Financial REPORT 2010

aevum LIMITED

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Corporate Directory

ABN 80 087 648 691

A description of the Group's operations and of its principal activities is included in the review of operations in the directors' report on page 2.

Directors
Graham Lenzner (Chairman)
Steven Mann (Managing Director)
Melanie Willis
Phillip Anderson
Garry Cameron
Margaret Campbell

Company Secretary
Peter Homan

Principal and Registered office
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Bankers
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ANZ Banking Group
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AUSTRALIA

Auditors
Ernst & Young
680 George Street
Sydney NSW 2000
AUSTRALIA

Directors' Report

The Directors submit their report for the year ended 30 June 2010.

This annual report covers both Aevum Limited as an individual entity and the consolidated entity comprising Aevum Limited and its subsidiaries (The "Group" or "Aevum"). The Group's functional and presentation currency is AUD ($).

Directors

The names of the Directors of the company in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Graham Lenzner
Melanie Willis
Steven Mann
Phillip Anderson
Garry Cameron (appointed 14 August 2009)
Margaret Campbell (appointed 4 February 2010)

GRAHAM LENZNER

Non-Executive Independent Chairman

Graham became Chairman on 24 November 2005 and is an experienced company Director with a distinguished career in funds management, stock broking and investment banking. Previous roles include Joint Managing Director of Pacific Mutual Australia, General Manager, Finance and Investments for MMI Limited and Deputy Managing Director of Aquila Steel. Graham is currently Chairman of Device Technologies Australia Limited.

STEVEN MANN

Executive Managing Director

Steve was appointed Managing Director on 30 September 2008 (effective from 13 October 2008). He has 20 years experience in property and development, having held senior positions in Stockland, most recently as CEO Commercial and Industrial, and previously at Westpac Property Management and Schroders Australia Property Management. As well as a Bachelor of Business (Land Economy), Steve holds a Graduate Diploma (Applied Finance & Investments), Securities Institute of Australia and is a Registered Real Estate Valuer.

MELANIE WILLIS

Non-Executive Independent Director

Melanie brings to Aevum considerable expertise in the provision of strategic advice, structured finance and risk management and has over 16 years investment banking experience. Previous roles include Director Investment Banking with Deutsche Bank, Senior Vice President with BT Alex Brown and Manager Structured Finance with Westpac Corporate Finance. Melanie is a Director of WHK Group Limited (ASX: WHG) and previously a Director of Hydro Tasmania. Melanie also holds an executive role as Executive General Manager Strategy and Investments at National Roads and Motorists' Association Limited (NRMA). Melanie is Chairman of the company's Audit and Risk Committee.

PHILLIP ANDERSON

Non-Executive Independent Director

Phillip brings to Aevum a wealth of property and corporate experience. A CPA for 30 years, Phillip has had an extensive career at a senior management level in the property industry, including 15 years with Hooker Corporation and 14 years with Lend Lease Corporation, where he was Managing Director of Lend Lease Development Pty Ltd. Phillip is currently a non-executive Director of Hastie Group Limited (ASX: HST), and Chairman of Isis Group Holdings Pty Ltd, Sakkara Holdings Pty Ltd and Penrith Lakes Development Corporation Ltd. Phillip was previously a Director of Macarthur Cook Ltd (ASX: MCK), the New South Wales Growth Centres Commission and Espreon Limited (ASX: EON).

Directors' Report (Continued)

GARRY CAMERON
Non-Executive Independent Director
Garry brings to the company a broad range of business management skills and importantly Governance and Property expertise for a listed environment. Garry is a currently non-executive director with ANZ Specialist Asset Management, ANZ Balanced Equity Funds Ltd., AHS Hospitality Limited and AFL club Richmond where he has been Honorary Treasurer for 9 years. He has held senior executive positions in finance, telecommunications, and funds management businesses, and before retiring was Managing Director for 10 years of a listed hotel and property group. Garry was recognized in the 1992 Australia Day Honours list for his contribution to the Finance and Telecommunications industries.

MARGARET CAMPBELL
Non-Executive Independent Director
Margaret has extensive knowledge of the aged care and retirement living industries. She served as Chairman of the IOR Group since its formation in March 2007 and Chairman of Salford Living and its subsidiaries from 2008. During this time she held directorships with IORFS, Salford Living, IOR Treasury Services and Income Recipient Pty Ltd. Margaret also has considerable legal experience, having worked as a solicitor with a public sector board, then moving into private practice for two major commercial law firms in Sydney. She has been a director of Aevum since February 2010 following the merging of IOR with Aevum. Margaret holds a Bachelor of Laws and a Bachelor of Economics.

Company Secretary

PETER HOMAN
Company Secretary and Chief Financial Officer
Peter Homan was appointed Aevum Limited's secretary in January 2006. Peter is a Chartered Accountant, bringing over 21 years accounting and finance experience to the Group. Previous positions included senior financial and planning roles with listed Australian companies including Baycorp Advantage Limited and Westfield Holdings Limited.

Interests in Shares and Options of the company

As at the date of this report, the interests of the Directors in the shares and options of the company were as follows:

	Ordinary Shares	Options
G. Lenzner	206,839	-
S. Mann	-	515,426
M. Willis	52,286	-
P. Anderson	10,000	-
G. Cameron	10,000	-
M. Campbell	39,352	-

Principal Activities

The principal activities of the entities within the Group during the financial year were the operation, management and development of retirement villages and aged care facilities.

Corporate Information

Aevum Limited is an ASX listed public company limited by shares that is incorporated and domiciled in Australia. The registered office, and principal place of business, is Level 6, 23-25 O'Connell Street, Sydney, NSW 2000.

Employees

The Group employed 582 employees as at 30 June 2010 (2009: 342 employees).

Directors' Report (Continued)

Review of Operations

Despite the difficult economic conditions last year, a good financial result has been recorded during the financial year ended 30 June 2010.

The Group's operations recorded a pre-tax profit of $24.3 million for the year ended 30 June 2010 compared to a pre-tax loss of $22.2 million for the year ended 30 June 2009. The net profit after tax for the year was $28.6 million compared to a loss of $12.2 million for the same period ended 30 June 2009.

Basic earnings per share for the year was 19.2 cents compared to a loss per share of 9.7 cents for the year ended 30 June 2009.

Financial year ended 30 June 2010 marked a significant step in the Group's growth with the successful merger with IOR Group Limited (IOR) in January 2010. This major milestone for the company has seen assets increase by 48% with gross value of assets now in excess of $1,227 million and expanded the business to a national platform across five states. The Group now has 30 villages with over 3,100 accommodation units and 367 aged care beds. The addition of eight new villages to the portfolio represents an extra 963 units and 165 aged care beds. All of the villages are well established, with six situated in metropolitan locations and the average age of residents is 81.5 years. The merger will provide significant strategic benefits to the business including a larger capital base, management synergies, reduced gearing and an enhanced development pipeline.

With our focus on stock management and growing our resales effort, operating cash flow increased by 37% to $29.1 million. The post-merger value of retirement living assets were up 44% and approximately $12.5 million was spent on development and the upgrading of villages.

With the improved financial performance of the Company, the Board was pleased to increase the final dividend by 50% to three cents per share taking the full year unfranked dividend to five cents per share.

The Board are continuing to apply a disciplined approach to investment and capital management. We believe that the Company has sufficient cash reserves, conservative debt levels and internal cash flow generation to fund the Company's growing development pipeline, as well as modest acquisition activities. We have a strong balance sheet with gearing of 21%. Our committed debt facility with Westpac and ANZ for $150 million is currently drawn to $115 million and has a maturity date of September 2011. The Company intends to enter into renegotiation of the facility in the next six months.

Retirement Villages

The Group's retirement village operations (independent living units and serviced apartments) recorded a pre-tax profit for the year of $33.9 million compared to a pre-tax loss of $5.8 million for the year ended 30 June 2009.

With the improved economic environment there has been a significant growth in unit sales, up 76% from last year, with total unit resales of 240. For the Aevum villages pre-merger, resales increased 46% to 199 units and this represented 9.5% turnover of the portfolio.

Portfolio occupancy has increased to 91.2%, from 90.4% in June 2009, and 11 of our villages have occupancy above our long-term target of 95%. Sales price growth has been moderate at 2.0% for the year, as prices in some of our villages have been reset to meet market conditions.

We continue to target our retirement living units to the mid-market Australian, with our average unit value at $325,000 with our new development projects increasing this average price over the coming years.

Directors' Report (Continued)

Review of Operations (continued)

Aged Care

The Group's aged care operations (nursing homes and low care lodges) recorded a pre-tax profit for the year of $1.3 million (2009:$0.4 million). Following the merger with IOR, we now have aged care facilities in four villages with varying levels of care, located in NSW and Victoria, with a total of 367 beds.

Strong revenue growth was achieved in our two NSW facilities increasing 10% to $12.7 million, due to high occupancy rates averaging over 96%, cost containment and revenue initiatives. Accommodation bonds increased 75% to $51.1 million, attributed significantly to facilities acquired in Victoria as part of the IOR merger.

Compared with industry benchmarks our NSW facilities performed well and our focus next year will be to improve the returns from the two previously owned IOR aged care facilities in Victoria.

Results of Operations

The operating results of Aevum Limited during the financial year are as follows:

	2010 $'000	2009 $'000
Net profit / (loss) after tax	**28,604**	(12,204)

Review of Financial Condition

Capital / Equity Raising

During the year, on 29 January 2010, the company issued 48,275,105 new Aevum shares to IOR Group shareholders as part of the Scheme of Arrangement (Scheme) relating to the merger of Aevum and IOR Group Limited.

A further 1,218,361 shares were issued to existing shareholders under the company's Dividend Reinvestment Plan. 954,234 options were issued under the Special Bonus Scheme and 20,979 options were exercised during the year. For further details, refer to note 27 and note 28 of the financial statements.

Liquidity and Funding - Cash from Operations

Cash and cash equivalents increased by $7.4 million (2009: net decrease $3.5 million) during the year increasing the net cash and cash equivalents at the balance date to $21.3 million (2009: $13.9 million).

Operating activities generated $29.1 million (2009; $21.2 million) of net cash inflows. The increase is primarily driven by a strategic focus on stock management and growing resales.

Cash flows used in investing and financing activities amounted to $21.3 million (2009: $22.4 million) and $0.4 million (2009: $2.3 million).

The Group has total interest bearing loans of $115 million (2009: $90 million) and total assets of $1,227 million (2009: $828.3 million), with net tangible assets of $2.02 per share (2009: $2.07).

Directors' Report (Continued)

Review of Financial Condition (continued)

Asset and Capital Structure

	Consolidated	
	2010 $'000	2009 $'000
Interest bearing loans & borrowings	115,000	90,000
Cash and cash equivalents	(21,288)	(13,925)
Net Debt	93,712	76,075
Total Equity	359,481	265,625
Total Capital Employed	453,193	341,700
Gearing	21%	22%

The level of gearing is within the acceptable limits of less than 30% as set by the Directors. The Group is currently operating well within its stated policy and debt financing covenants.

Risk Management

The Group takes a proactive approach to risk management. Risk management continues as a key focus of the Board Audit & Risk Committee. The role of the committee includes advising on the establishment and maintenance of a framework of internal controls including the safeguarding of the assets, the maintenance of proper accounting records and the reliability of the financial information. The committee reviews the management and reporting of significant risks facing the company and monitors compliance with statutory responsibilities.

Management routinely prepares a risk management plan as part of the regular Board papers and key risks are closely monitored including ratings of likelihood and impact. Mitigation strategies are also in place for each key risk identified.

Significant Changes in the state of affairs

Apart from the acquisition of IOR Group Limited as detailed in note 26, results from the operations and the items disclosed in the significant events after the balance date, there were no significant changes in the state of affairs of the Group.

Significant Events after the Balance Date

On 2 August 2010, Stockland Development Pty Limited, a wholly owned subsidiary of Stockland Corporation Limited, announced a cash offer to acquire Aevum. Stockland has a 15.9% interest in Aevum as at 5 August 2010 and has lodged a Bidder Statement with the ASX Limited and the Australian Securities & Investments Commission offering $1.50 cash for each Aevum share.

Aevum's Board have rejected the offer and strongly believe that Stockland's offer is highly opportunistic and significantly undervalues Aevum. Aevum has appointed Greenhill Caliburn as its financial adviser and Minter Ellison as its legal adviser in relation to Stockland's offer.

Likely Developments & Expected Results

The global economy remains fragile, although there is some recovery following the Global Financial Crisis (GFC) in 2008/09. We begin the year firmly focused on the needs of our customers. New residents moving into independent living units in our villages are now in their mid 70's and the average age across all of our residents is approximately 81.5 years, so the focus on the provision of "continuum of care" services is of growing importance to our customers.

Directors' Report (Continued)

Given the growth of the Company to a national portfolio of 30 villages and as part of the integration of IOR we have undertaken a brand refresh project to ensure the vision of the Company aligns with the needs of the key stakeholders in the business – residents, staff and shareholders. Our new belief statement: "We partner with our communities to enrich lives by offering lifestyle choices" reflects our desire to become the retirement living partner of choice for seniors.

We expect FY 2011 will see continued recovery in the Australian economy, however we are likely to experience volatility from global markets as excessive government debt is managed with austerity measures. Importantly for the Australian economy we have high employment levels, comparably low government debt and continuing demand for our resources, particularly from China.

The housing market is expected to continue to grow, albeit not at the same pace as the rebound in pricing seen in FY 2010, rather due to the fundamentals of solid population growth and under supply of new housing. The Reserve Bank of Australia's decisions in relation to interest rates will impact the momentum of the housing market during FY 2011, as affordability is now a concern for the average household again.

Aevum is well placed to deliver strong financial performance in FY 2011 as we continue to improve occupancy in the portfolio, with a strong deposit pipeline and good levels of development units available for sale. We will benefit from economies of scale emanating from the merger with IOR and we are targeting savings in the "cost of doing business" in key areas for FY 2011.

