babcock & Brown Board decided to include the value of Long-term Incentive (**LTI**) grants as a formal part of total annual remuneration for qualifying employees. In previous years, allocations were generally made to new hires and not widely awarded as a number of the more long-standing employees had received Babcock & Brown pre-IPO Options which vest in August 2008. With those due to vest shortly the Babcock & Brown Board decided to introduce the allocation on a formal and more systematic basis.

Directors' Report

REMUNERATION REPORT (CONTINUED)

The Babcock & Brown Board also restructured the composition of incentive remuneration for 2007/2008. As part of its commitment to the ongoing development of the remuneration structure it made some more permanent changes and refinements as well as introducing some one-time components for 2007/2008. The one-time components were designed to take account of the current volatility in capital markets which, particularly since 31 December 2007, have significantly impacted the share price of Babcock & Brown and the security prices of the Babcock & Brown Listed Managed Funds including Babcock & Brown Communities Group. The restructure aimed to balance the further alignment between employees and Securityholders with the ongoing motivation and retention of employees. The Babcock & Brown Board believes that the remuneration structure in 2007/2008 should give Babcock & Brown shareholders and Babcock & Brown Communities Group Securityholders added comfort that employees will be focused and rewarded for improving share and security price performance.

The one-time changes for 2007/2008 include:

- **a significant portion of what otherwise would have been immediate Short-term Incentive (STI) cash bonus delivered as fully vested Share Awards[1] in Babcock & Brown.** This is to further align the interests of certain senior executives[2] with those of Securityholders in the more volatile capital markets
- **the delivery of a portion of incentive remuneration as fund appreciation rights** to certain senior executives. For certain senior executives dedicated full time in the management of BBCG, these represent a notional investment in BBCG's shares to further align these individuals with the Securityholders in BBCG in the more volatile capital markets

The more permanent changes introduced during the year included:

- **the further refinement of the executive Key Performance Indicator (KPI) framework:** This provides a robust link between executives' total annual remuneration and the achievement of BBCG's strategic objectives
- **the inclusion of the LTI[3] plan as a formal part of total annual remuneration** for executives. The LTI takes the form of performance-based Options which represent 10% of a qualifying employee's total annual remuneration
- **the introduction of Fund Bonus Deferral Rights (Fund BDRs)**[4] for eligible employees who contribute to the performance of Babcock & Brown Communities Group. These are in addition to Babcock & Brown Bonus Deferral Rights (**B&B BDRs**) which have been awarded since Babcock & Brown's IPO in October 2004

The Babcock & Brown Board believes that the increase in the deferred component of executives' total incentive remuneration, and the greater alignment with the interests of the Securityholders of Babcock & Brown Communities Group, further strengthens the executive remuneration framework.

Further information on the above, including details on the remuneration components, is set out in this report. This report provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 *Related Party Disclosures*, which have been transferred to the Remuneration Report in accordance with the *Corporations Regulations 2001*.

REMUNERATION COMMITTEE

Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown Limited Remuneration Committee assists the Babcock & Brown Limited Board in achieving fairness and transparency in relation to remuneration issues whilst overseeing the remuneration and human resources policies and practices of the Babcock & Brown Limited Group including those employees allocated to the Specialised Funds Platform.

The Babcock & Brown Limited Remuneration Committee endeavours to ensure Babcock & Brown Group's remuneration outcomes strike an appropriate balance between the interests of BBCG's Securityholders and rewarding and motivating the executives and employees.

Membership of the Babcock & Brown Limited Remuneration Committee

The Babcock & Brown Limited Remuneration Committee consists of five Directors, of whom three are Independent Non-Executive Directors. Its members throughout 2007/2008 were:

- Ian Martin (Chair)
- James Babcock
- Phillip Green
- Elizabeth Nosworthy
- Michael Sharpe

1 A fully vested Share Award entitles a participant to a share in the Company at no cost.

2 In this report "Executive" refers to the Key Management Personnel who are not Directors, as well as the five most highly remunerated senior managers who are employed by Babcock & Brown.

3 The LTI plan comprises performance-based Options whereby each Option entitles the participant to one share in Babcock & Brown upon vesting subject to achieving a performance hurdle and the payment of an exercise Option.

4 Fund BDRs entitle the participant to a cash payment linked to the performance of Babcock & Brown Communities at the end of a four year vesting period.

REMUNERATION REPORT (CONTINUED)

EXECUTIVES

The following persons were BBCG executives during the financial year:

- John Martin — CEO and Managing Director
- Joanna Wakefield — Chief Financial Officer (ceased 15 July 2008)
- Gregor Dixon — General Manager Corporate

These persons are employed by Babcock & Brown Australia Pty Limited.

REMUNERATION POLICY

The Babcock & Brown Board recognises that Babcock & Brown operates in a global market place and its success is ultimately dependent on its people. In light of this, Babcock & Brown aims to attract, retain and motivate highly-specialised and skilled employees from a global pool of talent who have the expertise to manage BBCG in the best interests of the Securityholders of BBCG. Babcock & Brown executives who are Directors of BBCG have significant shareholdings in BBCG.

REMUNERATION STRUCTURE

During 2007, the Babcock & Brown Board determined that remuneration would be assessed under a total annual remuneration model consisting of fixed remuneration and incentive remuneration (short-term incentives (**STI**) and long-term incentives (**LTI**)). The diagram below outlines Babcock & Brown's remuneration structure for executives in 2007/2008:

Total Annual Remuneration

Fixed remuneration (generally less than 10% of total annual remuneration)

Incentive remuneration (generally at least 90% of total annual remuneration)

		STI Cash[1]	STI Share Awards[2]	STI Fund Appreciation Rights[2]	STI Bonus Deferral Rights	LTI Performance-based Options
Approx % of incentive remuneration	Highest[3]	16%	34%	13%	27%	10%
	Lowest[4]	36%	14%	17%	21%	12%
What is it?		Cash	Fully vested Share Awards. Funded from what would have been STI cash.	Represents a notional investment into a pool of Babcock & Brown Listed Managed Funds. The cash amount payable is determined based upon the market value of the notional investment in the funds at the time.	Consists of 50% in Babcock & Brown BDRs and 50% in Fund BDRs. BDR allocation is 30% of STI remuneration above $350,000.	Performance-based Options.
When is it available?		Available immediately	The grant of Share Awards to occur during April 2008. 50% exercisable from August 2008 and the remaining 50% exercisable from February 2009.	Cash is payable in two instalments over the next two years.	Vests in four years. Forfeiture conditions apply.	Vests subject to the achievement of a relative TSR hurdle over three and a half years. Forfeiture conditions apply.
		50% of incentive remuneration is delivered within 12 months		50% of incentive remuneration is deferred		

1 This amount includes a deferred cash payment which is subject to the achievement of a Company and/or a personal objective which is a critical driver or measure of performance for Babcock & Brown in 2008. It represents approximately 5% of executives' total incentive remuneration.

2 These are one-time components in the 2007 STI structure for executives.

3 Highest remunerated executive.

4 Lowest remunerated executive.

Note: The above remuneration mix is reflective of 2007 remuneration before amortisation (and excludes prior year amortisation used for accounting purposes).

REMUNERATION REPORT (CONTINUED)

As seen, the remuneration structure for executives is predominantly "at risk", with 50% of 2007/2008 incentive remuneration being deferred over a one to four-year period. The amount of incentive remuneration is determined after Babcock & Brown's year end and is calculated as total annual remuneration approved by the Babcock & Brown Board less fixed remuneration. Incentive remuneration is then allocated between the components outlined in the diagram above in accordance with the criteria set out in further detail in this report.

Fixed Remuneration

The Babcock & Brown Limited Board has set fixed remuneration for the executives allocated to the manager at or lower than the median for comparable executives in companies with comparable businesses to that of BBCG. This complements the strategy of weighting the variable amount of executive pay to encourage superior performance consistent with a strong performance-oriented culture. Adjustments to fixed remuneration are made annually and are based on job role, pay relative to comparable market pay and performance in the role.

The fixed remuneration component for the executives generally includes cash salary as well as non-cash benefits, primarily superannuation and ancillary benefits.

SUMMARY OF INCENTIVE PLANS

Short-Term Incentive plan (STI) – delivered as cash and deferred equity (Bonus Deferral Rights)

All employees are eligible to participate in the STI Plan. The Babcock & Brown Board's policy is to allocate at least 25% of an employee's STI award above a threshold level to a grant of Bonus Deferral Rights (**BDRs**) with the balance paid in cash. In 2007/2008, the Babcock & Brown Board allocated 30% of an employee's STI award above A$350,000 to a grant of BDRs. BDRs take the form of Babcock & Brown BDRs and Fund BDRs (each further described below). The threshold level and allocation percentage are subject to annual review.

All short-term incentives below the threshold level are generally delivered entirely as cash. However, to encourage increased employee share ownership levels and a greater alignment of interests between employees, Babcock & Brown shareholders and BBCG Securityholders, certain employees can voluntarily sacrifice up to 100% of their discretionary STI into Voluntary Bonus Deferral Rights (**Voluntary BDRs**). Only employees in locations where the tax regime allows deferral are eligible to participate in the Voluntary BDR plan.

Given the significant impact, particularly since 31 December 2007, of the recent volatile equity markets on the market price of Babcock & Brown shares and a number of Babcock & Brown listed managed funds securities, the Babcock & Brown Board considered that increased alignment and incentives would give shareholders in Babcock & Brown and Securityholders in the Babcock & Brown Listed Managed Funds added comfort that executives would be focused and rewarded for achieving improved Babcock & Brown share and BBCG security price performance. Therefore, the Babcock & Brown Board introduced some one-time components into the 2007/2008 STI structure for these employees. A significant portion of what would have been an immediate STI cash payment was allocated into forms of remuneration designed to further increase alignment. These new one-time components are:

- Fully vested Share Awards which entitle the participant to a share in Babcock & Brown when exercised. The grant of Share Awards occurred in April 2008, with half of the Share Awards exercisable from August 2008 and the remaining half exercisable from February 2009
- Fund Appreciation Rights which are fully vested and represent a notional investment in a pool of Babcock & Brown Listed Managed Funds, the value of which is payable in cash in two equal tranches over each of the next two years. The actual cash payments will be determined based on the market value of the Fund Appreciation Rights at the time. Notional returns on these amounts may be paid periodically to participants. Executives who are dedicated to the management of BBCG may have been allocated BBCG Fund Appreciation Rights

Senior executives who are dedicated to the management of a Babcock & Brown Unlisted Fund(s) may have a portion of their incentive remuneration deferred and linked to the performance of that particular fund(s).

REMUNERATION REPORT (CONTINUED)

SHARE AWARDS

The nature, eligibility and general terms of the Share Awards are outlined in the table below:

Nature	Each fully vested Share Award entitles the participant to one share in Babcock & Brown at no cost. 50% of the Share Awards are exercisable from August 2008 and the remaining 50% from February 2009.
Eligibility	All employees who have total short-term incentive remuneration of more than $200,000.
Quantum of Share Awards to be allocated	The number of Share Awards granted is determined by dividing the amount of the Share Award allocation by the market value of Babcock & Brown shares at the time the Share Awards are granted. The grant of Share Awards occurred in April 2008.
Entitlement and treatment of dividends	Each Share Award is backed by a Babcock & Brown share either issued to or acquired by the Babcock & Brown Australian Incentive Trust or the Babcock & Brown executive Achievement Share Trust, as applicable. Dividends received on these shares, less trust expenses and taxes as determined by the Trustee, will be applied towards acquiring additional Babcock & Brown shares (Dividend Reinvestment Plan (**DRP**) shares). Any DRP Shares will also hold entitlements to future dividends, which will be treated in the same way. The DRP Shares will be held by the Trust until the time the Babcock & Brown Share Awards are exercised. Once the Share Awards have been exercised, the employee is entitled to receive dividends on their shares, similar to any other Babcock & Brown shareholder.

FUND APPRECIATION RIGHTS

The nature, eligibility and general terms of the Fund Appreciation Rights are outlined in the table below:

Nature	Each Fund Appreciation Right is fully vested and entitles the participant to a notional investment into a pool of Babcock & Brown Listed Managed Funds (**Funds**). Executives who are dedicated to the management of BBCG may have been allocated BBCG Fund Appreciation Rights. The value of the Fund Appreciation Rights will be payable in cash in two equal tranches over the next two years. The cash payment will be determined based on the market value of the Fund Appreciation Rights in the Fund(s) at the time of payment.
Eligibility	Applies to executives.
Composition and weighting of pool	All Babcock & Brown Listed Managed Funds at the date of grant. Each Fund's weighting in the pool is determined by its net asset value as a proportion of the pool's total net asset value.
Quantum of Fund Appreciation Rights to be allocated	The number of Fund Appreciation Rights is determined by dividing the amount of the Fund Appreciation Rights allocation from the STI by the weighted market price of Funds in the pool at the time the Fund Appreciation Rights are granted. The number of BBCG Fund Appreciation Rights is determined by dividing the amount of the Fund Appreciation Rights allocation from the STI by the market price of BBCG securities at the time the Fund Appreciation Rights are granted. The Fund Appreciation Rights were granted during April 2008.
Entitlement and treatment of dividends	A dividend/distribution equivalent (less any applicable deductions and withholdings) based on the Funds in the notional investment will be paid periodically to participants.

REMUNERATION REPORT (CONTINUED)

BABCOCK & BROWN BONUS DEFERRAL RIGHTS (BABCOCK & BROWN BDRs)

Babcock & Brown BDRs are designed to further align the interests of employees, Babcock & Brown shareholders and BBCG Securityholders and act as a retention mechanism. The nature and general terms of the Babcock & Brown BDRs are outlined in the table below:

Nature	Each Babcock & Brown BDR entitles the participant to one share in Babcock & Brown at no cost after a four-year vesting period.
Eligibility	If the participant only contributes to Babcock & Brown, and receives an STI award above the threshold level, they will receive all of their BDR allocation in Babcock & Brown BDRs. If the participant makes a contribution to both Babcock & Brown and Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they will receive 50% of their BDR allocation as Babcock & Brown BDRs and the remaining 50% in Fund BDRs (see below).
Quantum of Babcock & Brown BDRs to be allocated	The number of Babcock & Brown BDRs granted is determined by dividing the amount of the Babcock & Brown BDR allocation by the market value of Babcock & Brown shares at the time the Babcock & Brown BDRs are granted. The Babcock & Brown BDRs were granted to executives during April 2008.
Entitlement and treatment of dividends	The same treatment as the Share Awards applies (see above section).
Forfeiture conditions of the Babcock & Brown BDRs and DRP shares	Any participant leaving the Babcock & Brown Group may forfeit their Babcock & Brown BDRs and DRP shares if they terminate employment within the four-year vesting period, unless the Babcock & Brown Board exercises its discretion in certain circumstances, such as redundancy or retirement. The Babcock & Brown Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the Babcock & Brown Board is satisfied will not compete with the Babcock & Brown Group.

REMUNERATION REPORT (CONTINUED)

FUND BONUS DEFERRAL RIGHTS (FUND BDRs)

The Babcock & Brown Board believes that the Babcock & Brown Managed Funds are central to the Company's long-term strategy and business model. During 2007, the Babcock & Brown Board introduced Fund BDRs to further align eligible employees' interests with those of the applicable Listed Managed Fund's Securityholders. The nature, eligibility and general terms of the Fund BDRs are outlined in the table below:

Nature	Each Fund BDR entitles the participant to a cash payment, linked to the performance of the applicable Babcock & Brown Listed Managed Fund (reflected by the market price movement plus income reinvestment of the relevant Babcock & Brown listed managed fund's securities, less any applicable withholdings) at the end of the four-year vesting period. If the employee contributed to more than one Fund, the amount to be delivered in Fund BDRs will be allocated equally between the various Babcock & Brown Listed Managed Funds to which they make a contribution.
Eligibility	If the employee only contributes to Babcock & Brown they are not eligible to receive Fund BDRs. If the employee makes a contribution to both Babcock & Brown and a Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they will receive 50% of their BDR allocation in Babcock & Brown BDRs and the remaining 50% in Fund BDRs.
Quantum of Fund BDRs to be allocated	Similar to the Babcock & Brown BDRs, the number of Fund BDRs granted is determined by dividing the amount of the Fund BDR allocation by the market value of the applicable Babcock & Brown Listed Managed Fund's securities at the time the Fund BDRs are granted. The Fund BDRs were granted to executives during April 2008.
Entitlement to dividends/ distributions	Any dividends/distributions paid during the vesting period are included in the calculation to determine the cash payment that will be paid to the participant at the end of the vesting period. No actual dividends/distributions are received by the participant as the Fund BDRs are not backed by equity in the applicable Fund.
Forfeiture conditions	The same forfeiture conditions that apply to Babcock & Brown BDRs also apply to Fund BDRs (see above).

As short-term incentive allocations are determined after the end of Babcock & Brown's financial year and are directly dependent on the Babcock & Brown Group's financial performance, employees are not able to be advised of a target STI amount. Accordingly, Babcock & Brown cannot specify the percentage of the executives' target STI that was paid and forfeited during the financial year.

Directors' Report

REMUNERATION REPORT (CONTINUED)

Long-Term Incentive plan (LTI)

Prior to 2007, the LTI Plan was not used as a formal part of employee total annual remuneration due to the Babcock & Brown equity that was issued subject to escrow and the Babcock & Brown pre-IPO Options that were granted. Given that all Babcock & Brown equity subject to escrow was released from escrow in February 2008 and the Babcock & Brown pre-IPO Options vest in August 2008, the Babcock & Brown Board introduced the LTI Plan as a formal component of total annual remuneration for executives.

This change was introduced to maintain the long-term alignment with Babcock & Brown shareholders and the Securityholders in the Babcock & Brown Listed Managed Funds and provide a mechanism for these individuals to share in the growth of Babcock & Brown. While LTI existed in previous years, it was allocated to a more limited number of executives and employees. Typically 10% of total annual remuneration will be delivered as LTI awards to eligible employees in 2007. LTI awards will generally take the form of performance-based Options.

The nature, eligibility and general terms of performance-based Options are outlined in the table below:

Nature	Each performance-based Option entitles the participant to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price of each Option will generally be based on the market value of shares at the time of grant.
Eligibility	All employees who have total annual remuneration which is more than double fixed remuneration and have total annual remuneration which is in excess of $250,000.
Quantum of performance-based Options to be granted	The number of performance-based Options to be granted is determined by dividing the amount of the LTI allocation by the value of the performance-based Option at the time they are granted. The performance-based Options are expected to be granted to executives and other employees during April 2008.
Vesting and performance period	The Babcock & Brown Board's policy on the terms of vesting of LTI awards will typically include vesting at least three years after grant subject to the achievement of a performance hurdle. Performance-based Options to be granted for 2007 will have a three-and-a-half-year vesting period, subject to achievement of a relative TSR hurdle.
Performance Hurdle	The relative TSR hurdle set by the Board measures Babcock & Brown's TSR performance against all other ASX 100 index companies as at the date of grant measured over the three-and-a-half-year vesting period. The Babcock & Brown Board has chosen relative TSR ranking as the performance hurdle for the LTI awards because this hurdle ensures the greatest alignment between executive reward and the creation of shareholder value. By using ASX 100 index companies as the peer group, Babcock & Brown ensures that executives and other senior executives will only be rewarded when Babcock & Brown's TSR has exceeded the median of the broader Australian market. LTI awards will vest in accordance with the table below:

Percentile	% of Options that vests
Below 51st percentile	Nil
51st to 74th percentile	Progressive vesting on a straight-line basis from 50 to 99%
At or above 75th percentile	100%

The Babcock & Brown Remuneration Committee has determined that it is appropriate to retest performance 12 months after the initial test date (i.e. after 4.5 years) for the 2008 grants if they are not fully vested at the initial test date (i.e. after 3.5 years).

The Babcock & Brown Remuneration Committee understands that some stakeholder and shareholder bodies are against more than one test date and conducted a review of the testing mechanism during 2006. After this review, and also because of the recent market volatility, the Remuneration Committee determined that it was appropriate to keep two test dates in place.

REMUNERATION REPORT (CONTINUED)

Performance Hurdle (continued)	The reasons for this included that the impacts of long-term decision making may not be reflected over the first 3.5 years and that stock market volatility means that Babcock & Brown's share price on the first test date may not reflect its fundamental value on that day. In addition, Babcock & Brown believes that having two test dates still aligns executives' and other senior executives' interests with those of shareholders and Securityholders because performance is tested over the entire 4.5 year period and therefore relative performance in the year following the first test date would need to be strong to make up for any under-performance over the first 3.5 years. Executives and other senior executives are therefore only rewarded when shareholders are similarly rewarded. To measure performance against the TSR performance hurdle, Babcock & Brown's external remuneration advisor will obtain, for each company in the ASX 100 as at the grant date, the TSR over the performance period and then rank these companies by their TSR performance. Babcock & Brown's TSR will then be compared to the TSR of the companies in this peer group to determine its percentile ranking and the level of vesting that will occur. This analysis will then be presented to the Babcock & Brown Remuneration Committee for approval. This method of assessment was chosen because it ensures independence when determining vesting levels.
Forfeiture Conditions	Any participant leaving the Babcock & Brown Group may forfeit their Options if they terminate employment within the 3.5 year vesting period, unless the Babcock & Brown Board exercises its discretion in certain circumstances, such as redundancy or retirement. The Babcock & Brown Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the Board is satisfied will not compete with the Babcock & Brown Group.

The 2007 performance year was the first time that Options were used as a formal part of the executive remuneration framework. Accordingly, no information can be provided as yet on the percentage of executive Option allocations that were vested or forfeited during the financial year.

BABCOCK & BROWN COMMUNITIES

This section of the Remuneration Report sets out the remuneration disclosures of the BBCG Group executives. The information has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. Principles used to determine the nature and amount of remuneration

The objective of the Group's senior executive remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board, through the People Strategy & Remuneration Committee, ensures that executive reward satisfies the following key criteria for good governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency
- capital management

In consultation with reports obtained from external remuneration consultants, the Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- focuses on sustained growth in shareholder wealth, consisting of, in the short term, growth in share price, and delivering constant return on assets as well as focusing the senior executives on key non-financial drivers of value
- the Company has implemented a senior executive long-term incentive plan that is focused on aligning the senior executives' interests with those of the shareholders
- attracts and retains high calibre executives

REMUNERATION REPORT (CONTINUED)

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives.

Independent Non-Executive Directors

Independent Non-Executive Directors' fees reflect the demands which are made on, and the responsibilities of, the Directors. Independent Non-Executive Directors' fees and payments are reviewed annually by the Board. Independent Non-Executive Directors do not receive share Options.

Independent Non-Executive Directors receive a base remuneration and additional yearly fees are also payable to Directors for relevant Board committee membership. The current maximum aggregate amount which may be paid to all Independent Non-Executive Directors is $650,000 per annum as approved by Securityholders.

Babcock & Brown senior executives who are Directors of BBCG are allocated the same amount of remuneration as the Independent Directors, however, these senior executives do not receive any remuneration for their role as Director, as these amounts are included as part of the fee paid to the Manager.

Independent Non-Executive Directors receive a cash fee for their services. They do not receive any performance-based remuneration or any retirement benefits, other than receiving statutory superannuation.

Fees payable to Independent Non-Executive Directors during the year ended 30 June 2008 are set out below:

Board/Committee	Role	Fee $
Board	Chair	150,000
	Member	75,000
Audit & Risk Committee	Chair	15,000
	Member	7,500
Member of other Committees	Member	5,000

BBCG Group executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentive plan
- other remuneration such as superannuation

The combination of these comprises the senior executives' total remuneration.

Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the senior executives' discretion.

BBCG Group executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts.

Benefits

Executives receive benefits including car allowance, car parking and salary sacrificing.

Retirement Benefits

No retirement benefits are payable to any Director or BBCG Group executive.

REMUNERATION REPORT (CONTINUED)

Short-Term Incentives (STI)

Should the BBCG Group executives achieve targeted key performance indicators (**KPIs**) set by the People Strategy & Remuneration Committee, STI's (cash bonuses) are payable annually.

Each senior executive has a target STI opportunity depending on the accountabilities of the role and impact on organisation or business unit performance.

Each year, the People Strategy & Remuneration Committee considers the appropriate targets and KPIs to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2008, the KPIs linked to short-term incentive plans were based on group, individual business and personal objectives.

B. Details of remuneration

The key management personnel of BBCG includes Directors as per the information on the Directors' table in the Directors' Report and BBCG executives as per pages 19 to 43 and the following BBCG Group executives, who are also the highest paid executives of the entity:

- M Horwood – General Manager Development (from 14 January 2008)
- P Barry – General Manager Operations
- M Mitchell – Chief Information Officer

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *Short-Term Incentives* above. All other elements of remuneration are not directly related to performance.

Details of the remuneration of each Director and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of the Group for the year ended 30 June 2008 are set out in the following tables.

Directors' Report

REMUNERATION REPORT (CONTINUED)

TABLE 1: REMUNERATION OF THE DIRECTORS AND EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2008

Remuneration figures are in A$ (audited)	Year	Short-term employee benefits: Salary $	Short-term employee benefits: STI plan relating to current period $	Short-term employee benefits: Other $	Short-term employee benefits: Non-monetary benefits $	Post-employment benefits: Super-annuation $	Termination payments $	Long-term employee benefits: Share-based payments[1] $	Long-term employee benefits: Long service leave $	Total $
Independent Non-Executive Directors										
Judith Sloan (Chairman)	**2008**	**148,318**	**-**	**-**	**-**	**13,349**	**-**	**-**	**-**	**161,667**
	2007	37,868	-	-	-	112,949	-	-	-	150,817
Andrew Love	**2008**	**78,559**	**-**	**-**	**-**	**1,858**	**-**	**-**	**-**	**80,417**
	2007	75,000	-	-	-	-	-	-	-	75,000
Graeme Martin	**2008**	**77,981**	**-**	**-**	**-**	**7,018**	**-**	**-**	**-**	**84,999**
	2007	74,358	-	-	-	6,692	-	-	-	81,050
R J de Crespigny AC (from 01/07/06 to 03/07/06)	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	10,536	-	-	-	-	-	-	-	10,536
Total remuneration for Independent Non-Executive Directors	**2008**	**304,858**	**-**	**-**	**-**	**22,225**	**-**	**-**	**-**	**327,083**
	2007	197,762	-	-	-	119,641	-	-	-	317,403
Other Non-Executive Directors										
Robert Topfer[2]	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	-	-	-	-	-	-	-	-	-
Andrew Schwartz[2]	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	-	-	-	-	-	-	-	-	-
P J O'Connell (from 01/07/06 to 28/05/07)	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	63,379	-	-	-	16,604	-	-	-	79,983
Total remuneration for other Non-Executive Directors	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	63,379	-	-	-	16,604	-	-	-	79,983
Executive Directors										
John Martin[3] (Managing Director)	**2008**	**390,519**	**474,001**	**-**	**-**	**34,773**	**6,062**	**105,788**	**-**	**1,011,143**
	2007	524,048	400,000	-	-	47,164	-	103,920	-	1,075,132
J T Hazel (from 01/07/06 to 16/10/06)	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	317,253	-	-	-	51,771	173,000	-	-	542,024
Total remuneration for Executive Directors	**2008**	**390,519**	**474,001**	**-**	**-**	**34,773**	**6,062**	**105,788**	**-**	**1,011,143**
	2007	841,301	400,000	-	-	98,935	173,000	103,920	-	1,617,156
Total remuneration for Directors	**2008**	**695,377**	**474,001**	**-**	**-**	**56,998**	**6,062**	**105,788**	**-**	**1,338,226**
	2007	1,102,442	400,000	-	-	235,180	173,000	103,920	-	2,014,542

1 Represents the Options issued and vested during the year.

2 Remuneration paid to Directors supplied by the Management Company (Robert Topfer and Andrew Schwartz) is not paid by the Group. This remuneration is paid in respect of their wider responsibilities relating to the Babcock & Brown Group, of which the directorship of BBC is a part. It is not practicable or meaningful to apportion the remuneration to the time spent directly on the Non-Executive directorship supplied by the Management Company, for Robert Topfer and Andrew Schwartz. No figures are provided for Mr Topfer and Mr Schwartz as the Management Company did not earn any management fees during the period.

3 John Martin's employment moved from BBCL to Babcock & Brown on 13 August 2007. Amounts shown above include Mr Martin's remuneration for the entire period.

