



05/06

DECEMBER
HALF YEAR
FINANCIAL REPORT

Issued
7 MARCH 2006

Aevum Limited ABN 80 087 648 691

**Appendix 4D
Half year report**

Results for Announcement to the Market

Name of entity

AEVUM LIMITED

ABN or equivalent company reference

087 648 691

Financial half year ended ('current period')

31 December 2005

Financial half year ended ('previous corresponding period')

31 December 2004

\$A'000			
Revenues from ordinary activities	down 10%	to	10,320
Revenues from ordinary activities (pre-revaluation increment)	up 9%	to	7,920
Profit from ordinary activities after tax attributable to members	down 30%	to	3,163
Net profit for the period attributable to members	down 30%	to	3,163
Cash flows from operating activities	down 3%	to	5,218
Dividends (distributions)		Cents per security	Franked amount per security
Interim dividend		3.5	NIL
Previous corresponding period (half year report)		NIL	NIL
Record date for determining entitlements to the dividend		16 March 2006	
Net Tangible Asset Backing Per Share			Amount per share
Current period			\$1.51
Previous corresponding period			\$1.53
Other Information			
Audit This report is based on accounts which have been reviewed.			
Commentary on results for the period A commentary on the results for the period is contained in the market release dated 7 March 2006 accompanying this statement.			
Dividend distribution An interim dividend of 3.5 cents per share is payable on 29 March 2006.			



Half Year Financial Report

Six Months Ending 31 December 2005

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Directors' Report

Your directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

G. Lenzner (Chairman)
A. Kavanagh
R. Gould
S. Kaplan
W. Davoren (retired 1 July 2005)

G. Lenzner replaced A. Kavanagh as chairman on 24 November 2005.

REVIEW AND RESULTS OF OPERATIONS

Review of Operations

The Group's operations achieved a pre-tax trading profit for the six months ending 31 December 2005 (excluding revaluation increments and depreciation) of \$1.6 million, reflecting a 100% increase on the previous corresponding period or 1.8% when adjusted for non-recurring costs such as the ASX listing process and Primelife takeover defence. The net profit for the period is \$3.2 million (Dec 2004: \$4.5 million) including a revaluation increment of \$2.4 million (Dec 2004: \$4.2 million) which is net of residents entitlements to capital gains,

Basic earnings per share was 3.9 cents for the period compared to 6.0 cents for the previous corresponding period (AIFRS restated), after adjusting for the share allotment made immediately prior to the company listing on the ASX in the prior period.

Retirement Villages

Operating revenue for the retirement division (excluding revaluation increments) was \$1.8 million for the period, 147% higher than previous corresponding period of \$0.7 million. Retirement revenue for the period, including revaluation increments, was \$4.2 million (Dec 2004: \$4.9 million). Earnings before tax and interest for the retirement division were \$3.9 million (Dec 2004: \$4.8 million).

The retirement division continued to benefit from the ongoing upgrade program at the Lourdes village supplemented by earnings from Castleridge (acquired in late February 2005). Demand remains firm for the company's retirement accommodation and sales price growth for the period of 5.4% was recorded however sales are continuing to be impacted by continued softening of the Sydney property market and settlement delays experienced by incoming residents when selling their existing home.

The village occupancy rate across the retirement division averaged 94.2% at the end of the period compared to 92.6% at 30 June 2005 and 90.1% at 30 June 2004

Aged Care

Operating revenue for the aged care division, excluding interest received on accommodation bonds, was \$4.8 million for the period (Dec 2004: \$4.6 million). Earnings before tax and interest and inclusive of corporate costs were \$0.5 million (Dec 2004: \$0.7 million).