Unissued Shares

As at the date of this report, there were 1,076,898 unissued ordinary shares under options. Refer to note 27(c) of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, employees exercised options to acquire 20,979 fully paid ordinary shares in Aevum Limited for no consideration. No further options have been exercised since the end of the financial year. Refer to note 27(c) of the financial statements for further details.

Directors' Meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Directors Meeting	Audit & Risk Committee	Nomination & Remuneration Committee
Number of meetings held	13	5	1
G. Lenzner	12	5	1
S. Mann	13	-	-
M. Willis	13	5	-
P. Anderson	13	-	1
G. Cameron[1]	12	3	-
M. Campbell[1]	4	-	-

[1] - director for part of the year

The members acting on the Audit and Risk Committee of the board during the year were M. Willis, G. Lenzner and G. Cameron.

The members acting on the Nomination and Remuneration Committee during the year were G. Lenzner, P. Anderson, and M. Campbell (appointed 4 February 2010).

The Executive Team and other board members may attend committee meetings by invitation.

Directors' Report (Continued)

Indemnification and Insurance of Directors and Officers

To the extent permitted by law, the company indemnifies officers of the company against any liability (other than for legal costs) incurred by that person as an officer of the company or of its subsidiaries.

To the extent permitted by law, the company indemnifies officers of the company against reasonable legal costs incurred in defending an action for a liability incurred or allegedly incurred by that person as an officer of the company or of its subsidiaries.

During or since the end of the financial year, the company has paid or agreed to pay premiums in respect of a contract insuring all Directors and executive officers against certain liabilities as permitted by the Corporations Act 2001. The insurance policy prohibits disclosure of the nature of the liability, the amount of the premium and the limit of liability.

Dividends

On 21 October 2009, the Directors paid a final dividend of 2.0 cents per share on ordinary shares in respect of the 2009 financial year. An interim dividend of 2.0 cents per share was paid on 24 March 2010 for the 2010 year.

A final dividend for the 2010 year of 3.0 cents per share is payable on 21 October 2010.

The dividend will be unfranked, and contain no Conduit Foreign Income. The previously established Dividend Reinvestment Program (DRP) has been suspended indefinitely.

Environmental

The Group is 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 Group obtains development approvals from respective local authorities in relation to construction and development of new and existing stages of its retirement and aged care 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 materials.

No environmental breaches have been notified by any government agencies during the financial year ended 30 June 2010.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Auditor's Independence Declaration

We have received the auditor's independence declaration as required under section 307C of the Corporations Act 2001 which is included on page 16 of the Directors' report.

Non-audit Services

Non-audit services provided by the entity's auditor, Ernst & Young, are detailed in note 18 to the financial statements.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Directors' Report (Continued)

Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for Directors and executives of Aevum Limited (the company) in accordance with the requirements of the *Corporations Act 2001* and its Regulations. These have been audited and labelled as such. For the purposes of this report Key Personnel (KP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company, and includes the two highest paid executives.

For the purposes of this report, the term 'executive' encompasses the Managing Director, and the Chief Financial Officer.

Details of Key Personnel

Graham Lenzner	Non-Executive Chairman
Steven Mann	Executive Managing Director
Melanie Willis	Non-Executive Director
Phillip Anderson	Non-Executive Director
Garry Cameron	Non-Executive Director
Margaret Campbell	Non-Executive Director
Peter Homan	Chief Financial Officer and Company Secretary

There has been no change to the KP after reporting date and before the date the financial report was authorised for issue.

Remuneration philosophy

The performance of the Group depends upon the quality of its Directors and executives. To prosper, the Group must attract, motivate and retain highly skilled Directors and executives.

To this end, the Group embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives.
- Link executive rewards to shareholder value.
- Significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks.
- Establish appropriate, stretch performance hurdles in relation to variable executive remuneration.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the Directors, and key personnel including the Managing Director and Chief Financial Officer and reviewing the compensation arrangements of the senior management team.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and executives on a periodic basis by reference to relevant employment market conditions and consultation with qualified remuneration advisors with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Directors' Report (Continued)

Remuneration Report (Audited) (continued)

Non-executive Director remuneration

Objective

As at the date of this report, all company Directors are non-executive Directors (excluding the Managing Director).

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held on 23 October 2009 when shareholders approved an aggregate remuneration for non-executive Directors of $650,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Each Director receives a set fee for being a Director of the company. The Chairman receives a higher fee in recognition of the additional responsibilities of the role.

Non-executive Directors have long been encouraged by the board to hold shares in the company (purchased by the Director on the market). It is considered good governance for Directors to have a stake in the company.

The remuneration of non-executive Directors for the year ended 30 June 2010 is detailed in Table 1 of this report.

Executive remuneration

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure that total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee engaged an external consultant to provide independent advice to Directors detailing market levels of remuneration for comparable executives and to assist with contract documentation.

It is the Nomination and Remuneration Committee's policy that written employment contracts are entered into with the executive team. Details of these contracts are provided on page 13.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
  - Short Term Incentive ('STI'); and
  - Long Term Incentive ('LTI').

The proportion of fixed remuneration and variable remuneration is established for each executive by the Nomination and Remuneration Committee. Table 1 of this report details all remuneration components of the most highly remunerated executives.

Directors' Report (Continued)

Remuneration Report (Audited) (continued)

Remuneration structure (continued)

Variable remuneration – Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Group's annual financial and operational targets with the remuneration received by the executives and senior managers charged with meeting those targets. The total potential STI available is set at a maximum of 80% of fixed remuneration for executives. These amounts can be increased by the Nomination and Remuneration Committee in instances where targets are substantially exceeded. The STI scheme is set at a level so as to provide sufficient incentive to the executive to achieve the financial and operational targets and such that the cost to the company is reasonable in the circumstances.

Structure

Actual STI payments granted to each executive depend on the extent to which specific financial and operating targets set at the beginning of the financial year are met. The financial target is typically an agreed increase over the annual budget signed off by the Board. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as retirement village unit price growth, occupancy rates, earnings and revenue growth, risk management, business development and leadership and team contribution. The company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme.

On an annual basis, after consideration of performance against KPIs, an overall performance of the company is assessed by the Nomination and Remuneration Committee. The individual performance of each executive is also assessed and both assessments are taken into account when determining the amount, if any, of the short term incentive allocated to each executive.

The amount of annual STI payments to executives is subject to the approval of the Nomination and Remuneration Committee. Payments are made as a cash bonus.

Variable remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI program is to link the achievement of the Group's long term financial performance, as measured by Total Shareholder Return (TSR) against ASX 300 less ASX 100 performance with the remuneration received by the executives charged with meeting those targets. The total potential LTI available is up to a maximum of the STI payment but is payable in zero exercise price options (ZEPOs) which have three years vesting period. The LTI scheme is set at a level so as to provide sufficient incentive to the executive to achieve the financial and operational targets and such that the cost to the company is reasonable in the circumstances.

For allocations made in respect of year ended 30 June 2008 and beyond, the following vesting hurdles apply when measured against company performance:

Total shareholder return*	Percentage of ZEPOs vesting
Below the median of the ASX 300 – ASX100	0%
At the median of the ASX 300 – ASX100	50%
Between the median and 75th percentile of the ASX 300 – ASX100	Between 50% and 100% on a pro-rata basis

**Total Shareholder Return means share price growth/change plus dividends*

Directors' Report (Continued)

Remuneration Report (Audited) (continued)

Remuneration structure (continued)

Variable remuneration – Long Term Incentive (LTI)

To account for the time value cost of money an additional 20% is applied to the dollar value of STI for any allocations in respect of FY2009 and beyond.

LTI allocations vest after three years and are forfeited if employment is ceased prior to vesting except in cases of corporate restructure or change in a control.

Structure

An annual grant of ZEPOs may be made to each executive up to the actual STI payment made to them, if any, in terms of dollar value. The grant of ZEPOs under the LTI is at the discretion of the Nominations and Remuneration Committee. The vesting of ZEPOs is subject to the company's performance measured by the growth in the Group's TSR against ASX 300 less ASX 100 performance over a three year period.

The amount of ZEPOs granted and subsequently vesting, if any, under the LTI is subject to approval by the Nomination and Remuneration Committee. Once ZEPOs have vested the holder has six months in which to exercise the ZEPOs after which they lapse. One share will be received by the executive or senior manager for each ZEPO exercised.

Group performance

Shareholder Wealth

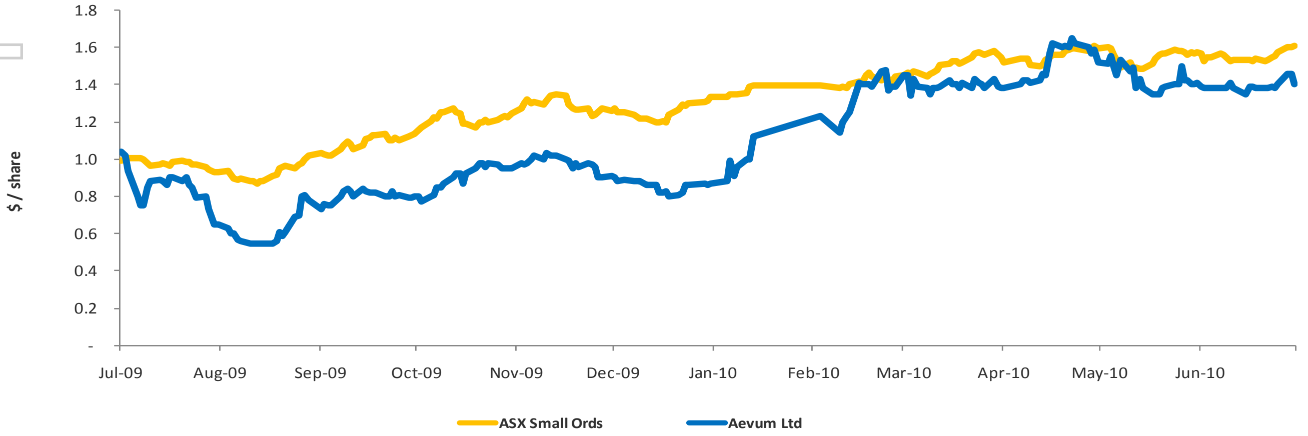
Shareholder wealth has improved significantly resulting from strong operational performance and growth through mergers and new developments. This was mainly contributed by external market forces. Net tangible assets are now $2.02 per share (2009: $2.07).

Effective from year ended 30 June 2008, the Group's long term incentive plan for executives is linked to its Total Shareholder Return (TSR). The Group's TSR growth will be compared to that of ASX S&P 300 less ASX 100 Index to determine vesting entitlements to performance incentives.

According to Aevum's Scheme Rules, TSR is defined as "the total shareholder return calculated as the percentage difference between the market price of a Share at the start and end of the relevant period, plus the percentage of dividends per Share earned over the same period."

One of the significant components of the Aevum's TSR is the growth in the share price. This is presented below in graphical format.

Aevum Share Price 1 July 2009 – 30 June 2010



Source: ASX closing prices

Directors' Report (Continued)

Remuneration Report (Audited) (continued)

Employment agreements

The current employment agreement for the Managing Director commenced on 13 October 2008. The key terms of the agreement are as follows:

(i) Managing Director (MD)

Base salary (pa)	$500,000
Termination Benefit/Notice	Employment is terminable by giving of twelve months notice or payment in lieu

The MD is subject to performance agreements with short and long term incentives.

In addition, the following employment arrangements are included in the employment contract:

- Base salary = $500k inclusive of superannuation
- Termination benefit/notice = the MD may terminate his employment by giving six months notice and the Company may terminate his employment by giving 12 months notice (except in cases of serious misconduct where his employment may be terminated immediately)
- STI = eligible for a discretionary STI as determined by the Board from time to time.
- LTI = The Board may, in its absolute discretion, offer ZEPOs worth up to $350,000 (or, at the Board's absolute discretion, a greater sum) each year conditional upon prior approval by the shareholders of the Company.
- Performance (including key performance indicators) during the financial year will be taken into account when determining the allocation of ZEPOs. Any ZEPOs allocated will vest over three years.
- In the case of termination of the MD, Steven Mann, the following arrangements will apply in relation to STI and LTI:
  1. if termination is immediate, there will be no entitlement to any payments or benefits under any STI or LTI arrangements (even if his employment terminates after the completion of a financial year).
  2. if the MD resigns his employment:
     a) after the completion of a financial year but before the date of payment of any STI, the MD will be eligible to receive an STI determined by the Board for the previous financial year; and
     b) any unvested MD ZEPO's granted will immediately lapse on the Termination Date.
  3. if the Company terminates the MD's employment:
     a) the MD may be entitled to a payment in respect of an STI for the period to the Termination Date (being a period for which no STI has been determined or paid), calculated as a proportional amount having regard to the period of time the Executive works in the relevant financial year;
     b) any MD ZEPOs granted will vest on the Termination Date and will be exercisable by the MD for a period of three months commencing on and from the Termination Date

(ii) Chief Financial Officer (CFO)

Base salary (pa)	$300,000
Termination Benefit/Notice	Employment is terminable by giving of six months notice or payment in lieu.

The CFO is also subject to performance agreements with annual and long term incentives.

Base salary = $300k inclusive of superannuation

Directors' Report (Continued)

Remuneration Report (Audited) (continued)

Employment agreements (continued)

There are no other employees who meet the AASB 124 *Related Party Disclosures* definition of key management personnel.

All other executives have rolling contracts. The company may terminate the executive's employment agreement generally by providing three months written notice or providing payment in lieu of the notice period. All executives are subject to a performance agreement with annual incentives. The rights to ZEPOs will lapse if the executive resigns or is given a notice of termination for serious misconduct or poor performance. However, in the event of a takeover or change of control of the Group, or if an employee ceases to be employed because of death, retirement, redundancy, disability or other approved reason, then the executive will be entitled to a lesser number of ZEPOs calculated as the proportion between the number of days since granted and the total number of days in the original vesting period (i.e. 3, 4 or 5 years).