REMUNERATION REPORT (CONTINUED)

Remuneration figures are in A$ (audited)	Year	Salary $	STI plan relating to current period $	Other $	Non-monetary benefits $	Super-annuation $	Termination payments $	Share-based payments $	Long service leave $	Total $
		Short-term employee benefits				Post-employment benefits		Long-term employee benefits		
BBCG executives										
J Wakefield[4] (Chief Financial Officer)	**2008**	**337,483**	**266,000**	**-**	**-**	**13,129**	**-**	**66,502[5]**	**-**	**683,114**
	2007	228,365[6]	-	-	-	-	-	-	-	228,365
G Dixon[7] General Manager Corporate	**2008**	**238,817**	**150,000**	**-**	**-**	**14,439**	**32,621**	**105,788**	**-**	**541,665**
	2007	211,342	100,000	4,886[8]	2,354	19,021	-	51,960	-	389,563
BBCG Group executives										
M Horwood (General Manager Development[9])	**2008**	**139,154**	**-**	**-**	**-**	**13,763**	**-**	**-**	**-**	**152,917**
	2007	-	-	-	-	-	-	-	-	-
P Barry (General Manager Operations)	**2008**	**271,123**	**125,000**	**-**	**-**	**19,342**	**-**	**105,788**	**-**	**521,253**
	2007	209,365	-	6,083[8]	5,088	18,843	-	-	-	239,379
M Mitchell (Chief Information Officer)	**2008**	**214,371**	**50,000**	**-**	**-**	**13,129**	**-**	**-**	**-**	**277,500**
	2007	169,905	-	-	4,056	12,595	-	-	-	186,556
C Thompson (Chief Financial Officer) (from 01/07/06 to 21/12/06)	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	180,508	-	2,050[10]	2,324	-	430,000	103,920	-	718,802
S Bracegirdle (General Manager Development)	**2008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2007	88,790	-	-	-	7,913	222,018	103,920	-	422,641
J Clancy (General Manager Operations)	**2008**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**
	2007	170,105	-	9,017	14,331	14,890	200,000	103,920	-	512,263
G Boyd (General Manager Development)	**2008**	**48,763**	**100,000**	**-**	**-**	**2,607**	**18,629**	**105,788**	**-**	**275,787**
	2007	262,405	-	-	4,056	12,625	-	103,920	-	383,006
G Smith (Senior Development Manager)	**2008**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**
	2007	72,228	-	-	1,670	6,500	31,794	51,960	-	164,152
Total remuneration for BBCG executives and Group executives	**2008**	**1,249,711**	**691,000**	**-**	**-**	**76,409**	**51,250**	**383,866**	**-**	**2,452,236**
	2007	1,593,013	100,000	22,036	33,879	92,387	883,812	519,600	-	3,244,727

4 The amount disclosed as remuneration represents the secondment fee paid by BBCL to fully reimburse Babcock & Brown for Ms Wakefield's total cost of employment while she was seconded to BBCL for the period ended June 2007. From 13 November 2006 to 30 June 2008 Ms Wakefield's remuneration was paid by Babcock & Brown. All amounts are disclosed. Ms Wakefield has subsequently resigned and left BBCG on 15 July 2008.

5 This amount represents Babcock & Brown Share Awards.

6 Ms Wakefield was seconded from Babcock & Brown initially for a period of six months commencing 13 November 2006. Ms Wakefield assumed the position of CFO on 22 December 2006. The amount disclosed as remuneration represents the secondment fee paid by BBCL to fully reimburse Babcock & Brown for Ms Wakefield's total cost of employment while she was seconded to BBCL.

7 Mr Dixon's employment ceased with BBCL and commenced with Babcock & Brown on 15 August 2007. All remuneration amounts for the period are disclosed.

8 Other short-term benefits relate to salary sacrifice amounts for a novated motor vehicle lease.

9 Mr Horwood commenced employment on 14 January 2008.

10 Other short-term employee benefits relate to salary sacrificed amounts for a notebook computer.

REMUNERATION REPORT (CONTINUED)

C. Service agreements

Remuneration and other terms of employment for Mr J Martin and the other key management personnel are formalised in service agreements (employment contracts). The major provisions of the agreements relating to remuneration are set out below.

All contracts with executives, may be terminated early by either party with three months' notice, subject to termination payments as detailed below.

J Martin – Managing Director

- Employed by Babcock & Brown Australia Pty Ltd and his services are seconded to BBCG under the long-term Management Agreement with Babcock & Brown Communities Management Pty Limited.
- Term of Agreement – open-ended commenced 15 August 2007.
- Mr Martin is entitled to participate in Babcock & Brown Limited Group benefit plans that are made available.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to three months base salary.

J Wakefield – Chief Financial Officer

- Employed by Babcock & Brown Australia Pty Ltd and her services were seconded to BBCG under the long-term Management Agreement with Babcock & Brown Communities Management Pty Limited.
- Term of Agreement – open-ended commenced 13 November 2006.
- Ms Wakefield is entitled to participate in Babcock & Brown Limited Group benefit plans that are made available.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to three months base salary.

G Dixon – General Manager Corporate

- Employed by Babcock & Brown Australia Pty Ltd and his services are seconded to BBCG under the long-term Management Agreement with Babcock & Brown Communities Management Pty Limited.
- Term of Agreement – open-ended commenced 15 August 2007.
- Mr Dixon is entitled to participate in Babcock & Brown Limited Group benefit plans that are made available.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to six months base salary.

M Horwood – General Manager Development

- Term of Agreement – ongoing commencing 14 January 2008.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to three months base salary.

P Barry – General Manager Operations

- Term of Agreement – ongoing commencing 1 June 2006.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to six months base salary.

M Mitchell – Chief Information Officer

- Term of Agreement – ongoing commencing 11 January 2006.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to four weeks base salary.

D. Share-based compensation – BBCG Group executives

Options

Options are granted under the Senior Management Option Plan (the **Plan**) which was approved by the Board of Directors on 28 November 2005. Members of the Senior Management Executive Group who have been continuously employed by the Group for a period of at least six months are eligible to participate in the Plan.

Options are granted under the Plan for no consideration. Options are granted for a five-year period.

Eligible participants are entitled to five tranches of Options over ordinary stapled securities in BBCG. Each tranche of Options vests immediately upon grant and can be exercised for up to five years from the vesting date.

REMUNERATION REPORT (CONTINUED)

The Plan rules contain a restriction on removing the "at risk" aspect of the instruments granted to Senior Management. Plan participants may not enter into any transaction designated to remove the "at risk" aspect of the instrument before it vests.

The first tranche, consisting of 1,000,000 Options, took effect as of 1 July 2005, with an exercise price of $1.15. It was determined that subsequent tranches would be granted on 1 July each year. The second tranche, consisting of 1,200,000 Options, was issued on 3 July 2006, exercise price of $1.07. The third tranche, consisting of 800,000 Options, was issued on 1 July 2007, exercise price of $1.12.

The terms and conditions of each grant of Options affecting remuneration in the previous, current or future reporting periods are as follows:

J Hazel – Managing Director (to 16 October 2006)

(Options issued to Mr J Hazel were issued during previous reporting periods)

Number	Grant date	Expiry date	Exercise price $	Value per Option at grant date $	Date exercisable From	To
300,000	15/09/2004	22/10/2009	1.25	0.6008	22/10/2004	22/10/2009
300,000	10/02/2005	23/03/2010	1.38	0.5868	23/03/2005	23/03/2010
300,000	10/02/2005	23/03/2011	1.52	0.6065	23/03/2006	23/03/2011

Senior Management Share Option Plan

Number	Grant date	Expiry date	Exercise price $	Value per Option at grant date $	Date exercisable From	To
1,000,000	01/07/2005	01/07/2010	1.15	0.3327	01/07/2005	01/07/2010
1,200,000	01/07/2006	01/07/2011	1.07	0.5196	01/07/2006	01/07/2011
800,000	01/07/2007	01/07/2012	1.12	0.5289	01/07/2007	01/07/2012

Options granted under the Plan do not carry any dividend or voting rights.

When exercisable, each Option is convertible into one stapled security.

The exercise price of Options is based on the weighted average price of BBCGG ordinary stapled securities traded on the ASX during the period nominated by the Board.

Share Options over ordinary stapled securities

Details of Options over ordinary stapled securities in the Group provided as remuneration to the Managing Director of BBCG and the other key management personnel of the Group are set out below. When exercisable, each Option is convertible into one ordinary stapled security in BBCG. Further information on the Options is set out in Note 30 to the financial statements.

Directors' Report

REMUNERATION REPORT (CONTINUED)

	Number of Options granted during the year		Number of Options vested during the year	
Name	2008	2007	2008	2007
J Martin Managing Director (from 16 October 2006)	200,000	200,000	200,000	200,000
J Wakefield Chief Financial Officer (from 13 November 2006)	-	-	-	-
G Dixon General Manager Corporate Services	200,000	100,000	200,000	100,000
P Barry General Manager Operations	200,000	-	200,000	-
C Thompson Chief Financial Officer (to 21 December 2006)	-	200,000	-	200,000
G Smith Senior Development Manager (from 1 July 2006 to 27 October 2006)	-	100,000	-	100,000
J Clancy General Manager Operations (from 1 July 2006 to 13 April 2007)	-	200,000	-	200,000
S Bracegirdle General Manager Business Development (from 1 July 2006 to 17 November 2006)	-	200,000	-	200,000
G Boyd General Manager Development	200,000	200,000	200,000	200,000

The amounts disclosed for emoluments relating to Options are the assessed fair values at grant date of Options granted to the Managing Director and other key management personnel of the Group, allocated equally over the period from grant date to vesting date. The amount is included in the remuneration Table 1. Fair Values at grant date are independently determined using a Black-Scholes Option pricing model that takes into account the exercise price, the term of the Option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Option.

The model inputs for Options granted to key management personnel of the Group during the year ended 30 June 2008 included:

(a) Total number of Options granted for no consideration as per June 2008 were 800,000 to key management personnel. The Options are capable of being exercised by the relevant key management personnel at any time up until five years from the vesting date. The Options will lapse if they remain unexercised on the fifth anniversary of the date of commencement of the relevant exercise period

(b) These Options shall, subject to paragraph (c) below, be exercisable as follows:

- 1 July 2005 to 1 July 2010 for 1,000,000 Options (First Tranche Options)
- 1 July 2006 to 1 July 2011 for 1,200,000 Options (Second Tranche Options)
- 1 July 2007 to 1 July 2012 for 800,000 Options (Third Tranche Options)

(c) The exercise price of each Option granted in Tranche A is $1.15, in Tranche B $1.07 and Tranche C $1.12

(d) The Options will not be quoted on the ASX

(e) On valid exercise of each Option, key management personnel will be entitled to receive an equivalent number of shares corresponding to the Options granted to them

(f) The shares issued on the valid exercise of the Options will rank, in all respects, equally with all other shares on issue as at the date of issue of the relevant shares

REMUNERATION REPORT (CONTINUED)

(g) The issue of the first Tranche of Options was approved by the Board of Directors on 28 November 2005. The issue of the second Tranche of Options was approved by the Board of Directors on 18 July 2006. The issue of the third Tranche of Options was approved by the Board of Directors on 9 July 2007

(h) Share price at grant date 1 July 2005: $0.82; 1 July 2006: $1.13; and 1 July 2007: $1.16

(i) Expected volatility of the Company's shares: 45% for the first tranche, 40% for the second tranche and 38% for the third tranche

(j) Expected dividend yield: nil%

(k) Risk-free interest rate: 5.5% for the first tranche; 5.75% for the second tranche; and 6.25% for the third tranche

E. Additional information

Principles used to determine the nature and amount of remuneration: Relationship between remuneration and Group performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

Performance incentives are usually based on the achievement of specific measurable goals or key performance indicators. These performance-based goals are agreed with the Managing Director. Incentives are subject to annual review.

Details of remuneration: Cash bonuses and Options

For each cash bonus and grant of Options included in Table 1, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria, is set out below. No part of the bonuses is payable in future years. The Options vest over five years, provided the vesting conditions are met. Options granted under the Senior Management Option Plan vest immediately upon grant.

	Cash bonus		Options					
Name	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which Options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
J Martin	100	–	2007	100	–	2007	–	–
C Thompson	–	–	–	–	–	–	–	–
J Wakefield	100	–	–	–	–	–	–	–
S Bracegirdle	–	–	–	–	–	–	–	–
J Clancy	–	–	–	–	–	–	–	–
G Boyd[1]	100	–	2007	100	–	2007	–	–
P Barry[1]	100	–	2007	100	–	2007	–	–
G Dixon	100	–	2007	100	–	2007	–	–
G Smith	–	–	–	–	–	–	–	–

1 Bonus payment for the year has not been assessed as at reporting date.

Directors' Report

REMUNERATION REPORT (CONTINUED)

Share-based compensation: Options

Further details relating to Options are set out below.

	A	B	C	D	E
Name	Remuneration consisting of Options %	Value at grant date $	Value at exercise date $	Value at lapse date $	Total of columns B-D $
J Hazel	–	–	–	–	–
J Martin	10.4	105,788	–	–	105,788
C Thompson	–	–	–	–	–
J Wakefield	–	–	–	–	–
S Bracegirdle	–	–	–	–	–
J Clancy	–	–	–	–	–
G Boyd	38.36	105,788	–	–	105,788
P Barry	21.32	105,788	–	–	105,788
G Dixon	19.40	105,788	–	–	105,788
G Smith	–	–	–	–	–

A = The percentage of the value of remuneration consisting of Options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 *Share-Based Payments* of Options granted during the year as part of remuneration.

C = The value at exercise date of Options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of Options that were granted as part of remuneration and that lapsed during the year.

LOANS TO DIRECTORS AND EXECUTIVES

There were no loans made to any Director or executive during the reporting period.

SHARES UNDER OPTION

Unissued ordinary shares of BBCG under Option at the date of this report are as follows:

Date Options granted	Expiry date	Issue price of shares $	Number under Option
15/09/2004	22/10/2009	1.25	300,000
10/02/2005	23/03/2010	1.38	300,000
10/02/2005	23/03/2011	1.52	300,000
01/07/2005	01/07/2010	1.15	1,000,000
01/07/2006	01/07/2011	1.07	1,200,000
01/07/2007	01/07/2012	1.12	800,000
Total			**3,900,000**

No Option holder has any right under the Options to participate in any other share issue of the Company or any other entity.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of BBCL issued during the year ended 30 June 2008 on the exercise of Options granted under the Senior Management Security or Managing Director's Option Plan.

INSURANCE OF OFFICERS

During the 2008 financial year, the Company incurred an insurance premium in respect of a contract insuring BBCL Directors against liabilities arising as a result of work performed in their capacity as Directors of the Company. Details and the nature of liabilities covered, or the amount of the premium paid in respect of the insurance contract are not detailed here, as such disclosure is prohibited under the terms of the contract.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's operations are subject to environmental regulations under relevant local laws, and local Council policies and relevant State Government legislation in relation to development and operating activities. The Company has a policy of complying with all relevant federal, state and local law environmental performance obligations.

As part of the Group's development programs, BBCL obtains development approvals from the respective local authorities in relation to the development of new senior living facilities and stages of senior living facilities. The development approvals include specific environmental regulations pertaining to earthworks, soil and sediment control, erosion and sediment management, damage and/or removal of trees, clearance of vegetation and excavation of materials.

Residential areas of occupied senior living facilities are closely monitored in accordance with operating procedures to ensure that the potential for environmental contamination is minimised.

No environmental breaches have been notified by any government agency during the financial year ended 30 June 2008.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out in Note 31. Tax advice matters continue to be handled by PricewaterhouseCoopers.

The Board of Directors has considered the position and in accordance with the advice received from the Risk Audit & Compliance Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Risk, Audit & Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*

John Martin
Director

28 August 2008

Corporate Governance Statement 2008

INTRODUCTION

This statement reflects Babcock & Brown Communities Group (**BBCG**) corporate governance framework as at 25 August 2008. A copy of this statement and other documents (or summaries thereof) can be accessed and downloaded from the Corporate Governance section on our website at **www.bbcommunities.com**.

BBCG comprises:

- Babcock & Brown Communities Limited ACN 010 622 901 (**BBCL**), an Australian public company
- Babcock & Brown Communities Trust ARSN 124 896 733 (**BBCT**), an Australian trust of which Babcock & Brown Communities Investor Services Limited ACN 080 737 042, AFSL No 258933 (**BBCIS**) is the responsible entity
- the respective subsidiary entities of each of BBCL and BBCT

Any reference contained in this statement to BBCIS is a reference to BBCIS in its capacity as responsible entity of BBCT, unless otherwise indicated.

Each BBCL share is stapled to a BBCT unit and vice versa. BBCG stapled securities are quoted on the Australian Securities Exchange under the market code ASX:BBC.

The BBCL Board, together with the BBCIS Board (the **Boards**), is responsible for overseeing the rights and interests of all investors and is accountable to them for the overall governance and management of BBCG. The Boards, formulate and approve the strategic direction, investment objectives and goals of BBCG.

The establishment of a sound framework of corporate governance and the implementation of the corresponding governance culture and processes throughout BBCG is one of the primary responsibilities of the Boards. The Boards recognise that they are accountable to Securityholders for the performance of BBCG and, to that end, are responsible for instituting and ensuring BBCG maintains a system of corporate governance that operates in the best interests of Securityholders whilst also addressing the interests of other key stakeholders. A comprehensive corporate governance framework and good governance policies and procedures can add to the performance of BBCG, the creation of Securityholder value and engender the confidence of the investment community.

The ASX Limited's Corporate Governance Council issued in August 2007 a revised set of guidelines entitled *Corporate Governance Principles and Recommendations*. These guidelines articulate eight core principles (**ASX Principles**) that the Council believes underlie good corporate governance, together with 27 recommendations (**ASX Recommendations**) for implementing effective corporate governance.

The ASX Listing Rules require listed entities such as BBCG to include a statement in their annual report disclosing the extent to which they have followed the eight ASX Principles and 27 ASX Recommendations during the reporting period, identifying any ASX Recommendations that have not been followed and giving reasons for that variance. BBCG's Corporate Governance Statement is structured with reference to the ASX Recommendations. Areas not fully complied with are disclosed under the relevant principle. All of the corporate governance practices referred to herein were in place for the entire year ended 30 June 2008 unless otherwise indicated.

In addition, the Babcock & Brown Group, of which the Manager is a member, recognises that effective and transparent governance practices within the funds which it manages is essential to the preservation of Securityholders' and stakeholders' interests and the continued success of those funds. To this end, Babcock & Brown Limited has established a robust corporate governance framework for the management of the Babcock & Brown specialised funds. This framework includes a number of key principles for the governance of those funds with a view to protecting the interests of each fund's Securityholders and other stakeholders. A summary of the corporate governance framework adopted by Babcock & Brown can be found on pages 109 to 111 of the Babcock & Brown Limited 2007 Annual Report. The Manager has had close regard to this framework in assisting the BBCG Boards to formulate their respective corporate governance practices.

INTERACTION BETWEEN THE ROLES OF BBCL AND BBCIS

Although in practice BBCL was primarily responsible for conducting the day-to-day operations of BBCG during the 2008 Financial Year, it did and will continue to consult and exchange information with and seek the agreement of BBCIS when making decisions in relation to BBCG in accordance with the terms of the stapling deed (**Stapling Deed**).

The Stapling Deed sets out the terms and conditions of the relationship between BBCL and BBCIS in respect of BBCG, for so long as the units in BBCT and shares in BBCL remain stapled. In summary, the Stapling Deed provides that each of BBCL and BBCIS must:

- cooperate in respect of all matters relating to BBCG and consult with the other prior to causing any act to be done or omission to be made which may materially affect the value of BBCG stapled securities (including the announcement or payment of a dividend or trust distribution)
- make available to the other all information in its possession necessary or desirable to fulfil its respective obligations under the Stapling Deed, and make available to the other all information and provide all assistance in relation to the preparation of financial accounts
- cooperate with the other to ensure that each complies with its obligations under the ASX Listing Rules (including disclosure obligations), coordinate disclosure to the ASX and investors, and liaise with the ASX in relation to the ASX Listing Rule matters
- perform its obligations under the Stapling Deed and its respective constitution with a view to enhancing the market value of BBCG stapled securities
- notify the other of an intention to acquire or sell assets where the value of those assets is greater than 5% of the entity's net tangible assets (BBCIS may only invest in additional material assets where management of the proposed investment has first been approved by the BBCL Board of Directors)
- act consistently with the investment strategy of BBCG as agreed between them and consult with the other on implementation of this strategy and any changes to its implementation
- not borrow or raise any money unless the other agrees
- cooperate to ensure that BBCL Securityholder and BBCT unitholder meetings are held concurrently or, where necessary, consecutively
- consult with the other in relation to any reorganisation or restructure of capital or any changes to stapling arrangements, and not cause a placement, rights issue, distribution or dividend reinvestment plan, buy-back, repurchase or redemption without the prior consent of the other
- cooperate with the other to ensure that BBCL has a common subgroup of Directors with BBCIS

Therefore, as indicated, it is by operation of the Stapling Deed that the Boards of BBCL and BBCIS (as responsible entity of BBCT) are together responsible for overseeing the rights and interests of Securityholders in BBCG and accountable to Securityholders for the overall corporate governance and management of BBCG.

COMPLIANCE WITH THE ASX RECOMMENDATIONS

As at the date of this Corporate Governance Statement, each of the Boards of BBCG advise that their corporate governance practices are in compliance with the Recommendations, except where specifically noted in this Corporate Governance Statement.

Corporate Governance Statement 2008

ACHIEVEMENTS IN 2007/2008

- The BBCG Boards have revised the Security Trading Policy and a number of other key BBCG policies
- The BBCG Boards have elected to "adopt early" the ASX's revised *Corporate Governance Principles and Recommendations* which took effect from 1 January 2008

ASX PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

Role of the BBCG Boards and management

ASX Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions

Each of the BBCG Boards is assisted in its management of the affairs of BBCG by the Manager, Babcock & Brown Communities Management Pty Ltd (**BBCM**). In accordance with the respective Management Agreements with each of BBCL and BBCIS, the Manager provides comprehensive management services to each of the two entities comprising BBCG. These services include identifying and recommending investment opportunities for BBCG, managing BBCG's investments and advising in respect of any exit from those investments. In addition to these more strategic services, the Manager has specific operational management duties and carries out management services of BBCG on a day-to-day basis. The Manager's appointment by each of BBCL and BBCIS is exclusive and is for a term of 10 years from its appointment in 2007. This arrangement is commonly referred to as an "externally managed" fund.

Under the Management Agreements, BBCM as Manager has established a Dedicated Management Team comprising individuals performing the following functions: managing director, chief financial officer and other accounting, tax and treasury personnel; general manager corporate and other operations management personnel; corporate counsel and company secretary; investor relations; and risk and compliance personnel. The Managing Director leads the management team which reports to the Board of BBCM. As an externally managed entity, the management team also effectively act in the same capacity for BBCG as in their appointed functional role for BBCM as Manager.

The Management Agreements contain provisions which require the Manager, as a primary obligation, to give priority to the interests of BBCG and, consequently, the BBCG Securityholders. In accordance with the terms of the Management Agreements, the BBCG Boards must consider any recommendations put to them by the Manager and determine whether the recommended action is in the best interests of BBCG Securityholders.

The BBCG Boards have each adopted a formal *Board Charter* which details the functions and responsibilities of the relevant Board and distinguishes such functions and responsibilities from those which have been delegated to the Manager. A copy of the *Board Charters* is available in the Corporate Governance section on BBCG's website at **www.bbcommunities.com**.

As outlined in the respective *Board Charters*, the BBCG Boards are together responsible for the management of the affairs of BBCG. In acquitting its functions, the Boards, amongst other things:

(a) contributes to and approves the BBCG's corporate strategy
(b) approves the BBCG's annual budgets and business plans and monitors financial performance against them
(c) evaluating and approving capital expenditure, acquisitions, divestitures and other corporate transactions of BBCG above the delegated levels set out in the Management Agreements
(d) determining BBCG's dividend or distribution policy and the amount and timing of all dividends and distributions paid to BBCG Securityholders
(e) approves major BBCG policies, including BBCG's Code of Conduct, Security Trading Policy and the Continuous Disclosure Policy and other compliance-related policies
(f) approves significant accounting policies financial reports and material reporting by or on behalf of BBCG
(g) monitoring the performance of the Manager
(h) in consultation with the Manager, approves the appointment or removal of BBCM's Managing Director (**MD**)
(i) in consultation with the Manager, develops a succession plan for the MD, and approves succession plans for other senior management positions in the BBCM fund management team
(j) in consultation with the Manager, monitors the performance of the MD and the other key management personnel in the BBCM fund management team

(k) in consultation with the Manager, notes the remuneration strategy and policies and the total level of remuneration for the MD and other key management personnel in the BBCM fund management team
(l) at least annually, reviews the performance and effectiveness of the Boards, the Boards' permanent Committees and their individual members
(m) considering recommendations of Board Subcommittees (e.g. the BBCL Audit & Risk Management Committee)
(n) approves the appointment and terms of appointment of the external auditor
(o) considers, approves and monitors the effectiveness of BBCG's overall risk management and control framework, through, among other steps, regular reports to the Board through the BBCL Audit & Risk Management Committee from the Head of Risk and regular updates (as required) from management on significant risk issues
(p) regularly reviewing the performance and effectiveness of BBCG's corporate governance policies and procedures and considering any amendments to those policies and procedures
(q) reviewing and approving all disclosures related to any departures from the ASX Principles
(r) monitoring BBCG's compliance with ASX continuous disclosure requirements
(s) subject to the constituent document of the relevant BBCG entity, approving the appointment of Directors to the relevant Board and to Committees established by the Board
(t) at least once per year, reviewing and evaluating the performance of the Board, each Board Committee, and each individual Director against the relevant charters, corporate governance policies and agreed goals and objectives

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in Principle 2 below.

The *Board Charters* also sets out the specific powers and responsibilities of the Chairman and the MD (see Principle 2 below).

The *Board Charters* also include a summary of the responsibilities of each Director. To assist Directors to understand BBCG's expectations of them, all Independent Directors have been provided with copies of relevant *Board Charters* and policies. Non-Independent Directors have formal letters governing their employment through the Babcock & Brown Group.

ASX Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives

The Nomination & Governance Committee of the BBCG Boards has responsibilities relating to the review and monitoring of the performance of the BBCG Boards, the Chairman, the Managing Director and other individual members of the BBCG Boards. The People, Strategy & Remuneration Committee of the BBCG Board has responsibility for establishing key performance indicators against which the performance of the MD and other key management personnel in the BBCM fund management team are evaluated.

During the 2008 financial year, the MD and other key management personnel in the BBCM fund management team agreed with the BBCG Boards, individual key performance indicators against which their performance will be evaluated. The review of the performance of these key executives is undertaken by the Manager. In respect of the most senior executives, the outcome of such review is also discussed with the People, Strategy & Remuneration Committee.

The Remuneration Report contains details of Babcock & Brown's remuneration philosophy and policies including other key performance conditions that are assessed in determining the total remuneration of the MD and other key management personnel in the BBCM fund management team.

A performance evaluation for MD and other key management personnel in the BBCM fund management team will be undertaken in relation to the year ended 30 June 2008 and details of their total remuneration including bonuses are set out in the Remuneration Report.

Corporate Governance Statement 2008

ASX PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

Structure of the Board

ASX Recommendation 2.1: A majority of the Board should be Independent Directors

The size and composition of the BBCG Boards is determined in accordance with the Constitution of the relevant entity and the governance framework applied by Babcock & Brown to its specialised fund activities, as in force from time to time. It is intended that the BBCG Boards will comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds, and will comprise either a majority of Independent Directors or, at a minimum, an equal number of Independent and Non-Independent Directors.

The BBCG Boards are comprised of Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The BBCG Boards considers that collectively, the Directors have the range of skills, experience and expertise necessary to appropriately govern BBCG.

Details of the Directors' skills, experience and expertise relevant to their position and their term in office and details of their attendance at Board and/or Committee meetings are set out in the information contained in the 2008 Directors' Report.

The Directors appointed to the respective BBCG Boards, along with their appointment dates, are set out below:

Name	Position	BBCL Board Appointment	BBCS Board Appointment
Judith Sloan	Independent Non-Executive Chairman	30/05/2006	30/07/2007
John Martin	Executive Managing Director	16/10/2006	30/07/2007
Robert Topfer	Non-Executive Director	16/12/2003	09/07/2001
Graeme Martin	Independent Non-Executive Director	01/06/2005	30/07/2007
Andrew Love	Independent Non-Executive Director	01/07/2005	30/07/2007
Andrew Schwartz	Non-Executive Director	28/05/2007	30/07/2007

Details of the experience and expertise of the BBCG Directors are set out in the Information on Directors section of the 2008 Directors' Report.

The continued tenure of each individual Director is subject to re-election from time to time in accordance with the Constitutions of BBCL and BBCIS.

The BBCG Boards have each determined the independent status of each Director utilising the criteria set out in Recommendation 2.1. As shown in the table above, the Boards of BBCG had equal numbers of Independent Non-Executive Directors and Non-Independent Directors during the 2008 Financial Year. This does not comply with ASX Recommendation 2.1, which recommends that the Board comprise a majority of Independent Directors.