Aged care revenues and earnings were adversely impacted during the period by enforced vacancies during capital works required to upgrade and convert 21 high care beds at Lourdes and 18 high care beds at Cardinal Freeman to Extra Services. Occupancy rates in the Group's nursing homes dropped during this period from 99.5% to around 92.0%. The conversion program commenced in August 2005 and was largely completed in late November. Extra Services enables the Group to charge an accommodation bond in high care in addition to an extra daily fee of approximately \$50 per resident per day. The benefits arising from the introduction of Extra Services should commence to flow through in the June 2006 half.

Directors' Report

Interim Dividend

As announced by the Chairman at the 2005 Annual General Meeting the company has moved to the payment of both an interim and final dividend. In recognition of the continued strong cashflows from operating activities and significant cash balance as at 31 December 2005, the Directors are pleased to declare an inaugural interim dividend of 3.5 cents per share, unfranked, to be paid on 29 March 2006 to shareholders on the register at 5:00pm on 15 March 2006. The company paid a final dividend of 6.0 cents per share in November for the year ended 30 June 2005.

Finance

At 31 December 2005 the Group had cash on hand and investments of \$35.3 million. After allowing for prudent reserves set by the board the Group has considerable funds available to capitalise on acquisition and organic growth opportunities which it is actively pursuing at the present point in time.

Net operating cash flows for the six months from the Group's activities remains almost steady at \$5.2 million (Dec 04: \$5.4 million) which compares to the six months ending 30 June 2005 of \$3.3 million. Key sources of operating cash flows for the period included new accommodation bonds following the introduction of Extra Services in the Group's Nursing Homes and steady increases achieved in loans received from incoming residents, particularly at the Lourdes and Cardinal Freeman villages. Operating cash flows are expected to be stronger in the second half with an increase anticipated in incoming resident entry contributions and accommodation bonds.

Resident loans and accommodation bonds were \$123.4 million at the end of the period (Dec 04: \$92.1 million) compared to \$117.4 million at 30 June 2005. The introduction of Extra Services in the Group's Nursing Homes enables the Group to collect accommodation bonds on an additional 38 beds. These loans and accommodation bonds are non-interest bearing and are typically repaid from contributions received from incoming residents. The above balance includes resident's share (as applicable) of unrealised capital gains.

Capital Management

As at 31 December 2005 the Group remained debt free and with cash and liquid investments of \$35.3 million. The Group is currently in negotiations with several banks regarding the establishment of a debt facility to assist fund acquisition and business growth opportunities and as part of a broader capital management review.

Valuations

The Group continues to value its retirement village unit portfolio using a discount rate of 14% and annual property price growth rates of between 3.5% and 4.0%, unchanged from that used at 30 June 2005. The Group is aware that other publicly listed operators value their portfolios using discount rates as low as 8.0%. It is also noted that several recent village portfolios have transacted at discount rates reported to be in the range of 10-12%.

Directors intend to review the discount rate prior to 30 June 2006 based on prevailing market rates and recent transactions. Each percentage point change in the discount rate changes the value of the Group's retirement village unit portfolio (independent living units and serviced apartments only) by approximately \$5.5 million or 6.5 cents per share.

AIFRS

Aevum implemented the Australian equivalents to International Financial Reporting Standards (AIFRS) with effect from 1 July 2005 and has restated all comparative statements and notes to the accounts. The application of AIFRS does not impact the Group's operations or cash flows however it does cause some volatility to the income statement due to the ongoing requirement to revalue the Group's retirement village's (independent living units and serviced apartments).

The Group no longer records gains (or losses) on turnover of individual units but rather reviews the carrying value each six months of the Group's entire retirement unit portfolio.