Remuneration of key management personnel

Table 1: Remuneration for the year ended:

	Short-Term			Post Employment	Long-Term	Share-Based Payment	Total	Total Performance Related
30 June 2010	Salary and Fees	Cash Bonus	Other	Super-annuation	Incentive Plans	Options[1]		
	$	$	$	$	$	$	$	%
Non-Executive directors								
G. Lenzner	133,027	-	-	11,972	-	-	144,999	-
P. Anderson	77,982	-	-	7,018	-	-	85,000	-
M. Willis	77,982	-	-	7,018	-	-	85,000	-
G. Cameron[2]	76,182	-	-	6,856	-	-	83,038	-
M. Campbell[2]	29,993	-	-	2,699	-	-	32,692	-
Sub-total Non-Executive directors	**395,166**	**-**	**-**	**35,563**	**-**	**-**	**430,729**	
Other Key Management Personnel								
S. Mann - Executive Managing Director	491,141	200,000	-	14,462	-	196,668	902,271	43.96%
P. Homan	285,539	70,000	4,000	14,462	-	114,208	488,209	37.73%
Sub-total other KMP	**776,680**	**270,000**	**4,000**	**28,924**	**-**	**310,876**	**1,390,480**	41.78%
Totals	**1,171,846**	**270,000**	**4,000**	**64,487**	**-**	**310,876**	**1,821,209**	31.90%

In addition to the above KMP, the following employees represent five highest paid executives for the year ended 30 June 2010. Paul Burkett, Suzanne Carter, and Jon Spencer were paid $275,539, $211,933, and $184,039 respectively.

30 June 2009								
Non-Executive directors								
G. Lenzner	122,865	-	-	11,058	-	-	133,923	-
P. Anderson	83,451	-	-	7,511	-	-	90,961	-
R. Gould	69,513	-	-	6,256	-	-	75,769	-
M. Willis[4]	75,512	-	52,525	6,796	-	-	134,833	-
Sub-total Non-Executive directors	**351,341**	**-**	**52,525**	**31,621**	**-**	**-**	**435,486**	
Other Key Management Personnel								
S. Mann - Executive Managing Director[3]	332,898	-	-	13,745	-	-	346,643	nm
P. Homan	287,798	93,500	4,000	13,592	-	46,750	445,640	31.47%
S. Owen[5]	65,206	67,500	519,513	11,944	-	55,586	719,748	17.10%
Sub-total other KMP	**685,902**	**161,000**	**523,513**	**39,280**	**-**	**102,336**	**1,512,031**	17.42%
Totals	**1,037,242**	**161,000**	**576,038**	**70,901**	**-**	**102,336**	**1,947,517**	13.52%

In addition to the above KMP, the following employees represent five highest paid executives for the year ended 30 June 2009. Paul Burkett and Karen Mattingley were paid $272,500 and $270,566 respectively.

1 - based on probability of vesting and achievement of performance hurdles

2 - director / executive for part of the year

3 - S. Mann was appointed Managing Director on 30 September 2008 effective 13 October 2008.

4 - remuneration was paid to M. Willis in her capacity as acting Chief Executive Officer for part of the year ended 30 June 2009.

5 - S. Owen resigned as CEO on 29 August 2008 and a termination payment of $519,513 was paid in accordance with his contract.

Directors' Report (Continued)

Remuneration Report (Audited) (continued)

Remuneration of key management personnel (continued)

Table 2: Compensation options: Granted and vested during the year

	Vested	Granted	Terms & Conditions for each Grant					
			Grant date	Fair Value per option at grant date	Exercise price per option	Expiry date	First exercise date	Last exercise date
	No.	No.		$	$			
30 June 2010								
S. Mann	-	175,000	23-Oct-09	2.00	-	30-Nov-11	30-Nov-09	30-Nov-11
S. Mann	-	340,426	01-Jul-09	1.41	-	30-Jun-12	30-Jun-12	30-Jun-12
P. Homan	21,127	187,234	01-Jul-09	1.41	-	30-Jun-12	30-Jun-12	30-Jun-12
Other senior management	2,817	251,574	01-Jul-09	1.41	-	30-Jun-12	30-Jun-12	30-Jun-12
30 June 2009								
P. Homan	9,796	54,614	01-Jul-08	1.71	-	31-Dec-11	30-Jun-11	31-Dec-11
Other senior management	3,479	45,824	01-Jul-08	1.71	-	31-Dec-11	30-Jun-11	31-Dec-11
30 June 2008								
P. Homan	-	21,127	01-Jul-07	3.55	-	31-Dec-10	30-Jun-10	31-Dec-10
Other senior management	-	9,859	01-Jul-07	3.55	-	31-Dec-10	30-Jun-10	31-Dec-10

Signed in accordance with a resolution of the Directors.

G. Lenzner
Chairman

Sydney
24 August 2010

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Auditor's Independence Declaration to the Directors of Aevum Limited

In relation to our audit of the financial report of Aevum Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

John Robinson
Partner
Sydney
24 August 2010

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Corporate Governance Statement

The Board of Aevum is responsible for the corporate governance of the company and is committed to achieving and demonstrating the highest standards of corporate governance.

This statement sets out the main corporate governance policies and practices adopted by the company. The board has adopted, where appropriate, the Principles of Good Corporate Governance and Best Practice Recommendations published by the ASX Corporate Governance Council in August 2007. These principles focus on the values of accountability, transparency and performance and are key tenets in the governance structure being driven by the board. The policies and practices of the company are in accordance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Recommendations) unless otherwise stated.

The board is committed to continual improvement and constantly strives to improve corporate governance and shareholder returns. Aevum Limited's corporate governance practices were in place throughout the year ended 30 June 2010.

A description of the company's main corporate governance practices is set out as follows:

Composition of the Board

The Board of Aevum presently consists of six directors.

The composition of the Board is determined in accordance with the following principles and guidelines:
• the board must comprise a minimum of three directors and a maximum of nine directors;
• a majority of the Directors should be independent, non-executive Directors; and
• directors must have an appropriate range of skills, experience and expertise, including the ability to effectively review and challenge the performance of management.

Board membership is reviewed annually having regard to the ability of the incumbent directors to continue to meet these principles and guidelines.

The Chairman is responsible for leading the board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior management. The Executive team comprising the Managing Director and the Chief Financial Officer are responsible for implementing Group strategies and policies.

The Directors in office at the date of this statement are:

Name	Position
Graham Lenzner	Independent Non-Executive Chairman
Steven Mann	Executive Managing Director
Melanie Willis	Independent Non-Executive Director
Phillip Andersen	Independent Non-Executive Director
Garry Cameron	Independent Non-Executive Director
Margaret Campbell	Independent Non-Executive Director

Aevum's criteria for determining the independence of directors is in accordance with the ASX recommendations and involves an assessment of whether a director is independent of management and free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement.

Term of Office

At the end of every annual general meeting after listing, one-third of the directors (to the nearest whole number) must retire.

A director must retire at the end of the third annual general meeting after the director's appointment even if it means that more than one-third of directors retire at an annual general meeting.

Those directors who have been longest in office since their last appointment must retire by rotation. Directors appointed on the same day may agree among themselves or determine by lot who must retire.

A director appointed to fill a casual vacancy or as an addition to the board is not subject to retirement by rotation and is not taken into account when determining how many directors must retire by rotation. A director appointed to fill a casual vacancy or as an addition to the board must retire at the next annual general meeting after their appointment.

Role of the Board

The principal objective of the board is to create superior shareholder returns. The board is accountable to shareholders for the performance of the company and is responsible for the practices and corporate governance of the company. The Aevum Board is responsible for the oversight of the Company, including input into and approval of policies, strategic planning and assessment of management capacity. The Board meets frequently with senior management and has open access to the wider management team to discuss current and future business issues, risks and strategies.

Corporate Governance Statement (Continued)

The responsibility for the operation and administration of the company is delegated by the board to the executive team. The board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess their performance.

The primary functions of the board include responsibility for:

- input into and approval of corporate strategy;
- formulating and approving objectives, goals and strategic direction for the executive team;
- selecting, appointing and reviewing the performance of the executive team;
- ensuring that adequate systems of internal control exist and are monitored for compliance;
- monitoring financial performance including adopting annual budgets and approving financial statements;
- ensuring significant business risks are identified and appropriately managed;
- ensuring the company conforms to occupational health and safety, social and environmental requirements;
- establishing and monitoring limits of authority for the executive team in relation to capital and operating expenditure, acquisitions, divestments, engagement and termination of employees and identified business drivers; and
- reporting to shareholders on performance.

The board is supported by committees of its members.

The board has adopted guidelines on disclosure of interests of directors and the participation at board meetings and voting where such interests are discussed. Consistent with the Corporations Act any director involved with a material or personal interest in a matter before the board must not be present when the matter is being considered or discussed, and may not vote on the matter.

Board Committees

The Board has established an Audit and Risk Committee and a Nomination and Remuneration Committee as an efficient mechanism for the detailed examination of practices in these areas. Ultimate responsibility rests with the Board and the responsibilities of the Board and its members are not diminished through the existence of these committees.

Audit and Risk Committee

Ms Melanie Willis is the Chairperson of the Audit and Risk Committee.

The functions and responsibilities of the Audit and Risk Committee are documented in a formal charter adopted by the board. The Audit and Risk Committee functions in accordance with the Audit and Risk Committee Charter. The Audit and Risk Committee meets periodically throughout the year to independently verify and safeguard the integrity of the Aevum Group's financial reporting. Its role is to advise on the establishment and maintenance of a framework of internal controls including the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The committee reviews the management and reporting of significant risks facing the company and monitors compliance with statutory responsibilities. The Committee reviews and reports to the board on the interim and annual accounts of the company.

Additionally the committee monitors the relationship with the external auditors, including their terms of engagement, ensures that the scope and quality of the audit is adequate for the operations of the company and accepts recommendations from the external auditors on the operations of the company.

The Executive Team and other board members may attend committee meetings by invitation.

Nomination and Remuneration

Mr Phil Anderson is the Chairperson of the Nomination and Remuneration Committee.

As part of the commitment to good governance, the board reviews practices and standards relating to the board's composition and the compensation of directors and senior executives. The committee is guided by the terms of the Nomination and Remuneration Committee Charter.

The board regularly discusses and reviews its composition to ensure that there is an appropriate mix of skills, expertise and experience. A profile of each director including details of the above capabilities, term of office and board committee memberships can be seen within the directors' report.

Newly appointed directors are entitled to receive training and support to familiarise themselves with matters appertaining to the business of the company, corporate strategy and all current issues before the Board.

The entire board reserves responsibility for approving remuneration for non-executive directors and the executive team. When setting fees for directors, account is taken of the time and input of the directors in carrying out their duties, responsibilities involved and membership of board committees.

Corporate Governance Statement (Continued)

Remuneration of the Managing Director, and the Chief Financial Officer are determined by the board in accordance with commercial guidelines and by reference to external consultants and published data.

The Board Nomination and Remuneration Committee is responsible for nominating candidates for the Board to consider as Board members in accordance with the Aevum Group's Constitution and the Board Nomination Committee Charter.

Prior to Board approval, the availability, expertise and possible conflicts of interest of a new Director are fully explored. Following Board approval and relevant probity checks, a new Director will stand for election by the Company's shareholders at the next Annual General meeting. Notices of meeting for the election of Directors comply with the ASX Corporate Governance Council's best practice recommendations.

New Directors are provided with a letter of appointment setting out the Aevum Group's expectations, their responsibilities, rights and the terms and conditions of their employment. All new Directors participate in an induction program which covers the operation of the Board and its committees and financial, strategic, operations and risk management issues.

Board Meetings

The board meets on a monthly basis with each board member receiving detailed operational and financial reports from management. These reports enable the directors to form views on the operations and directions of the company and be in a position to ask probing questions of management.

The board meetings consider a broad range of matters including reviewing capital management, acquisitions, operational and financial performance, occupational health and safety and delegated authorities.

The agenda for meetings is prepared by the Chairman with input from the executive team. Any member of the board may request the addition of an item to the agenda and time is made available at the end of the meeting for the raising of new business. Papers and submissions are circulated to directors, typically five days in advance of the meeting. The executive team is invited to join the board for discussion of relevant agenda items.

It is board policy that all directors of Aevum have unrestricted access to company records. Individual directors may seek access to senior employees to obtain further information or clarification. Such access requires the prior approval of the chairman which may not be unreasonably withheld.

Independent Professional Advice

Each director has the right to seek independent professional advice at the company's expense. Prior approval of the Chairman is required, which may not be unreasonably withheld.

Securities Trading Policy

Directors and officers of the company are subject to restrictions under the Corporations Act on trading securities in the company if they are in possession of inside information. This is regarded as any information that is non-public and, if it were public, that a reasonable person would expect to have a material effect on the price of the company's securities.

As a policy, all directors will be encouraged to own shares in the company.

The board has adopted a policy on trading in the company's securities, which applies to all directors and officers. Key aspects of this policy are as follows:
- directors and officers are encouraged to be long term holders of the company's securities and are discouraged from short-term trading;
- directors or officers may trade in the securities of the company in the six weeks immediately following the announcement to the public of the half year or full year financial results, providing the market has been fully informed;
- at all other times, directors or officers will require the prior consent of the chairman or company secretary to buy or sell securities in the company; and
- directors are required to notify the company secretary within two days of a change in their beneficial interest in the company's securities.

Performance Review

The Board regularly reviews its overall performance, as well as the performance of its committees, individual Directors and key executives.

The performance of the Executive Management Team including Managing Director and the Chief Financial Officer is reviewed annually by the Nomination and Remuneration Committee and the performance of other Senior Managers is reviewed semi-annually by their managers against predetermined goals and competencies. The performance of the Board, its Committees and Non-Executive Directors is determined through self-assessment and peer assessment under the leadership of the Chairman.

Directors and key executives have access to continuing education to update and enhance their skills and knowledge.

Corporate Governance Statement (Continued)

Risk Management

The Board is responsible for reviewing and overseeing Aevum's system of internal control and risk management. In identifying areas of significant business risk and putting in place arrangements to manage those risks, the Board relies on the advice and expertise of the Audit and Risk Committee, senior management.