The BBCG Boards recognise the importance of Independent Directors, particularly the external perspective and advice that these Directors can provide. The BBCG Boards, however, considers the current composition of its Board, and in particular the equality of Independent and Non-Independent Directors appropriate, given the management arrangements with Babcock & Brown and in view of:

- the fact that the composition of both the BBCG Boards was fully disclosed to Securityholders in the Product Disclosure Statement dated 15 June 2007 and the Explanatory Memorandum issued in relation to the notice of general meeting provided to Securityholders at the time of the BBCG restructure in 2007 and the fact that Securityholders voted overwhelmingly in favour of the restructure
- the Independent Chairman has a casting vote

Board Committees and Membership

The BBCG Boards have established committees to support an effective governance framework and to advise and support the BBCG Boards in carrying out its respective duties. The Chairman of each committee reports on any matters of substance at the next full Board meeting and all committee minutes are provided to the Board. The committees in existence at the date of this report are as follows:

- the BBCG Audit, Risk & Compliance Committee
- the BBCG People, Strategy & Remuneration Committee
- the BBCG Nomination & Governance Committee

Each committee has its own *Charter* setting out the authority under which each Committee operates and the responsibilities as delegated by the BBCG Boards. *Charters* are reviewed annually and membership criteria are based on a Director's skills and experience as well as their ability to add value to the Committee. The Managing Director is invited to attend all Committee meetings by invitation and Non-Executive Directors may attend any meeting of a Committee.

The Board Committees and their membership as at 25 August 2008 are set out in the following table:

	Audit, Risk & Compliance Committee	People, Strategy & Remuneration Committee	Nomination & Governance Committee
Judith Sloan	Member	Chair	Chair
John Martin			
Robert Topfer			Member
Graeme Martin	Member	Member	
Andrew Love	Chair		Member
Andrew Schwartz		Member	

ASX Recommendation 2.2: The chairperson should be an Independent Director

Judith Sloan was appointed Independent Chairman on 3 July 2006.

To ensure that there is an appropriate balance in the manner in which the Directors discharge their responsibilities and an independent review of the performance of management, the BBCG Boards have:

- established an Audit, Risk & Compliance Committee comprising of a majority of Independent Directors, a People Strategy & Remuneration Committee and a Nomination & Governance Committee comprising of a majority of Independent Directors
- established protocols for dealing with conflicts of interest. In particular, the BBCG Boards have put in place a range of internal policies designed to ensure that the interests of Securityholders are at all times preferred to those of Directors and that any actual or potential conflicts of interest are promptly disclosed and dealt with by the Directors. These include the *Board Charter*, the Code of Conduct and the Security Trading Policy
- ensured that significant matters affecting BBCG are reserved for consideration by the full Board, for example major strategic decisions, capital expenditure above specified thresholds and expenditure outside the ordinary course of business
- any Director is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures set out in the *Board Charter*. No Director availed himself of this right during the year

Corporate Governance Statement 2008

ASX Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual

The roles of Chairman and Chief Executive Officer are not exercised by the same individual for BBCG. The respective roles and responsibilities of the Chairman and the Managing Director are described in the *Board Charters*.

ASX Recommendation 2.4: The Board should establish a nomination committee

The BBCG Boards have established a Nomination & Governance Committee which is responsible for advising the BBCG Boards on the composition of the Boards and their Committees, reviewing the performance of the Boards, their Committees and individual Directors and advising the Board on appropriate corporate governance standards and policies. In making recommendations to the BBCG Boards regarding the appointment of Directors, the Nomination & Governance Committee periodically assesses the appropriate mix of skills, experience and expertise required on the relevant Board and assesses the extent to which those skills and experience are represented. As BBCG develops its existing asset base and continues to seek further investment opportunities, the Nomination & Governance Committee will review the composition of the BBCG Boards to ensure they remain appropriate.

The Nomination & Governance Committee is comprised of a majority of Independent Non-Executive Directors. The Committee is chaired by an Independent Non-Executive Director.

The attendance of the Committee members at Committee Meetings is disclosed in the Directors' Report.

The Nomination & Governance Committee has adopted a Charter, a summary of which is available on BBCG's website. The responsibilities of the Committee pursuant to its Charter include:

Nomination

In relation to its nomination function the Committee will:

- critically review the performance and effectiveness of the Chairman of the Board, the Board and the permanent Committees of the Board and their individual members
- have oversight of the BBCG Boards' annual performance evaluation process
- regularly review the time required from an Independent Non-Executive Director and whether Directors are meeting this requirement; An Independent Non-Executive Director should inform the Chairman and Committee before accepting any new directorships
- establish eligibility and appointment criteria for Board membership
- review and make recommendations to the BBCG Boards as appropriate on the composition, strategic function and size of the BBCG Boards
- having regard to desired composition of and the skills represented on the Board, identify and make recommendations to the BBCG Boards on candidates considered appropriate for appointment as Directors, and make recommendations to the BBCG Boards on whether the Board should support the reappointment of any retiring Director
- periodically assessing the skills required to competently discharge the BBCG Boards' duties and obligations, and making recommendations to the Chairman about how those skill levels could be enhanced
- maintain an appropriate induction program for new Directors and a plan for identifying, assessing and enhancing Director competencies
- providing confirmation of the Directors to retire annually by rotation in accordance with the provisions of the Constitution of BBCL
- identify any specific responsibilities of individual BBCG Board members, including the Chairman of the Board
- provide input to the Manager with regard to succession planning for the Managing Director and other key management personnel in the BBCM fund management team

ASX Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors

The Nomination & Governance Committee informs the BBCL Boards of the names of Directors who are retiring in accordance with the provisions of the Constitution of the Company and makes recommendations to the Board as to whether it should support the renomination of such retiring Directors. In order to make such recommendations, that Committee first reviews the retiring Director's performance during the period in which the Director has been a member of the BBCL Board.

The Nomination & Governance Committee also reviews the membership and performance of the various committees established by the Board and makes recommendations to the BBCG Boards in that regard. A member of the Committee will not participate in the review of their own performance and must not be present for discussions at a Committee meeting on, or vote on a matter regarding, his or her election, re-election or removal.

The Nomination & Governance Committee will undertake a performance evaluation of the Board as a whole, its committees and individual members during the 2008 financial year. Each Director will complete a detailed questionnaire that will be consolidated by the Company Secretary and the BBCG Boards as a whole will review the findings. The BBCG Boards will then consider the individual and collective performance of the Directors and determine whether there are any significant issues that required attention.

The Nomination & Governance Committee is also responsible for establishing and facilitating an induction program for new Directors and making available to them sufficient information and advice to allow them to participate fully and actively in board decision-making at the earliest opportunity.

The BBCG Boards and its Committees may seek advice from independent experts whenever it is considered appropriate. As noted above, individual Directors, with the consent of the Chairman, may seek independent professional advice on any matter connected with the discharge of their responsibilities, at the Group's expense.

ASX PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Companies should actively promote ethical and responsible decision-making.

Code of Conduct

ASX Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code

The BBCG Boards are committed to delivering strong returns and Securityholder value whilst also promoting Securityholder and general market confidence in BBCG and to fostering an ethical and transparent culture within BBCG.

To this end, each BBCG Board has adopted a formal Code of Conduct which is designed to ensure that:

- high standards of corporate and individual behaviour are observed by all Directors and Babcock & Brown employees seconded to the Manager in the context of their employment and in relation to all of BBCG's activities
- Babcock & Brown employees seconded to the Manager are aware of their responsibilities to BBCG under their contract of employment with Babcock & Brown and always act in an ethical and professional manner and in the best interests of BBCG Securityholders

The Code of Conduct requires Directors and Babcock & Brown employees seconded to the Manager, among other things, to:

- avoid conflicts of interest between their personal interests and those of BBCG and its clients
- not take advantage of opportunities arising from their position for personal gain or in competition with BBCG
- comply with BBCG's Security Trading Policy and other policies

The Code of Conduct requires Directors, the Manager and Babcock & Brown employees seconded to the Manager, to report any actual or potential breach of the law, the Code of Conduct or other BBCG policies. In accordance with Babcock & Brown's Whistleblowing Policy, BBCG promotes and encourages ethical behaviour and provides protection for those who report violations.

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In addition to the Code of Conduct, the *Board Charters* require that all Directors conduct their duties with the highest level of honesty and integrity, observe the rule and spirit of the law, comply with any relevant ethical and technical standards, not make improper use of any confidential information, and set a high standard of fairness, diligence and competency in their position as a Director.

BBCG recognises that it has a number of legal and other obligations to its non-securityholder stakeholders, including employees, clients and the wider community.

As outlined above, BBCG has established a Code of Conduct requiring Directors and employees seconded to the Manager to observe high standards of corporate and individual behaviour. The objectives of the Code include ensuring that employees seconded to the Manager, suppliers, clients and competitors can be assured that BBCG will conduct its affairs in accordance with ethical values and practices. Employees seconded to the Manager are required to comply with both the spirit as well as the letter of the ASX Listing Rules and all laws which govern the operations of BBCG. The Code of Conduct specifically requires all employees seconded to the Manager to always deal with Securityholders, clients, customers, suppliers, competitors and other employees in a manner that is lawful, diligent and fair and with honesty, integrity and respect.

In accordance with its Code of Conduct, Babcock & Brown aims to provide a work environment in which all employees (including those seconded to the Manager entities of each of its managed funds) can excel regardless of race, religion, age, disability, gender, sexual preference or marital status. In this regard, Babcock & Brown maintains various policies relating to the workplace, including in respect of non-discrimination and occupational health and safety issues.

These principles of fairness, honesty and propriety are essential elements of the various policies which have been adopted by BBCG.

Security Trading Policy

ASX Recommendation 3.2: Companies should establish a policy concerning trading in company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy

BBCG has implemented a formal Securities Trading Policy which regulates the manner in which Directors and employees seconded to the Manager can buy or sell BBCG securities, and requires that they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of BBCG.

The policy is specifically designed to raise awareness and minimise any potential for breach of regulations relating to insider trading contained in the Corporations Act. The policy is also designed to minimise the chance that misunderstandings or suspicions arise regarding employees seconded to the Manager trading while in possession of non-public price-sensitive information. The policy is applicable to all BBCG Directors and employees seconded to the Manager, as well as key executives of BBCG's subsidiary companies.

The policy specifies trading windows as the periods during which trading in BBCG stapled securities can occur. These trading windows will generally be four to eight week periods following the release of BBCG's full year or half year results, a four to eight week period following BBCG's Annual General Meeting, and the offer period under any prospectus or similar offer document. Trading is prohibited despite a window being open if the relevant person is in possession of non-public price-sensitive information regarding BBCG. The BBCG Boards may authorise the opening of trading windows at other times. The Managing Director and other key management personnel of the Manager are required to notify the Company Secretary (who in turn notifies the Chairman) of any proposed trading by them in securities issued by BBCG and the details of any completed trades.

Further, Babcock & Brown also has a policy which regulates the manner in which its Directors and employees may buy or sell shares in other companies, which may be affected by the activities of Babcock & Brown (including BBCG). This policy is called the Employee Investment Policy.

ACHIEVEMENTS IN 2007/2008

The BBCG Boards undertook a detailed review of their respective Securities Trading Policy and a revised policy was adopted by the BBCG Boards on 17 April 2008

ASX PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

Audit, Risk & Compliance Committee

ASX Recommendation 4.1: The Board should establish an Audit Committee

The BBCG Boards are committed to the basic principle that BBCG's financial reports are true and fair and comply with the relevant accounting standards. To assist the BBCG Boards with this commitment, an Audit, Risk & Compliance Committee of the BBCG Boards has been established which is responsible for advising the BBCG Boards on internal controls and appropriate standards for the financial management of BBCG. It is the BBCG Board's responsibility to ensure that an effective internal control system is in place across BBCG. This includes internal controls to deal with both the effectiveness and the efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The BBCG Boards have delegated the responsibility for the establishment and maintenance of BBCG's system of internal control to the Audit, Risk & Compliance Committee.

The Committee oversees the financial reporting process, the systems of internal control and risk management, the audit process and BBCG's processes for monitoring compliance with laws and regulations.

The Audit & Risk Management Committee provides advice to the BBCG Boards and reports on the status of the business risks to BBCG through its risk management processes aimed at ensuring risks are identified, assessed and properly managed.

The Committee works on behalf of the BBCG Boards with the external auditor and reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

ASX Recommendation 4.2: The Audit Committee should be structured so that it:

- **consists only of Non-Executive Directors**
- **consists of a majority of Independent Directors**
- **is chaired by an independent chair, who is not the chair of the Board**
- **has at least three members**

The Audit, Risk & Compliance Committee is wholly comprised of Independent Non-Executive Directors.

The attendance of the Committee members at Committee Meetings is disclosed in the Directors' Report.

For the entire 2008 financial year, the Audit, Risk & Compliance Committee comprised Andrew Love (Independent Non-Executive Committee Chairman), Judith Sloan (Independent Non-Executive Committee Member) and Graeme Martin (Non-Executive Committee Member). All members possess the requisite financial expertise.

The structure of the BBCG Audit, Risk & Compliance Committee accords with ASX Recommendation 4.2 in that the Committee comprises a majority of Independent Directors, has an Independent Chairman who is not the Chairman of the BBCG Boards and has at least three members.

The BBCG Audit, Risk & Compliance Committee generally meets as required but normally meets not less than four times per year. The BBCG Audit, Risk & Compliance Committee reports to the full BBCG Boards following each Committee meeting, including making any recommendations that require Board approval or action.

ASX Recommendation 4.3: The Audit Committee should have a formal charter

The BBCG Audit, Risk & Compliance Committee has adopted a Charter. The responsibilities of the Committee pursuant to its Charter include:

Financial Reports for the Half Year and Full Year

- review and consider the financial reports for the half year and full year
- consider in connection with the half year and full year financial reports the Managing Director and Chief Financial Officer letter of representation to the BBCG Boards
- review the financial sections of the annual report and related regulatory filings before release
- review with management and the external auditors the results of the audit

Internal Control

- review the effectiveness of BBCG's internal controls regarding all matters affecting BBCG's financial performance and financial reporting, including information technology security and control
- review the scope of internal and external auditors' review of internal control, review reports on significant findings and recommendations, together with management's responses, and recommend changes from time to time as appropriate

Internal Audit

- review with the Manager and the internal auditor, the charter, plans and activities of the internal audit activity
- meet with the internal auditor to review reports and monitor management response
- meet separately, at least once a year, to discuss any matters that the Committee or internal audit believes should be discussed privately
- review the effectiveness of the internal audit activity
- ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of the internal auditor by management

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External Audit

- review the external auditors' proposed audit scope and approach
- meet with the external auditors to review reports, and meet separately, at least once a year, to discuss any matters that the Committee or auditors believe should be discussed privately
- recommend to the BBCG Boards policies regarding independence of the external auditor
- review and confirm the independence of the external auditors
- review the performance of the external auditors, and consider the re-appointment and proposed fees of the external auditor and, if appropriate, conduct a tender of the audit for the review of the BBCG Boards. Any subsequent recommendation following the tender for the appointment of an external auditor will be put to the BBCG Boards

Compliance

- consider the work plan for BBCG compliance activities
- obtain regular updates from the Compliance Manager and the Legal Counsel regarding compliance matters
- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- review the findings of any examinations by regulatory agencies
- review the process for communicating to BBCG personnel, and for monitoring compliance with the BBCG Code of Conduct

Risk Management

- oversee the development of risk management policies and review BBCG's overall risk management framework and its effectiveness in meeting sound corporate governance principles and keep the BBCG Boards informed of all significant business risks
- review with the Manager the system for identifying, managing and monitoring the key risks of BBCG
- obtain reports from management on the status of any key risk exposures or incidents
- obtain annually a report from management on the status and coverage of the insurance policies for BBCG

Reporting Responsibilities

- regularly report to the BBCG Boards about Committee activities, issues and related recommendations
- provide an open avenue of communication between internal audit, the external auditors and the BBCG Boards. For the purpose of supporting the independence of their function, the external auditor and the internal auditor have a direct line of reporting access to the Committee
- report annually to the Securityholders on matters relating to Committee responsibilities as required by law or the ASX Listing Rules
- review any other reports the Company issues that relate to Committee responsibilities

The Committee meets at least four times a year and reports to the full Board following each meeting, including in respect of recommendations of the Committee that require BBCG Board approval or action.

Internal Audit

The BBCG Boards have overall responsibility for BBCG's systems of internal control, supported by the Audit & Risk Management Committee and the Manager. The BBCG Boards are assisted in discharging this responsibility by BBCG's Internal Audit function which operates under a written charter from the Audit, Risk & Compliance Committee. The BBCG Boards have outsourced the internal audit function to William Buck who act as the BBCG Internal Auditor.

The BBCG Internal Auditor reports jointly to the Chairman of the Audit, Risk & Compliance Committee and Chief Financial Officer. The BBCG Internal Auditor discusses significant issues from Internal Audit Reports at meetings of the Audit, Risk & Compliance Committee and distributes Internal Audit Reports to senior management of BBCG. During the year, the internal audit program reviewed a number of BBCG's internal controls with a view to ensuring that they are operating effectively and efficiently in accordance with financial reporting requirements, good operational and governance practices and in compliance with regulations, to assist BBCG in achieving business objectives.

Under the oversight of the BBCG Risk Manager, BBCG continued to enhance the BBCG risk management framework during the year with each of BBCG's subsidiary companies further developing a Risk Management Plan to further strengthen its control framework (refer to Principle 7 below).

To assist the BBCG Boards and the Audit, Risk & Compliance Committee to discharge their respective responsibilities, the MD and the Chief Financial Officer are required to provide the BBCG Boards with a letter of representation in connection with the half year and full year financial statements of BBCG. Such letter of representation confirms to the BBCG Boards that BBCG's financial reports present a true and fair view, in all material respects, of BBCG's financial condition and operational results and are in accordance with relevant accounting standards. The letter describes the process and evidence that the Managing Director and Chief Financial Officer have adopted to satisfy themselves on these matters.

In respect of the 12 months ended 30 June 2008, the MD and Chief Financial Officer provided such a letter to the Board (refer to "Managing Director's and Chief Financial Officer's Declaration" in the Directors' Report).

Audit Governance

BBCG's external auditor is PricewaterhouseCoopers who were appointed by Securityholders at the 2007 Annual General Meeting in accordance with the provisions of the *Corporations Act 2001*. The BBCG Boards have a policy whereby the responsibilities of the lead audit engagement partner and review audit partner cannot be performed by the same people for a period longer than five consecutive years.

The external auditor receives all Audit, Risk & Compliance Committee papers and attends all meetings. The Committee meets with the external auditor without management being present and also meets with management without the external auditor being present. Committee members are able to contact the external auditor directly at any time.

Certification and Discussions with the External Auditor on Independence

The Audit, Risk & Compliance Committee requires that the external auditor confirm every six months that they have maintained their independence and have complied with applicable independence standards promulgated by regulators and professional bodies. The Audit, Risk & Compliance Committee annually reviews the independence of the external auditor and has provided the BBCG Boards with written advice confirming this assessment. The Audit, Risk & Compliance Committee also periodically meets with the external auditor without management present. A copy of the external auditor's certification of independence is set out on page 61 of the 2008 Annual Report.

Restrictions on Non-Audit Services by the External Auditor

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for BBCG, including:

- bookkeeping or other services relating to the accounting records or financial statements
- appraisal or valuation services
- secondments to management positions
- internal audit of financial controls
- internal control design or implementation
- implementation or design of financial information systems or other information technology systems
- legal or litigation support services
- strategic or structural tax planning

Further, PricewaterhouseCoopers will not provide any strategic or structural tax planning for BBCG. PricewaterhouseCoopers will not provide unsolicited tax "products" or tax "solutions" for implementation in respect of BBCG corporate group. The taxation advisory role of PricewaterhouseCoopers will be limited to providing independent taxation advice regarding transactions proposed by BBCG.

For all other non-audit services, use of the external audit firm must be assessed in accordance with our pre-approval policy, which requires that all non-audit services be pre-approved by the Audit, Risk & Compliance Committee, or by delegated authority to a sub-committee consisting of one or more members where appropriate.

The breakdown of the aggregate fees billed by the external auditor in respect of each of the two most recent financial years for audit, audit-related, tax and other services is provided in Note 31.

A summary of the Audit, Risk & Compliance Committee Charter is available in the Corporate Governance section on BBCG's website.

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ACHIEVEMENTS IN 2007/2008

- The BBCG Boards undertook a detailed review of the Audit & Risk Management Committee Charter
- A detailed review of BBCG's Risk Management Framework

ASX PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company.

Continuous Disclosure Policy

ASX Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

BBCG is committed to complying with its continuous disclosure obligations pursuant to the Corporations Act and the ASX Listing Rules. BBCG's Continuous Disclosure Policy is designed to ensure that all investors have equal and timely access to material information concerning the Company. BBCG has complied at all times with the ASX Listing Rules on continuous disclosure.

The policy is designed to ensure that material price sensitive information arising from any part of BBCG is immediately notified to the ASX in a complete, balanced and timely manner, unless it falls within the scope of the limited exemptions contained in Listing Rule 3.1A.

A Disclosure Committee comprised of various Directors and senior executives operates pursuant to the Continuous Disclosure Policy. The Disclosure Committee is responsible for reviewing information which is or may be material, making disclosures to the ASX and issuing media releases and other written public statements on behalf of BBCG. BBCG has also designated certain senior executives of the BBCM fund management team as reporting officers for the purpose of ensuring that, within their respective areas of responsibility, material information is brought to the attention of the Disclosure Committee.

In addition, BBCG Boards are actively and regularly involved in discussing disclosure obligations in respect of all major matters that come before it.

The Company Secretary is primarily responsible for communications with the ASX and for overseeing and maintaining the Continuous Disclosure Policy.

A summary of the Continuous Disclosure Policy is available in the Corporate Governance section on BBCG's website.

Continuous Disclosure Processes

The specific processes adopted by BBCG in relation to its continuous disclosure responsibilities are as follows:

- **website:** all information released to the ASX is posted on the Investor Information section of BBCG's website as soon as practicable
- **authorised spokespersons:** communication with the media, share analysts and the market generally in relation to BBCG activities will normally be undertaken only by: the Chairman, MD, the Chief Financial Officer or Head of Investor Relations
- **media releases:** no media release of a material nature is to be issued unless it has first been sent to the ASX
- **trading halts:** on occasions, it may be necessary for BBCG to request a trading halt from the ASX. The Disclosure Committee will make all decisions in relation to a trading halt
- **close periods:** BBCG observes a number of "close" periods during the year to protect against the inadvertent disclosure of price sensitive information. During these close periods, BBCG will not make any comment on:
  - analysts' earnings estimates, other than to acknowledge the range and average estimates in the market
  - the financial performance of BBCG unless the information has already been released to the market

  The close periods operate in the periods 45 days before the preliminary announcement of BBCG's half year and full year results
- **analyst and investor briefings:** BBCG recognises the importance of the relationship between BBCG, investors and analysts. From time to time BBCG conducts analyst and investor briefings and in these situations the following protocols apply:
  - no price sensitive information will be disclosed at these briefings unless it has been previously, or is simultaneously, released to the market
  - questions at these briefings that relate to price sensitive information not previously disclosed will not be answered
  - if any price sensitive information is inadvertently disclosed, it will immediately be released to the ASX and placed on BBCG's website

ASX PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

Communications with Shareholders

ASX Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

Consistent with our Continuous Disclosure Policy, BBCG is committed to communicating with its Securityholders in an effective and timely manner to provide them with ready access to information relating to BBCG. In this regard, BBCG maintains a website (**www.bbcommunities.com**) which provides access to the following information of interest to BBCG Securityholders:

- detailed information regarding the Board, executive management and the business groups and activities of BBCG
- all BBCG announcements and media releases, which are posted to the website promptly following release
- copies of full year and half year financial reports
- summaries of Board and Committee Charters and relevant corporate governance policies
- copies of BBCG's Annual Reports
- copies of disclosure documents relating to BBCG's capital raisings
- the website of BBCG's Share Registry, Link Market Services, including a facility for Securityholders to amend their particulars

BBCG encourages Securityholders to utilise its website as their primary tool to access Securityholder information and disclosures. In addition, the Annual Report facilitates the provision to Securityholders by BBCG on a yearly basis of detailed information in respect of the major achievements, financial results and strategic direction of BBCG.

BBCG has a practice that information to be given by BBCG at analyst briefings is first released to the ASX to ensure that the market operates on a fully informed and equal basis.

Securityholders are strongly encouraged to attend and participate in general meetings of BBCG, especially the Annual General Meeting. BBCG provides Securityholders with details of any proposed meetings well in advance of the relevant dates.

BBCG's external auditor is always requested to attend the Annual General Meeting and be available to answer Securityholder questions about the conduct of the audit and the preparation and content of the auditor's report. This allows Securityholders an opportunity to ask questions of the auditor and reinforces the auditor's accountability to Securityholders.

ACHIEVEMENTS IN 2007/2008

- BBCG adopted the policy of electronic distribution of shareholder communications unless a Securityholder requests hard copy

ASX PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control.

Risk Management Policy

ASX Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

Management of risk, particularly preservation of capital, continues to be a primary objective of BBCG in all its business activities. BBCG is committed to ensuring that its system of risk oversight, management and internal control complies with the ASX Principles and that its culture, processes and structures facilitate realisation of BBCG's business objectives, including potential opportunities, while managing adverse effects and preserving capital.

The BBCG Boards are ultimately responsible for overseeing and managing the material risks of BBCG. The BBCG Audit, Risk & Compliance Committee assists them in this role. In accordance with its Charter, the role of the BBCL Audit, Risk & Compliance Committee includes reviewing and managing the system for identifying, managing and monitoring the key risks of BBCG and obtaining reports from the Manager on the status of any key risk exposures or incidents. In undertaking these responsibilities, the Committee principally relies on the resources and expertise of the Manager to implement and report upon the risk management systems and procedures implemented, such that the Committee is able to keep the BBCG Boards informed of all material business risks.

Corporate Governance Statement 2008

BBCG undertakes regular reviews of its risk management framework and has adopted a Risk Management Policy consistent with Australia/New Zealand Standard 4360, which clearly defines responsibilities for managing risk under BBCG's risk management process. The material risks of BBCG's business, including operational, financial, market and regulatory compliance risks have been identified and are required to be regularly managed, monitored and reported. Methods for treating and mitigating risks include transferring, reducing, accepting or passing on risk following assessment using a variety of methods. A summary of the Risk Management Policy is available on BBCG's website.

The BBCG Audit, Risk & Compliance Committee includes amongst its responsibilities:

- consideration of the overall risk management framework of BBCG and the review of its effectiveness in meeting sound corporate governance principles
- keeping the BBCG Boards informed of all significant business risks
- reviewing in conjunction with the Manager the system for identifying, managing and monitoring the key risks of BBCG
- obtaining reports from the Manager on the status of any key risk exposures or incidents

The role of the Manager also plays an important part in the management of risk. In accordance with the Management Agreements, the Manager first reviews, evaluates and recommends substantial investments before they are considered by the BBCG Boards.

One of the cornerstones of BBCG's risk management approach is a well defined system of delegated authorities with respect to the commitment of capital and an investment approval process which brings rigour to the selection, assessment and approval of investment risks assumed under BBCG's principal investment activities. Matters such as legal, accounting, tax and general risk assessment issues are considered in each case. In addition to requiring a recommendation from the Manager for all investment decisions, the Manager's most senior executives are involved in major investment decisions, and all capital investments above specified thresholds require approval of the BBCG Boards.

The BBCG Audit, Risk & Compliance Committee has also implemented a robust ongoing internal audit program. The internal auditor reports directly to the BBCL Audit & Risk Management Committee at each meeting of the Committee.

ASX Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks

Under the direction of BBCG's Risk Manager, BBCG has continued to enhance its risk management framework. BBCG's Risk function plays a key role in developing and building an approach to assist the BBCG Boards and subsidiary companies in identifying, monitoring and treating risk and in reporting material risks to the Audit, Risk & Compliance Committee. Key focus areas for each function and subsidiary company are identified in a Risk Management Plan and progress in implementing action plans is monitored.

BBCG's Compliance Function promotes a compliance conscious culture while ensuring BBCG complies with regulatory requirements across its businesses, functions, and group entities.

To facilitate monitoring and evaluation of the effectiveness of internal controls, BBCG has established accounting policies, reporting and risk management and compliance systems to keep the Audit, Risk & Compliance Committee informed of strategic, reputational, financial and operational risks facing the Group. Quarterly management certification confirms that appropriate internal controls are in place and that the BBCG Risk Management Policy and other key guidelines and procedures are being observed.

BBCG's Internal Audit function provides independent reporting to the Audit & Risk Management Committee with respect to the management of risk and also provides comment on the effectiveness of the design and operation of controls across the BBCG Group.

ASX Recommendation 7.3: The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

As outlined above, and in accordance with Recommendation 7.3, the MD and Chief Financial Officer have stated to the Board in writing that internal compliance and control systems applicable to the Group's business lines and functional groups were operating efficiently and effectively in all material respects during the period to 30 June 2008 (see the "MD's and Chief Financial Officer's Declaration" in the Directors' Report).

ASX PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

Remuneration Policy

The remuneration policies of BBCG have been structured to be competitive in the industry and global marketplace and to ensure that BBCG can attract and retain the talent needed to achieve both short and long-term success, while maintaining a strong focus on team work, individual performance and the interests of Securityholders.