Directors' Report

Profit & Loss (\$'000)	Six Months to Dec 05	Six Months to Dec 04	Twelve Months to Jun 05
NPAT as calculated under AIFRS	3,163	4,514	9,193
Revaluation of investment properties	(2,400)	(4,164)	(8,328)
Gain on turnover of retirement units	390	1,575	3,569
Depreciation	10	10	20
NPAT as calculated under AGAAP	1,163	1,935	4,454

In conjunction with the introduction of AIFRS, Aevum has adopted a policy of undertaking a rolling program of external valuations such that each asset is independently valued every two years. In between external valuations management will assess and where appropriate reaffirm the parameters of the prior external valuation. If during a period the external valuation parameters have been consistently exceeded management will bring a revaluation increment to account, adjusting balance sheet asset values, resident loan liabilities (for their share of any unrealised capital gain) and a residual component to the income statement. If during a period the value of the Group's retirement villages is assessed to have fallen then a decrement will be recognised in the income statement.

For the six month ending 31 December 2005, based on sales price growth of 4.6% (annualised) recorded for the period on actual unit transactions, a \$4.0 million valuation increment was brought to account. This resulted in an increase in gross asset values of \$4.0 million, resident loans (unrealised capital gain share) of \$1.6 million and a net income statement contribution of \$2.4million.

Group Outlook

Aevum is forecasting growth in both revenues and earnings in the second half. Key contributors are expected to include the recently converted Extra Service nursing home beds at Lourdes and Cardinal Freeman, the release of upgraded independent living units at the Bexley Gardens village and conversion of strong level of enquiry and interest at the Lourdes village.

The Group anticipates the lodgement of Development Applications for the redevelopment and upgrade of the Cardinal Freeman village prior to 30 June 2006 and expects to be in a position to make further announcements regarding this significant project over the coming months.

Trading conditions continue to be difficult with aged care margins under constant pressure due to salary costs outpacing increases in Commonwealth funding. Retirement earnings continue in line with internal forecasts however the softening property market and delayed settlement periods require constant management attention.

Aevum continues to look for appropriate acquisition opportunities and currently has several prospects under consideration. The move of new entrants into the sector over the past year has seen prices tighten considerably and made it difficult to find value opportunities particularly amongst the larger portfolios. The Group has a strong pipeline of lower risk organic development opportunities at its existing villages and is not reliant on acquisitions to grow earnings and cash flows. The Group will continue to look to supplement its organic growth pipeline with appropriately priced acquisitions of existing operators and to a lesser extent greenfields sites, most likely in a joint-venture with a reputable developer or fund.

Directors' Report

ROUNDING

The amounts contained in the half-year 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 obtained an independence declaration from our auditors, Ernst & Young, a copy of which follows and forms part of the Director's Report.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to be 'Graham Lenzner', written in a cursive style.

Graham Lenzner
Chairman
Sydney, 6 March 2006

Directors' Report



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Auditor's Independence Declaration to the Directors of Aevum Limited

In relation to our review of the financial report of Aevum Limited for the half-year ended 31 December 2005, 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Karen Ray'.

Karen Ray
Partner

Date: 6th March 2006

Condensed Income Statement

For the half year ended 31 December 2005

	Notes	Consolidated	
		2005 \$'000	2004 \$'000
Continuing operations			
Revenue	2	10,320	11,435
Expenses			
Salaries and employee benefits		4,275	3,937
Depreciation		377	297
Repairs and maintenance		143	52
Housekeeping and cleaning		107	101
Catering		503	455
Rates and utilities		183	138
Professional services		210	958
Marketing and promotion		207	182
Other		715	662
Profit before income tax		<u>3,600</u>	<u>4,653</u>
Income tax expense		437	139
Net profit for the period		<u>3,163</u>	<u>4,514</u>
Earnings per share (cents per share)			
– basic for profit for the half-year		3.9	6.0
– diluted for profit for the half-year		3.9	6.0
– dividends paid per share (final)	3	6.0	3.0
– interim dividends declared but not yet paid	3	3.5	-