The Aevum Risk Management Policy provides a procedure to help identify and manage risks within the company, and is designed to ensure efficient operations and compliance with legal and other obligations. Risks are identified by examination of Company operations and activities by the Board and management. Risk exposure and control mechanisms are presented to the Board, together with mitigation and improvement strategies.

Regular monitoring of risks and risk management is conducted by the Audit and Risk Committee and management, and material risks are reviewed by the Board. Major areas of risk are also reviewed by the Board on a regular basis and any preventative or remedial action taken where necessary.

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the Company's risk management and internal compliances and control is operating efficiently and effectively in all material respects.

The Company adopted this reporting structure for the year ended 30 June 2010. These declarations are provided in accordance with the ASX Guidelines which recognise that the management declaration is aimed to provide reasonable but not an absolute level of assurance.

Code of conduct for directors and employees

Directors and employees are guided by a Code of Conduct for Directors and employees, which promotes lawful and ethical behaviour and is designed to ensure that a high degree of care, skill and diligence is exercised in the performance of directors and officers duties and company activities and duties.

The code emphasises the Group's commitment to ethical practices, and encourages officers to act honestly, in good faith and in the best interests of the company.

Continuous disclosure

Directors and management are responsible for advising the Company Secretary or Board of matters likely to affect securities in Aevum, including material or price-sensitive information, as soon as reasonably practicable after receiving the information. The Company Secretary, on advice from the Board, is responsible for ensuring that the market has timely access to the factual information, and that it is presented clearly and objectively.

All officers of the Company are guided by the principles of the Aevum's Market Disclosure Protocol, designed to ensure accurate and continuous disclosure.
The Protocol highlights the types of information that should be disclosed, and provides procedures to ensure that officers disclose relevant information to the Company Secretary or Board.

Shareholder communication

The Board seeks to ensure that shareholders are informed of sufficient information necessary to assess the performance of the Directors and the Company.

In addition to the distribution to shareholders of the Annual report, Aevum utilises electronic communication facilities to provide more effective communication with shareholders. The investor section of the Aevum website contains the latest annual and financial reports, Company announcements and presentations, and upcoming events, allowing broader access to Company information. Shareholders are also able to direct any questions relating to the Company's securities to the Share Registry.

At the Annual General Meeting, shareholders have the opportunity to direct any questions to the Board, and the external auditor is available to answer shareholder questions about the audit and auditor's report.

Recognition of stakeholder interests

Aevum recognises its legal and other obligations to legitimate stakeholders, including shareholders and potential shareholders. Aevum's Code of Conduct for Directors and employees requires that the Directors and employees must act ethically and lawfully, and assist Aevum in meeting its legal obligations.

Our recognition of the legitimate interest of stakeholders is reflected in Aevum's policies relating to shareholders, the financial community generally, customers and employees.

Income Statement

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $'000	2009 $'000
Revenue from continuing operations	4	32,398	25,912
Other income	4	33,533	(14,639)
Total income		65,931	11,273
Salaries and employee benefits expenses		17,980	14,340
Catering expenses		1,674	1,449
Repairs and maintenance expenses		2,461	1,651
Rates and utilities		1,016	694
IT and communication		853	630
Housekeeping and cleaning		520	314
Professional service fees		4,165	1,903
Marketing expenses		2,448	2,289
Depreciation expenses		1,197	963
Interest expense		6,723	7,278
Other expenses		2,640	1,983
Total expenses		41,677	33,494
Profit / (Loss) before income tax expense		24,254	(22,221)
Income tax benefit	5	4,350	10,017
Net profit / (loss) after income tax expense		28,604	(12,204)
Net profit / (loss) for the period attributable to the members		28,604	(12,204)
Basic earnings / (loss) per share (cents per share)	23	**19.2**	(9.7)
Diluted earnings / (loss) per share (cents per share)		**19.1**	(9.7)

The above income statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 $'000	2009 $'000
Net profit / (loss) for the period		**28,604**	**(12,204)**
Other comprehensive income			
Gain / (loss) on cash flow hedge reserve		1,677	(2,559)
Fair value revaluation of property, plant and equipment		-	14,018
Income tax on items of other comprehensive income		(503)	(305)
Other comprehensive income		1,174	11,154
Total comprehensive income for the period, net of tax		29,778	(1,050)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

AS AT 30 JUNE 2010

	Note	Consolidated 2010 $'000	2009 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	21	21,288	13,925
Trade and other receivables	6	2,718	1,305
Total Current Assets		24,006	15,230
Non-current Assets			
Investments in controlled entities	7	-	-
Deferred tax assets	5	37,794	9,673
Property, plant and equipment	8	86,741	52,268
Investment properties	9	1,078,118	749,923
Intangible assets	10	1,265	1,185
Total Non-current Assets		1,203,918	813,049
TOTAL ASSETS		1,227,924	828,279
LIABILITIES			
Current Liabilities			
Trade and other payables	11	11,557	5,550
Income tax payable	5	-	399
Resident loans and acommodation bonds	12	697,873	454,044
Provisions	13	1,935	881
Other liabilities	14	4,007	2,382
Total Current Liabilities		715,372	463,256
Non-current Liabilities			
Interest-bearing loans and borrowings	15	115,000	90,000
Deferred tax liabilities	5	37,824	9,354
Provisions	13	247	44
Total Non-current Liabilities		153,071	99,398
TOTAL LIABILITIES		868,443	562,654
NET ASSETS		359,481	265,625
EQUITY			
Contributed equity	16	177,348	107,634
Retained earnings	17	143,123	120,615
Reserves	17	39,010	37,376
TOTAL EQUITY		359,481	265,625

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated **2010** **$'000**	2009 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from residents and government subsidies		33,731	25,725
Payments to suppliers and employees		(54,890)	(36,306)
Interest received		752	870
Cash inflows from newly developed investment properties		10,845	19,370
Resident loans received on turnover		68,662	32,217
Resident loans principal refunded on turnover		(33,559)	(21,525)
Resident loan share of gain refunded on turnover		(4,534)	(5,358)
Resident loans received from capital enhanced properties		5,988	3,621
Accommodation bonds received		10,505	10,412
Accommodation bonds refunded		(8,429)	(7,798)
NET CASH FLOWS FROM OPERATING ACTIVITIES	21	29,071	21,228
CASH FLOWS FROM INVESTING ACTIVITIES			
Resident loans refunded for capital enhancements of property		(7,882)	(3,860)
Payment for construction and development activities		(10,815)	(13,625)
Purchase of property, plant and equipment		(924)	(2,274)
Payment for upgrade of investment properties		(1,641)	(2,673)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(21,262)	(22,432)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of share issue costs		(419)	-
Repayment of borrowings		(13,725)	-
Proceeds from borrowings		25,000	10,000
Interest payment		(6,792)	(6,819)
Payments for dividends on ordinary shares		(4,510)	(5,518)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		(446)	(2,337)
NET INCREASE/(DECREASE) IN CASH HELD		7,363	(3,541)
Cash and cash equivalents at the beginning of the financial year		13,925	17,466
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	21	21,288	13,925

The above cash flow statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010

	Ordinary Shares	Asset Revaluation Reserve	Employee Equity Benefits Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total
At 1 July 2009	**107,634**	**39,789**	**146**	**(2,559)**	**120,615**	**265,625**
Profit for the period	-	-	-	-	28,604	28,604
Other comprehensive income	-	-	-	1,174	-	1,174
Total comprehensive income for the period	107,634	39,789	146	(1,385)	149,219	295,403
Transactions with owners in their capacity as owners:						
Shares issued	68,550	-	-	-	-	68,550
Transaction costs on share issue	(419)	-	-	-	-	(419)
Dividend reinvestment plan	1,583	-	-	-	-	1,583
Share based payments	-	-	460	-	-	460
Dividends paid	-	-	-	-	(6,096)	(6,096)
At 30 June 2010	**177,348**	**39,789**	**606**	**(1,385)**	**143,123**	**359,481**

	Ordinary Shares	Asset Revaluation Reserve	Employee Equity Benefits Reserve	Cash Flow Hedge Reserve	Retained Earnings	Total
At 1 July 2008	**105,011**	**26,076**	**173**	**-**	**140,987**	**272,247**
Loss for the period	-	-	-	-	(12,204)	(12,204)
Other comprehensive income	-	13,713	-	(2,559)	-	11,154
Total comprehensive income for the period	105,011	39,789	173	(2,559)	128,783	271,197
Transactions with owners in their capacity as owners:						
Dividend reinvestment plan	2,493	-	-	-	-	2,493
Share based payments	-	-	-	-	-	-
Employee options exercised	130	-	(27)	-	-	103
Dividends paid	-	-	-	-	(8,168)	(8,168)
At 30 June 2009	**107,634**	**39,789**	**146**	**(2,559)**	**120,615**	**265,625**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

1. CORPORATE INFORMATION

The financial report of Aevum Limited and its subsidiaries (the Group) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 24 August 2010.

Aevum Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of the operations and principal activities of the Group are described in note 29.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and other mandatory professional reporting requirements.

The financial report has been prepared on a historical cost basis, except for certain financial instruments, investment properties, land and buildings classified as fixed assets and resident loans and bonds that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

(a) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). The financial report also complies with International Financial Reporting Standards ('IFRS').

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the year ended 30 June 2010. The financial effects of these new standards have not yet been determined.

(b) New accounting standards and interpretations

The accounting policies are consistent with those of the previous reporting period except as follows:
The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2009.

- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations* effective 1 January 2009
- AASB 7 *Financial Instruments: Disclosures* effective 1 January 2009
- AASB 8 *Operating Segments* effective 1 January 2009
- AASB 101 *Presentation of Financial Statements (revised 2007)* effective 1 January 2009
- AASB 123 *Borrowing Costs (revised 2007)* effective 1 January 2009
- AASB 2008-1 *Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (AASB 2)* effective 1 January 2009
- AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective 1 January 2009
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* effective 1 January 2009
- AASB 2009-3 *Amendments to Australian Accounting Standards – Embedded Derivatives (AASB 139 and Interpretation 9)* effective 30 June 2009
- AASB 2009-6 *Amendments to Australian Accounting Standards* operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009
- AASB 3 *Business Combinations (revised 2008)* effective 1 July 2009
- AASB 127 *Consolidated and Separate Financial Statements (revised 2008)* effective 1 July 2009
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* effective 1 July 2009

When the adoption of the Standard or Interpretation is deemed to have a material impact on the financial statements or performance of the group, it impact is described below.

AASB 3 *Business Combinations (revised 2008)* and AASB 127 *Consolidated and Separate Financial Statements (revised 2008)*

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income.
Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and the AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

AASB 8 *Operating Segments*
AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 29, including the related revised comparative information.

AASB 101 *Presentation of Financial Statements*
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Annual Improvement Project
In May 2008 and April 2009 the AASB issued amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

AASB 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has disclosed this information in note 29.

AASB140 *Investment properties*: Properties under construction are regarded as investment properties and measured at fair value, with changes in fair value recorded in the income statement. Previously, properties under construction were treated as property, plant and equipment and measured at cost.

AASB 136 *Impairment of Assets*: when discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". The Group has amended its disclosures as required.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Aevum Limited and its subsidiaries (the 'Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. In the parent accounts, subsidiaries are measured at cost.

(d) Significant accounting judgements, estimates and assumptions

Significant accounting estimates and assumptions
The company makes estimates and assumptions concerning the future. 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 group and that are believed to be reasonable under the circumstances. The resulting accounting estimates, by definition, will seldom equal the related actual results. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are discussed below.

Valuation of Investment Properties
The company has certain assets classified as Investment Property for the purposes of AASB 140 *Investment Properties*, principally Retirement Villages and associated land held for development purposes. These assets are carried at amounts which represent fair value as at the balance date. The Company considers information from a variety of sources, including discounted cash flow projections based on management estimates of future cash flows, when arriving at the carrying value. In turn, the discounted cash flow projections are based on certain assumptions which have the ability to influence the carrying value.

These assumptions include, but are not limited to, discount rates, compound annual growth rates of the value of the underlying property, forecast period of occupancy of residents, estimates of future capital expenditure, and contractual terms between the company and the residents of the villages.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is determined by reference to market-based evidence, which is the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Valuation of Property, Plant and Equipment
Properties, plant and equipment are also carried at fair value. These valuations are affected by similar estimates and assumptions to those which impact Investment Properties, as discussed above.

Calculation of Annual Loan Reduction (ALR)
The ALR, also referred to as deferred management fees (DMF), are calculated using such variables as a discount rate based on an estimated prevailing interest rate that would be applied if third party debt was secured on ALR cash flows, average length of stay for independent living units (ILUs) and serviced apartments and an estimate of the average property growth rate over the average length of stay.

The ALR revenue is impacted by the rate applicable, measurement on either entry or exit price and a maximum period over which the ALR can be accrued.

Resident Loans
Residents are entitled to a portion of the revaluation gain on their unit in accordance with their resident contract. The revaluation of the unit has similar estimates and assumptions as discussed under valuation of investment properties. Resident loans represent the principal amount, measured at face value, plus the resident's share of capital gains based on market values of the underlying property balance date, less deferred management fees.

Significant judgements in applying the entity's accounting policies
There were no judgements that the Company has made in the process of applying the entity's accounting policies that had a significant effect on the amounts recognised in the financial report apart from those involving estimations as noted above and judgement in relation to the recovery of deferred tax assets.

Deferred tax assets are recognised for deductible temporary differences where it is considered probable that future taxable profits will be available to utilise those temporary differences.

Long Service Leave Provision
The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

(e) Investment properties

Initially, investment properties are measured at cost including transaction costs. Cost of enhancements to an existing investment property are capitalised. Costs of day-to-day servicing of an investment property are expensed. Subsequent to initial recognition, investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are included as income in the Income Statement in the period in which they arise.

Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal.

Any gains or losses on de-recognition of an investment property are recognised in the Income Statement in the period of de-recognition.