The Non-Independent Directors of BBCL and BBCIS, Mr Topfer and Mr Schwartz, are employees of the Babcock & Brown Group. Similarly, employees who are secondees to the Manager are also employees of the Babcock & Brown Group. As such, all of these people are remunerated not by BBCL or BBCIS but rather by the Babcock & Brown Group.

The policies and principles which are applied to determine the nature and amount of remuneration paid to the Directors and Key Management Personnel of BBCG are set out in detail in the Remuneration Report.

Total remuneration of Non-Independent Directors and Manager secondees by the Babcock & Brown Group is delivered through a combination of base salary, an annual performance bonus and, for some executives, through an equity incentive plan of Babcock & Brown Limited. Babcock & Brown continually reviews the remuneration philosophy and framework as it applies to BBCG to ensure alignment of the interests of the Manager with those of BBCG Securityholders.

The BBCG Boards acknowledge that the remuneration of the Non-Independent Directors by the Babcock & Brown Group is also partly determined by reference to the performance of that group and their individual performance in connection with that group. In this regard, the Board recognises that there is scope for potential conflicts of interest to arise, both in terms of the Babcock & Brown Group's dealings with BBCG and in terms of the dual roles of the Non-Independent Directors and certain staff. For instance, the Babcock & Brown Group is expected to earn fees and other income from its management of and other dealings with BBCG, and the remuneration of the Non-Independent Directors by the Babcock & Brown Group may be partly determined by reference to the level of such fees and income.

In such cases, the BBCG Boards implement steps to ensure that such conflicts of interest are declared, managed and, where practicable, removed. Such steps include ensuring that Non-Independent Directors declare an interest in circumstances where there are dealings between the Babcock & Brown Group and BBCG and that, in those cases, Non-Independent Directors abstain from voting on all such matters. Other steps may include seeking independent third party advice in some cases or having matters considered by a Committee of the Board comprising solely the Independent Directors. These measures are designed to ensure that, in the event of a conflict of interest, the interests of Securityholders are given priority over the interests of the Babcock & Brown Group and the Non-Independent Directors.

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Remuneration Committee

ASX Recommendation 8.1: The Board should establish a Remuneration Committee

As noted above in relation to ASX Recommendation 2.4, in order to assist the Board in achieving fairness and transparency in relation to remuneration issues and overseeing the remuneration and human resources policies and practices of BBCG, the BBCL Board has established a People, Strategy & Remuneration Committee.

The BBCL People, Strategy & Remuneration Committee has adopted a Charter which is available on BBCG's website. The responsibilities of the Committee pursuant to the Charter in relation to remuneration include:

- making recommendations to the relevant Board for determining the level of remuneration to be applied to Non-Executive Directors of BBCL. The Committee may engage external advisors to provide information to the Boards to be considered in their deliberations for the purpose of recommending an appropriate level of remuneration for Non-Executive Directors. All fees paid to Non-Executive Directors are disclosed in BBCG's annual Financial Statements to the extent required by law
- in order to discharge its duties and responsibilities to Securityholders in respect of matters relevant to remuneration of Key Management Personnel of the Manager, the Committee will, taking into account the fact that the Manager bears ultimate responsibility for meeting its obligations under the Management Agreement and that the Key Management Personnel's remuneration is set by the Manager under Babcock & Brown Group's remuneration principles and practices:
  - (a) consult with the Manager in respect of the KPIs for each of the Manager's Key Management Personnel as determined by the Manager and provide feedback to the Manager about their respective performance against such KPIs
  - (b) provide input and advice to the Manager about remuneration of Key Management Personnel or other individuals, as requested by the Manager, based on the Babcock & Brown Group's remuneration principles and practices
  - (c) approve the Remuneration Report to be disclosed in the BBCG annual Directors' Report
  - (d) monitor any amendments to the Babcock & Brown Group's remuneration principles and practices to the extent that they affect BBCG and report such amendments to the BBCL Board as appropriate
  - (e) consider for approval the formulation of any long-term incentive plans (**LTI Plans**) recommended by the Manager involving the issue of BBCG stapled securities
  - (f) monitor and review any LTI Plans for compliance with changes to legislation, regulation and market expectations or practices

The BBCL People, Strategy & Remuneration Committee consists of three members, a majority of whom are Independent Directors of BBCG. The members of the Committee as at the date of this statement are Judith Sloan (Chairman), Graeme Martin and Andrew Schwartz.

Non-Executive Director Remuneration

ASX Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of executives

The total remuneration paid to the Independent Non-Executive Directors to 30 June 2008 is set out in the Remuneration Report. Independent Non-Executive Directors are paid an annual fee according to which Boards and Committees they sit on. Non-Executive Directors' fees for BBCG are determined within a Non-Executive Director's aggregate fee pool limit which has been approved by Securityholders. The maximum aggregate sum for BBCL has been set at $650,000 annually.

Non-Executive Directors are not provided with retirement benefits other than statutory superannuation and did not receive Options or other equity incentives, or bonus payments.

Payment of Non-Independent Directors' fees is paid to the Manager and not to Mr Topfer or Mr Schwartz. These form part of the base management fees payable to the Manager. Mr Topfer and Mr Schwartz are employees of Babcock & Brown and are separately remunerated by Babcock & Brown.

Auditor's Independence Declaration

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Auditor's Independence Declaration

As lead auditor for the audit of Babcock & Brown Communities Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Babcock & Brown Communities Limited and the entities it controlled during the year.

Gareth Winter
Partner
PricewaterhouseCoopers

Sydney
28 August 2008

Income Statements

for the year ended 30 June 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Revenue	5	192,704	119,000	20,957	19,609
Other income	6	70,889	6,056	12,393	1,271
Total revenue and other income		**263,593**	**125,056**	**33,350**	**20,880**
Cost of developing senior living facilities		(12,621)	(41,117)	(3,188)	(2,658)
Employee benefits expense		(74,053)	(40,195)	(17,926)	(18,823)
Annual fees to facility owners		(13,109)	(13,327)	(735)	(718)
Professional fees and consultants		(3,265)	(4,725)	(1,773)	(4,209)
Depreciation and amortisation expense	7	(8,067)	(2,067)	(3,513)	(1,126)
Finance costs	7	(45,134)	(13,018)	(39,537)	(9,861)
Marketing and promotion expenses		(2,480)	(2,238)	(1,317)	(1,672)
Rent, rates and taxes		(5,427)	(1,620)	(1,202)	(977)
Repairs and maintenance		(17,826)	(1,817)	(337)	(324)
Computer and communication costs		(3,753)	(2,214)	(2,840)	(1,877)
Catering costs		(4,609)	(2,375)	(566)	(508)
Impairment of management rights and related assets		(5,999)	-	(5,999)	-
Reversal of provisions		-	2,061	-	2,061
Transaction costs		(9,187)	-	(1,411)	-
Other expenses from ordinary activities		(8,725)	(5,469)	(2,301)	(3,345)
Share of net profits/(losses) of associates accounted for using the equity method	17	6,583	1,060	-	-
Profit/(loss) before income tax		**55,921**	**(2,005)**	**(49,295)**	**(23,157)**
Income tax (expense)/benefit	8	(14,848)	4,606	13,129	11,629
Profit/(loss) after income tax		**41,073**	**2,601**	**(36,166)**	**(11,528)**
Profit/(loss) attributable to:					
Equity holders of Babcock & Brown Communities Trust (**BBCT**)		(11)	-	-	-
Equity holders of Babcock & Brown Communities Limited (**BBCL**)		41,084	-	-	-
Profit/(loss) attributable to Securityholders of Babcock & Brown Communities Group		**41,073**	**2,601**	**(36,166)**	**(11,528)**
		Cents	Cents	Cents	Cents
Earnings per security					
Earnings per stapled security for profit attributable to the ordinary equity holders of BBCL (**Parent Entity**)	37				
Basic earnings/(loss) per share				(5.90)	(7.51)
Diluted earnings/(loss) per share				(5.87)	(5.35)

The above income statements are to be read in conjunction with the accompanying notes, including Note 37 which presents the following earnings per stapled security for profit attributable to the stapled Securityholders of BBCG:

Basic earnings/(loss) per stapled security		6.71	1.69
Diluted earnings/(loss) per stapled security		6.66	1.21

Balance Sheets

as at 30 June 2008

		Consolidated		Parent Entity	
	Notes	2008 $'000	2007 $'000	2008 $'000	2007 $'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	19,391	17,909	11,644	13,958
Receivables	10	52,920	31,962	824,355	90,365
Deferred management fees		7,083	6,938	-	-
Inventories	12	29,113	47,636	5,505	1,745
Other	13	1,421	1,485	3,853	1,197
Total current assets		**109,928**	**105,930**	**845,357**	**107,265**
NON-CURRENT ASSETS					
Receivables	11	446	-	-	-
Deferred management fees		63,745	62,439	-	-
Other financial assets	16	11,770	11,256	72,334	6,149
Investments accounted for using the equity method	14, 17	18,551	18,420	-	-
Property, plant and equipment	18	396,527	148,158	89,660	90,191
Investment property	15	1,786,868	192,945	212,955	163,296
Deferred tax assets	21	81,794	62,079	76,603	58,335
Intangible assets	19	238,482	8,373	7,327	7,902
Other	20	-	-	12,258	-
Total non-current assets		**2,598,183**	**503,670**	**471,137**	**325,873**
Total assets		**2,708,111**	**609,600**	**1,316,494**	**433,138**
LIABILITIES					
CURRENT LIABILITIES					
Resident loans	22	1,188,762	142,079	156,844	127,096
Accommodation bond liabilities		105,560	60,702	5,345	6,468
Payables	23	65,765	22,084	31,441	49,682
Borrowings	24	432	91,468	248,571	79,600
Provisions	25	22,829	3,678	979	750
Total current liabilities		**1,383,348**	**320,011**	**443,180**	**263,596**
NON-CURRENT LIABILITIES					
Deferred revenue		19,318	2,646	1,140	2,165
Borrowings	24	591,298	103,222	534,809	50,125
Deferred tax liabilities	26	97,111	71,074	35,345	27,016
Provisions	25	4,190	4,477	328	309
Total non-current liabilities		**711,917**	**181,419**	**571,622**	**79,615**
Total liabilities		**2,095,265**	**501,430**	**1,014,802**	**343,211**
Net assets		**612,846**	**108,170**	**301,692**	**89,927**

Balance Sheets

as at 30 June 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
EQUITY					
Parent Entity interest					
Contributed equity	27	478,847	231,339	478,847	231,339
Reserves	28	(8,495)	6,399	3,567	3,144
Retained profits/(accumulated losses)	28	(95,021)	(129,568)	(180,722)	(144,556)
Minority interest (equity holders of BBCT)		237,515	-	-	-
Total equity		**612,846**	**108,170**	**301,692**	**89,927**

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

Statements of Changes in Equity

for the year ended 30 June 2008

		Consolidated		Parent Entity	
	Notes	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total equity at the beginning of the financial year		**108,170**	**54,196**	**89,927**	**53,933**
Changes in the fair value of foreign currency reserve, net of tax	28(a)	(12,187)	706	-	-
Changes in asset revaluation reserve	28(a)	(3,130)	3,145	-	-
Transfer out profits relating to an associate accounted for using the equity method as now accounted as a subsidiary	28(b)	(6,526)	-	-	-
Net income/(expense) recognised directly in equity		**(21,843)**	**3,851**	**-**	**-**
Profit for the financial year		41,073	2,601	(36,166)	(11,528)
Total recognised income and expense for the financial year		**19,230**	**6,452**	**(36,166)**	**(11,528)**
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	27(a)	247,508	47,032	247,508	47,032
Minority interest	1(b)	237,515	-	-	-
Distributions		-	-	-	-
Employee share Options expense	28(a)	423	490	423	490
Total equity at the end of the financial year		**612,846**	**108,170**	**301,692**	**89,927**

The above statements of changes in equity are to be read in conjunction with the accompanying notes.

Cash Flow Statements

for the year ended 30 June 2008

	Notes	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers (inclusive of GST)		170,960	73,012	20,621	17,159
Payments to suppliers and employees (inclusive of GST)		(127,432)	(127,046)	(78,885)	(53,630)
Accommodation bonds received		44,612	34,228	3,150	4,126
Accommodation bonds paid		(30,325)	(19,311)	(4,207)	(3,237)
Interest received		4,201	1,350	1,975	-
Net cash inflow/(outflow) from operating activities	38	**62,016**	**(37,767)**	**(57,345)**	**(35,582)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(68,663)	(4,617)	(24,424)	(3,549)
Proceeds from sale of property, plant and equipment	18	116	-	-	-
Loans from/(to) other entities		-	2,000	-	-
Proceeds from monies held in Trust		-	1,031	-	-
Proceeds from sale of investments		-	-	-	-
Payment for investment properties		(10,752)	-	(1,263)	-
Payment for intangible assets		(65,000)	-	-	-
Purchase of controlled entities, net of cash acquired		(371,697)	-	-	-
Payments for investments		-	(888)	(615)	-
Payments for settlements		-	(31,325)	-	(17,448)
Loans from/(to) controlled entities		-	-	(708,782)	-
Net cash inflow/(outflow) from investing activities		**(515,996)**	**(33,799)**	**(735,084)**	**(20,997)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of securities		455,663	-	267,860	-
Proceeds from issue of convertible notes		-	25,000	-	25,000
Redemption of convertible notes		(49,997)	-	(49,997)	-
Interest paid		(40,753)	(10,338)	(31,401)	(7,180)
Proceeds from borrowings		677,409	115,984	981,926	67,878
Repayment of borrowings		(558,988)	(63,151)	(378,274)	(32,402)
Distribution paid		(27,373)	-	-	-
Net cash inflow/(outflow) from financing activities		**455,961**	**67,495**	**790,114**	**53,296**
Net increase/(decrease) in cash and cash equivalents held		**1,981**	**(4,071)**	**(2,315)**	**(3,283)**
Cash and cash equivalents at the beginning of the year		17,207	21,278	13,958	17,241
Effect foreign exchange on cash and cash equivalents		(714)	-	-	-
Cash and cash equivalents at the end of the financial year	9	**18,474**	**17,207**	**11,644**	**13,958**

The above cash flow statements are to be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the financial year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The financial report includes separate financial statements for BBCL as an individual entity and the consolidated entity, consisting of BBCL and its subsidiaries.

The balance sheet of the Group discloses total current assets of $116 million (2007: $106 million) and current liabilities of $1,379 million (2007: $320 million). At face value, this would appear to indicate short-term pressures on the cash flow of the Group. However, this arises because of the requirement under AIFRS to classify resident obligations ($1,189 million) (2007: $142 million) as a current liability, due to their being at call dependent on the timing of the resident departures, whereas, the investment properties to which these relate are required to be classified as a non-current asset ($1,787 million) (2007: $193 million). In addition, accommodation bonds ($106 million) (2007: $60 million) are classified as current liability. We expect repayment of resident obligations and accommodation bonds to be replaced by new residents with no significant net repayments expected in the next 12 months.

(A) AN OVERVIEW OF THE BBCG ACCOUNTS

Babcock & Brown Communities Group consists of two entities, Babcock & Brown Communities Limited (**BBCL**) and Babcock & Brown Communities Trust (**BBCT**).

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

AASB Interpretation 1002, Post-Date-of-Transition Stapling Arrangements, applies to stapling arrangements occurring during annual reporting periods ending on or after 31 December 2005 where the identified parent does not obtain an ownership interest in the entity whose securities have been stapled. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interests of the equity holders in the stapled securities are treated as minority interests.

Refer Note 41, Business Combinations for further information on the formation and restructure of BBCG.

(B) BASIS OF PREPARATION

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

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Babcock & Brown Communities Limited (**BBCL**) as at 30 June 2008. BBCL and its controlled entities together with Babcock & Brown Communities Trust (**BBCT**) are together referred to in this financial report as the Group or the Consolidated Entity.

The Group has complied with all debt covenants as at 30 June 2008 and according to the Group's budget for the financial year ending 30 June 2009 (the **FY2009 budget**) will continue to comply throughout the year ending 30 June 2009. However, the margin between compliance and non-compliance in relation to certain financial debt covenants is such that some uncertainty exists in relation to the Group's ability to remain compliant with all debt covenants throughout the financial year ending 30 June 2009. The FY2009 budget on which the Directors have formed their view is forward looking and by its very nature is based on best estimate assumptions of transactions and events that may or may not occur as expected and is subject to influences and events outside of the control of the Group. Actual results may differ from the FY2009 budget and may result in a breach of a debt covenant.

If a debt covenant is breached, there is a risk that the providers of the debt facility will require the Group to repay the outstanding balance of the debt under the terms of the relevant facility prior to the contractual maturity dates in respect of each tranche of the facility, being $395.3 million in December 2010 and $197.7 million in December 2012. If the debt facility providers do not waive a debt covenant breach, the outstanding debt will then be reclassified as a current liability. If the Group is required to repay the debt, the Group may have to realise assets at less than their fair value, which may also be less than the amounts at which they are stated in this financial report. The Group may also need to seek alternative funding sources to fund the early repayment of debt which may or may not be available at that time. Consequently, if these events occur there is a significant uncertainty in relation to the Group's ability to continue as a going concern.

Notes to the Financial Statements

for the financial year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- The Group will comply with the debt covenants during the period to 30 June 2009:
  - the Group will be able to pay its debts as and when they become due and payable
  - the basis of preparation of this general purpose financial report on a going concern basis is appropriate
- The Directors have formed this view based on a number of factors including:
  - a review of the FY2009 budget, including the key assumptions and an assessment of the reasonable likelihood of future transactions occurring as estimated
  - the performance of the Group's business since the FY2009 budget was prepared
  - the announced recommendations from the strategic review undertaken in relation to the business. The Board of BBCG appointed ABN AMRO in June 2008 to identify Options for reducing the gap between BBCG's underlying asset values and recent market trading prices. The key outcomes of this review are:
    - to enter into negotiations with parties that have expressed interest in acquiring control of the Group through a managed auction process to discover whether a party is willing to make an offer for the Group that is acceptable to and recommended by the Directors
    - should a sale of the Group not eventuate for any reason, the Directors will proceed to internalise the existing management arrangements with subsidiaries of Babcock & Brown Limited, subject to shareholder approval
    - regardless of whether this shareholder approval is obtained, the Directors have identified certain assets that may be sold and the funds generated to be used to reduce the Group's debt. This will improve the Group's position in relation to its debt covenants. It is acknowledged, however, that the outcome of these initiatives is not certain
  - expectations that the Group will be able to meet its financial commitments or obtain appropriate additional finance for any short-term liquidity needs prior to significant assets sales such that post these asset realisations, the Group's overall level of gearing will be such that it may be attractive to alternative lenders

(i) Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (**AIFRS**). Compliance with AIFRS ensures that the consolidated financial statements and notes of BBCG comply with IFRS.

(ii) Early adoption of standards

The Group has elected not to early adopt any of the available standards. Refer Note 1(AE) for details of the applicable standards.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, derivative financial instruments and investment property.

(iv) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(C) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by BBCL (the **Parent Entity**) as at 30 June 2008 and the results of all controlled entities for the year then ended. Subsidiaries are all those entities over which the Parent Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Babcock & Brown Communities Limited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Babcock & Brown Communities Limited and its controlled entities together are referred to in this financial report as the Group or the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Minority equity interests in the results and equity of controlled entities are shown separately in the consolidated income statement and balance sheet respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences. Where an entity ceases to be controlled during a financial year, its results are included for that part of the year during which control existed. They are deconsolidated from the date that control ceases.

(ii) Associates

Associates are those entities over which the Group exercises significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method and are carried at cost by the Parent Entity. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains/(losses) resulting from transactions with associates are eliminated to the extent of the Group's interest in the associates.

As disclosed in Note 14, BBCL has ownership interests of 50% in certain entities. These are considered to be investments in associates and joint ventures and are accounted for using the equity method. In the case of the entity where BBCL has 51% ownership (McKinnon Road Developments Pty Ltd), regardless of the 51% ownership, under the joint venture agreement there is joint control. Accordingly, this entity is also equity accounted.

(D) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(E) INCOME TAX

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(i) Tax consolidation legislation

BBCL and its wholly-owned Australian controlled entities elected to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office (**ATO**) has been notified of this election.

The head entity, Babcock & Brown Communities Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, BBCL also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in Note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(F) REVENUE RECOGNITION

The consolidated entity recognises revenue as follows:

(i) Development revenue

Sale contracts for the development of senior living facilities pre-sold to syndicate investors results in the consolidated entity receiving a fixed sale price for the land component of the project and the development of the facilities' infrastructure and buildings. The revenue on these projects is recognised as follows:

Sale of land

Land held for resale is land identified as surplus to requirements. Profits and revenue on the sale of land are recognised when an unconditional sale of land has occurred.

Development income

Development Income primarily arises when a unit is transferred to a resident together with an estimate of the present value of Deferred Management Fees (**DMFs**) which will be derived from that unit in the future (fair value). While under construction these units are recorded at cost on the balance sheet. Once the unit is transferred to a resident it is transferred to Investment Property and restated to fair value. Where it is probable that a loss will arise, the excess of total costs over income is recognised as an expense immediately.

Development Income is dependent on the number of units first transferred to residents, the income received on those unit transfers and the estimate of the future value of DMFs.

(ii) Deferred Management Fees (DMF)

Deferred Management Fees are earned in the Retirement Village business and relate to both, owned facilities and those which are leased from third parties. A typical DMF contract provides for an annual retainer for a fixed period (e.g. 3% per annum of purchase or resale price for a period over 12 years, or 36% in total) plus a share of the capital gain realised on turnover. Although cash is only received as the resident departs, revenue is recognised on an annual accrual basis, based on estimates of capital growth and resident turnover.

BBCL also manages some facilities that it leases from third parties. The nature of the income derived from these facilities is essentially the same as for those owned by BBCL. However, under AIFRS the forecast DMF to be received from leased facilities is discounted to net present value, whereas no discount applies to owned facilities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Aged care revenue

Hostel and nursing home revenue comprises daily resident living contributions and government funding, which are both determined in accordance with Federal Government authorised rates. Hostel and nursing home revenue is recognised as the services are provided.

BBCL is entitled to charge an annual retention fee to hostel residents. These annual fees are regulated by the Federal Government and are paid by a resident on departure. These fees are accrued by BBCL during the resident's period of occupancy.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(iv) Service fees

Other service revenue includes the addition of:

Marketing and management agreement

These agreements entitle BBCL to provide marketing and management services to facilities. These agreements are usually for a 20 year period. Revenue is recognised as the services are provided, with these fees typically charged to investor syndicates as part of their operating cost.

Profit share agreement

Long-term 20 year profit share agreements entitle BBCL to receive 50% of the operating profit derived from each applicable facility. This profit is determined after BBCL has charged management and marketing Fees. Revenue is recognised as and when profits are generated.

(v) Management fees

Contract management fees are earned from management services. Revenue is recognised as the services are provided.

(vi) Aged care deferred receivables

BBCL has entered into a number of deferred receivables or long-term agreements with certain senior living facility owners. Under the terms of these agreements, BBCL is entitled to the deferred management fees and all resident fees, in return for payment of a guaranteed minimum annual fee to the owners.

(vii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(viii) Sub-lease rentals

Sub-lease rentals are earned at the Kingsway office, in Melbourne. Rental income is recognised on a straight-line basis over the term of the sub-lease.

(G) PROPERTY, PLANT AND EQUIPMENT

All classes of property, plant and equipment are measured at cost.

(i) Land and buildings

Buildings are depreciated over 40 years on a straight-line basis.

The value of land is not depreciated.

(ii) Plant and equipment

Depreciation is calculated on a straight-line basis to write off the cost of each item of plant and equipment over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets. Plant and equipment is depreciated at rates ranging from 10% to 40% per annum.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Assets under construction

Items of property, plant and equipment and investment properties under construction are classified as assets under construction. Upon completion, items of property, plant and equipment and investment properties are transferred to the appropriate asset class. Assets under construction are not subject to depreciation.

(iv) Leasehold improvements – subject to hire purchase

Leasehold improvements are depreciated over the shorter of the useful life of the asset and the lease term. Leasehold improvements are depreciated at rates ranging from 10% to 27% per annum.

(H) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Group classifies its investments and other financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments and other financial assets at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(ii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(iii) Recognition and derecognition

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iv) Subsequent measurement

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

(v) Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (as for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and Option pricing models refined to reflect the issuer's specific circumstances.

(vi) Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) INVESTMENT PROPERTY

Investment Property, principally comprising retirement villages, is held for long-term income yields and is not occupied by the Group.

BBCL makes a determination, on a property by property basis, as to whether a property should be considered an investment property. Factors taken into account include:

- whether the property generates cash flows largely independent of other services provided to residents of the properties
- whether the property is held for long-term capital appreciation rather than for short-term sale in the ordinary course of business
- the probable future use of land that is not currently generating cash flows

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, management uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. These valuations are reviewed periodically by a member of the Australian Property Institute.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use.

Gains or losses arising from changes in the fair values of investment properties are included as other income in the income statement in the period in which they arise. This includes revaluation gains when a unit is transferred to a resident for the first time.

Units and apartments under construction and development are excluded from investment properties and classified as property, plant and equipment. Once completed and occupied, they are transferred to investment properties.

(J) INTANGIBLE ASSETS

(i) Approved provider aged care places (bed licences)

All bed licences assessed as having an indefinite useful life are not subject to amortisation and are impairment tested annually (at the same time every year) in accordance with the AASB 136 *Impairment of Assets*. These licences are issued by the Federal Government to approved providers, and can also be purchased from third parties. Holders of bed licences receive Federal Government funding in accordance with predetermined rates.

Bed licences which revert to aged care facility owners on expiration of long-term leasehold/management agreements have a finite life and are amortised over the term of the agreements (generally 20 years).

(ii) Management contracts

Management contracts are initially recorded at cost and amortised over the period that benefits are expected to be realised.

(iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(K) CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash includes cash on hand, deposits held at call with financial institutions and investments in money market instruments readily convertible to cash within two days, net of any outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it is accrued.

Notes to the Financial Statements

for the financial year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(L) IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(M) GOODS AND SERVICES TAX

Revenue and expenses are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of asset or as part of an item of the expense.

The net amount of GST recoverable from or payable to the ATO is included as a current liability in the balance sheet. Cash flows are included in the cash flow statement on a gross basis.

The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

(N) TRADE AND OTHER RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expense.

(i) Deferred management fees receivable

Deferred management fees receivable represent amounts owed to BBCL in connection with resident occupancy at retirement villages subject to long-term management agreements. Deferred management fees receivable are calculated in accordance with resident contracts. Further details of the calculation of deferred management fees are included in Note 4(A) Critical Accounting Estimates and Assumptions.

(ii) Bond retentions receivable

Bond retentions accrued represent amounts owed to the Company in connection with resident occupancy at aged care facilities or nursing homes, and calculated in accordance with resident contracts.

(O) INVENTORIES

(i) Work in progress and finished goods

Work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(ii) Land held for resale

Land held for resale is land identified as surplus to requirements. This land is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and any development costs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) EMPLOYEE BENEFITS

Provisions are made for employee benefits accumulated as a result of employees rendering services up to the reporting date. The benefits include wages and salaries, annual leave, long service leave. Employee liabilities are classified as current where management do not have the unconditional right to defer settlement beyond 12 months. These are recorded on an undiscounted basis.

(i) Salaries and annual leave

The following liabilities arising in respect of employee benefits are measured at their nominal amounts:

- wages and salaries and annual leave provisions, regardless of whether they are expected to be settled within 12 months of balance date
- other employee benefits which are expected to be settled within 12 months of balance date

(ii) Long service leave

Non-current long service leave benefits are measured at the present value of the estimated future cash outflows in respect of services provided up to balance date. Liabilities are determined after taking into consideration estimated future increases in wages and salaries and past experience regarding staff departures. Related on-costs are included.

(iii) Share-based payments

Under AASB 2 *Share-based payment*, the fair value of Options granted to employees as remuneration is determined at grant date and recognised as an expense with a corresponding increase in equity over the vesting period. The fair value of Options is measured at grant date using the Black-Scholes Option pricing model, taking into account the terms and conditions attached to the Options.

Upon the exercise of Options, the balance of the share-based payments reserve relating to those Options is transferred to share capital.

(iv) Superannuation

Superannuation is paid to employees based on statutory rates or employment contracts where applicable. All staff are members of a defined contribution fund which receive fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

(Q) TRADE AND OTHER PAYABLES

These amounts an represent liabilities for goods and services provided to the consolidated entity prior to the end of the reporting period and which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition.

(R) RESIDENT LOANS

This represents an amount paid by residents for apartments and units classified as investment property. Resident loans are measured at face value, representing the principal amount plus the resident's share of capital gains based on market values of the underlying property at balance date, less deferred management fees.

Resident loans are non-interest bearing and are repayable out of the amounts paid by the incoming residents. Resident loans are classified as current liabilities because it is anticipated that an outgoing resident is repaid within 12 months, notwithstanding that history has shown that residents stay for an average period of 11 years in Independent Living Units (**ILUs**) and five years in serviced apartments.