Condensed Balance Sheet

As at 31 December 2005

	Notes	Consolidated	
		As at 31 December 2005 \$'000	As at 30 June 2005 \$'000
ASSETS			
Current Assets			
Cash		31,216	28,881
Term deposits		2,005	6,003
Investments		1,481	1,524
Trade and other receivables		235	740
Total Current Assets		34,937	37,148
Non-current Assets			
Term deposits		624	605
Deferred income tax asset		928	961
Property, plant and equipment		24,429	23,650
Investment Property		191,864	186,922
Bed licences		1,185	1,185
Total Non-current Assets		219,030	213,323
TOTAL ASSETS		253,967	250,471
LIABILITIES			
Current Liabilities			
Trade and other payables		1,923	2,845
Income tax payable		975	582
Resident loans and accommodation bonds		123,376	117,421
Provisions		670	809
Other liabilities		492	807
Total Current Liabilities		127,436	122,464
Non-current Liabilities			
Provisions		364	334
Other liabilities		595	561
Total Non-current Liabilities		959	895
TOTAL LIABILITIES		128,395	123,359
NET ASSETS		125,572	127,112
EQUITY			
Issued capital	4	8,669	8,465
Retained earnings		105,024	106,595
Asset revaluation reserve		11,619	11,805
Employee equity benefits reserve		260	247
TOTAL EQUITY		125,572	127,112

Condensed Cash Flow Statement

For the half year ended 31 December 2005

	Notes	Consolidated	
		2005 \$'000	2004 \$'000
Cash flows from operating activities			
Receipts from customers and government subsidies		7,402	6,692
Payments to suppliers and employees		(8,687)	(7,954)
Interest		1,129	1,329
Resident loans received		2,418	6,205
Accommodation bonds received (net)		3,756	203
Payment on turnover of retirement units		(807)	(1,097)
Other		7	16
Net cash flows from operating activities		5,218	5,394
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	1,300
Purchase of property, plant and equipment		(1,147)	(7,241)
Payment for investment properties		(852)	(1,468)
Proceeds from short term deposits (net)		3,979	742
Net cash flows used in investing activities		1,980	(6,667)
Cash flows from financing activities			
Proceeds from issue of shares		57	9,537
Equity dividends paid		(4,920)	(2,452)
Share issue costs		-	(778)
Net cash flows from financing activities		(4,863)	6,307
Net increase in cash and cash equivalents		2,335	5,034
Cash and cash equivalents at beginning of period		28,881	45,534
Cash and cash equivalents at end of period		31,216	50,568

Condensed Statement of Changes in Equity

For the half year ended 31 December 2005

Consolidated	Issued Capital \$'000s	Retained Earnings \$'000s	Reval. Reserve \$'000s	Other Reserves \$'000s	Total \$'000s
At 1 July 2004	51	100,021	2,519	-	102,591
Revaluation of property – AASB 116		-	1,609		1,609
Total income and expense for the period recognised directly in equity	-	-	1,609	-	1,609
Profit for the period	-	4,514	-	-	4,514
Total income / expense for the period	-	4,514	-	-	4,514
Equity raising	9,537	-	-	-	9,537
Share issue costs	(797)	-	-	-	(797)
Cost of share-based payment	-	-	-	109	109
Equity dividends	-	(2,452)	-	-	(2,452)
At 31 December 2004	8,791	102,083	4,128	109	115,111

Consolidated	Issued Capital \$'000s	Retained Earnings \$'000s	Reval. Reserve \$'000s	Other Reserves \$'000s	Total \$'000s
At 1 July 2005	8,465	106,595	11,805	247	127,112
Profit for the period	-	3,163	-	-	3,163
Total income / expense for the period	-	3,163	-	-	3,163
Shares issued	204	-	-	(204)	-
Cost of share-based payment	-	-	-	158	158
Employee contribution, share plan	-	-	-	59	59
Equity dividends	-	(4,920)	-	-	(4,920)
At 31 December 2005	8,669	104,838	11,805	260	125,572

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Aevum Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Aevum Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for investment properties and land and buildings that have been measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes hereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below. Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

(c) Summary of significant accounting policies

(i) 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.

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

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

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.

(ii) Investment properties

Initially, investment properties are measured at cost including transaction costs. 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 revenue 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
- 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.