Aevum 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; and
- the probable future use of land that is not currently generating cash flows.

Currently, retirement village properties including independent living units and serviced apartments governed by the Retirement Villages Act are classified as investment properties. Land held for development purposes is also classified as Investment Property.

(f) Property, plant and equipment

Property, plant and equipment that do not meet the definition of investment property currently include the aged care facilities governed by the Aged Care Act.

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings have been categorically included under Aged Care Properties and Other Corporate Properties. Land is measured at fair value. Buildings are measured at fair value less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:
Buildings – over 40 years
Plant and equipment – over 2.5 to 10 years

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The assets' residual value, useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each financial year end.

Revaluations
Following initial recognition at cost, land and buildings (other than investment property) are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and subsequent accumulated impairment losses.

Any revaluation increment related to property, plant and equipment is credited to the asset revaluation reserve included in the equity section of the statement of financial position unless it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increment is recognised in the Income Statement.

Any revaluation decrement is recognised in the Income Statement unless it directly offsets a previous increment of the same asset in the asset revaluation reserve, in which case it is charged directly to the asset revaluation reserve to the extent of the previous increment existing in relation to that asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the period end date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the period the item is derecognised.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred based on the effective interest rate method, except for borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are capitalised. Qualifying assets are assets that take generally more than 12 months to get ready for their intended use or sale.

(h) Intangible assets

Bed licenses for Aged Care facilities which are not currently utilised are separately recognised at the cost of acquisition. No amortisation has been provided as the Group believes the useful lives of these assets are indefinite and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. The Group believes the bed licenses have an indefinite life because they are perpetual.

(i) Impairments of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, or when annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Trade and other receivables

Trade and other receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

The Group's exposure to collectability of debts is influenced mainly by the individual characteristics of each customer. The Group's customers primarily consist of individual residents occupying the self care and serviced apartments in the retirement villages and the residential aged care facilities.

Losses have occurred infrequently. An allowance for impairment is recognised when it is expected that any receivables are not collectible.

(k) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through income statement, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through income statement, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Term deposits are classified as loans and receivables. Fixed interest securities and income securities are classified as investments in the statement of financial position and treated as financial assets at fair value through income statement.

(i) Financial assets at fair value through income statement

Financial assets classified as held for trading are included in the category 'financial assets at fair value through income statement'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Gains or losses on investments held for trading are recognised in income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the period end date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment

Investments and term deposits are impairment tested where an impairment indicator exist. In performing the impairment test, consideration of the fair value of the instrument is made. The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties which have very high credit ratings. Management does not expect any counterparty to fail to meet its obligations.

(m) Derivative financial instruments and hedging

The Group uses derivatives financial instruments such as interest rate swaps to hedge its risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to income statement for the year.

(n) Unearned maintenance fees

A proportion of maintenance fees received from village residents is set aside under arrangements in accordance with the Retirement Village Act, 1999. Unearned amounts are included under other liabilities in the statement of financial position.

These amounts are set aside for periodic major repairs and maintenance covering internal and external painting, gardens, grounds, roadways, roofing and air conditioning.

(o) Trade and other payables

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the period end date. If the effect of the time value is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Share-based payment transactions

The Group provides benefits to employees of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently two plans in place to provide these benefits:
(i) the Zero Exercise Price Options (ZEPOs), which provides benefits to executives and senior management, and
(ii) the Employee Share Plan (ESP), which provides benefits to all employees, excluding senior executives and directors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is established using a Monte Carlo binomial model and Black Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Aevum Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(r) Employee benefits

Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(s) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Group.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(t) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

Annual Loan Reduction Fee
Amount by which resident loans are reduced on an annual basis in accordance with the terms of the resident agreement. The loan reduction fee is taken to profits over the term of the resident's occupation of the unit but generally limited to ten years by the agreements.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues from Aged Care
Revenue from daily care fees from residents and personal care subsidies received from the Government is recognised when received or when services are provided, depending on accommodation type and level of care required.

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

Interest
Revenue is recognised as interest accrues using the effective interest rate method.

Dividends
Revenue is recognised when the Group's right to receive the payment is established.

(u) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the period end date.

Deferred income tax is provided on all temporary differences at the period end date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each period end date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the period end date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Tax consolidation legislation
Aevum Limited and its 100% owned Australian resident subsidiaries have implemented the tax consolidation legislation having formed a tax consolidated group with effect from 26 February 2005. Aevum Limited is the head company of the tax consolidated group. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Aevum Limited 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Other taxes

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(w) Earnings per share

Basic EPS is calculated as net profit attributable to members adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(x) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(y) Segment reporting

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's executive management team to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management also consider other factors in determining operating segments such as the level of segment information presented to the board of directors.

(z) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Loans and borrowings are subsequently measured at amortised costs. Fees paid on the establishment of loan facilities, which are not incremental cost relating to the actual draw-down of the facility, are recognised as pre-payments and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the period end date.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

(aa) Resident profit and loss

The Group maintains separate resident statements of income and expenditure in accordance with the Retirement Village Act. The resident income and expenditure is controlled by the resident finance committees. As such these income and expenses are not recognised in Aevum Limited's financial statements

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

3. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout this financial report.

The Group's principal financial instruments comprise receivables, payables, bank loans, resident loans and bonds, cash and term deposits and derivatives. The Group enters into derivative transactions, principally interest rate swaps, to manage the interest rate risks arising from the interest bearing borrowings.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit Risk

Credit risk is the risk of financial loss to the Group of a customer or counterparty to a financial instrument failing to meet its contractual obligations, and arises principally from the Group's receivables from customers and other financial assets.

Trade and other receivables

The Group's exposure to collectability of debts is influenced mainly by the individual characteristics of each customer. The Group's customers primarily consist of individual residents occupying the self care and serviced apartments in the retirement villages and the residential aged care facilities.

Losses have occurred infrequently. An allowance for impairment is recognised when it is expected that any receivables are not collectible.

In addition, monies advanced by residents to the Group are treated as a collateral to mitigate the credit risk.

Other financial assets

The Group limits its exposure to credit risk by only investing in liquid securities with well established and reputable counterparties. Management does not expect any counterparty to fail to meet its obligations.

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

The Group has a documented Liquidity Management Strategy which assists the Group in meeting the requirements of the Aged Care Act 1997 by determining the level of funding that will be required to meet expected accommodation bond refunds as they fall due.

3. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and committed available credit lines.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities, including derivative financial instruments as at 30 June 2010. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010.

The remaining contractual maturities of the Group's financial liabilities are:

	Consolidated	
	2010 $'000	2009 $'000
Less than 6 months	53,683	36,768
6-12 months	678,638	428,787
1-5 years	120,963	95,961
Over 5 years	-	-
	853,284	561,516

Resident loans are measured at the principal amount less accrued annual loan reduction, plus the resident's share of capital gains based on market value of the underlying property at balance date. Fair value movements on resident loans are recognised in the Income Statement in the period the revaluation occurred.

Accommodation bonds are measured at the principal amount less retention amounts.

Resident loans and accommodation bonds are non-interest bearing and are settled between 14 days and 6 months after a resident vacates the property in accordance with the *Retirement Villages Act 1999* and the *Aged Care Act 1997*. The fair value of resident loans and accommodation bonds is not less than the amount payable on demand. Resident loans and accommodation bonds are classified as current liabilities because the Group does not have an unconditional right to defer settlements for greater than 12 months. History shows that on average a resident in a retirement village will stay for between six and ten years, and three years for aged care residents based on historical trends. Based on these same historical trends, the Group expects to pay $48.4 million (2009: $43.3 million) of resident loans and accommodation bonds in the next 12 months which will largely be funded by contributions from incoming residents.

Resident loans and accommodation bonds are derecognised when the obligation under the liability is discharged.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

3. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Maturity analysis of financial assets and liability based on management's expectation

Year ended 30 June 2010	< 6 months $'000	6-12 months $'000	1-5 years $'000	> 5 years $'000	Total $'000
Consolidated					
Financial assets					
Cash & cash equivalents	21,288	-	-	-	21,288
Trade & other receivables	1,750	968	-	-	2,718
	23,038	968	-	-	24,006
Financial liabilities					
Trade & other payables	10,172	-	1,385	-	11,557
Resident loans and acommodation bonds	24,200	24,200	242,000	407,473	697,873
Interest bearing loans & borrowings	-	-	115,000	-	115,000
	34,372	24,200	358,385	407,473	824,430
Net maturity	(11,334)	(23,232)	(358,385)	(407,473)	(800,424)

Year ended 30 June 2009					
Consolidated					
Financial assets					
Cash & cash equivalents	13,925	-	-	-	13,925
Trade & other receivables	1,027	278	-	-	1,305
	14,952	278	-	-	15,230
Financial liabilities					
Trade & other payables	2,991	-	2,559	-	5,550
Resident loans and acommodation bonds	21,650	21,650	216,500	194,244	454,044
Interest bearing loans & borrowings	-	-	90,000	-	90,000
	24,641	21,650	309,059	194,244	549,594
Net maturity	(9,689)	(21,372)	(309,059)	(194,244)	(534,364)

Stock Management

The operating cash flow produced by the Group, and therefore liquidity, is significantly impacted by the net of amounts, received from incoming residents, and paid to departing residents. The amounts receivable or payable are determined with reference to contracts between the Group and the incoming or departed residents, in relation to occupation of accommodation units owned or managed by the Group. These amounts typically relate to unoccupied units, which Management refer to as 'stock'.

The processes and systems relating to the management of stock are of primary importance. Reporting in relation to inflows and outflows is monitored on a daily, weekly and monthly basis. Detailed budgets and forecasts are prepared, and performance to budget and forecast is reviewed regularly by both Management and the Board.

Stock reporting is included in the monthly reporting to the Board. The key risk to the Group is that investment in stock increases through the value of amounts paid to departing residents exceeds receipts from incoming residents. The Group maintains significant access to liquidity, through cash reserves, and uncommitted funding lines to ensure it can meet obligations as they become due. In the medium term the company can influence the value of receipts by adjustments to the asking price for accommodation contracts, and the level of marketing designed to attract prospective residents.

At balance date, the Group has available $35 million of unused credit facilities and a cash balance of $21.3 million for its immediate use.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

3. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income and expenses or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return.

Currency risk

The Group is not exposed to currency risk.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest-bearing financial assets and liabilities that the Group utilises. Interest-bearing financial assets are generally short-term liquid assets. The Group's interest rate liability risk arises primarily from external borrowing issued at variable interest rates which exposes the Group to cash flow interest rate risk and fluctuations in the fair value of derivative instruments. The Group mitigates its cash flow interest rate risk through effective hedging. The Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian Variable interest rate risk that are not designated in cash flow hedges:

	Consolidated	
	2010 $'000	2009 $'000
Financial assets		
Cash & cash equivalents	21,288	13,925
Financial liabilities		
Interest bearing loans & borrowings	55,000	40,000
(*net of cash flow hedge*)		
Net exposure	(33,712)	(26,075)

At 30 June 2010, after taking into account the effect of interest rate swaps, approximately 52% of the Group's borrowings are at a fixed rate of interest (2009: 56%). The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

Interest rate swap contracts outlined in note 22, with a fair value of $1.4 million, is exposed to fair value movements if interest rates change. These contracts expire in September 2012. During the year $1.2m (2009: $Nil) of ineffective hedge was charged to the income statement. A further $1.5m (2009: $0.8m) was transferred to interest expense during the year.

Finance costs for the period:

	Consolidated	
	2010 $'000	2009 $'000
Facility Interest	5,171	5,783
Facility Fees	499	460
Hedge Expenses (net of movement in fair value and ineffectiveness)	1,522	847
Bank service fees	33	289
Others	163	148
Less Interest Capitalised	(665)	(250)
	6,723	7,278

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

3. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Interest rate risk (continued)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance date:

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows.

Judgements of reasonably possible movements:	Post Tax Profit Higher / Lower		Equity Higher / Lower	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Consolidated				
+1% (100 basis points)	(1,028)	(900)	(1,028)	(1,110)
-0.5% (50 basis points)	514	440	514	450

Valuation Risks

The Group is significantly exposed to Valuation Risks. The carrying value of Investment Property, and thus the net income of the Group, is directly impacted by valuation assumptions. Investment Property is related to the Retirement Living business operated by the Group. The carrying value is the addition of the Group's interest, and the resident's interests, in the Investment Property. Both sets of interests are influenced by valuation assumptions, and are calculated using complex financial models, including discounted cash flow (DCF) models which calculate the net present value of future cash flows. The forecast period for DCF models is 20 years. A terminal value is calculated by applying a notional growth factor to the mean value of the net cash flows from years 18 to 20.

The key valuation assumptions made in order to determine the carrying value of the Investment Property include:

- Current market values, or contract price
- Discount rates chosen to calculate the net present values relating to individual Investment Properties
- Forecast period of residence for incoming residents
- Movement in market values over the forecast period (CAGR)
- Forecast of capital expenditure required to maintain and refurbish accommodation units to attract incoming residents
- Terms of the contracts expected for future residents, particularly in relation to deferred management fees, and the relative share of capital growth to be enjoyed by the incoming resident
- The quantum of subsidies paid by the Group to support the ongoing activities of the village.

The choice of key valuation assumptions is regarded as critically important by Management and applies to both existing units, and those undergoing development. Management considers the following quantitative and qualitative information when assessing each assumption:

- Settled transactions, both during the period, and historically
- External valuations of operator's interest in the investment property
- Likely transactions, where the company has either signed a unconditional contract, or has taken a deposit
- Pricing of competitors in the locality of each village (where applicable)
- Pricing of residential property in the locality of each village
- Development plans – impacting of availability of stock, and relative pricing (new product vs. old product)
- Other sources (economic data, industry experts etc.)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

3. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Valuation Risks (continued)
At 30 June 2010, if the illustrated assumptions had moved by the quantum described, with all other variables held constant, the effect on income and net change to the statement of financial position would be as follows:

Key Variable	Range	Change	Impact ($m)
Price of Units	$67,000 - $790,000 (Mean = $325,000)	Move by 5%	+/- 27
Discount Rate	13.00% - 16.75%	Move by 1%	+/- 23
ILU Period of Residency	10.00 - 13.00 years	Move by 1 year	+/- 18
CAGR	1.75% - 5.00%	Move by 1%	+/- 40

It is not possible to illustrate the impact of the changes to development plans or changes to other sources because it depends on the specific assumptions made, and the timing of those assumptions though the forecast period.