(S) BORROWINGS

(i) Convertible and converting notes

The substance of the financial instrument, rather than its legal form, governs its classification on the balance sheet.

In determining the substance of a financial instrument, consideration is given to the following:

- contractual obligations, i.e. whether BBCL has the unconditional right to avoid delivering cash or another financial asset to settle the contractual obligation which tends to indicate an equity instrument
- if a variable or fixed number of securities are used to settle the obligation. Settlement based on a variable number of securities tends to indicate a financial liability
- whether the party is exposed to movements in the share price. Where BBCL is exposed to the movement in the share price this tends to indicate a financial liability
- any contingent settlement provisions

Notes to the Financial Statements

for the financial year ended 30 June 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Once a financial instrument has been classified as a financial liability, equity instrument or a combination, each component needs to be measured and recognised separately.

(T) BORROWINGS COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings, including amounts paid
- ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges

(U) HIRE PURCHASE AND FINANCE LEASE LIABILITIES

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases and/or hire purchase. Hire purchase and finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

(V) OPERATING LEASE

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement usually on a straight-line basis over the period of the lease.

(W) AGED CARE MANAGEMENT CONTRACTS

BBCL's obligation in relation to aged care facilities gives rise to the recognition of accommodation bond liabilities as BBCL has the obligation to repay residents the net value of accommodation bonds upon the resident leaving the facility during the management period. For leased facilities, a receivable is recognised where BBCL's obligation to repay residents outstanding bonds reverts to the facility owners at the expiration of the management contracts for no consideration in recognition that the facility owners received the "first time" accommodation bond monies.

At each balance date, the asset (aged care deferred receivable) is recalculated and the difference taken to the income statement. Due to renegotiation and termination of the underlying documents in relation to various facilities, there are now five facilities with an aged care deferred receivable balance.

(X) ONEROUS CONTRACTS

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract is less than the unavoidable cost of meeting the obligations under that contract, and only after any impairment losses to assets dedicated to that contract have been recognised.

The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to those risks of the activities relating to the contract.

(Y) ACCOMMODATION BONDS

Accommodation bonds are recognised at an amount equal to the proceeds received and classified as a current liability as they are repayable on demand. History has shown the residents stay for an average period of four years.

(Z) EARNINGS PER SECURITY

(i) Basic earnings per security

Basic earnings per security is calculated by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary securities, by the weighted average number of ordinary securities outstanding during the year, adjusted for bonus elements in ordinary securities issued during the year.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per security to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary securities and the weighted average number of securities assumed to have been issued for no consideration in relation to dilutive potential ordinary securities.

(AA) ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

(AB) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, securities issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the date of acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill.

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is recognised directly in the income statement but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(AC) DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not currently designate derivatives as hedges for accounting purposes.

Derivatives that are not designated for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in finance cost.

(AD) PRESENTATION OF COMPARATIVES

The presentation or classification of comparative items in the financial report may have been amended to ensure comparability with the current reporting period.

(AE) CONTRIBUTED EQUITY

Ordinary securities are classified as equity. Incremental costs directly attributable to the issue of new securities or Options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Financial Statements

for the financial year ended 30 June 2008

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(AF) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The following standards, amendments to standards and interpretations have been identified as those which may impact the Group in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report.

- AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* are applicable to annual reporting periods beginning on or after 1 January 2009. Application of these standards will not affect any of the amounts recognised in the financial report, but may impact the type of information disclosed in relation to the Group's segment reporting
- Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards Arising from AASB 123*, including AASB 1, AASB101, AASB 107, AASB 111, AASB 116 and AASB 138 and Interpretations 1 and 12. The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The total impact of this change, where it to have been adopted, is a reduction in finance cost of $7.6 million for the year
- Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards Arising from AASB 101*. A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose this in a statement of financial position at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009

The Group has no plans to adopt the accounting policy options with effect from 1 July 2008. Other than AASB 123, application of these amending standards will not affect any of the amounts recognised in the financial statements and is expected to only impact disclosures contained in the Financial Report.

2. CHANGE IN ACCOUNTING POLICY

Until June 2007, interest cost was capitalised for development projects forming part of the development cost. The decision was made that all interest is to be expensed. The revised accounting policy mirrors the organisation's shift to a corporate debt facility that replaced project specific debt facilities (refer Note 24). The change in accounting policy is consistent with the disclosure in the Product Disclosure Statement dated 15 June 2007. This change in accounting policy has had the following financial impact: finance costs increase of $7.6 million and reduction in property, plant and equipment of $7.6 million. The Group has determined that retrospective application of this change in accounting policy is not practical due to the accumulation of capitalised borrowing costs into assets over several years. Basic and diluted earnings per security for the year have also been restated. The amount of the correction for both was a decrease of 1.24 cents per security.

Apart from this change, the accounting policies adopted are consistent with those of the previous financial year.

3. FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, equity price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. BBCG receives a DMF which is essentially a financial asset that is exposed to property market risk specifically. The Group uses derivative financial instruments such as interest rate swaps and options to hedge certain risk exposure. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and ageing analysis for credit risk.

The Board approves written principles for overall risk management, as well as written policies covering specific areas such as mitigating interest rate risks under the current BBCG Hedging Policy.

There have been no significant changes in the type of financial risks (including methods to measure the risks) since the prior year.

(A) MARKET RISK

Market risk refers to the potential for changes in the market value of the Group's financial instruments. There are various types of market risks including exposures associated with interest rates, equity market prices, currency rates and the general market values of asset classes in which the Group invests or which it manages.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Foreign exchange risk

BBCG has a policy of assessing foreign exchange risk. Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis.

Foreign exchange risk arising from assets denominated in a foreign currency is mitigated by debt raised in the same currency.

Foreign currency sensitivity analysis

As at 30 June 2008, the Group did not hold any derivative financial instruments domiciled in a foreign currency. The Group has an exposure to the New Zealand Dollar (**NZD**), for a number of controlled entities (refer Note 35). On consolidation exchange differences arising from the investment in the New Zealand entities are taken to shareholders equity. If the NZD to AUD exchange rate had been 10% higher/lower the Group's equity would have been $1,164,578 higher/$1,164,578 lower.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed on an historic basis and market expectations for future movement.

(ii) Equity price risk

The Group is exposed to equity securities price risk. Exposure to equity price risk comes from investments held by the Group and classified on the balance sheet either as available-for-sale or at fair value through profit or loss. The Group does not actively hedge its exposure to the risk of a general decline in equity market values, believing that such strategies are not cost effective. Instead, the Group prefers to actively manage the underlying business or asset to ensure that its fundamental value is preserved.

Equity price sensitivity analysis

As at 30 June 2008, the Group did not hold any financial assets impacted by equity price risk. As at 30 June 2007, the Group was exposed to equity price changes through their investment in AIT. AIT has an investment in Aevum Limited which is listed on the ASX. If the stock had been 20% higher/lower the Group's post-tax profit for the year would have been $1,473,000 lower/$8,898,000 higher. Equity would have been $1,473,000 lower/$8,898,000 higher.

A sensitivity of 20% has been selected as this is considered reasonable given the current level of equity values and the volatility observed on a historic basis and market expectations for future movement (no sensitivity for Parent Entity).

(iii) Cash flow interest rate risk (refer Borrowings Note 24)

The Group currently has domestic debt totalling $593 million. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between the fixed contract rates and the floating-rate interest amounts calculated by reference to the agreed notional principal amounts. The Group policy is to fix rates between 50% to 80% of its borrowings at that date. The policy has been complied with as at 30 June 2008, with rates fixed for 62% of total borrowings. The borrowings are held at a Group level making any Parent Entity disclosure nil.

The Group has a Board approved treasury policy which sets out the parameters for hedging against adverse movements in interest rates. The hedging activity is monitored on a regular basis in reports to the Board.

Interest rate sensitivity analysis

Based on the financial instruments held at balance date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year would have been $1,702,000 lower/$1,578,000 higher (2007: $648,000 lower/$648,000 higher) arising mainly from the increased/decreased interest costs from the Group's borrowings which are exposed to interest rate changes.

The Parent Entity's post-tax profit for the year would have been $1,547,000 higher/$1,423,000 lower (2007: $63,000 higher/$63,000 lower) had interest rates been 100 basis points higher/lower and all other variables were held constant arising mainly from the increased/decreased interest costs from the Group's borrowings which are exposed to interest rate changes.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

A sensitivity of 100 basis points has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

It should be noted that the results reflect the net impact on a hedged basis. If interest rates were 100 basis points higher, finance costs would be impacted by the interest expense on the floating-rate positions. Profit is unaffected by the interest expense on the hedged position. Whilst the Group uses interest rate swaps as economic hedges, it does not apply hedge accounting. So all fair value movements in the value of derivatives are made through the income statement.

(iv) Property market risk

As discussed in detail at Note 4, the Group recognises DMF income on a progressive annual basis over the average length of stay of all residents at the retirement villages. The difference in the cash received and the DMF receivable on the re-licence of a unit or apartment are taken to the income statement. The DMF calculation is a product of the underlying property valuation at each village, specifically the discount rate used in the discounted cash flow (**DCF**) valuation as well as property growth rates.

Property market sensitivity analysis

As at 30 June 2008, the Group has recognised a DMF financial asset of $70.8 million (2007: $69.4 million). Nil impact for Parent Entity.

A sensitivity of 10% has been selected, as this is considered reasonable given the current property market volatility observed on an historic basis and market expectations for future movement.

The Consolidated DMF values would have increased/decreased $399,000 (2007: $166,000) if the property market capital growth rate had been 10% higher/lower than those that were actually experienced during the financial year.

(B) CREDIT RISKS

Credit risk refers to the loss that the Group would incur if a debtor or other counterparty fails to perform under its contractual obligations.

The carrying amounts of financial assets recognised in the balance sheet best represents the Group's and Company's maximum exposure to credit risk at reporting date. BBCG seeks to limit its exposure to credit risk as follows:

- The Group's trade debtors are generated by a large number of customers, both private individuals and companies in various industries, mainly in Australia and New Zealand. There is no significant concentration of credit risk. Exposure to credit loss is actively monitored on a regular basis. Appropriate due diligence is carried out on counterparties before entering into arrangements with them and credit risk in trade debtors is managed through setting normal payment terms of 30 days and through continual risk assessment of customers with material balances. At 30 June 2008, the provision for impairment against trade debtors is $3.9 million. Other than the provision for doubtful debts in trade debtors, no other financial assets are impaired at year end.
- The Group's dealings in derivatives are restricted to highly rated financial institutions. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history or through the receipt of monies in advance. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(C) LIQUIDITY RISK

Liquidity risk is the risk that the Group will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by keeping committed credit lines available.

Maturities of financial liabilities

The detail of the Company's and the Group's remaining contractual maturity for its financial liabilities, on an undiscounted basis, can be found at Note 24(E).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of borrowings at the investment level as listed in Note 24, and equity comprising issued capital, reserves and retained earnings as listed in Notes 27 and 28. The quantitative analysis of each of these categories of capital is provided in their respective notes to the accounts.

The Board of Directors review the capital structure, and as part of this review, consider the cost of capital and the risks associated with each class of capital. The Group monitors the capital on a quarterly basis using the financial covenants guidelines provided by the financiers (e.g. leverage ratio, interest cover ratio and liabilities to assets ratio). The Group's overall strategy of maximising the value of the BBCG securities for Securityholders, while ensuring debt obligations are met within its investment, remains unchanged from 2007.

(E) NET FAIR VALUES

All financial assets and liabilities have been recognised at the balance date at their carrying values which are not materially different from their fair values. The following methods are used to determine the net fair values of financial assets and liabilities:

Cash and cash equivalents

The carrying amount, which is equivalent to their nominal amount, represents fair value because of their short-term to maturity.

Trade and other receivables, accounts payable and accrued liabilities

The carrying amount represents fair value due to their short term to maturity.

Non-current investments and securities

For investments traded in organised financial markets, fair value is the current market bid price for the investment.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of derivative equity contracts is determined based on the current market bid price. The fair value of derivative foreign exchange Options is determined based on the rates at balance date and movements in the forward exchange rate.

4. CRITICAL ACCOUNTING ESTIMATES

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

(A) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Calculation of DMFs

The DMFs have been calculated using the following assumptions:

- an 11 year average length of stay for Independent Living Units and a five year average length of stay for Serviced Apartments
- an average 5% per annum average property growth rate over the average length of stay
- an 8% discount rate based on an estimated prevailing interest rate that would be applied if third party debt was secured on DMF cash flows

The DMF receivable is then calculated by reference to current tenure of each resident. DMF income is recognised on a progressive annual basis over the average length of stay. Differences in cash received and the DMF receivable on re-licence of a unit or apartment are taken to the income statement.

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4. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(ii) Calculation of aged care deferred receivable

BBCL's obligation under long-term management contracts in relation to aged care facilities gives rise to the recognition of accommodation bond liabilities as BBCL has the obligation to repay residents the net value of accommodation bonds upon the resident leaving the facility during the management period. There are six facilities where BBCL's obligation to repay residents outstanding bonds revert to the facility owners at the expiration of the management contracts for no consideration in recognition that the facility owners received the "first time" accommodation bond monies.

This asset is calculated by estimating the accommodation bond liability at the end of the management contract and discounting to present value. In calculating this asset, the following assumptions were used:

- a 5% annual growth rate in the average accommodation bond at each facility
- a 10% discount rate based on BBCL's weighted average cost of capital

At each balance date, the asset (aged care deferred receivable) is recalculated and the difference taken to the income statement.

(iii) First-time revaluations

First time transfers to residents attract an internal valuation increment of 15% of the resident loan. This will reflect the net present value (**NPV**) of expected future cash flows to be derived from that unit calculated on the assumption that a resident will have an average stay of 11 years with property growth at 4.5%, an annual DMF entitlement of 3% and a discount rate of 12.1%. Modelling suggests that the NPV of future cash flows, when expressed as a percentage of the initial transfer price, is 18.5%. BBCL has therefore decided to recognise the gain progressively, in anticipation of the external valuation, at a rate of 15%. Gains from first-time revaluations are part of deferred management fee revenue.

(B) CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

(i) Recognition of tax losses

Tax losses are recognised as tax assets where it is deemed probable that they will be recovered in future periods. At 30 June 2008, the Group had recognised assets in respect of tax losses amounting to $68,788,000, and net unrecognised tax losses of $42,666,000.

Should future taxable income not be sufficient to utilise the recognised tax losses, some or all of these may need to be written off in future periods.

5. REVENUE

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
REVENUE				
Sales revenue				
Development revenue	7,364	43,958	-	148
Deferred management fee revenue	71,166	27,000	13,885	10,324
Aged care revenue	78,350	29,352	4,171	3,811
Service fees	2,492	1,515	90	239
Management fees	5,950	7,786	-	3,748
Reimbursement of operating costs	13,740	-	-	-
Aged care deferred receivable	692	2,233	-	397
Renegotiation of management agreement	-	2,733	178	-
Other	8,067	2,546	632	246
	187,821	**117,123**	**18,956**	**18,913**
Other revenue				
Interest received on cash balances	4,201	1,350	1,975	673
Sub-lease rentals	682	527	26	23
	4,883	**1,877**	**2,001**	**696**
Total revenue	**192,704**	**119,000**	**20,957**	**19,609**

CONSTRUCTION CONTRACT REVENUE

Consolidated development revenue includes nil (2007: $13,958,000) from construction contracts (nil for the Parent Entity).

6. OTHER INCOME

		Consolidated		Parent Entity	
	Notes	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Fair value adjustment to investment property	15	**70,889**	**6,056**	**12,393**	**1,271**

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for the financial year ended 30 June 2008

7. EXPENSES

Profit before income tax includes the following specific expenses:

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Depreciation				
Plant and equipment	3,126	520	1,864	252
Buildings	1,867	498	103	31
Plant and equipment under hire purchase and lease	309	446	309	445
Leasehold	24	-	24	-
Total depreciation	**5,326**	**1,464**	**2,300**	**728**
Amortisation				
Patents and trademarks	-	10	-	10
Bed licences	213	388	213	388
Formation costs	-	205	-	-
Management contracts	2,528	-	1,000	-
Total amortisation	**2,741**	**603**	**1,213**	**398**
Finance costs				
Interest paid/payable on borrowings	41,668	17,400	36,071	12,583
Fair value movement of interest rate swaps	3,466	-	3,466	-
	45,134	**17,400**	**39,537**	**12,583**
Amount capitalised	-	(4,382)	-	(2,722)
Finance costs expensed	**45,134**	**13,018**	**39,537**	**9,861**

8. INCOME TAX EXPENSE

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
(A) INCOME TAX EXPENSE/(BENEFIT)				
Current tax	(13,863)	(23,539)	(16,522)	(12,357)
Deferred tax	28,711	18,933	3,393	728
	14,848	**(4,606)**	**(13,129)**	**(11,629)**
Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises:				
Decrease/(increase) in deferred tax assets (Note 21)	1,949	912	(3,411)	(4,284)
(Decrease)/increase in deferred tax liabilities (Note 26)	26,762	18,021	6,804	5,012
	28,711	**18,933**	**3,393**	**728**
(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE				
Profit/(loss) from continuing operations before income tax expense	55,921	(2,005)	(49,295)	(23,157)
Tax at the Australian tax rate of 30% (2007: 30%)	16,776	(602)	(14,789)	(6,947)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Depreciation and amortisation	360	181	64	120
Impairment of management rights and related assets	1,800	–	1,800	–
Dividends on converting notes	–	541	–	541
Accommodation bond liabilities	–	(1,043)	–	–
Non-taxable income	(3,506)	–	–	–
Accommodation bond asset	(154)	–	–	–
Legal fees	12	20	–	6
Sale of non-current assets	–	(492)	–	(375)
Deferred tax balances de-recognised	(916)	–	(907)	–
Employee share Options	127	334	127	334
Other non-temporary differences	164	(673)	20	(283)
	14,663	**(1,734)**	**(13,685)**	**(6,604)**
Movement in deferred tax balance not recognised	–	(664)	–	–
Under/(over) provided in prior years	185	(2,208)	556	(5,025)
Income tax expense/(benefit) for the year	**14,848**	**(4,606)**	**(13,129)**	**(11,629)**
(C) TAX LOSSES				
Tax losses for which a deferred tax asset has been recognised (gross)	229,294	188,012	229,294	188,012
Potential tax benefit from unused tax losses for which no deferred tax asset has been recognised (gross)	142,219	142,219	142,219	142,219

8. INCOME TAX EXPENSE (CONTINUED)

(D) TAX CONSOLIDATION LEGISLATION

BBCL and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in Note 1(E).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors is a valid tax sharing agreement, and thereby limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Babcock & Brown Communities Limited.

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

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

9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Cash at bank and on hand	18,474	17,168	11,643	13,919
Deposits at call	–	39	–	39
Cash held in trust – refer below	917	702	1	–
	19,391	**17,909**	**11,644**	**13,958**

(A) INTEREST RATE RISK

Cash and cash equivalents are subject to interest rate risk as they earn interest at variable rates (refer Note 3(A)).

(B) RECONCILIATION TO CASH AT THE END OF THE YEAR

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

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balances above	19,391	17,909	11,644	13,958
Less: Cash held in Trust	(917)	(702)	(1)	–
Balance as per cash flow statements	**18,474**	**17,207**	**11,643**	**13,958**

(C) CASH AT BANK AND ON HAND

Cash and cash equivalents include variable interest rate bearing deposits held with financial institutions. In 2008, the average variable interest rates were between 1.25% and 4.25% (2007: between 1.25% and 4.25%).

(D) DEPOSITS AT CALL

The majority of deposits are held mainly in a cash management account, which earns interest between 6.25% and 7.22% (2007: between 5.55% and 6.13%).

(E) CASH HELD IN TRUST

These funds are held to fund repairs and upgrades for senior living facilities owned by third parties. These funds are held as variable interest rate bearing deposits held with financial institutions. These amounts are not considered as available cash of the Consolidated Group.

10. CURRENT ASSETS – RECEIVABLES

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trade receivables	14,078	8,018	1,268	3,989
Provision for impairment of receivables	(3,920)	(3,447)	(1,120)	(1,340)
	10,158	**4,571**	**148**	**2,649**
Wholly-owned group (Note 24(F))	–	–	817,355	82,867
Settlement funds receivables/sundry debtors	40,945	26,775	6,748	4,750
Bond retentions accrued	1,817	616	104	99
Total current receivables	**52,920**	**31,962**	**824,355**	**90,365**

Details of the terms and conditions of related party receivables are set out in Note 34.

(A) AGEING AND IMPAIRMENT LOSSES

The ageing of receivables for the consolidated entity at the reporting date was:

Consolidated	Gross 2008 $'000	Impairment 2008 $'000	Gross 2007 $'000	Impairment 2007 $'000
Not past due	44,838	–	32,986	–
Past due and not impaired	12,002	–	2,423	–
Impaired	–	(3,920)	–	(3,447)
	56,840	**(3,920)**	**35,409**	**(3,447)**

The movement in the allowance for impairment of trade receivables during the year is as follows:

Consolidated	2008 $'000	2007 $'000
Balance at 1 July	3,447	2,677
Impairment provision recognised during the year	658	1,823
Bad debts written off	(185)	(1,053)
Closing balance at 30 June	**3,920**	**3,447**

The allowance account for receivables is used to record impairment losses unless BBCG is satisfied there is no recovery of the amount possible, at which point it is written off. There has been $658,000 recorded for impairment for the Consolidated Entity (2007: $1,823,000).

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10. CURRENT ASSETS - RECEIVABLES (CONTINUED)

The aging of receivables for the Parent Entity at the reporting date was:

Parent Entity	Gross 2008 $'000	Impairment 2008 $'000	Gross 2007 $'000	Impairment 2007 $'000
Not past due	822,608	-	90,893	-
Past due and not impaired	2,867	-	812	-
Impaired	-	(1,120)	-	(1,340)
	825,475	**(1,120)**	**91,705**	**(1,340)**

The movement in the allowance for impairment of trade receivables during the year is as follows:

Parent Entity	2008 $'000	2007 $'000
Balance at 1 July	1,340	1,621
Impairment provision recognised during the year	-	-
Bad debts written off	(220)	(281)
Closing balance at 30 June	**1,120**	**1,340**

The allowance account for receivables is used to record impairment losses unless BBCG is satisfied there is no recovery of the amount possible, at which point it is written off. There has been $220,000 recorded for impairment for the Parent Entity.

(B) OTHER RECEIVABLES

These amounts generally arise from settlement funds (accommodation bonds) receivable. Interest is charged on unpaid bond amounts, at a fixed statutory rate determined by the Department of Health and Ageing at the date of entry to the accommodation. In 2008, this rate was 11.69% (2007: 9.61%). Interest is calculated on a daily basis and recognised as revenue monthly.

Other receivables also comprise of related party transactions which are non-interest bearing.

(C) EFFECTIVE INTEREST RATES AND CREDIT RISK

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (Note 11).

11. NON-CURRENT ASSETS - RECEIVABLES

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Other receivables	446	-	-	-
Total non-current receivables	**446**	**-**	**-**	**-**

(A) FAIR VALUES
The carrying values of non-current receivables approximate their fair values.

(B) CREDIT RISK
There is no concentration of credit risk with respect to current and non-current receivables, as the Group has a large number of customers. Refer to Note 3(B) for more information on the risk management policy of the Group.

12. CURRENT ASSETS - INVENTORIES

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Work in progress	1,701	40,681	749	1,738
Land held for resale	18,341	4,035	4,756	-
Finished goods	9,071	2,920	-	7
Total inventory	**29,113**	**47,636**	**5,505**	**1,745**

13. CURRENT ASSETS - OTHER

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Prepayments	1,421	1,485	3,853	1,197

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Shares in associates and joint ventures	18,551	18,420	-	-

SHARES IN ASSOCIATES AND JOINT VENTURES
Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Parent Entity (refer to Note 17).

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Notes to the Financial Statements

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15. NON-CURRENT ASSETS - INVESTMENT PROPERTY

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Opening balance at 1 July	192,945	95,297	163,296	91,311
Acquisitions	1,440,932	66,843	-	55,329
Capital expenditure	11,781	-	916	-
Transfer from property, plant and equipment (Note 18)	52,303	19,167	21,376	10,317
Incremental increase in resident's share of capital gain	25,216	2,291	3,806	1,823
Incremental increase in owner's share of capital gain	26,520	279	6,616	110
Revaluation amounts on first-time leases	10,788	3,012	4,552	3,135
Net gain from fair value adjustment (Note 6)	70,889	6,056	12,393	1,271
Foreign exchange movements	(44,506)	-	-	-
Closing balance at 30 June	**1,786,868**	**192,945**	**212,955**	**163,296**

(A) AMOUNTS RECOGNISED IN PROFIT AND LOSS FOR INVESTMENT PROPERTY

Refer to Note 6 for details of amounts recognised in profit and loss for Investment Property.

(B) VALUATION BASIS

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar contractual arrangements. The 30 June 2008 valuations were based both on Directors' valuations, taking into account current market effects, as well as an independent assessment made by a member of the Australian Property Institute.

The Group's policy is to ensure that independent valuations of investment properties are performed at least every three years on a rolling basis. In the 12 months ended 30 June 2008, 95% of the portfolio was independently valued.

(C) NON-CURRENT ASSETS PLEDGED AS SECURITY

Until refinancing of the multiple debt arrangements into the Multi-Option Facility (**MOF**) as at 18 December 2007, investment properties were pledged as security by the Parent Entity or its controlled entities. Following the establishment of the MOF, properties were not pledged as security. Instead the Group was subject to negative pledge arrangements.

16. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Shares in subsidiaries (Note 35)	-	-	70,425	4,332
Shares in associates and joint ventures (Note 17)	-	-	1,909	1,897
Aged care deferred receivable	11,770	11,256	-	-
	11,770	**11,256**	**72,334**	**6,149**

17. NON-CURRENT ASSETS – INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Parent Entity. Information relating to the associates is set out below:

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(A) CARRYING AMOUNTS				
Brighton Bay Developments Pty Ltd	7,423	1,817	1,909	1,817
McKinnon Road Developments Pty Ltd	6,018	5,402	–	–
Koorootang Court Annexe Pty Ltd	5,110	1,659	–	–
PrimeLiving Trust	–	7,067	–	–
AIT Investment Trust	–	2,475	–	–
	18,551	**18,420**	**1,909**	**1,817**

		Ownership interest	
	Principal activity	2008 %	2007 %
Brighton Bay Developments Pty Ltd[1]	Retirement Village Developer	50	50
Madden Grove Developments Pty Ltd[1]	Retirement Village Developer	50	50
Studley Park Developments Pty Ltd[1]	Retirement Village Developer	50	50
Menzies Project Pty Ltd	Dormant	50	50
Trivia Trek Pty Ltd	Dormant	50	50
Confalo Enterprises Pty Ltd	Dormant	50	50
McKinnon Road Developments Pty Ltd[1]	Retirement Village Developer	51	51
Koorootang Court Annexe Pty Ltd[1]	Retirement Village Developer	50	50
PrimeLiving Trust[2]	Retirement Village Owner	–	25
AIT Investment Trust[2]	Investment Trust	–	25

1 Joint venturer.
2 Associate.

Each of the above associates is incorporated in Australia.

The proportion of ownership is equivalent to the proportion of voting power held, except for McKinnon Road Developments Pty Ltd, where all decisions in this entity must be voted on unanimously by all parties and therefore it is determined that this entity be accounted for as a joint venture.

PrimeLiving Trust was wholly acquired by BBCL on 30 July 2007. Refer to Note 41 for further details.

AIT Investment Trust was disposed by BBCL on 30 June 2008.

	Consolidated	
	2008 $'000	2007 $'000
(B) MOVEMENTS IN CARRYING AMOUNTS OF INVESTMENTS		
Carrying amount at the beginning of the financial year	18,420	11,787
Share of profits/(losses) after income tax	9,058	1,060
Capital contributions	615	800
Available-for-sale financial asset reserve	–	4,067
Foreign currency translation reserve	–	542
Sale of associate	(2,475)	–
Associate wholly acquired during the year	(7,067)	164
Carrying amount at the end of the financial year	**18,551**	**18,420**

17. NON-CURRENT ASSETS - INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

	Consolidated 2008 $'000	Consolidated 2007 $'000
(C) SHARE OF ASSOCIATES' PROFITS OR LOSSES		
Profit/(loss) from ordinary activities before income tax	9,058	1,060
Income tax expense	-	-
Net profit/(loss) after income tax	**9,058**	**1,060**

(D) SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES

The aggregate profits, revenues, assets and liabilities of associates are:

	Assets		Liabilities		Revenue		Profit	
	2008	2007	2008	2007	2008	2007	2008	2007
Brighton Bay Developments Pty Ltd	33,582	21,524	18,738	17,601	12,523	3	9,980	(2,209)
Madden Grove Development Pty Ltd	-	-	-	-	-	-	-	(3,360)
McKinnon Road Developments Pty Ltd	20,825	21,385	9,024	10,792	5,040	4,292	1,207	4,495
PrimeLiving Trust	-	950,732	-	922,465	-	58,762	-	5,946
Koorootang Court Annexe Pty Ltd	52,959	23,429	42,739	20,111	7,555	4,214	6,905	3,314
AIT Investment Trust	-	63,558	-	53,656	-	14,144	-	9,901
Total	**107,366**	**1,080,628**	**70,501**	**1,024,625**	**25,118**	**81,385**	**18,092**	**18,087**

(E) CONTINGENT LIABILITIES OF ASSOCIATES AND JOINT VENTURES

There are no material contingent liabilities in respect of associates and joint ventures at 30 June 2008 (2007: nil).