Fair Value Risks
The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.
Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

Consolidated	Quoted Market Price (Level 1)	Valuation technique - market observable inputs (Level 2)	Valuation technique - market observable inputs (Level 3)	Total
Year Ended 30 June 2010				
Financial liabilities				
Interest rate swaps	-	1,385	-	1,385
Resident loans	-	-	646,806	646,806
	-	1,385	646,806	648,191
Year Ended 30 June 2009				
Financial liabilities				
Interest rate swaps	-	2,559	-	2,559
Resident loans	-	-	424,824	424,824
	-	2,559	424,824	427,383

The Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exists and other relevant models used by market participants. The valuation techniques use both observable and unobservable market inputs.

Resident loans represent the principal amount, measured at face value, plus the resident's share of capital gains based on market values of the underlying property balance date, less deferred management fees. A 5% movement in market values would result in a $10.3m movement in resident's share of capital gains.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

4. REVENUES AND EXPENSES

	Consolidated 2010 $'000	2009 $'000
(a) Income		
(i) Revenue		
Daily care fees	5,214	4,388
Aged care subsidies	10,845	6,764
Annual loan reduction fees	12,425	11,891
Accommodation bond retention	449	322
Other trading revenue	2,714	1,677
Finance Revenue: Interest - other persons / corporations	751	870
Total revenues from operating activities	32,398	25,912
(ii) Other income		
Revaluation increment / (decrement) recognised in income statement	24,507	(14,639)
Discount on merger	9,026	-
Total other income	33,533	(14,639)
Total income	65,931	11,273

On 29 January 2010, Aevum Limited, under a Scheme of Arrangement, acquired all of the shares of IOR Group Limited. The transaction resulted in a discount on merger of $9.0 million being the difference between net consideration paid and the fair value of IOR's net assets. Refer note 26 for detail disclosure.

5. INCOME TAX EXPENSES

	2010 $'000	2009 $'000
Income tax benefit	(4,350)	(10,017)
Deferred tax asset	37,794	9,673
Income tax payable	-	399
Deferred tax liability	37,824	9,354

(a) Income tax benefit

	2010 $'000	2009 $'000
The major components of income tax expense are:		
Current income tax benefit	(4,350)	(10,017)
Income tax benefit reported in the income statement	(4,350)	(10,017)

(b) Amounts charged or credited directly to equity

	2010 $'000	2009 $'000
Deferred income tax related to items charged (credited) directly to equity		
Amounts taken to statement of comprehensive income	(503)	(305)
Income tax expense reported in equity	(503)	(305)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

5. INCOME TAX EXPENSES (continued)

	Consolidated	
	2010 $'000	2009 $'000
(c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) from continuing operations before income tax expense	24,254	(22,221)
Tax at the Australian tax rate of 30% (2009: 30%)	7,276	(6,666)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Revaluation increments	(7,352)	(3,351)
Discount on merger	(2,708)	-
Non-deductible items - other	(2,791)	-
Current tax benefit not recognised	5,575	-
Recognition of deferred tax benefits on consolidation of merged entity	(4,350)	-
Income tax benefit	(4,350)	(10,017)

(d) Deferred tax assets and liabilities

	Balance Sheet		Income Statement	
	2010 $'000	2009 $'000	**2010 $'000**	2009 $'000
Deferred tax assets				
Employee enitlement provisions	654	230	424	(140)
Business restructure costs	797	102	695	22
Other provisions and accruals	1,104	34	1,070	(113)
Tax losses / reversal of tax benefit	35,239	9,307	25,932	(2,845)
	37,794	9,673	28,121	(3,076)
Deferred tax liabilities				
Property, plant and equipment*	2,568	459	2,109	(2,388)
Investment properties	35,256	8,895	26,361	(10,400)
	37,824	9,354	28,470	(12,788)
(e) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	14,743	41,277	-	-
Potential tax benefit @ 30%	4,423	12,383	-	-

All unused tax losses were incurred by Australian entities
This benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, and
(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit form the deductions for the losses.

The Group has tax losses arising in Australia of $132.2 million (2009: $72.3 million) that are available indefinitely to offset against future taxable income.

At 30 June 2010, there is no recognised or unrecognised deferred income tax liability (2009:$nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group has no liability for additional taxation should such amounts be remitted.

5. INCOME TAX EXPENSES (continued)

Tax consolidation
Aevum Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 26 February 2005. Aevum Limited is the head company of the tax consolidated group. Members of the group have entered into a tax sharing agreement which provides for the allocation of income tax liabilities between the entities should the head company default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group
Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of the current tax liability to members of the tax consolidated group in accordance with the methods provided under UIG 1052 Tax Consolidation Accounting, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated group head company, Aevum Limited. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities financial statements.

6. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010 $'000	2009 $'000
Current		
Trade receivables	1,178	469
Other receivables	1,540	836
Total current receivables	2,718	1,305

(a) Allowance for impairment loss
Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.
At 30 June, the ageing analysis of trade receivables is as follows:

Not past due 0 - 30 days	121	81
Past due 31 - 90 days	64	79
Past due 91 - 120 days	25	31
Past due more than 121 days	968	278
	1,178	469

Trade receivables primarily consist of individual residents occupying the self care and serviced apartments in the retirement villages and the residential aged care facilities. These residents have advanced monies to the Group which is treated as resident loans and bonds and the monies due will be recouped from loans and bonds refunded when the resident vacates. For resident balances past due more than 121 days, the Group has entered into arrangements whereby these amounts would be recovered through the resident loan deposits held by the Group.

Other balances within trade and other receivables do not contain impaired assets and are not past due date. It is expected that these other balances will be received when due.

(b) Fair value and credit risk
Due to the nature of these receivables, their carrying value approximates their fair value.
The maximum exposure to credit risk is the fair value of receivables. Collateral as discussed above mitigates the risk.

(c) Interest rate risk
Interest rate risk exposure is disclosed in note 3.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

7. PARENT ENTITY INFORMATION

	Consolidated	
Information relating to Aevum Limited:	**2010 $'000**	2009 $'000
Current assets	54,561	24,788
Non-current assets	621,003	581,397
Total assets	675,564	606,185
Current liabilities	255,184	263,550
Non-current liabilities	112,735	94,167
Total liabilities	367,919	357,717
Net Assets	307,645	248,468
Issued capital	177,348	107,634
Reserves	40,428	38,793
Retained Earnings	89,869	102,041
Total shareholdes' equity	307,645	248,468
Net profit after tax	1,038	4,241
Total comprehensive income	2,212	15,395

	Country of Incorporation	**Percentage of equity interest held by the consolidated entity**	
		2010 %	2009 %
Hibernian Investment Company Pty Ltd	Australia	100	100
Castleridge Pty Ltd*	Australia	100	100
Castlehaven Pty Ltd*	Australia	100	100
Rogan's Hill Retirement Village Trust*	Australia	100	100
Aevum Retirement Village Trust No 1	Australia	100	100
Aevum Retirement Village Trust No 2	Australia	100	100
Aevum Retirement Village Trust No 3	Australia	100	100
Aevum Retirement Village Trust No 4	Australia	100	100
Aevum Retirement Village Trust No 5	Australia	100	100
Aevum Retirement Village Trust No 6	Australia	100	100
Macquarie Waratah Management Pty Ltd	Australia	100	100
Macquarie Waratah Holdings Pty Ltd	Australia	100	100
Sakkara Living Holdings Trust	Australia	100	100
Macquarie Waratah Villages Pty Limited	Australia	100	100
Golden Ponds Forster Pty Limited	Australia	100	100
Macquarie Grove Management Pty Limited	Australia	100	100
Waratah Highlands Management Pty Ltd	Australia	100	100
Macquarie Waratah Holdings (NSW) Pty Limited	Australia	100	100
Sakkara Living Holdings (NSW) Trust	Australia	100	100
The Hastings Valley Parklands Village Pty Ltd	Australia	100	100
Bellevue Gardens Trust	Australia	100	100
Bellevue Gardens Pty Ltd	Australia	100	100
Lincoln Gardens Pty Limited	Australia	100	100
Blue Valley Enterprises Pty Ltd	Australia	100	100
Queenslake Village Pty Limited	Australia	100	100
The Willows Retirement Services Pty Limited	Australia	100	100
Maybrook Manor Pty Limited	Australia	100	100
IOR Group Limited	Australia	100	-
IOR Friendly Society Limited	Australia	100	-
Salford Living Pty Limited	Australia	100	-
IOR Treasury Services Pty Limited	Australia	100	-

* Subsidiaries of Hibernian Investment Company Pty Ltd

8. PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

	Aged Care Properties $'000	Plant & Equipment $'000	Total $'000
CONSOLIDATED			
Year ended 30 June 2010			
At 1 July 2009, net of accumulated depreciation and impairment	48,413	3,855	52,268
Additions	758	389	1,147
Acquisition	33,290	1,536	34,826
Disposals	(303)	-	(303)
Depreciation charge for the year	(595)	(602)	(1,197)
At 30 June 2010, net of accumulated depreciation and impairment	81,563	5,178	86,741
At 30 June 2010			
Cost or fair value	83,003	9,785	92,787
Accumulated depreciation and impairment	(1,440)	(4,606)	(6,046)
Net carrying amount	81,563	5,178	86,741
CONSOLIDATED			
Year ended 30 June 2009			
At 1 July 2008, net of accumulated depreciation and impairment	34,832	2,673	37,505
Additions	132	2,142	2,274
Disposals	-	(566)	(566)
Revaluations	14,018	-	14,018
Depreciation charge for the year	(569)	(394)	(963)
At 30 June 2009, net of accumulated depreciation and impairment	48,413	3,855	52,268
At 30 June 2009			
Cost or fair value	49,270	6,566	55,835
Accumulated depreciation and impairment	(857)	(2,711)	(3,567)
Net carrying amount	48,413	3,855	52,268

Valuations
Land and buildings, included in Aged Care are valued by Aevum's directors on a rolling two year cycle. In determining the fair value, the directors take into consideration internal valuations prepared by the Company, external market valuations, and other market based evidence. An independent market valuation was performed by Colliers International, for Aged Care assets at Cardinal Freeman and Lourdes Nursing Home on 1 December 2008.

In addition, CB Richard Ellis, an external valuer, was engaged to perform valuations on aged care facilities acquired as part of the IOR merger. The facilities at Gillin Park and Salford Park were valued and accounted for through acquisition.

Fair value was determined by reference to market-based evidence, which is the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the balance date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

9. INVESTMENT PROPERTIES

	Consolidated 2010 $'000	Consolidated 2009 $'000
(i) Investment properties		
Opening balance as at 1 July	715,689	697,286
Additions	9,523	6,533
Net transfer (to) / from investment properties under development	5,424	21,500
Acquisition of investment properties	270,763	-
Resident share of valuation increment / (decrement)	9,124	5,366
Valuation increment / (decrement)	25,639	(14,996)
	1,036,162	715,689
(ii) Investment properties under development		
Opening balance as at 1 July	34,234	41,753
Additions	9,289	13,624
Acquisition of investment properties	4,990	-
Net transfer to / (from) investment properties under development	(5,424)	(21,500)
Valuation increment / (decrement)	(1,133)	357
Closing balance as at 30 June	41,956	34,234
Closing balance as at 30 June	1,078,118	749,923

Valuations

Investment properties were valued by Aevum's directors as at 30 June 2010. In determining the fair value, the directors take into consideration internal valuations prepared by the Company, independent market valuations, and other market based evidence. Fair value of these properties is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date.

The portfolio of the investment properties are valued by independent valuers over a rolling two year cycle.

The Group engaged Jones Lang Lasalle, an external valuer, to perform independent market valuations of Murray River, Leschenault, Halls Head, and The Rivers retirement villages as at 1 December 2009. The Group also engaged CB Richard Ellis, an external valuer, perform independent market valuations of The Cove, Wamberal Gardens, Swansea, Castleridge, Camden View and Bexley Gardens retirement villages as at 1 June 2010.

The carrying value of the Investment Property, and thus the net income of the Group, is directly impacted by valuation assumptions. Investment Property is related to the Retirement Livinig business operated by the Group. The carrying value is the addition of the Group's interest, and the resident's interests, in the Investment Property. Both sets of interests are influenced by valuation assumptions, and are calculated using complex financial models, including discounted cash flow (DCF) models which calculate the net present value of future cash flows. The forecast period for DCF models is 20 years. A terminal value is calculated by applying a notional growth factor to the mean value of the net cash flows from years 18 to 20.

The key valuation assumptions made in order to determine the carrying value of the Investment Property include: current market values or contract price; discount rates; forecast period of residence; movement in market values; forecast of capital expenditure required to maintain and refurbish accommodation units to attract incoming residents; terms of contracts and the quantum of subsidies paid by the Group to support ongoing activities of the village.

The choice of key valuation assumptions is regarded as critically important by Management and applies to both existing units, and those undergoing development.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

9. INVESTMENT PROPERTIES (continued)

In addition, the Group in accordance with AASB 123 Borrowing Costs, capitalises interest expense on its properties undergoing development. Current interest rates applicable to capitalisation are consistent with those attributed to the Group's Club Facility with ANZ Banking Group and Westpac Banking Corporation Limited. Total interest capitalised for the year ended 30 June 2010 is $665,056 (2009: $250,000).

10. INTANGIBLE ASSETS

	Consolidated	
	2010 $'000	2009 $'000
Aged care bed licences	1,265	1,185
	1,265	1,185

Impairment Testing

The Group has consulted Colliers International and are satisfied that the fair value less costs to sell of the unused Bed Licences is greater than the current carrying value, based on current market evidence.

11. TRADE AND OTHER PAYABLES

Waiting list deposits	229	167
Trade and other payables	9,943	2,824
Derivative financial instrument	1,385	2,559
	11,557	5,550

Trade payables are non-interest bearing and are normally settled on 30-day terms.
Other payables are non-trade payables, are non-interest bearing and have any average term of 6 months.

(a) Fair value

Due to the short term nature of these payables, their carrying value approximates their fair value.

(b) Interest rate and liquidity risk

Information regarding interest rate and liquidity risk exposure is set out in note 3.

(c) Derivative instruments

Refer note 22 for further details.

12. RESIDENT LOANS AND ACCOMMODATION BONDS

	Consolidated	
	2010 $'000	2009 $'000
Gross resident loans	681,669	440,511
Less Annual loan reductions	(117,630)	(66,279)
Resident loans (net of annual loan reduction)	564,039	374,232
Resident share of gain on turnover	82,767	50,592
Total resident liabilities	646,806	424,824
Accommodation bonds	51,067	29,220
	697,873	454,044

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

12. RESIDENT LOANS AND ACCOMMODATION BONDS (continued)

	Consolidated 2010 $'000	2009 $'000
(a) Movement in resident loans		
Opening balance	424,824	404,946
Acquisitions	190,023	-
Cash inflows from newly developed investment properties	10,845	19,370
Resident loans received on turnover	68,663	32,217
Resident loans principal refunded on turnover	(33,559)	(21,525)
Resident loan share of gain refunded on turnover	(4,534)	(5,358)
Resident loans received from capital enhanced properties	5,988	3,621
Resident loans refunded for capital enhancements of property	(7,882)	(3,860)
Resident share of gain in valuation increment	9,124	5,366
Transfers between resident loans and accommodation bonds	(4,261)	1,938
Annual loan reduction	(12,425)	(11,891)
Closing balance	646,806	424,824

Resident loans and accommodation bonds are non-interest bearing and are classified as current liabilities on the basis the company does not have an unconditional right to defer settlement of the liability for at least 12 months. It is anticipated that an outgoing resident is repaid between 14 days and six months after the resident vacates the property, in accordance with the legislative requirements.

Historical data estimates that residents in a mature village stay an average period of 10 to 13 years and 4 to 5 years in serviced apartments and aged care facilities. Annual cash outflows for resident loans have historically accounted for 6%- 8% of total resident loan balance and cash flows generated through new loans in existing dwellings accounted for 10% - 13% of the loan balances, resulting in a net cash inflow.

Resident loans are reduced by annual loan reduction fees charged in accordance with the residency contract. Residents may be entitled to a proportion of the increase in the value of the units on turnover in accordance with their residency contract. Resident loans have been remeasured to reflect the share of capital gains payable to residents at the reporting date based on current market prices.

Fair value is determined by reference to market-based evidence, which is the amount for which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

13. PROVISIONS

	2010	2009
Current		
Employee entitlements	1,935	881
	1,935	881
Non-Current		
Employee entitlements	247	44
	247	44

14. OTHER LIABILITIES

	2010	2009
Unearned maintenance fees		
Current	4,007	2,382
	4,007	2,382

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

15. INTEREST-BEARING LOANS AND BORROWINGS

		Consolidated	
		2010 $'000	2009 $'000
Non-current	Maturity		
Bank loan	1/09/2011	115,000	90,000
		115,000	90,000

The Group entered into Club Facility with ANZ Banking Group and Westpac Banking Corporation Ltd on 12 June 2008 replacing its commercial loan facilities with the Westpac Banking Corporation Ltd. Details of current facilities as noted below.

(a) Fair values

Fair vale of the borrowings approximate its carrying value.

(b) Interest rate and liquidity risk

Details regarding interest rate and liquidity risk is disclosed in note 3.

(c) Assets pledged as security

The borrowings are secured over:

(i) a fixed charge by way of equitable mortgage over Aevum Limited's right, title and interest, present and future, in connection with all Fixed Charge Property; and

(ii) a floating charge over Aevum Limited's right, title and interest, present and future, in connection with all Secured Property which is not Fixed Charge Property.

Fixed charge property comprises of land in respect of Lourdes and Cardinal Freeman Retirement Villages and all buildings, fences, improvements and other erections, trade and other fixtures, fixed plant and machinery on, and the rights attached to the properties mentioned. At 30 June 2010, the carrying value of property, plant and equipment and investment properties at Lourdes and Cardinal Freeman was $126.5 million and $122.5 million respectively.

Secured property includes all the present and future assets, undertaking and rights of Aevum Limited irrespective of where located, when acquired and the capacity in which Aevum Limited holds or comes to hold the same including as trustee of the Trust or any other trust. Secured property includes its share premiums and capital, paid or unpaid, called or uncalled.

(d) Financing facilities available

Total bank loan facilities	150,000	150,000
Loan facilities used at reporting date	115,000	90,000
Loan facilities unused at reporting date	35,000	60,000

(e) Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

16. CONTRIBUTED EQUITY

(a) Share capital

	Consolidated	
	2010 $'000	2009 $'000
(i) Ordinary shares		
Issued and fully paid	177,348	107,634

16. CONTRIBUTED EQUITY (continued)

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Fully paid ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the company.

(ii) Share Options

Options over ordinary shares:

Employees and executives share scheme

During the 2010 financial year, 954,234 options were granted over ordinary shares, exercisable from the third anniversary from the grant date. Details are provided in note 27.

(iii) Movement in ordinary shares on issue

	2010		2009	
	No.'000	$'000	No.'000	$'000
At the beginning of the financial year	127,993	107,634	124,972	105,011
Issued during the year				
- share issue	48,275	68,550	-	-
- dividend reinvestment plan	1,219	1,583	2,664	2,493
- employee options exercised	21	-	357	130
less transaction costs	-	(419)	-	-
At the end of the financial year	177,508	177,348	127,993	107,634

- 434,102 and 784,259 shares were issued under the dividend re-investment plan in 2009 and 2010 respectively.
- 20,979 shares issued during the year under the zero exercise price options (ZEPO).
- 48,275,105 shares were issued as part of the Scheme of Arrangement to former IOR Group Limited shareholders as consideration for Aevum Limited acquiring all of the issued shares in IOR.
- the transaction costs represent the costs of issuing options and the costs associated issuing new shares under the dividend re-investment plan and the Scheme of Arrangement.

(b) Capital management

When managing capital, the Company's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders and aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2010, management paid dividends of $6,095,770 (2009: $8,168,317). The company's target for dividend payments for 2011 - 2015 are increases of approximately 5% per annum. Management is also actively encouraging the dividend reinvestment plan.

Management monitor capital through the gearing ratio (net debt / total capital). The target for the Group's gearing ratio is less than 30%. The gearing ratios based on continuing operations at 30 June 2010 and 2009 were as follows:

	Consolidated	
	2010 $'000	2009 $'000
Total borrowings	115,000	90,000
Less cash and cash equivalents	21,288	13,925
Net debt	93,712	76,075
Total equity	359,481	265,625
Total capital (net debt plus equity)	453,193	341,700
Gearing ratio	21%	22%

The Group is not subject to any externally imposed capital requirements.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

17. RESERVES AND RETAINED EARNINGS

		Consolidated 2010 $'000	Consolidated 2009 $'000
RESERVES & RETAINED EARNINGS			
Employee equity benefits reserve	(a)	606	146
Asset revaluation reserve	(b)	39,789	39,789
Cashflow hedge reserve	(c)	(1,385)	(2,559)
Total Reserve		39,010	37,376
Retained earnings	(d)	143,123	120,615

(a) Employee equity benefits reserve

(i) Nature and purpose of reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including Key Management Personnel, as part of their remuneration, the employee equity benefits schemes. Refer to note 28 for further details of these schemes.

(ii) Movement in reserve

	2010	2009
Balance at beginning of year	146	173
Additions to reserve	460	103
Employee options exercised (transferred to share capital)	-	(130)
Balance at end of year	606	146

(b) Asset revaluation reserve

(i) Nature and purpose of reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings used for Aged Care facilities.

(ii) Movement in reserve

	2010	2009
Balance at beginning of year	39,789	26,076
Revaluation of properties	-	14,018
Deferred tax liability on revaluation	-	(305)
Balance at end of year	39,789	39,789

(c) Cashflow hedge reserve

(i) Nature and purpose of reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

(ii) Movement in reserve

	2010	2009
Balance at beginning of year	(2,559)	-
Taken to statement of comprehensive income	1,174	(2,559)
Balance at end of year	(1,385)	(2,559)

(d) Retained earnings

	2010	2009
Balance at beginning of year	120,615	140,987
Net profit / (loss) attributable to members of Aevum Limited	28,604	(12,204)
Dividends paid	(6,096)	(8,168)
Balance at end of year	143,123	120,615

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

18. AUDITOR'S REMUNERATION

	Consolidated 2010 $'000	2009 $'000
Amounts received or due and receivable by Ernst & Young for:		
• audit or review of the financial report of the entity and any other entity in the consolidated entity	280,000	234,000
• other services in relation to the entity and any other entity in the consolidated entity		
- assurance related	50,285	30,000
- other audit reports	60,000	48,000
	390,285	312,000

19. EXPENDITURE COMMITMENTS

	2010	2009
Capital expenditure contracted but not provided for:		
- Payable not later than 1 year	12,365	8,017
Operating lease commitments		
- Payable not later than 1 year	394	250

20. CONTINGENT LIABILITIES

Under the terms of contract for the purchase of the land and development application for the site acquired in St. Ives (Blue Gum Terrace), the Group is required to make a further settlement subject to sales prices for the completed units exceeding a certain price. This amount is not capable of determination until the units have been constructed and sold.

21. CASH FLOW STATEMENT RECONCILIATION

	Consolidated 2010 $'000	2009 $'000
(a) Reconciliation of cash		
Cash balance comprises:		
Cash on hand and at bank	17,124	8,227
Cash on deposit	4,164	5,698
Closing cash balance	21,288	13,925
(b) Reconciliation of the net profit after tax to the net cash flows from operations		
Net Profit / (Loss)	28,604	(12,204)
Interest expense	6,723	7,278
Non-Cash items		
Depreciation of non-current assets	1,197	963
Valuation decrements / (increments)	(24,507)	14,639
Discount on merger	(9,026)	-
Annual loan reduction fee (ALR)	(12,425)	(11,891)
Accommodation bond retention	(449)	(322)
Employee share expenses	(460)	(97)
Changes in assets and liabilities		
(Increase) / decrease in trade and other receivables	(1,396)	(121)
(Increase) / decrease in deferred tax assets	(28,121)	(3,076)
Increase / (decrease) in trade and other payables	4,814	(2,627)
Increase / (decrease) in provisions and other liabilities	4,075	(148)
(Decrease) / increase in income tax payable	(399)	-
Increase / (decrease) in deferred tax liabilities	28,471	12,787
Increase in resident loans and accommodation bonds	31,970	16,047
Net Cash Flow From Operating Activities	29,071	21,228

Notes to the Financial Statements (continued)

22. FINANCIAL INSTRUMENTS

(a) Financial risk management policies

As at the 30 June 2010 the Group's principal financial instruments comprised of cash, short-term deposits, and resident loans and accommodation bonds and interest-bearing borrowings.

The main purpose of these financial instruments is to invest funds which are currently surplus to short-term needs. The main risks arising from the Group's financial instruments include matching of cash flows arising from maturing investments, and the operational requirements for funding, and counter-party risk.

Details of significant accounting policies and methods relating to measurement of financial instruments are disclosed in note 3 to the financial statements.

(b) Instruments used by the Group

(i) Interest rate swaps - cash flow hedges

Interest bearing loans of the Group currently bear an average variable interest rate of 4.4%. In order to protect against rising interest rates the Group has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates.

At 30 June 2010, after taking into account the effect of interest rate swaps, approximately 52% of the Group's borrowings are at a fixed rate of interest (2009: 56%) and are timed to expire at the renewal dates of the loan.

The fixed rate for the existing swap contract is 6.79% (2009: 6.79%) and the variable rate is consistent with the 90 day bank bill.

(b) Instruments used by the Group

(i) Interest rate swaps - cash flow hedges

At 30 June 2010, the notional principal amount and the period of expiry of the interest rate swap contracts is as follows:

	Consolidated	
	2010 $'000	2009 $'000
0 - 1 years	-	-
1 - 2 years	60,000	50,000
	60,000	50,000

The interest rate swaps require settlement of net receivable or payable each 90 days. All swaps are matched directly against the appropriate loans and interest expense and as such are considered highly effective. At balance date the carrying value of the swap is equal to the fair value.

(ii) Matching of cash flows

The Group maintains a portfolio of investments with staggered maturity dates or in 'at call' facilities and, thus anticipating foreseeable needs for funding.

(c) Interest rate risk

Information regarding interest rate risk exposure is set out in note 3.