(F) COMMITMENTS

There are no material commitments in respect of associates and joint ventures at 30 June 2008 (2007: nil).

18. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Land and buildings at cost	172,684	52,245	10,200	10,200
Less: Accumulated depreciation	(2,366)	(498)	(134)	(28)
Net book amount	**170,318**	**51,747**	**10,066**	**10,172**
Assets under construction	**194,710**	**88,528**	**64,280**	**74,008**
Plant and equipment at cost	38,046	12,427	17,087	8,585
Less: Accumulated depreciation	(9,999)	(5,150)	(5,225)	(3,180)
Net book amount	**28,047**	**7,277**	**11,862**	**5,405**
Leasehold improvements	2,423	-	2,423	-
Less: Accumulated depreciation	(24)	-	(24)	-
Net book amount	**2,399**	**-**	**2,399**	**-**
Plant and equipment under lease and hire purchase	5,095	5,192	4,924	5,192
Less: Accumulated depreciation	(4,042)	(4,586)	(3,871)	(4,586)
Net book amount	**1,053**	**606**	**1,053**	**606**
Total property, plant and equipment	**396,527**	**148,158**	**89,660**	**90,191**

(A) RECONCILIATIONS

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

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(i) Land and buildings				
Opening net book amount	51,747	20,572	10,172	-
Acquisitions	83,497	44,584	-	10,203
Additions	83	-	-	-
Transfers from inventory	36,859	(8,481)	-	-
Transfers to/from investment property	-	(4,430)	-	-
Depreciation charge	(1,868)	(498)	(106)	(31)
Carrying amount at end of financial year	**170,318**	**51,747**	**10,066**	**10,172**
(ii) Assets under construction				
Opening net book amount	88,528	61,379	74,008	56,585
Acquisitions	97,814	-	-	-
Additions	69,660	41,888	11,654	27,740
Transfers to investment property	(52,303)	(14,739)	(21,382)	(10,317)
Transfers to inventory	(8,989)	-	-	-
Depreciation charge	-	-	-	-
Carrying amount at end of financial year	**194,710**	**88,528**	**64,280**	**74,008**

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18. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
(iii) Plant and equipment - at cost				
Opening net book amount	7,277	2,877	5,405	1,003
Acquisitions	14,212	-	-	-
Additions	9,768	5,033	8,318	4,754
Disposals	(87)	(113)	-	(101)
Depreciation charge	(3,123)	(520)	(1,861)	(251)
Carrying amount at end of financial year	**28,047**	**7,277**	**11,862**	**5,405**
(iv) Leasehold improvements				
Opening net book amount	-	-	-	-
Acquisitions	-	-	-	-
Additions	2,423	-	2,423	-
Disposals	-	-	-	-
Transfers	-	-	-	-
Depreciation charge	(24)	-	(24)	-
Carrying amount at end of financial year	**2,399**	**-**	**2,399**	**-**
(v) Plant and equipment under lease and hire purchase				
Opening net book amount	606	858	606	858
Acquisitions	-	-	-	
Additions	756	194	756	194
Disposals	-	-	-	-
Transfers	-	-	-	-
Depreciation charge	(309)	(446)	(309)	(446)
Carrying amount at end of financial year	**1,053**	**606**	**1,053**	**606**
Total property, plant and equipment				
Opening net book amount	148,158	85,686	90,191	58,446
Additions	82,690	47,115	23,150	32,688
Acquisitions	195,523	44,584	-	10,203
Disposals	(87)	(113)	-	(101)
Transfers	(24,433)	(27,650)	(21,382)	(10,317)
Depreciation charge	(5,324)	(1,464)	(2,299)	(728)
Carrying amount at end of financial year	**396,527**	**148,158**	**89,660**	**90,191**

(B) NON-CURRENT ASSETS PLEDGED AS SECURITY

Refer to Note 24(A) for information on non-current assets pledged as security by the Parent Entity and its controlled entities.

19. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Goodwill	111,098	–	–	–
Less: Accumulated amortisation and impairment	–	–	–	–
	111,098	**–**	**–**	**–**
Approved provider Aged Care places (bed licences)	62,130	6,224	5,179	5,178
Less: Accumulated amortisation and impairment	(2,431)	(2,218)	(1,852)	(1,639)
	59,699	**4,006**	**3,327**	**3,539**
Management contracts	70,219	–	5,000	–
Less: Accumulated amortisation and impairment	(2,536)	–	(1,000)	–
	67,683	**–**	**4,000**	**–**
The Beaumont profit share	–	6,500	–	6,500
Less: Accumulated amortisation and impairment	–	(2,137)	–	(2,137)
	–	**4,363**	**–**	**4,363**
Other	2	4	–	–
	238,482	**8,373**	**7,327**	**7,902**

Consolidated	Goodwill $'000	Management contracts $'000	Approved provider aged care places (bed licences) $'000	The Beaumont profit share $'000	Other $'000	Total $'000
Year ended 30 June 2008						
Opening net book amount	–	–	4,006	4,363	4	8,373
Additions	111,098	70,219	55,906	–	–	237,223
Disposals	–	–	–	–	–	–
Impairment charge	–	–	–	(4,363)	–	(4,363)
Amortisation charge	–	(2,536)	(213)	–	(2)	(2,751)
Closing net book amount	**111,098**	**67,683**	**59,699**	**–**	**2**	**238,482**

Consolidated	Goodwill $'000	Management contracts $'000	Approved provider aged care places (bed licences) $'000	The Beaumont profit share $'000	Other $'000	Total $'000
Year ended 30 June 2007						
Opening net book amount	–	–	4,394	4,363	368	9,125
Additions	–	–	–	–	1	1
Disposals	–	–	–	–	(150)	(150)
Impairment charge	–	–	–	–	–	–
Amortisation charge	–	–	(388)	–	(215)	(603)
Closing net book amount	**–**	**–**	**4,006**	**4,363**	**4**	**8,373**

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19. NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

Impairment tests for goodwill and intangible assets with indefinite useful lives

Goodwill and intangible assets with indefinite useful lives are allocated to cash-generating units (**CGUs**) based on the specific assets or group of assets to which they relate. A segment summary of the allocation of goodwill and indefinite life intangible assets is presented below. The only intangible assets with indefinite useful lives are the owned bed licences. There was no goodwill or indefinite life intangible assets recognised in 2007.

Segment/CGU	Goodwill $'000	Bed licences $'000
Retirement living	74,810	–
Aged care	36,288	55,906
Total	**111,098**	**55,906**

During the year ended 30 June 2008, the Group determined that there is no impairment of any of its cash-generating units or group of cash-generating units containing goodwill or intangible assets with indefinite useful lives. The recoverable amounts (i.e. higher of value in use and fair value less costs to sell) of those units and group of units are determined on the basis of fair value less costs to sell calculations.

Key assumptions used for fair value less cost to sell value in use calculations

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

Key assumptions for determination of fair value less cost to sell	Managements approach to determining the values assigned to each key assumption
Retirement Living – Goodwill • Average length of stay (years) • Capital growth rate of units (%) • Pre-tax discount rate (%)	• Average length of stay is determined based on historical evidence of each individual village or for new villages is based on averages for similar villages. • Forecast capital growth for individual retirement villages is based on recent independent valuations. • Discount rate calculated based on independent valuations at year end.
Aged Care – Goodwill • Accommodation bonds	• Actual value of accommodation bonds relating to acquired aged care facilities.
Aged Care – Bed Licences • Average price per bed licence	• Average price per bed licence determined based on recent independent valuations based on recent transactions of similar bed licences.

Impact of possible change in key assumptions

The carrying value of goodwill is sensitive to changes in discount rate assumptions applied to the retirement village portfolio. If there was an increase in the portfolio discount rate of 0.8%, the recoverable amount of goodwill would decrease by approximately $20 million to equal to its carrying value.

Impairment of Beaumont profit share agreement

At 30 June 2007, an amortising intangible asset of $4.4 million was recognised in relation to the Beaumont profit share agreement as part of the Retirement Living CGU. During the current financial year, the agreement was terminated. As a result, there was an impairment charge to write-down this asset to nil value at 30 June 2008.

20. NON-CURRENT ASSETS - OTHER

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
Prepayments	-	-	12,258	-

21. NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent Entity 2008 $'000	Parent Entity 2007 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Doubtful debts	1,176	1,040	336	402
Employee benefits	2,818	1,306	392	335
Accrued expenses	1,228	774	644	703
Other	7,784	2,555	6,443	491
Tax losses	68,788	56,404	68,788	56,404
	81,794	**62,079**	**76,603**	**58,335**

Consolidated

Movements	Tax losses $'000	Doubtful debts $'000	Employee benefits $'000	Accrued expenses $'000	Other $'000	Total 2008 Consolidated $'000	Total 2007 Consolidated $'000
Opening balance at 1 July	56,404	1,040	1,306	774	2,555	62,079	39,452
Credited/(charged) to the income statement (Note 8)	(1,479)	(19)	(198)	(96)	(157)	(1,949)	(912)
Other		155	1,710	550	286	2,701	
Charged/(credited) to equity					5,100	5,100	
Current year loss	13,863					13,863	23,539
Closing balance at 30 June	**68,788**	**1,176**	**2,818**	**1,228**	**7,784**	**81,794**	**62,079**
Deferred tax assets to be recovered after more than 12 months						77,941	58,244
Deferred tax assets to be recovered within 12 months						3,853	3,835
						81,794	**62,079**

21. NON-CURRENT ASSETS - DEFERRED TAX ASSETS (CONTINUED)

	Parent Entity						
Movements	Tax losses $'000	Doubtful debts $'000	Employee benefits $'000	Accrued expenses $'000	Other $'000	Total 2008 Parent Entity $'000	Total 2007 Parent Entity $'000
Opening balance at 1 July	56,404	402	335	703	491	58,335	37,549
Credited/(charged) to the income statement (Note 8)	2,627	(66)	57	(59)	852	3,411	4,284
Charged/(credited) to equity					5,100	5,100	
Current year loss	16,522					16,522	12,357
Losses of subsidiaries accounted through inter-company loans	(6,765)					(6,765)	4,145
Closing balance at 30 June	**68,788**	**336**	**392**	**644**	**6,443**	**76,603**	**58,335**
Deferred tax assets to be recovered after more than 12 months						75,982	56,988
Deferred tax assets to be recovered within 12 months						621	1,347
						76,603	**58,335**

The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Net deferred tax balances				
Balance as per deferred tax assets:				
(refer Note 21 above)	81,794	62,079	76,603	58,335
Less balance as per deferred tax liabilities:				
(refer Note 26)	(97,111)	(71,074)	(35,344)	(27,016)
Net deferred tax asset/(liability)	**(15,317)**	**(8,995)**	**41,259**	**31,319**

22. CURRENT LIABILITIES - RESIDENT LOANS

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Gross resident loans	1,288,817	159,095	173,891	142,789
Deferred Management Fees	(100,055)	(17,016)	(17,047)	(15,693)
	1,188,762	**142,079**	**156,844**	**127,096**

23. CURRENT LIABILITIES - PAYABLES

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Derivative financial liability	3,466	-	3,466	-
Trade creditors and accruals	56,423	16,289	18,890	13,910
Property settlements due	5,875	5,795	81	772
Tax related inter-company payable	-	-	9,004	35,000
Other	1	-	-	-
	65,765	**22,084**	**31,441**	**49,682**

24. CURRENT AND NON-CURRENT LIABILITIES - BORROWINGS

During the year the borrowings were refinanced from a project specific style of debt to provide a corporate facility called the Multi-Option Facility (**MOF**). The MOF includes four major banks being; National Australia Bank (**NAB**), the Commonwealth Bank of Australia (**CBA**), Australia & New Zealand Bank (**ANZ**) and ANZ National Bank in New Zealand. The facility limit is $600 million and was finalised on 18 December 2007.

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current - secured				
Hire purchase liability	399	242	399	242
Loans from banks and other corporations	-	41,229	-	29,361
Total secured current borrowings	**399**	**41,471**	**399**	**29,603**
Current - unsecured				
Convertible notes	-	49,997	-	49,997
Unsecured loans	33	-	248,172	-
Total unsecured current borrowings	**33**	**49,997**	**248,172**	**49,997**
Total current borrowings	**432**	**91,468**	**248,571**	**79,600**
Non-current - secured				
Loans from banks and other corporations net of unamortised borrowing costs	-	102,975	-	-
Hire purchase liability	604	247	604	247
Total secured non-current borrowings	**604**	**103,222**	**604**	**247**
Non-current - unsecured				
Loans from banks and other corporations	593,998	-	537,196	49,878
Deferred borrowing costs (net)	(3,304)	-	(2,991)	-
Total unsecured non-current borrowings	**590,694**	**-**	**534,205**	**49,878**
Total non-current borrowings	**591,298**	**103,222**	**534,809**	**50,125**

Further information relating to loans from related parties is set out in Note 34.

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24. CURRENT AND NON-CURRENT LIABILITIES – BORROWINGS (CONTINUED)

(A) ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
First mortgage, fixed and floating charge				
Freehold land and buildings	–	51,748	–	10,172
Assets under construction	–	88,528	–	74,008
Plant and equipment at cost	–	7,106	–	5,235
Hire purchase				
Plant and equipment under hire purchase lease	1,223	776	1,223	776
Total assets pledged as security	**1,223**	**148,158**	**1,223**	**90,191**

All borrowings under the MOF are secured by a Deed of Cross Guarantee under which each Company with the Group guarantee the debts of the others.

In addition, the MOF is secured by a negative pledge that imposes certain covenants on the Group. The negative pledge states that each borrower and each guarantor (obligor) will not provide any other security over its assets and ensure that various financial ratios are met.

(B) LEASE LIABILITIES AND HIRE PURCHASE LIABILITIES

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

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

(C) CONVERTIBLE NOTES

On 31 January 2008, the BBCGA notes were repaid for the face value of $1.00 plus accrued interest per note, to the value of $50 million.

(D) FINANCING ARRANGEMENTS

The Group has access to the following financing/loan facilities:

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total facilities available:				
Bank overdraft – credit standby arrangement	–	1,980	–	1,980
Loans from banks and other corporations	600,000	187,575	600,000	118,622
Loans other	–	–	–	–
	600,000	**189,555**	**600,000**	**120,602**
Facilities used at balance date:				
Bank overdraft – credit standby arrangement	–	–	–	–
Loans from banks and other corporations	593,998	144,204	537,196	79,239
Loans other	–	–	–	–
	593,998	**144,204**	**534,205**	**79,239**
Facilities unused at balance date:				
Bank overdraft – credit standby arrangement	–	1,980	–	1,980
Loans from banks and other corporations	6,002	43,371	62,804	39,383
Loans other	–	–	–	–
	6,002	**45,351**	**62,804**	**41,363**

24. CURRENT AND NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)

(E) MATURITIES AND INTEREST RATE EXPOSURES OF FINANCIAL LIABILITIES

2008 Consolidated	Notes	Contractual cash flows 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Non-interest bearing $'000	Total contractual cash flows $'000	Total carrying amount $'000
Financial liabilities									
Resident loans	22	–	–	–	–	–	1,188,762	1,188,762	1,188,762
Payables	23	–	–	–	–	–	65,765	65,765	65,765
Loans from banks and other corporations	24	51,471	51,471	446,769	17,357	215,045	–	782,113	593,998
Accommodation bond liability		–	–	–	–	–	105,560	105,560	105,560
Hire purchase liability	24	399	188	165	146	277	–	1,175	1,003
Total financial liabilities		**51,870**	**51,659**	**446,934**	**17,503**	**215,322**	**1,360,087**	**2,143,375**	**1,955,088**
Weighted average interest rate		9.62%	10.01%	8.63%	9.62%	8.78%	–	–	–

2007 Consolidated	Notes	Contractual cash flows 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Non-interest bearing $'000	Total contractual cash flows $'000	Total carrying amount $'000
Financial liabilities									
Resident loans	22	–	–	–	–	–	142,079	142,079	142,079
Payables	23	–	–	–	–	–	22,084	22,084	22,084
Convertible notes	24	52,914	–	–	–	–	–	52,914	49,997
Loans from banks and other corporations	24	53,084	44,502	15,624	10,395	54,214	–	177,819	144,204
Accommodation bond liability		–	–	–	–	–	63,210	63,210	60,702
Hire purchase liability	24	242	303	–	–	–	–	545	489
Total financial liabilities		**106,240**	**44,805**	**15,624**	**10,395**	**54,214**	**227,373**	**458,651**	**419,555**
Weighted average interest rate		9.20%	7.63%	7.90%	8.67%	7.86%	–	–	–

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24. CURRENT AND NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)

		Contractual cash flows							
2008 Parent Entity	Notes	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Non-interest bearing $'000	Total contractual cash flows $'000	Total carrying amount $'000
Financial liabilities									
Resident loans	22	-	-	-	-	-	156,844	156,844	156,844
Payables	23	-	-	-	-	-	53,329	53,329	53,329
Loans from banks and other corporations	24	51,170	405,375	15,714	15,714	195,714	-	683,687	537,196
Loans - other related parties	24	21,700	21,700	21,700	21,700	270,272	-	357,072	248,571
Accommodation bond liability		-	-	-	-	-	5,345	5,345	5,345
Hire purchase liability	24	399	188	165	146	277	-	1,175	1,003
Total financial liabilities		**73,269**	**427,263**	**37,579**	**37,560**	**466,263**	**215,518**	**1,257,452**	**1,002,288**
Weighted average interest rate		9.62%	10.01%	8.53%	9.62%	8.73%	-	-	-

		Contractual cash flows							
2007 Parent Entity	Notes	1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Non-interest bearing $'000	Total contractual cash flows $'000	Total carrying amount $'000
Financial liabilities									
Resident loans	22	-	-	-	-	-	127,096	127,096	127,096
Payables	23	-	-	-	-	-	49,682	49,682	49,682
Convertible notes	24	52,914	-	-	-	-	-	52,914	49,997
Loans from banks and other corporations	24	35,912	39,179	1,081	1,081	15,688	-	92,941	79,329
Accommodation bond liability		-	-	-	-	-	4,468	4,468	4,468
Hire purchase liability	24	242	303	-	-	-	-	545	489
Total financial liabilities		**89,068**	**39,482**	**1,081**	**1,081**	**15,688**	**181,246**	**327,646**	**311,061**
Weighted average interest rate		9.31%	7.74%	-	-	7.40%	-	-	-

(F) INTEREST RATE SWAPS

As at year end, the Group had the following interest rate swap contracts outstanding:

	30 June 2008			30 June 2007		
	Face value A$'000	Weighted average interest rate %	Weighted average maturity (years)	Face value A$'000	Weighted average interest rate %	Weighted average maturity (years)
Interest rate swap (notional amount)	371,165	6.02	6.14	71,165	5.84	1.38

24. CURRENT AND NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)

(G) FAIR VALUE

The carrying amounts approximate the net fair values of financial assets and liabilities at balance date.

(i) On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Group approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market price exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

(ii) Off-balance sheet

BBCL and its controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in Note 32. As explained in the note, no material losses are anticipated in respect of any of those contingencies and the net fair value reflected in the financial assets and liabilities is the Directors' estimate of amounts which would be payable by the Group as consideration for the assumption of those contingencies by another party.

25. CURRENT AND NON-CURRENT LIABILITIES - PROVISIONS

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Employee benefits	9,251	3,669	979	750
Unearned income	9	9	–	–
Provision for distribution	13,569	–	–	–
Other	–	–	–	–
	22,829	**3,678**	**979**	**750**

(A) UNEARNED INCOME

This amount represents rental fees paid in advance for consulting suites at a facility.

Movements in provision

Movements in each class of provision during the financial year, other than employee benefits and dividends, are set out below.

Consolidated - 2008	Provision for distribution $'000	Unearned income $'000
Carrying amount at start of year	–	9
Additional provisions recognised	40,942	–
Payments/other sacrifices of economic benefits (including accretion expenses)	(27,373)	–
Carrying amount at end of year	**13,569**	**9**

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Non-current				
Employee benefits	1,504	637	328	309
Capital expenditure	287	1,434	–	–
Onerous contracts	2,399	2,406	–	–
	4,190	**4,477**	**328**	**309**

25. CURRENT AND NON-CURRENT LIABILITIES - PROVISIONS (CONTINUED)

(B) CAPITAL EXPENDITURE

Amounts provided in accordance with contracts with owners of senior living facilities.

(C) ONEROUS CONTRACTS

The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to those risks of the activities relating to the contract.

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

Consolidated - 2008	Capital expenditure $'000	Onerous contracts $'000	Total $'000
Carrying amount at start of year	1,434	2,406	3,840
Additional provisions recognised	-	-	-
Payments/other sacrifices of economic benefits	(1,147)	(7)	(1,154)
Carrying amount at end of year	**287**	**2,399**	**2,686**

26. DEFERRED TAX LIABILITIES

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Inventories	22,608	24,984	14,326	13,260
Deferred management fees/bond retentions accrued	21,248	22,053	-	138
Investment property	44,995	12,762	16,861	10,215
Other movements	8,260	11,275	4,157	3,403
	97,111	**71,074**	**35,344**	**27,016**

	Consolidated						
Movements	Inventories $'000	Receivables $'000	Investment in associates $'000	Investment property $'000	Other $'000	Total 2008 Consolidated $'000	Total 2007 Consolidated $'000
Opening balance at 1 July	24,984	22,053	8,678	12,762	2,597	71,074	52,363
Credited/(charged) to the income statement (Note 8)	(2,376)	(805)	374	32,043	(2,474)	26,762	17,796
Other	-	-	-	190	-	190	-
Charged/(credited) to equity	-	-	(915)	-	-	(915)	915
Closing balance at 30 June	**22,608**	**21,248**	**8,137**	**44,995**	**123**	**97,111**	**71,074**
Deferred tax liabilities to be settled after more than 12 months						71,387	37,741
Deferred tax liabilities to be settled within 12 months						25,724	33,333
						97,111	**71,074**

26. DEFERRED TAX LIABILITIES (CONTINUED)

	Parent Entity						
Movements	Inventories $'000	Receivables $'000	Investment in associates $'000	Investment property $'000	Other $'000	Total 2008 Parent Entity $'000	Total 2007 Parent Entity $'000
Opening balance at 1 July	13,260	138	3,403	10,215		27,016	22,004
Credited/(charged) to the income statement (Note 8)	1,066	(138)	(791)	6,646	21	6,804	5,012
Amounts transferred from subsidiary members	-	-	2,439	-	-	2,439	-
Charged/(credited) to equity	-	-	(915)	-	-	(915)	-
Closing balance at 30 June	**14,326**	**-**	**4,136**	**16,861**	**21**	**35,344**	**27,016**
Deferred tax liabilities to be settled after more than 12 months						20,129	13,751
Deferred tax liabilities to be settled within 12 months						15,215	13,265
						35,344	**27,016**

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Net deferred tax balances:				
Balance as per deferred tax assets (refer Note 21)	81,794	62,079	76,603	58,335
Less balance as per deferred tax liabilities (refer Note 26 above)	(97,111)	(71,074)	(35,344)	(27,016)
Net deferred tax asset/(liability)	**(15,317)**	**(8,995)**	**41,259**	**31,319**

27. CONTRIBUTED EQUITY

BBCG is a stapled entity in which the Securityholders hold direct interests and an equal number of securities in each of BBCL and BBCT.

As the stapling of BBCL and BBCT occurred after the introduction of AIFRS, AASB Interpretation 1002 *Post Date of Transition Stapling Arrangements* applies. For the purposes of AASB 1002, BBCL has been identified as the acquirer and the results and equity of BBCT are presented as minority interest in the consolidated financial statements on the basis that BBCL has not obtained an ownership interest as a result of the stapling.

All benefits and risks of ownership and operations of BBCT flow through to the consolidated result of BBCG and form part of the profit attributable to stapled Securityholders. Accordingly, whilst the results and equity of BBCT are disclosed as minority interest, the stapled Securityholders of BBCL are the same as the stapled Securityholders of BBCT.

Notes to the Financial Statements

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27. CONTRIBUTED EQUITY (CONTINUED)

(A) SHARE CAPITAL

			Numbers of securities				
Date	Details	Notes	2008	2007	Issue price $	2008 $'000	2007 $'000
	Ordinary securities fully paid	(a)	651,727,936	170,677,322	-	478,847	231,339
	Movement in ordinary securities on issue Opening balance		170,677,322	132,997,603	-	231,339	184,307
04/07/2006	New share issue pursuant to Deed of Settlement re Camberwell Green		-	293,974	-	-	300
12/07/2006	Conversion of PLFGB notes to securities		-	3,084,634	-	-	3,856
20/12/2006	Conversion of PLFGB notes to securities		-	18,129,518	-	-	22,662
10/01/2007	Conversion of PLFGB notes to securities		-	16,171,593	-	-	20,214
30/07/2007	Capital raising - Priority Offer	(b)	68,181,818	-	1.10	75,000	-
30/07/2007	Capital raising - Main Offer	(c)	347,826,087	-	1.15	400,000	-
30/07/2007	Development JV Scrip Acquisition	(d)	4,347,826	-	1.15	5,000	-
30/07/2007	PLT Scrip Acquisition	(e)	57,433,913	-	1.15	66,049	-
30/07/2007	Less: Minority Interest		-	-	-	(278,575)	-
27/11/2007	Conform Scrip Acquisition	(f)	3,260,970	-	1.07	3,500	-
	Less: Transaction costs arising on security issues		-	-	-	(28,566)	-
	Deferred tax asset on transaction costs arising on security issues					5,100	
30/06/2008	**Balance**		**651,727,936**	**170,677,322**		**478,847**	**231,339**

Terms and conditions of contributed equity

(a) Ordinary securities

Ordinary securities have the right to receive distributions as declared and, in the event of winding up the Group, to participate in the proceeds from sale of all surplus assets in proportion to the number of securities held and whether fully paid.

Ordinary securities entitle their holder to one vote, either in person or by proxy, at a meeting of the Group.

(b) Capital raising (Priority Offer)

Effective 30 July 2007, 68,181,818 securities were issued as per the PDS dated 15 June 2007 at a price of $1.10 to existing shareholders, employees and residents.

(c) Capital raising (Main Offer)

Effective 30 July 2007, 347,826,087 securities were issued as per the PDS dated 15 June 2007 at a price of $1.15 to the general public.

(d) Development Joint Venture (JV) acquisition

Effective 30 July 2007, 4,347,826 securities were issued to acquire the JV at $1.15.

(e) PrimeLiving Trust (PLT) acquisition

Effective 30 July 2007, 57,433,913 securities were issued to acquire the retirement living portfolio at $1.15.

(f) Conform Health Care Group P/L acquisition

Effective 27 November 2007, 3,260,970 securities were issued at $1.0733, as part of the acquisition of the Conform Health Group aged care business.

28. EQUITY - RESERVES AND RETAINED PROFITS/ACCUMULATED LOSSES

(A) RESERVES

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Asset revaluation reserve	1,233	4,363	1,650	1,650
Share-based payments reserve	1,917	1,494	1,917	1,494
Foreign currency translation reserve	(11,645)	542	-	-
	(8,495)	**6,399**	**3,567**	**3,144**
Asset revaluation reserve The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets. The reserve an only be used to pay dividends in limited circumstances.				
Balance at the beginning of the financial year	4,363	1,218	1,650	1,650
Fair value adjustment	-	3,145	-	-
Disposal of investment	(3,130)	-	-	-
Balance at the end of the financial year	**1,233**	**4,363**	**1,650**	**1,650**
Shared-based payments reserve The share-based payments reserve is used to recognise the fair value of Options issued but not exercised.				
Balance at the beginning of the financial year	1,494	1,004	1,494	1,004
Executive Option expense (refer Note 42(B))	423	490	423	490
Balance at the end of the financial year	**1,917**	**1,494**	**1,917**	**1,494**
Foreign currency translation reserve Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve. The reserve is recognised in profit and loss when the net investment is disposed of.				
Balance at the beginning of the financial year	542	(164)	-	-
Currency translation differences arising during the year	(12,187)	706	-	-
Balance at the end of the financial year	**(11,645)**	**542**	**-**	**-**
(B) RETAINED PROFITS/(ACCUMULATED LOSSES)				
Retained profits/(accumulated losses) at the beginning of he financial year	(129,568)	(132,169)	(144,556)	(133,028)
Profit/(loss) attributable to members of BBCL for the year	41,073	2,601	(36,166)	(11,528)
Transfer out profits relating to an associate accounted for using the equity method as now accounted as a subsidiary	(6,526)	-	-	-
Retained profits/(accumulated losses) at the end of the financial year	**(95,021)**	**(129,568)**	**(180,722)**	**(144,556)**

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29. DISTRIBUTIONS

Distributions of 6.3 cents per security have been declared for the full year. A distribution of 2.1 cents per security has been provided for and will be paid around 22 September 2008. A 4.2 cents per security distribution was paid in March 2008. The distribution will not be franked in the current year (2007: nil). The balance of the franking account at year end is $14,830,862 (2007: nil).