(d) Credit risk

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets indicated in the Balance Sheet. The Group has a policy of not investing more than 25% of assets available for investment with any single institution which must also be licensed with APRA as an authorised deposit taking institution.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

23. EARNINGS PER SHARE

	Consolidated 2010 $'000	Consolidated 2009 $'000
The following reflects the income and share data used in the calculations of basic and diluted earnings per share		
Net profit / (loss)	28,604	(12,204)
Earnings used in calculating basic and diluted earnings per share	28,604	(12,204)
	2010 Number of shares	2009 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	148,626,728	126,417,683
Effect of dilutive securities:		
Share options	1,063,976	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	149,690,704	126,417,683

24. DIVIDENDS PAID OR PROPOSED

	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Declared and paid during the year[1] :		
Dividends on ordinary shares:		
Final unfranked dividend for 2009: 2.0 cents (2008: 4.5 cents)	2,561	5,639
Interim unfranked dividend for 2010: 2.0 cents (2009: 2.0 cents)	3,535	2,529
	6,096	8,168
(b) Proposed dividends (not recognised as a liability as at 30 June 2010)[1] :		
Dividends on ordinary shares:		
Final unfranked dividend for 2010: 3.0 cents (2009: 2.0 cents)	5,328	2,560

Note[1]: Total dividend proposed/paid for 2010: 5.0 cents (2009: 4.5 cents)

	2010	2009
(c) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
- franking account balance as at the end of the financial year at 30% (2009: 30%)	7	7
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	-	-
- franking credits that the entity may be prevented from distributing in the subsequent financial year	-	-
	7	7

25. RELATED PARTIES

Aevum Limited is the ultimate parent company in the consolidated group. The subsidiaries of the Group utilise the bank accounts of the parent entity. There are no other related party transactions within the Group. All details of other related party transactions are disclosed in note 27.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

26. BUSINESS COMBINATIONS

On 29 January 2010, Aevum Limited issued 48,275,105 new shares to existing shareholders of IOR Group Limited (IOR), acquiring controlling interests in the company. The issuance of the shares were executed under the Merger Implementation Agreement and the Scheme of Arrangement (Scheme) between Aevum Limited and IOR. Under the Scheme, Aevum issued 8 new Aevum shares for every 9 IOR shares to the IOR shareholders as a consideration for Aevum acquiring all of the issued shares in IOR.

The fair value of the identifiable assets and liabilities at the date of the merger were:

	Consolidated	
	Fair value at acquistion date $'000	Carrying Value $'000
Cash and cash equivalents	5,838	5,800
Trade and other receivables	200	700
Deferred tax assets	13,600	10,600
Property, plant and equipment	34,826	25,900
Investment properties	275,753	245,700
Trade, other payables and provisions	(8,771)	(3,800)
Deferred tax liabilities	(17,900)	(10,200)
Resident loans	(190,023)	(153,079)
Accommodation bonds	(22,510)	(23,621)
Interest bearing loans and borrowings	(13,750)	(13,700)
Net Assets	77,263	84,300
Shares issued, at fair value	68,237	
Discount on merger	9,026	
Transaction costs attributed to the merger	4,181	

The net acquisition consideration was $68.2 million based on 48,275,105 Aevum shares based on 1 day Volume Weighted Average Price on 29 January 2010 of $1.42. The transactions costs attributed to equity raising amounted to $0.3m.

Transaction costs included legal, accounting, valuation and other professional and consulting fees and general administrative costs including integration costs and have been booked in the "professional" and "other" costs in the income statement.

The acquired facilities, retirement villages and aged care facilities, contributed revenues of $5.8m and a net profit of $0.6m to the Group from the period since merger to 30 June 2010. It is impractical to estimate the financial effect if the combination had taken place as at 1 July 2009 due to IOR Group Limited's inconsistency of accounting policies with those of the Group.

The following summarises the fair value movement in key account balances between acquisition date and balance date at 30 June 2010.

	Consolidated	
	Fair value at acquistion date $'000 29 Jan. 2010	Carrying Value $'000 30 June 2010
Property, plant and equipment	34,826	34,588
Investment properties	275,753	294,291
Resident loans	(190,023)	(193,409)
Accommodation bonds	(22,510)	(21,575)
Net Movement	98,046	113,895

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

27. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Compensation of Key Management Personnel & Directors

	Consolidated 2010	Consolidated 2009
Short-Term	1,445,846	1,254,767
Post Employment	64,487	70,901
Termination Benefits	-	519,513
Share-Based Payment	310,876	102,336
	1,821,209	1,947,517

(b) Directors Shareholdings (Consolidated)

Shares held in Aevum Limited (number)	Balance 1 July 08 Ordinary	Net Change Other	Balance 30 June 09 Ordinary	Net Change Other	Resignation	Balance 30 June 10 Ordinary
G. Lenzner	206,839	-	206,839	-	-	206,839
M. Willis	52,286	-	52,286	-	-	52,286
P. Anderson	10,000	-	10,000	-	-	10,000
G. Cameron	-	-	-	10,000	-	10,000
M. Campbell	-	-	-	39,352	-	39,352
R. Gould	15,339	(15,339)	-	-	-	-
S. Owen	100,000	(100,000)	-	-	-	-
Total	384,464	(115,339)	269,125	49,352	-	318,477

There have been no other transactions concerning equity instruments during the financial year with directors or their director-related entities. All equity dealings with directors have been entered into within terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

(c) Option holdings of Key Management Personnel (Consolidated)

30 June 2010	Balance at beginning of period 1 July 09	Granted as Remuneration	Options Exercised	Option Lapsed	Balance at end of period 30 Jun 10	Vested at 30 June 2010 Total	Not Exercisable	Exercisable
Executives								
S.Mann	-	515,426	-	-	515,426	58,334	457,092	58,334
P. Homan	75,741	187,234	9,796	-	253,179	21,127	232,052	21,127
Other senior management	68,838	251,574	11,183	936	308,293	5,634	302,659	5,634
Total	144,579	954,234	20,979	936	1,076,898	85,095	991,803	85,095

30 June 2009	Balance at beginning of period 1 July 08	Granted as Remuneration	Options Exercised	Option Lapsed	Balance at end of period 30 Jun 09	Vested at 30 June 2009 Total	Not Exercisable	Exercisable
Executives								
P. Homan	30,923	54,614	-	-	85,537	9,796	75,741	9,796
S. Owen	311,859	30,881	342,740	-	-	-	-	-
Other senior management	45,753	45,824	3,479	19,260	68,838	-	68,838	-
Total	388,535	131,319	346,219	19,260	154,375	9,796	144,579	9,796

(d) Loans to Key Management Personnel (Consolidated)

During the year there were no loans to directors or executives.

(e) Other transactions and balances with Key Management Personnel

No other transactions and balances have been undertaken between the entity and its key management personnel.

28. EMPLOYEE BENEFITS

(a) Special Bonus Scheme - Senior Management Options Plan

An annual grant of ZEPOs may be made to each executive up to the actual short-term incentive (STI) payment made to them, if any, in terms of dollar value. The grant of ZEPOs under the long term incentive (LTI) is at the discretion of the Nominations and Remuneration Committee. The vesting of ZEPOs is subject to the company's performance measured by the growth in the Group's TSR against ASX 300 less ASX 100 performance over a three year period

The amount of ZEPOs granted and subsequently vesting, if any, under the LTI is subject to approval by the Nomination and Remuneration Committee. Once ZEPOs have vested the holder has six months in which to exercise the ZEPOs after which they lapse. One share will be received by the executive or senior manager for each ZEPO exercised.

In the year ended 30 June 2010, the directors granted 954,234 (2009: 131,319) Zero Exercise Price Options (ZEPOs) to the Key Management Personnel and other senior management. (Refer to note 27 for details of movements in ZEPOs).

The weighted average fair value per option issued was $1.38 (2009: $1.25).

ZEPOs are valued using a Monte Carlo model to value the ZEPOs with the TSR performance condition and a Black Scholes model to value the special ZEPOs granted to the Managing Director. The value per ZEPO for the TSR performance condition (a market condition) is multiplied by the maximum number of ZEPOs that can be awarded to determine the total value. The total value is expensed over the vesting period. The valuation of the special ZEPOs granted to the Managing Director on 23 October 2009 using Black Scholes is effectively the share price at Grant Date less the present value of the expected dividends over the performance period, based on the dividend yield.

The following table lists the inputs to the models for the year ended 30 June 2010:

Model Used	**Monte Carlo**	**Black Scholes**
Dividend yield	3.30%	2.60%
Risk free rate	4.70%	3.6%, 4.5% and 4.9%
Volatility	45%	n/a

(b) Superannuation Contributions

The Group contributes 9% of employee's salary and wages to employee specified complying superannuation fund or retirement savings account. This contribution is legally enforceable in Australia. The total contribution for the year was $1.4m (2009: $1.2m).

29. SEGMENT REPORTING

The Group's primary segment reporting format is the business segment as the Group's risks and rates of return are affected predominately by these business segments.

The Group operates in the retirement accommodation and aged care businesses. The retirement segment represents resident funded retirement living accommodation comprising independent living units and serviced apartments. The aged care segment represents Commonwealth subsidised and accredited aged care facilities comprising low care hostel accommodation and nursing homes.

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team and the Board of Directors (the chief operating decision makers) in assessing performance and in detremining the allocation of resources.

The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the executive management team and the Board of Directors on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and/or services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

Types of products and services

The Group operates in the retirement accommodation and Aged care businesses. The retirement segment represents resident funded retirement living accommodation comprising independent living units and serviced apartments. The aged care segment represents Commonwealth subsidised and accredited aged care facilities comprising low care hostel accommodation and nursing homes.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period except as detailed below:

Corporate charges

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each business segment on a proportionate basis based on accommodation units, employee numbers and other infrastructure allocation.

29. SEGMENT REPORTING (continued)

Operating segment

	Aged Care $'000	Retirement $'000	Other Reporting Segment* $'000	Total $'000
Year ended 30 June 2010				
Revenue				
Revenue outside the entity	16,108	14,492	1,798	32,398
Inter-segment revenues	(1,368)	(5,472)	6,840	-
Total Segment income	14,740	9,020	8,638	32,398
Other Income	-	24,507	9,026	33,533
Results				
Operating expenses	13,561	8,762	12,631	34,954
Interest expense	-	-	6,723	6,723
Segment result	1,298	33,958	(11,002)	24,254
Income tax benefit				4,350
Net loss				28,604
Segment assets	82,893	1,075,380	69,651	1,227,924
Segment liabilities	51,067	691,413	125,963	868,443
Year ended 30 June 2009				
Revenue				
Revenue outside the entity	11,481	13,142	1,289	25,912
Inter-segment revenues	(1,344)	(5,412)	6,756	-
Total Segment income	10,137	7,730	8,045	25,912
Valuation increment / (decrement) from investment properties	-	(14,639)	-	(14,639)
Results				
Operating expenses	9,907	5,043	3,964	18,914
Interest expense	-	-	7,278	7,278
Segment result	390	(5,788)	(16,823)	(22,221)
Income tax expense				10,017
Net profit				(12,204)
Segment assets	48,444	738,658	41,176	828,278
Segment liabilities	29,220	429,340	104,094	562,654

* - Other segments include corporate operations and development activities.

Geographic Segment
The Group operates wholly within Australia.

30. EVENTS AFTER THE BALANCE SHEET DATE

On 2 August 2010, Stockland Development Pty Limited, a wholly owned subsidiary of Stockland Corporation Limited, announced a cash offer to acquire Aevum. Stockland had a 15.9% interest in Aevum on 5 August 2010 and has lodged a Bidder Statement with the ASX Limited and the Australian Securities & Investments Commission offering $1.50 cash for each of Aevum shares.

Aevum's Board have rejected the offer and has appointed Greenhill Caliburn as its financial adviser and Minter Ellison as its legal adviser in relation to Stockland's offer.

Directors' Declaration

In accordance with a resolution of the directors of Aevum Limited, I state that:

In the opinion of the directors:

(a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the consolidated entity are in accordance with the Corporation Act 2001, including

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards as issued by the Australian Accounting Standards Board, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and Corporations Regulations 2001; and

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

This declaration has been made after receiving the declaration required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ended 30 June 2010.

On behalf of the Board

Graham Lenzner
Chairman

Sydney
24 August 2010

Ernst & Young

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Independent auditor's report to the members of Aevum Limited

Report on the Financial Report

We have audited the accompanying financial report of Aevum Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising 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 the 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 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 and International Standards on Auditing. 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Aevum Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its 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*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 15 the directors' report for the year ended 30 June 2010. 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 Aevum Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001.*

Ernst + Young

Ernst & Young

John Robinson
Partner
Sydney
24 August 2010

Shareholder Information

AS ADVISED TO AEVUM AS AT 30 JUNE 2010

Distribution of Ordinary Shares

Analysis of ordinary shares by size of shareholding

Number of Shares	Ordinary Shares Held	Number of Shareholders	% of Issued Shares
1 to 1000	638,232	1,032	7.44
1001 to 5000	27,097,479	7,642	55.06
5001 to 10000	20,181,808	2,955	21.30
10001 to 100000	43,189,712	2,210	15.93
100001 and Over	86,400,862	37	0.27
Total	177,508,093	13,876	100.00

388 shareholders hold less than a marketable parcel

Substantial Shareholders

The following shareholders have notified that they are substantial shareholders of Aevum Limited:

Shareholders	Ordinary Shares Held	% of Issued Shares
Stockland Retirement Pty Limited	17,903,350	10.09
Aust Executor Trustees NSW Ltd	14,920,111	8.41
J P Morgan Nominees Australia Limited	11,681,948	6.58
Total	44,505,409	25.08

Twenty Largest Shareholders

Shareholders	Ordinary Shares Held	% of Issued Shares
Stockland Retirement Pty Limited	17,903,350	10.09
Aust Executor Trustees NSW Ltd - Tea Custodian Limited	14,920,111	8.41
J P Morgan Nominees Australia Limited	11,681,948	6.58
National Nominees Limited	9,179,525	5.17
ANZ Nominees Limited - Cash Income A/c	7,359,758	4.15
Cogent Nominees Pty Limited	4,581,382	2.58
Citicorp Nominees Pty Limited	3,629,477	2.04
Argo Investments Limited	2,312,091	1.30
UBS Nominees Pty Ltd	2,014,868	1.14
Mirrabooka Investments Limited	1,988,143	1.12
ANZ Nominees Limited - Income Reinvestment Plan A/C	1,867,128	1.05
RBC Dexia Investor Services	1,326,839	0.75
Custodial Services Limited	1,195,438	0.67
Cogent Nominees Pty Limited - Non resident A/C	630,617	0.36
Forbar Custodians Limited	506,679	0.29
Australian Rechabite Foundation	502,532	0.28
UBS Wealth Management Australia Nominees Pty Ltd	494,161	0.28
HSBC Custody Nominees (Australia) Limited	449,598	0.25
Blueflag Holdings Pty Ltd	393,079	0.22
RBC Dexia Investor Services Australia Nominees Pty Limited	386,048	0.22
Total for Top 20	83,322,772	46.95

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