The 2008 distributions paid/declared during the year were made out of BBCT, which is included in minority interest in accordance with the accounting for stapled entities discussed in Note 1(A).

30. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) DIRECTORS

The following persons were Directors of BBCL during the financial year:

Chairman – Non-Executive
J Sloan

Executive Director
J Martin, Managing Director

Non-Executive Directors
R Topfer
G Martin
A Love
A Schwartz

(B) OTHER KEY MANAGEMENT PERSONNEL

The following persons were the executives with the greatest authority for the strategic direction and management of the Group during the financial year:

Name	Position
J Wakefield[1]	Chief Financial Officer
P Barry	General Manager Operations
M Horwood (from 14 January 2008)	General Manager Development
G Boyd (to 7 September 2007)	General Manager Development
G Dixon[2]	General Manager Corporate Services
M Mitchell	Chief Information Officer

1 Employed by Babcock & Brown until resigning on 30 June 2008. Acting Chief Financial Officer, Deborah Kelly, is also employed by Babcock & Brown.
2 Employed by Babcock & Brown.

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

Short-term employee benefits

	Consolidated		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Employee benefits	3,201,277	3,251,370	3,201,277	3,251,370
Post-employment benefits	136,913	327,567	136,913	327,567
Termination benefits	57,312	1,056,812	57,312	1,056,812
	3,395,502	**4,635,749**	**3,395,502**	**4,635,749**

Long-term employee benefits

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee benefits	-	-	-	-
Share-based payments	492,011	623,520	492,011	623,520
	492,011	**623,520**	**492,011**	**623,520**

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

The Company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in the Remuneration Report.

(D) EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

(i) Options provided as remuneration and securities issued on exercise of such Options

Options over securities in BBCL are granted under the Senior Management Option Plan.

When exercisable, each Option is convertible into one ordinary share.

Further details of Options provided as remuneration and securities issued on exercise of such Options, together with the terms and conditions of the Options, can be found in the Remuneration Report.

(ii) Option holdings

The numbers of Options over ordinary securities in the Company held during the financial year by each Director of BBCL who has held office at any time during the year and other key management personnel of the Group, including their personally related parties, are set out below.

2008 Name	Balance at beginning of the year	Granted during the year as compensation	Exercised during the year	Options lapsed during the year	Options forfeited	Options balance at end of year	Vested and exercisable at end of year
Directors of Babcock & Brown Communities Limited							
J Martin	400,000	200,000	–	–	–	600,000	600,000
Other key management personnel of the Group							
G Dixon	200,000	200,000	–	–	–	400,000	400,000
G Boyd (to 7 September 2007)	200,000	200,000	–	–	–	400,000	400,000
P Barry	–	200,000	–	–	–	200,000	200,000
M Mitchell	–	–	–	–	–	–	–

No Options are vested and unexercisable at the end of the year.

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30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2007 Name	Balance at beginning of the year	Granted during the year as compensation	Exercised during the year	Options lapsed during the year	Options forfeited	Options balance at end of year	Vested and exercisable at end of year
Directors of Babcock & Brown Communities Limited							
R Champion de Crespigny AC (to 3 July 2006)	5,250,000	–	–	2,625,000	–	2,625,000	2,625,000
J Hazel (to 16 October 2006)	1,500,000	–	–	–	600,000	900,000	900,000
J Martin (from 16 October 2006)	200,000	200,000	–	–	–	400,000	400,000
Other key management personnel of the Group							
C Thompson (to 21 December 2006)	200,000	200,000	–	–	–	400,000	400,000
S Bracegirdle (to 14 November 2006)	200,000	200,000	–	–	–	400,000	400,000
J Clancy (to 13 April 2007)	200,000	200,000	–	–	–	400,000	400,000
G Dixon	100,000	100,000	–	–	–	200,000	200,000
G Boyd	–	200,000	–	–	–	200,000	200,000
G Smith (to 27 October 2006)	100,000	100,000	–	–	–	200,000	200,000

There were no Options over ordinary securities in the Company issued or held by other key management personnel of the Group at any time during the financial year 2007.

(iii) Shareholdings

The number of securities in the Company held during the financial year by each Director of BBCL who has held office at any time during the year and other key management personnel of the Group, including their personally related parties, are set out below. There were no securities granted during the reporting year as compensation.

2008 Name	Balance at beginning of the year	Received during the year on the exercise of Options	Other changes during the year	Balance at end of year
Directors of Babcock & Brown Communities Limited				
Ordinary securities				
J Martin	200,000	–	40,000	240,000
R Topfer[1]	23,437,855	–	(20,317,854)	3,120,001
G Martin	95,043	–	105,000	200,043
A Love	30,000	–	30,000	60,000
J Sloan	20,000	–	23,000	43,000
A Schwartz	50,000	–	1,214,000	1,264,000

1 The Babcock & Brown Group has a relevant interest in 85,764,267 ordinary securities (2007: 22,725,678) in BBCL. Non-Executive Directors, Messrs Topfer and Schwartz, are executives of Babcock & Brown. In addition, R Topfer held a direct interest in 3,120,001 ordinary securities in BBCL. A Schwartz held an indirect interest through Davtom Pty Ltd ATF Davtom Trust No. 2, in 1,264,000 ordinary securities in BBCL.

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

2007 Name	Balance at beginning of the year	Received during the year on the exercise of Options	Other changes during the year	Balance at end of year
Directors of Babcock & Brown Communities Limited				
Ordinary securities				
R J Champion de Crespigny AC (from 1 July 2006 to 3 July 2006)	4,942,143	–	–	4,942,143
J Martin	–	–	200,000	200,000
R Topfer	22,725,678	–	712,177	23,437,855
G Martin	40,000	–	55,043	95,043
A Love	30,000	–	–	30,000
J Sloan (from 3 July 2006)	–	–	20,000	20,000
A Schwartz (from 28 May 2007)	–	–	50,000	50,000

There were no stapled securities held in BBCG by other key management personnel of the Group during the 2008 and 2007 financial years.

(iv) Directors' Interests in Convertible/Converting Notes of the Company and Related Bodies Corporate
The numbers of Convertible and/or Converting Notes in the Company held during the financial year by each Director of BBCL who has held office at any time during the year and other key management personnel of the Group, including their personally related parties, are set out below.

2008 Name	Balance at beginning of the year	Converted during the year	Other changes during the year	Balance at end of year
Directors of Babcock & Brown Communities Limited				
Convertible & Converting Notes				
R Topfer[1]	16,862,325	16,862,325	–	–

1 Non-Executive Director Mr Topfer is an executive of Babcock & Brown.

2007 Name	Balance at beginning of the year	Converted during the year	Other changes during the year	Balance at end of year
Directors of Babcock & Brown Communities Limited				
Convertible & Converting Notes				
R J Champion de Crespigny AC (from 1 July 2006 to 3 July 2006)	3,627,241	–	–	3,627,241
R Topfer[1]	6,862,325	–	10,000,000	16,862,325
G Martin	62,908	62,908	–	–

1 Babcock & Brown Retirement Management Pty Ltd, a subsidiary of Babcock & Brown Limited, has a relevant interest in 16,862,325 convertible notes in BBCL. Non-Executive Director, R Topfer, is an executive of Babcock & Brown.

There were no convertible or converting notes held in BBCG by other key management personnel of the Group during the 2008 and 2007 financial years.

(E) LOANS TO KEY MANAGEMENT PERSONNEL
There have been no loans to Directors of BBCL, or other key management personnel, at any time during the years ended 30 June 2008 and 30 June 2007.

Notes to the Financial Statements

for the financial year ended 30 June 2008

30. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(F) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

There are Directors of BBCL who hold or have held positions in other companies where it is considered they control or significantly influence the financial or operating policies of those entities.

Babcock & Brown Group

The Babcock & Brown Group which includes Babcock & Brown Limited, AGSO Property Pty Ltd, Babcock & Brown Retirement Management Pty Ltd, Babcock & Brown Australia Pty Ltd and Babcock & Brown Australia CPI Pty Ltd, are considered to be director-related entities of R Topfer and A Schwartz. During the 2007 financial year, Babcock & Brown Australia Pty Ltd seconded Joanna Wakefield as Chief Financial Officer for BBCL. The secondment fee was on normal commercial terms and conditions and totalled $228,364 for the 2007 financial year.

Aggregate amounts of each of the above types of other transactions with key management personnel:

	Consolidated	
	2008 $'000	2007 $'000
Amounts recognised as expense (Secondment fees, Consultancy fees)	–	228
	–	**228**

31. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Parent Entity, its related practices and non-related audit firms:

	Consolidated	
	2008 $	2007 $
(A) AUDIT SERVICES		
PricewaterhouseCoopers Australia		
Audit and review of financial reports under the *Corporations Act 2001*	1,120,209	782,270
Overseas PricewaterhouseCoopers		
Audit and review of financial reports	122,617	–
Total remuneration for audit services	**1,242,826**	**782,270**
(B) NON-AUDIT SERVICES		
Taxation services		
PricewaterhouseCoopers Australia		
Tax compliance services, including review of Company income tax returns and GST	389,746	1,162,400
Total remuneration for taxation services	**389,746**	**1,162,400**
Other services		
PricewaterhouseCoopers Australia		
Due diligence services	987,469	992,952
Total remuneration for other services	**987,469**	**992,952**
Total remuneration for non-audit services	**1,377,215**	**2,155,352**

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions.

32. CONTINGENT LIABILITIES

(A) LEGAL ACTIONS

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

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

Legacy litigation

Bufalo dispute

- In August 1999, Bufalo Corporation Pty Ltd (In Liquidation) (Receiver and Manager Appointed) brought proceedings against the Company for alleged wrongful appointment of a receiver and manager and alleged breaches of agreements in relation to various building projects and aged care facilities. The Company counterclaimed for damages in respect of alleged breaches of joint venture agreements and alleged failure to pay monies owing to the Company.
- The Company's principal exposure is damages, interest and the costs of all parties to the proceeding (of which the Company estimates to be between $3.5 and $7.8 million).
- The Company has, however, entered into a conditional deed of settlement with the various parties to the proceeding. As at 18 August 2008, the conditions precedent to the deed have not been fulfilled.

Eduard Sent litigation

In late 2003, Eduard Sent, the former CEO of Babcock & Brown Communities Limited (formerly Primelife Corporation Limited), brought proceedings against the Company for wrongful dismissal and for the payment of the balance of Mr Sent's contract plus damages of $5,333,817. The Company successfully defended these claims which were dismissed with costs in the Company's favour. Mr Sent has filed an appeal which is scheduled to be heard on 15 September 2008.

Australian Tax Ruling 94/24 related litigation

- The Company is involved in a proceeding relating to an uncompleted contract of sale for Princeton View Aged Care Facility entered into with a managed investment syndicate relying upon the Australian Tax Office Ruling 94/24. The syndicate manager has commenced proceedings against the Company for specific performance of the contract. The court has ordered that these proceedings be heard at the same time as the ASIC proceedings relating to the winding up of this managed investment syndicate.
- The Company is involved in two proceedings relating to an uncompleted contract of sale for The Brighton on Bay Retirement Village entered into with managed investment syndicates relying upon the Australian Tax Office Ruling 94/24. On 18 July 2008 the parties entered into a settlement deed as part of the final winding up of the managed investment scheme. The two proceedings will be discontinued with a right of reinstatement once completion under the deed occurs before the end of August 2008.

(B) SETTLEMENT OF MANAGED INVESTMENT SCHEME ISSUES

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

As at the end of the financial year, 20 schemes were wound up or resolved on terms acceptable to the Company. Since then, two further schemes have been resolved on terms acceptable to the Company with the remaining one scheme relating to Princeton View scheduled to be wound up in October 2008.

33. COMMITMENTS

(A) OPERATING LEASE COMMITMENTS

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

(i) Management deeds

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Within one year	13,909	13,778	783	739
Later than one year but not later than five years	61,429	56,421	3,460	3,185
Later than five years	190,399	196,998	9,326	10,288
	265,737	**267,197**	**13,569**	**14,212**

These operating leases are in relation to Management Deeds and represent the contracted annual fee payments to senior living facility owners/investors. The lease terms are for an average of 20 years with an option to extend, available at BBCL's option. Annual fee payments are CPI indexed.

(ii) Office rental

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Within one year	1,352	870	1,352	870
Later than one year but not later than five years	6,221	2,833	6,221	2,833
Later than five years	3,169	-	3,169	-
	10,742	**3,703**	**10,742**	**3,703**

Relating to the rental of office accommodation in Melbourne, Brisbane and Adelaide and which have an average lease term of five years.

(B) FINANCE LEASES AND HIRE PURCHASE COMMITMENTS

Commitments in relation to finance leases and hire purchase commitments are payable as follows:

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Within one year	476	197	478	197
Later than one year but not later than five years	698	235	697	235
Minimum lease and hire purchase payments	1,174	432	1,175	432
Less: Future finance charges	(171)	(56)	(171)	(56)
Recognised as a liability	**1,003**	**376**	**1,004**	**376**
Representing lease and hire purchase liabilities				
Current liability – borrowings (Note 24)	399	242	399	242
Non-current liability – borrowings (Note 24)	604	247	604	247
	1,003	**489**	**1,003**	**489**

The Group leases motor vehicles, computers and plant and equipment under finance leases and commercial hire purchase agreements expiring from one to five years.

The weighted average interest rate implicit in the leases is 9.68% (2007: 9.95%).

34. RELATED PARTY TRANSACTIONS

(A) PARENT ENTITY

Babcock & Brown Communities Limited is the ultimate parent Company in the Group.

(B) SUBSIDIARIES

Interests in subsidiaries are detailed in Note 35.

(C) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in Note 30.

(D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Consolidated		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Amounts recognised as expense				
Interest expense	–	–	3,645,117	–
Borrowing/finance cost	164,502	–	164,502	–
Responsible Entity fees	471,133	–	–	–
Restructure fees	2,450,192	–	1,470,115	–
Consultancy fees	–	228,364	–	228,364
	3,085,827	**228,364**	**5,279,734**	**228,364**
Amounts capitalised				
Borrowing/finance costs	1,372,998	–	1,372,998	–
Equity raising costs	10,333,506	–	6,200,104	–
Facilitation and engagement fees	8,908,798	–	–	–
	20,615,302	**–**	**7,573,102**	**–**

BBCG's interest in AIT Investment Trust was sold to the Joint Venture partner on 30 June 2008, crystalising a loss related to this investment of $4.2 million.

(E) OUTSTANDING BALANCES ARISING FROM SALES/PURCHASES OF GOODS AND SERVICES

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Current payables (tax funding agreement)				
Wholly-owned tax consolidated entities (Note 23)	–	–	9,004,123	35,000,357

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

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for the financial year ended 30 June 2008

34. RELATED PARTY TRANSACTIONS (CONTINUED)

(F) LOANS TO/FROM RELATED PARTIES

	Consolidated		Parent Entity	
	2008 $	2007 $	2008 $	2007 $
Loans from other related parties				
Beginning of the year	–	–	–	–
Loans advanced	–	–	275,538,362	–
Loan repayments made	–	–	(27,528,799)	–
Interest charged	–	–	3,645,117	–
Interest received	–	–	–	–
End of year	**–**	**–**	**251,654,680**	**–**
Loans to associates				
Beginning of the year	3,545,097	4,719,765	3,545,097	4,719,765
Loans advanced/(repaid)	716,851	(1,174,668)	716,851	(1,174,668)
End of year	**4,261,948**	**3,545,097**	**4,261,948**	**3,545,097**
Loans to wholly-owned group controlled entities				
Beginning of the year	–	–	82,867,000	60,264,000
Loans advanced	–	–	734,488,000	22,603,000
End of year	**–**	**–**	**817,355,000**	**82,867,000**

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(G) TERMS AND CONDITIONS

The terms and conditions of the tax funding agreement are set out in Note 8(D).

All other transactions are made on normal commercial terms and conditions and at market rates.

35. SUBSIDIARIES

Name of entity	Class of shares/units	Equity holding 2008 %	Equity holding 2007 %
A.C.N. 008 291 745 Pty Ltd	Ordinary	100	100
AGVM Unit Trust	Ordinary	100	–
APC RV Holdings Pty Ltd	Ordinary	100	–
APC RV Holdings Unit Trust	Ordinary	100	–
Allora Gardens Pty Ltd	Ordinary	100	–
Allora Gardens Trust	Ordinary	100	–
Amplan Pty Ltd[2]	Ordinary	100	–
Amplan Trust[2]	Ordinary	100	–
Annesley Lifestyle Centre Pty Ltd	Ordinary	100	–
Argyle Village Services Pty Ltd	Ordinary	100	–
Ashton Gardens Village Management Pty Ltd	Ordinary	100	–
Ashton Gardens Village Services Pty Ltd	Ordinary	100	–
Australian Aged Care (No. 2) Pty Ltd[2]	Ordinary	100	–
Australian Aged Care Pty Ltd[2]	Ordinary	100	–
Australian Aged Care Trust No. 1[2]	Ordinary	100	–
Australian Aged Care Trust (No. 2)[2]	Ordinary	100	–
Australian Retirement Services Group Pty Ltd	Ordinary	100	100
Babcock & Brown Communities (Harrington Waters) Pty Ltd (formerly Red Bluff Provenders Pty Ltd)	Ordinary	100	100
Babcock & Brown Communities NSW Aged Care No. 1 Pty Ltd	Ordinary	100	–
Babcock & Brown Communities QLD No. 1 Pty Ltd	Ordinary	100	–
Babcock & Brown Communities WA No. 1 Pty Ltd	Ordinary	100	–
Babcock & Brown Communities WA No. 2 Pty Ltd	Ordinary	100	–
Babcock & Brown Retirement Ventures Pty Ltd	Ordinary	100	–
Bayside Aged Care Pty Ltd	Ordinary	100	–
BBC Aged Care Operations Pty Limited	Ordinary	100	–
BBC Aged Care Properties Pty Limited	Ordinary	100	–
BBCL Subtrust	Ordinary	100	–
Bellflower Village Management Pty Ltd	Ordinary	100	–
Bellflower Village Management Unit Trust	Ordinary	100	–
Bellflower Village Services Pty Ltd	Ordinary	100	–
BGVM Unit Trust	Ordinary	100	–
Brentwood Village Management Pty Ltd	Ordinary	100	–
Brentwood Village Management Unit Trust	Ordinary	100	–
Brentwood Village Services Pty Ltd	Ordinary	100	–
Bibra Lake Development Pty Ltd	Ordinary	100	–
Bibra Lake Lakeside Villas Management Pty Ltd	Ordinary	100	–
Buderim Gardens Village Management Pty Ltd	Ordinary	100	–
Buderim Gardens Village Services Pty Ltd	Ordinary	100	–
Buderim Meadows Village Services Pty Ltd	Ordinary	100	–
Bulla Road Pty Ltd	Ordinary	100	100
Carlyle RV Management Pty Ltd	Ordinary	100	–
Carlyle RV Management Unit Trust	Ordinary	100	–
Central Coast Retirement Village Pty Ltd	Ordinary	100	–

35. SUBSIDIARIES (CONTINUED)

Name of entity	Class of shares/units	Equity holding 2008 %	Equity holding 2007 %
Coastal Waters Retirement Village Pty Ltd	Ordinary	100	–
Conform Distributors Pty Ltd	Ordinary	100	–
Conform Health Group Pty Ltd[2]	Ordinary	100	–
Conform Management Consultants Pty Ltd	Ordinary	100	–
Conform Trust	Ordinary	100	–
Chancellor Park Village Services Pty Ltd	Ordinary	100	–
Fini Retirement Services Pty Ltd	Ordinary	100	–
Fini Villages Pty Ltd	Ordinary	100	–
Fini Villages Unit Trust	Ordinary	100	–
FJM Realty Pty Ltd	Ordinary	100	–
Hazen Pty Ltd	Ordinary	100	–
Hazen Unit Trust	Ordinary	100	–
Henry Kendall Bayside Pty Ltd	Ordinary	100	–
Henry Kendall Morisset Pty Ltd	Ordinary	100	–
Henry Kendall Village Pty Ltd	Ordinary	100	–
Hibiscus RV Management Pty Ltd	Ordinary	100	–
Hibiscus RV Management Unit Trust	Ordinary	100	–
Highwood Court Pty Ltd	Ordinary	100	100
HKB Trust	Ordinary	100	–
HKV Trust	Ordinary	100	–
Homestay Village Cannington Pty Ltd	Ordinary	100	–
Hunter Lodge Pty Ltd	Ordinary	100	100
Huntleigh Terrace Pty Ltd	Ordinary	51	51
Knightsbridge Village Limited[1]	Ordinary	100	–
Koorootang Court Village Pty Ltd	Ordinary	100	100
Koorootang Village Management Pty Ltd	Ordinary	100	100
Lakeside Gardens Management Pty Ltd	Ordinary	100	–
Lindfield Village Management Pty Ltd	Ordinary	100	–
Lindfield Village Management Unit Trust	Ordinary	100	–
Lindfield Village Services Pty Ltd	Ordinary	100	–
Mackay Village Services Pty Ltd	Ordinary	100	–
Malvern Road Developments Pty Ltd	Ordinary	100	100
Meadowvale Village Management Pty Ltd	Ordinary	100	100
Meadowvale Village Pty Ltd	Ordinary	100	100
Mitcham Road Developments Pty Ltd	Ordinary	51	51
Montclaire Developments Pty Ltd	Ordinary	100	100
Mosman Park Investments Limited[1]	Ordinary	100	–
Nambour Village Services Pty Ltd	Ordinary	100	–
Newpark Pty Ltd[3]	Ordinary	33	33
Noosa Outlook Village Services Pty Ltd	Ordinary	100	–
Northcross Villages Limited[1]	Ordinary	100	–
North Shore Villages Limited[1]	Ordinary	100	–
Ocean Shore Village Limited[1]	Ordinary	100	–
Peninsula Club Management Limited[1]	Ordinary	100	–

35. SUBSIDIARIES (CONTINUED)

Name of entity	Class of shares/units	Equity holding 2008 %	Equity holding 2007 %
Permasnow (Asia) Pty Limited	Ordinary	100	100
PLT A Pty Ltd	Ordinary	100	–
PLT AB Pty Ltd	Ordinary	100	–
PLT AGP Pty Ltd	Ordinary	100	–
PLT Allora Gardens Pty Ltd	Ordinary	100	–
PLT Beecroft Pty Ltd	Ordinary	100	–
PLT Eaglemount Pty Ltd	Ordinary	100	–
PLT Elliot Gardens Pty Ltd	Ordinary	100	–
PLT HK Holdings Pty Ltd	Ordinary	100	–
PLT Management Pty Ltd	Ordinary	100	–
PLT New Zealand Limited[1]	Ordinary	100	–
PLT New Zealand Pty Limited	Ordinary	100	–
PLT Management HK Pty Ltd	Ordinary	100	–
PLT Management NZ Pty Ltd	Ordinary	100	–
Port Albert Developments Pty Ltd	Ordinary	100	100
Port Phillip Pty Limited	Ordinary	100	100
Primecare Holdings Limited[1]	Ordinary	100	–
PrimeCRS (Carlyle Gardens) Pty Ltd	Ordinary	100	100
Primefund NZ Limited[1]	Ordinary	100	–
Primefood Pty Ltd	Ordinary	100	100
Prime Life (Avonlea) Pty Ltd	Ordinary	100	100
Prime Life (Bayside) Pty Ltd	Ordinary	100	100
Primelife (Brookwater) Pty Ltd (formerly Primelife (Waterford Park) Pty Ltd)	Ordinary	100	100
Prime Life (Cumberland Nursing Home) Pty Ltd	Ordinary	100	100
Prime Life (Cumberland Village) Pty Ltd	Ordinary	100	100
Prime Life (Darebin) Pty Ltd	Ordinary	100	100
Primelife (Geelong) Pty Ltd	Ordinary	100	100
Primelife (Glen Woodley) Pty Ltd	Ordinary	100	100
Primelife (Glendale) Pty Ltd	Ordinary	100	100
Prime Life (Glenvale) Pty Ltd	Ordinary	100	100
Primelife (Griffith) Pty Ltd	Ordinary	100	100
Primelife (Heathfield) Pty Ltd	Ordinary	100	100
Primelife (Heathglen) Pty Ltd	Ordinary	100	100
Primelife (Lilydale) Pty Ltd	Ordinary	100	100
Primelife (Little Para) Pty Ltd	Ordinary	100	100
Prime Life (Mt Evelyn) Pty Ltd	Ordinary	100	100
Prime Life (Peninsula) Pty Ltd	Ordinary	100	100
Primelife (Point Cook) Pty Ltd	Ordinary	100	100
Primelife (Port Stephens) Pty Ltd (formerly Lillios Pty Ltd)	Ordinary	100	100
Primelife (Red Bluff) Pty Ltd	Ordinary	100	100
Prime Life (Riverwood Village) Pty Ltd	Ordinary	100	100
Primelife (Sunbury) Pty Ltd	Ordinary	100	100
Primelife (Vermont) Pty Ltd	Ordinary	100	100

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for the financial year ended 30 June 2008

35. SUBSIDIARIES (CONTINUED)

		Equity holding	
Name of entity	Class of shares/units	2008 %	2007 %
Primelife (Construction Services) Pty Ltd	Ordinary	100	100
Primelife Business Services Pty Ltd	Ordinary	100	100
Primelife Community Care Pty Ltd	Ordinary	100	-
Primelife Investments Australia Pty Ltd	Ordinary	51	51
Primelife Management (NZ) Limited[1]	Ordinary	100	100
Prime Life Management Services Pty Ltd[2]	Ordinary	100	100
Primelife Media Pty Ltd	Ordinary	100	100
Primelife Property Holdings Pty Ltd	Ordinary	100	100
Primelife Property Services Pty Ltd	Ordinary	100	100
PrimeLiving Trust	Ordinary	100	-
Retirement Guide Management Pty Ltd	Ordinary	100	-
Retirement Guide Management Unit Trust	Ordinary	100	-
Retirement Management Pty Ltd	Ordinary	100	-
Sale Manor Gardens Pty Ltd	Ordinary	51	51
Sanctuary Point Developments Pty Ltd	Ordinary	100	100
St James Developments Pty Ltd	Ordinary	100	100
The School for Senior Living Management Pty Ltd	Ordinary	100	100
Timberside Villas Management Pty Ltd	Ordinary	100	-
Townsville Village Services Pty Ltd	Ordinary	100	-
Village Management Limited	Ordinary	100	-
Wallgrove Convalescent Home Pty Ltd	Ordinary	100	-
Wattletree Road Developments Pty Ltd	Ordinary	51	51
Williamstown Range Pty Ltd	Ordinary	100	100
Windsor Holdings Limited[1]	Ordinary	100	-

1 All controlled entities are incorporated in Australia with the exception of these which are incorporated in New Zealand.

2 These subsidiaries have been granted relief from the necessity to prepare reports in accordance with Class Order 98/1418 issued by the Australian Securities & Investments Commission. For further information refer to Note 36.

3 The proportion of ownership interest is equal to the proportion of voting power held, except for Newpark Pty Ltd in which Babcock & Brown Communities Limited has a 33% equity holding but has control of the Board of Directors.

36. DEED OF CROSS GUARANTEE

Babcock & Brown Communities Limited, Prime Life Management Services Pty Limited, Conform Health Group Pty Ltd, Amplan Pty Ltd as Trustee for Amplan Trust, Australian Aged Care Pty Ltd as Trustee for Australian Aged Care Trust No. 1 and Australian Aged Care (No. 2) Pty Ltd as Trustee for Australian Aged Care Trust (No. 2) are parties to a Deed of Cross Guarantee under which each Company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities & Investments Commission.

(A) CONSOLIDATED INCOME STATEMENT AND A SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED PROFITS

The above companies represent a "Closed Group" for the purposes of the Class Order and as there are no other parties to the Deed of Cross Guarantee that are controlled by Babcock & Brown Communities Limited, they also represent the "Extended Closed Group".

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the year ended 30 June 2008 of the Closed Group.

Income statement

	2008 $'000
Revenue from continuing operations	**65,518**
Other income	15,088
Cost of developing senior living facilities	(3,188)
Employee benefits expense	(57,357)
Annual fees to facility owners	(735)
Professional fees and consultants	(1,926)
Depreciation and amortisation	(4,483)
Finance costs	(39,564)
Marketing and promotion expenses	(1,793)
Rent, rates and taxes	(1,315)
Repairs and maintenance	(645)
Computer costs	(2,891)
Catering costs	(1,176)
Write-off of management rights	(5,999)
Transaction costs	(6,924)
Other expenses from ordinary activities	2,042
Profit/(loss) before income tax	**(45,348)**
Income tax (expense)/benefit	13,129
Profit/(loss) after income tax	**(32,219)**
SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED PROFITS	
Retained profits at the beginning of the financial year	**(123,192)**
Profits for the year	(32,219)
Dividends provided for or paid/Transfer from share capital	–
Retained profits at the end of the financial year	**(155,411)**

(B) BALANCE SHEET

Set out below is a consolidated balance sheet as at 30 June 2008 of the Closed Group consisting of Babcock & Brown Communities Limited, Prime Life Management Services Pty Limited, Conform Health Group Pty Ltd, Amplan Pty Ltd as Trustee for Amplan Trust, Australian Aged Care Pty Ltd as Trustee for Australian Aged Care Trust No. 1 and Australian Aged Care (No. 2) Pty Ltd as Trustee for Australian Aged Care Trust (No. 2).

Notes to the Financial Statements

for the financial year ended 30 June 2008

36. DEED OF CROSS GUARANTEE (CONTINUED)

Balance sheet

	2008 $'000
ASSETS	
Current assets	
Cash and cash equivalents	11,827
Receivables	732,307
Inventories	5,505
Other	3,867
Total current assets	**753,506**
Non-current assets	
Receivables	-
Other financial assets	72,333
Property, plant and equipment	167,055
Investment property	212,955
Deferred tax assets	78,619
Intangible assets	55,488
Other	12,258
Total non-current assets	**598,708**
Total assets	**1,352,214**
LIABILITIES	
Current liabilities	
Resident loans	156,844
Accommodation bond liabilities	15,477
Payables	26,648
Borrowings	248,572
Provisions	5,566
Total current liabilities	**453,107**
Non-current liabilities	
Deferred revenue	1,140
Borrowings	534,809
Deferred tax liabilities	35,345
Provisions	810
Total non-current liabilities	**572,104**
Total liabilities	**1,025,211**
Net assets	**327,003**
EQUITY	
Parent Entity interest	
Contributed equity	478,847
Reserves	3,567
Retained profits/(accumulated losses)	(155,411)
Total equity	**327,003**

37. EARNINGS PER SECURITY

	Consolidated 2008 Cents	Consolidated 2007 Cents
(A) BASIC (LOSS)/EARNINGS PER SECURITY	6.71	1.69
(B) DILUTED (LOSS)/EARNINGS PER SECURITY	6.66	1.21

(C) RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SECURITY

	Consolidated 2008 $'000	Consolidated 2007 $'000
Basic earnings per security		
Profit from continuing operations	41,073	2,601
Profit from continuing operations attributable to the ordinary equity holders of the entity used in calculating basic earnings per security	41,073	2,601
Diluted earnings per security		
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per security	41,073	2,601
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per security	41,073	2,601

(D) WEIGHTED AVERAGE NUMBER OF SECURITIES USED AS THE DENOMINATOR

	Consolidated 2008 Number	Consolidated 2007 Number
Weighted average number of ordinary securities used as the denominator in calculating basic earnings per security	**612,542,734**	**153,487,712**
Adjustments for calculation of diluted earnings per security:		
Options	3,900,000	5,640,350
Convertible Notes	-	56,313,488
Weighted average number of ordinary securities and potential ordinary securities used as the denominator in calculating diluted earnings per security	**616,442,734**	**215,441,550**

(E) INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES

(i) Ordinary securities

Ordinary securities means an ownership in an entity which for the whole or part of the reporting year:

- is fully paid
- carries an entitlement to participate in distributions of future economic benefits by the entity, such distributions being made at the discretion of the ownership group or its representatives
- is not redeemable, other than on a winding-up of the entity or as a result of a return of capital

(ii) Options

Options granted are considered to be potential ordinary securities and have been included in the determination of diluted earnings per security. The Options have not been included in the determination of basic earnings per security. Details relating to the Options are set out in Note 30.

(iii) Convertible Notes

Convertible Notes issued are considered to be potential ordinary securities and have been included in the determination of diluted earnings per security. The Notes have not been included in the determination of basic earnings per security. Details relating to the Notes are set out in Note 24(C).

Notes to the Financial Statements

for the financial year ended 30 June 2008

38. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Profit/(loss) for the year	41,073	2,073	(36,166)	(10,936)
Share of (profit)/loss in associates	(6,584)	(307)	(4,991)	-
Impairment of management rights and related assets	5,999	-	5,999	-
Aged Care deferred receivable	-	(2,233)	-	(397)
Amortisation	2,740	603	1,236	398
Depreciation	5,326	1,464	2,276	728
Interest paid	40,753	10,338	31,401	7,180
Share-based payment reserve	423	490	423	490
Renegotiation of management agreements	-	(2,733)	-	-
Fair value adjustment to investment property	(81,677)	(8,623)	(15,088)	(3,204)
Net gain on sale of available-for-sale financial assets	-	-	-	-
Accrued interest on convertible/converting notes	-	3,078	-	3,078
	8,053	**4,150**	**(14,910)**	**(2,663)**
Changes in operating assets and liabilities				
(Increase)/decrease in receivables	15,935	3,066	(220)	(4,989)
(Increase)/decrease in inventories	32,388	(22,961)	-	8,249
(Increase)/decrease in deferred tax asset	(17,031)	(22,627)	(21,875)	(22,823)
(Increase)/decrease in other operating assets	(10,692)	(19)	(15,356)	(1,023)
(Increase)/decrease in property, plant and equipment	-	(30,087)	-	(21,324)
(Increase)/decrease in deferred management fees	1,451	(7,890)	-	-
(Increase)/decrease in investment property	(26,520)	(30,193)	14,807	(23,314)
Increase/(decrease) in creditors/accruals	21,361	190	(27,245)	(11,037)
Increase/(decrease) in employee benefits	-	847	-	118
Increase/(decrease) in other provisions	(7,791)	(562)	248	1
Increase/(decrease) in accommodation bonds	14,287	12,102	(1,124)	6,468
Increase/(decrease) in resident loans	3,497	37,537	-	13,619
Increase/(decrease) in deferred revenue	1,232	504	-	248
Increase/(decrease) in borrowings	-	(517)	-	-
Increase/(decrease) in tax provision	-	-	-	-
Increase/(decrease) in deferred tax liability	25,846	18,693	8,329	22,888
	53,963	**(41,917)**	**(42,435)**	**(32,919)**
Net cash (outflow)/inflow from operating activities	**62,016**	**(37,767)**	**(57,345)**	**(35,582)**

39. NON-CASH FINANCING AND INVESTING ACTIVITIES

The Group has acquired property, plant and equipment by means of finance leases and hire purchase agreements during the financial year 2008 totalling $756,000 (2007: $209,865).

40. SEGMENT INFORMATION

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

(i) Retirement – the operation of retirement villages

(ii) Aged Care Facilities – the operation of aged care facilities – including hostels and nursing homes

(iii) Development and Construction – the construction and sale of senior living facilities

(iv) Corporate – costs incurred in the head office

Segment accounting policies are the same as the consolidated entity's accounting policies described at Note 1. Inter-segment revenues are charged by the Parent Entity to business segments at market rates.

2008	Retirement village facilities $'000	Aged care facilities $'000	Development and construction $'000	Corporate and eliminations $'000	Consolidated $'000
Total sales revenue	95,640	77,336	7,045	1,930	181,951
Share of net profits of associates	4,990	616	3,452	(2,475)	6,583
Other revenue/income	61,462	–	20,180	–	81,642
Total segment revenue/income	**162,092**	**77,952**	**30,677**	**(545)**	**270,176**
Segment result	109,866	3,024	18,194	(75,163)	55,921
Income tax (expense)/benefit					(14,848)
Group profit/(loss) from ordinary activities after income tax (expense)/benefit					41,073
ASSETS					
Segment assets	1,499,446	203,017	24,318	1,039,015	2,765,796
Unallocated assets	–	–	–	–	–
Total assets	**1,499,466**	**203,017**	**24,318**	**1,039,015**	**2,765,769**
LIABILITIES					
Segment liabilities	(1,326,127)	(128,631)	(17,631)	(853,562)	(2,325,851)
Unallocated liabilities	–	–	–	–	–
Total liabilities	**(1,326,127)**	**(128,631)**	**(17,631)**	**(853,562)**	**(2,325,851)**
OTHER SEGMENT INFORMATION					
Equity method investments included in segment assets	7,423	6,018	5,110	–	18,551
Acquisition of property, plant and equipment, intangible assets and other non-current assets[1]	84,633	96,578	–	–	181,211
Impairment of management rights and related assets	5,999	–	–	–	5,999
Depreciation	296	2,796	–	2,210	5,302
Amortisation	1,528	–	1,000	237	2,765

1 Acquisitions do not include construction costs.

40. SEGMENT INFORMATION (CONTINUED)

2007	Retirement village facilities $'000	Aged care facilities $'000	Development and construction $'000	Corporate and eliminations $'000	Consolidated $'000
Sales to external customers	22,913	35,941	46,112	8,452	113,418
Total sales revenue	22,913	35,941	46,112	8,452	113,418
Share of net profits of associates	848	234	906	(1,681)	306
Other revenue/income	2,549	-	9,089	-	11,638
Total segment revenue/income	26,310	36,175	56,107	6,771	125,363
Segment result	20,412	(3,965)	8,658	(27,863)	(2,758)
Income tax (expense)/benefit					4,831
Group profit/(loss) from ordinary activities after income tax (expense)/benefit					2,073
Minority interest					-
Net profit/(loss)					**2,073**
ASSETS					
Segment assets	236,594	90,260	81,982	202,519	611,355
Unallocated assets	-	-	-	-	-
Total assets	**236,594**	**90,260**	**81,982**	**202,519**	**611,355**
LIABILITIES					
Segment liabilities	193,593	99,294	85,832	121,697	500,416
Unallocated liabilities	-	-	-	-	
Total liabilities	**193,593**	**99,294**	**85,832**	**121,697**	**500,416**
OTHER SEGMENT INFORMATION					
Equity method investments included in segment assets	16,761	-	906	-	17,667
Acquisition of property, plant and equipment, intangible assets and other non-current assets	70,419	38,197	5,682	4,202	118,500
Depreciation	40	743	-	681	1,464
Amortisation	205	-	-	399	604

41. BUSINESS COMBINATION

(A) CURRENT YEAR

Acquisition accounting for these entities is provisional and will be finalised within the 12 months from the acquisition date.

The acquiree's balance sheet has not been disclosed as it is impracticable to do so as insufficient information was made available at the time of acquisition.

During the year Primelife Corporation Limited and the PrimeLiving Trust were the subject of a restructure by way of a scheme of arrangement, whereby Primelife Corporation Limited shares were stapled to PrimeLiving Trust units on a one-for-one basis so that Primelife Corporation Limited shares and PrimeLiving Trust (renamed Babcock & Brown Communities Trust (**BBCT**) units) would be bought and sold on the ASX as a single stapled security referred to as Babcock & Brown Communities Group (**BBCG** or the **Group**) stapled securities. BBCG also entered into management arrangements whereby the executive management and operations of BBCG would be carried out by Babcock & Brown Communities Management Pty Ltd, an entity associated with Babcock & Brown Limited (**Babcock & Brown**). BBCG would have ongoing access to the investment and management expertise and resources of Babcock & Brown. This restructure was approved by Primelife Corporation Limited shareholders on 19 July 2007.

The Group proceeded to raise new capital of $475 million through the issue of new stapled securities. These proceeds were used to repay debt and make various acquisitions in the senior living space.

41. BUSINESS COMBINATION (CONTINUED)

The following acquisitions have been completed during the financial year:

(i) 30 July 2007: Acquisition of the remaining units in PLT

On 30 July 2007, BBCL acquired all the units it did not previously hold in its associate, PrimeLiving Trust, as a part of a step acquisition of the entity. The acquired businesses contributed revenue of $69.4 million and profit of $52.7 million to the Group from the date acquired to 30 June 2008. If the acquisitions had occurred on 1 July 2007, revenue and profit for the financial year ended 30 June 2008 would have been $69.9 million and $45.2 million respectively. The acquisition of PLT was a step acquisition as it was accounted for as an associate at 30 June 2007.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	$'000
Cash paid	–
Issued securities[1]	66,049
Direct costs relating to the acquisition	–
Total purchase consideration	**66,049**
Fair value of net identifiable assets acquired (refer below)	27,595
Goodwill	38,454

1 These securities were issued at $1.15. Refer Note 27 for more details.

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

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $'000
Cash and cash equivalents	11,424
Receivables	37,634
Property, plant and equipment	47,992
Investment property	849,811
Deferred tax asset	958
Resident loans	(564,804)
Payables	(4,052)
Borrowings	(327,384)
Deferred revenue	(9,932)
Deferred tax liability	(14)
Provisions	(7,081)
Other	(6,957)
Net identifiable assets acquired	**27,595**

41. BUSINESS COMBINATION (CONTINUED)

(ii) 14 August 2007: Acquisition of the Fini Villages

The acquired business contributed revenue of $31.3 million and profit of $28.0 million to the Group from the date acquired to 30 June 2008. As insufficient information was made available at the time of acquisition, it is impracticable to provide the profit and revenue for the financial year ended 30 June 2008 as if the acquisition had occurred on 1 July 2007.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	$'000
Cash paid	188,800
Issued securities	-
Direct costs relating to the acquisition	4,084
Total purchase consideration	**192,884**
Fair value of net identifiable assets acquired (refer below)	158,980
Goodwill	33,904

This acquisition was part of the strategic development of BBCL. Main focuses were on long-term cash flow stability, profitability and increased portfolio diversification into Western Australia. The goodwill amount is attributable to the strong market position and synergies expected to arise after the acquisition.

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $'000
Cash and cash equivalents	689
Receivables	571
Property, plant and equipment	36,359
Investment property	477,666
Deferred tax asset	34
Other	78
Resident loans	(340,258)
Payables	(4,137)
Borrowings	(10,386)
Deferred revenue	(1,196)
Deferred tax liability	(177)
Provisions	(263)
Net identifiable assets acquired	**158,980**

(iii) 4 September 2007: Acquisition of the Lakes Retirement Village

The acquired business contributed revenue of $373,000 and profit of $56,000 to the Group from the date acquired to 30 June 2008. As insufficient information was made available at the time of acquisition, it is impracticable to provide the profit and revenue for the financial year ended 30 June 2008 as if the acquisition had occurred on 1 July 2007.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	$'000
Cash paid	31,696
Issued securities	
Direct costs relating to the acquisition	2,413
Total purchase consideration	**34,109**
Fair value of net identifiable assets acquired (refer below)	31,696
Goodwill	2,413

41. BUSINESS COMBINATION (CONTINUED)

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

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $'000
Property, plant and equipment	14,438
Investment property	82,726
Other	38
Resident loans	(62,411)
Deferred revenue	(3,095)
Net identifiable assets acquired	**31,696**

(iv) 31 October 2007: Acquisition of the Homestay Village

The acquired business contributed a loss of $613,000 to the Group from the date acquired to 30 June 2008.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	$'000
Cash paid	7,600
Issued securities	
Direct costs relating to the acquisition	185
Total purchase consideration	**7,785**
Fair value of net identifiable assets acquired (refer below)	7,756
Goodwill	29

This acquisition was part of the strategic development of BBCL. Main focuses were on long-term cash flow stability, profitability and increased portfolio diversification into Queensland. The goodwill amount is attributable to the strong position and synergies expected to arise after the acquisition. As insufficient information was made available at the time of acquisition, it is impracticable to provide the profit and revenue for the financial year ended 30 June 2008 as if the acquisition had occurred on 1 July 2007.

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $'000
Property, plant and equipment	156
Investment property	30,490
Resident loans	(21,735)
Deferred revenue	(1,155)
Net identifiable assets acquired	**7,756**

41. BUSINESS COMBINATION (CONTINUED)

(v) 27 November 2007: Acquisition of Conform Health Group

The acquired business contributed revenue of $40.4 million and profit of $6.2 million to the Group from the date acquired to 30 June 2008. If the acquisitions had occurred on 1 July 2007, revenue and profit for the financial year ended 30 June 2008 would have been $68.6 million and $10.0 million respectively.

Details of net assets acquired and goodwill are as follows:

Purchase consideration	$'000
Cash paid	156,500
Issued securities[1]	3,500
Direct costs relating to the acquisition	4,433
Total purchase consideration	**164,433**
Fair value of net identifiable assets acquired (refer below)	128,145
Goodwill	36,288

1 These securities were issued at $1.0733. Refer Note 27 for more details.

This acquisition was part of the strategic development of BBCG's aged care business. Main focuses were on long-term cash flow stability, profitability and increased portfolio diversification into both New South Wales and high care beds. The goodwill amount is attributable to the strong market position and synergies expected to arise after the acquisition.

The assets and liabilities arising from the acquisitions are as follows:

	Fair value $'000
Cash and cash equivalents	11,631
Bed licences	55,906
Property, plant and equipment	96,578
Deferred tax assets	1,692
Other	2,822
Accommodation bonds	(30,571)
Payables	(4,019)
Borrowings	(252)
Deferred tax liabilities	-
Provisions	(5,642)
Net identifiable assets acquired	**128,145**

42. SHARE-BASED PAYMENTS

(A) OPTIONS

Details of Options granted over unissued securities of the Group, Options that lapsed during the year and securities of the Group that were issued during the year as a result of exercise of Options are:

Grant date	Expiry date	Exercise price $	Balance at beginning of the year	Options issued during the year	Options lapsed during the year	Securities issued during the year as a result of exercise of Options	Options forfeited during the year	Options balance at end of year	Vested and exercisable at end of year
Consolidated and Parent Entity - 2008									
28/08/2003	31/07/2007	2.50	2,625,000	-	(2,625,000)	-	-	-	-
15/09/2004	22/10/2009	1.25	300,000	-	-	-	-	300,000	300,000
10/02/2005	23/03/2010	1.38	300,000	-	-	-	-	300,000	300,000
10/02/2005	23/03/2011	1.52	300,000	-	-	-	-	300,000	300,000
01/07/2005	01/07/2010	1.15	1,000,000	-	-	-	-	1,000,000	1,000,000
01/07/2006	01/07/2011	1.07	1,200,000	-	-	-	-	1,200,000	1,200,000
01/07/2007	01/07/2012	1.12	-	800,000	-	-	-	800,000	800,000
			5,725,000	**800,000**	**(2,625,000)**	**-**	**-**	**3,900,000**	**3,900,000**
Weighted average exercise price			$1.79	$1.12	$2.50	-	-	$1.17	$1.17

No Options were vested and unexercisable at the end of the year.

Grant date	Expiry date	Exercise price $	Balance at beginning of the year	Options issued during the year	Options lapsed during the year	Securities issued during the year as a result of exercise of Options	Options forfeited during the year	Options balance at end of year	Vested and exercisable at end of year
Consolidated and Parent Entity - 2007									
28/08/2003	31/07/2006	2.25	2,625,000	-	(2,625,000)	-	-	-	-
28/08/2003	31/07/2007	2.50	2,625,000	-	-	-	-	2,625,000	2,625,000
15/09/2004	22/10/2009	1.25	300,000	-	-	-	-	300,000	300,000
10/02/2005	23/03/2010	1.38	300,000	-	-	-	-	300,000	300,000
10/02/2005	23/03/2011	1.52	300,000	-	-	-	-	300,000	300,000
10/02/2005	23/03/2012	1.67	300,000	-	-	-	(300,000)	-	-
10/02/2005	23/03/2013	1.84	300,000	-	-	-	(300,000)	-	-
01/07/2005	01/07/2010	1.15	1,000,000	-	-	-	-	1,000,000	1,000,000
01/07/2005	01/07/2011	1.07	-	1,200,000	-	-	-	1,200,000	1,200,000
			7,750,000	**1,200,000**	**(2,625,000)**	**-**	**(600,000)**	**5,725,000**	**5,725,000**
Weighted average exercise price			$2.05	$1.07	$2.25	-	$1.76	$1.79	$1.79

No Options were vested and unexercisable at the end of the year.

Refer to the Remuneration Report and Note 30 for further information on share-based payments.

(B) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent Entity	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Options issued under employee Option plan (Note 28(A))	423	490	423	490

Notes to the Financial Statements

for the financial year ended 30 June 2008

43. EVENTS OCCURRING AFTER REPORTING DATE

In June 2008 the Board of BBCG appointed ABN AMRO to identify options for reducing the gap between BBCG's underlying asset values and recent market trading prices. On 27 August 2008 the Board announced its recommendations from the strategic review undertaken in relation to the business.

The outcomes of the strategic review were:

- price discovery process for the whole of BBCG to assess against future Securityholder value
- internalisation of the management agreement, including a deleveraging program

PRICE DISCOVERY PROCESS

During the course of the strategic review ABN AMRO had been approached by several parties interested in acquiring BBCG as a whole. In light of these approaches and current market conditions, the Independent Directors believe that it would be in the best interests of Securityholders to explore this interest.

The Independent Directors have agreed with Babcock & Brown an arrangement under which parties interested in making an offer for the whole of BBCG can engage in negotiations with the Independent Directors, with certainty that, subject to the recommendation of the Independent Directors, they can acquire Babcock & Brown's rights under the existing management agreements. Babcock & Brown has agreed to dispose of its management rights to a purchaser acceptable to the Independent Directors, for a consideration of $17.5 million.

The arrangements are designed to ensure all potential buyers have an opportunity to understand the BBCG business and to bring forward offers. The Independent Directors have established a process with ABN AMRO to assess the capabilities of all prospective purchasers to carry on the business of BBCG and to ensure that all proper offers are subject to consideration by the Independent Directors within a known timetable.

A dataroom has been established under the management of ABN AMRO. It will open from 1 September 2008 for a concentrated period of time with a view to soliciting proposals to acquire BBCG as a whole.

If an acceptable takeover offer is received under the process described above, Securityholders will receive all further relevant information including detail of the offer.

INTERNALISATION AND DEBT REDUCTION PROGRAM

BBCG has entered into an agreement with wholly-owned Babcock & Brown subsidiaries for the internalisation of the management agreement between BBCG and its manager and responsible entity ("Management Agreements").

BBCG has agreed to pay Babcock & Brown $17.5 million as consideration for internalising the Management Agreements. The acquisition is expected to be earnings accretive over the medium term and will be funded at the option of BBCG through cash or scrip issued to Babcock & Brown.

Under the internalisation the core management team (including John Martin, CEO) who are currently employed by Babcock & Brown, will transfer to BBCG.

The resolutions (together with an explanatory memorandum) to approve the internalisation will be considered at an Annual General Meeting of BBCG. This is expected to be held around 20 November 2008. The internalisation is subject to a number of conditions precedent including:

- BBCG not receiving and recommending a takeover offer which becomes unconditional for the whole of BBCG
- BBCG Securityholder approval

As a consequence of the strategic review, BBCG will also pursue a debt reduction program to materially reduce debt levels over the short to medium term, and various capital management initiatives. These include the reduction of inventory levels, a reduction in the rate of development, and selective land sales which have been approved by the BBCG Board to reduce BBCG's debt levels during 2009.

Directors' Declaration

for the year ended 30 June 2008

In the Directors' opinion:

(a) the financial statements and notes set out on pages 62 to 132 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the Company's and Group's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 25 to 42 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The Directors have been given the declaration by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

J D Martin
Managing Director

28 August 2008
Sydney, New South Wales

Independent Auditor's Report

to the Members of Babcock & Brown Communities Group

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of Babcock and Brown Communities Limited

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Babcock and Brown Communities Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Babcock and Brown Communities Limited and the Babcock and Brown Communities Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Babcock and Brown Communities Limited (continued)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Babcock and Brown Communities Limited is in accordance with 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 2008 and of their performance for the year ended on that date; and

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

(b) the consolidated financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

Significant uncertainty regarding continuation as a going concern

Without qualification to our opinion expressed above, we draw attention to Note 1 in the financial report which comments on compliance with debt covenants, the risk and possible consequences of a breach of a debt covenant in the financial year ending 30 June 2009 and the future actions proposed by the company to reduce the risk of breaching a debt covenant in the future. These conditions, along with other matters as set out in Note 1, indicate the existence of a significant uncertainty which casts significant doubt about the ability of Babcock & Brown Communities Limited and its controlled entities to continue as a going concern and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 42 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Babcock and Brown Communities Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Gareth Winter

Gareth Winter
Partner

Sydney
28 August 2008

Shareholder Information

SUBSTANTIAL STAPLED SECURITYHOLDERS AS AT 4 SEPTEMBER 2008

The names of the substantial stapled Securityholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

Stapled Securityholder	Number of fully paid stapled securities	Percentage held
Babcock & Brown Group	85,764,267	13.16
Deutsche Bank AG	65,977,726	10.12
Lend Lease Corporation Limited	47,379,509	7.27
Macquarie Group Limited	32,600,438	5.00

TOP 20 STAPLED SECURITYHOLDERS AS AT 4 SEPTEMBER 2008

The names of the 20 largest holders of quoted stapled securities are:

Stapled Securityholder		
ANZ Nominees Limited	76,197,303	11.69
Lend Lease Corporation Limited	47,379,509	7.27
National Nominees Limited	36,183,564	5.50
Citicorp Nominees Pty Ltd	22,540,513	3.46
Citicorp Nominees Pty Ltd	20,805,353	3.19
Bond Street Custodians Limited	18,245,031	2.80
Forbar Custodians Limited	15,160,103	2.33
Cogent Nominees Pty Limited	11,329,910	1.74
HSBC Custody Nominees (Australia) Limited	10,148,939	1.56
Pagodatree Investments Limited	10,000,000	1.53
J P Morgan Nominees Australia Limited	9,187,169	1.41
L J K Nominees Pty Ltd	7,300,000	1.12
Anthony Barakat Equities Pty Ltd	7,219,790	1.11
UBS Wealth Management	6,426,146	0.99
Citicorp Nominees Pty Ltd	6,176,653	0.95
UBS Nominees Pty Ltd	5,167,751	0.79
Australian Executor Trustees Limited	3,948,060	0.61
Bentale Pty Ltd	3,747,004	0.57
Chriswall Holdings Pty Ltd	3,592,449	0.55
Southgate Investment Funds Limited	3,390,707	0.52
Total Top 20	**324,145,954**	**49.74**
Remaining stapled Securityholders	**327,581,982**	**50.26**
Stapled securities on Issue	**651,727,936**	**100.00**

DISTRIBUTION OF STAPLED SECURITYHOLDERS AS AT 4 SEPTEMBER 2008

The number of stapled Securityholders, by size of holding, in each class of stapled security is:

	Number of Holders	Number of Shares
1 - 1,000	734	413,391
1,001 - 5,000	3,067	9,791,719
5,001 - 10,000	2,044	17,437,337
10,001 - 100,000	4,435	140,342,384
100,001 and over	487	483,743,105
Total	**10,767**	**651,727,936**

There were 734 holders of less than a marketable parcel of ordinary stapled securities.

Corporate Directory

DIRECTORS
J Sloan (Chairman)
J Martin
R Topfer
G Martin
A Love
A Schwartz

COMPANY SECRETARY
S Lander

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201 Sussex Street
Sydney New South Wales 2000

BANKERS
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Level 12
20 Martin Place
Sydney New South Wales 2000

National Australia Bank Limited
Institutional Banking-nabCapital
Level 24, NAB House
255 George Street
Sydney New South Wales 2000

Commonwealth Bank of Australia Limited
Level 15
52 Martin Place
Sydney New South Wales 2000

NOTICE OF ANNUAL GENERAL MEETING
Date: 2.00pm, Thursday, 20 November 2008
Location: The Auditorium
Museum of Sydney
37 Phillip Street
Sydney New South Wales 2000

STOCK EXCHANGE LISTING
Babcock & Brown Communities Group is listed on the Australian Stock Exchange

SHARE REGISTRY
Link Market Services Limited
Level 12
680 George Street
Sydney New South Wales 2000

WEBSITE ADDRESS
www.bbcommunities.com

DISCLAIMER
Provision of an undertaking from the Company and the Trust to disclose to every person who may subscribe to securities under an offer document, and in every annual report of the Entities, that ASX reserves the right (but without limiting its absolute discretion) to remove any or all of the Entities from the official list if any of the securities in the Entities cease to be stapled together, or any equity securities are issued by any of the Entities which are not stapled to corresponding securities in the other Entities.

The information contained in this report does not constitute an offer of or invitation to invest in or subscribe for securities issued by Babcock & Brown Communities Limited.

In providing this report, Babcock & Brown Communities Limited has not considered the investment objectives, financial position or particular needs of the recipient. Before making any investment decision with respect to securities issued by Babcock & Brown Communities Limited, the recipient should consider its own investment objectives, financial position and needs and, if necessary, consult appropriate professional advisors.

Babcock & Brown Communities Limited's consolidated financial report has been prepared to enable it to comply with its obligations under the Australian Corporations Act and the ASX Listing Rules and to satisfy the requirements of the Australian accounting standards. The responsibility for preparation of the consolidated financial report and any financial information contained in this Annual Report rests solely with the Directors of the Company.