(iii) Property, plant and equipment

Property, plant and equipment that does not meet the definition of investment property currently includes the aged care facilities governed by the Aged Care Act and the assets in the Group corporate office.

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is measured at fair value. Buildings are measured at fair value less accumulated depreciation.

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

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 accumulated impairment losses.

Fair value is determined by reference to market-based evidence, which 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 as at the valuation date.

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement.

Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the 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 balance sheet 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.

(iv) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(v) Bed licences

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.

Bed licenses which are utilised in on-going operations are included the carrying value (measured at fair value) of the Aged Care assets. These amounts are disclosed as property, plant and equipment.

(vi) Recoverable amount 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, 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.

(vii) Trade and other receivables

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

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(viii) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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.

(ix) Unearned maintenance fees

Consistent with prior years 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 provisions in the balance sheet.

These amounts are set aside for periodic major repairs and maintenance covering internal and external painting, gardens, grounds, roadways, roofing and air conditioning and are released to the Income Statement as the works are performed.

(x) Trade and other payables

Liabilities for trade creditors and other amount 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.

(xi) Resident loans and accommodation bonds

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.

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

Resident loans and accommodation bonds are non-interest bearing and the net amount is repayable upon departure or transfer.

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. The Group expects to pay \$8,716,000 (2004: \$6,384,000) of resident loans and accommodation bonds in the next 12 months which will largely be funded by contributions from incoming residents.

(xii) 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.

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 Half Year Financial Statements

For the half year ended 31 December 2005

(xiii) 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 Employee Share Option Plan (ESOP), which provides benefits to senior executives, 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 determined by an external valuer using a binomial 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.

(xiv) Employee benefits

Other benefits

The liabilities arising in respect of wages and salaries, annual leave, directors' retirement benefits and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, and other leave benefits; and
- other types of employee benefits

are recognised against profits in their respective categories.

(xv) 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.

(xvi) Revenue

Revenue is recognised 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 loan and licence agreement or loan and lease 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.

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.

Interest

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

Dividends

Control of the right to receive the dividend payment.

(xvii) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(xviii) 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 balance sheet date.

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

Deferred income tax is provided on all temporary differences at the balance sheet 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, except 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 balance sheet 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 balance sheet date.

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

(xix) 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 balance sheet.

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.

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

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

(xx) 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.

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Designation of previously recognised financial instruments

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions

No equity instruments were granted before 7 November 2002 to which AASB 2 'Share-Based Payments' would apply.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has not elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

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

	Notes	Consolidated		
		30 June 2005 \$'000	31 Dec 2004 \$'000	1 July 2004 \$'000
Total equity under AGAAP		127,112	82,704	74,372
Adjustments to equity:				
Reverse net gain on turnover of retirement village units	(A)		(1,575)	
Additional depreciation	(B)		(10)	
Revaluation increments on land and buildings	(A)		33,992	28,218
Total equity under AIFRS		127,112	115,111	102,591

(A) Fair value movements in investment properties are recognised in the income statement under AASB 140 'Investment Property', but were taken to the asset revaluation reserve under AGAAP. The increase in fair value during the period increased the profit under AIFRS. As a consequence, the net gain on turnover of retirement village units no longer has a direct impact on the Group's income statement.

(B) Additional depreciation was recorded because the Aged Care assets were depreciated from a higher cost based, i.e. the revalued amount.

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

	Notes	Consolidated	
		Year ended 30 June 2005 \$'000	Half year ended 31 Dec 2004 \$'000
Profit after tax as previously reported		4,454	1,935
Depreciation	(B)	(20)	(10)
Reverse net gain on turnover of retirement village units	(A)	(3,569)	(1,575)
Revaluation of retirement villages	(A)	8,328	4,164
Tax effect of the above adjustments	(C)	-	-
Profit after tax under AIFRS		9,193	4,514

(A) Fair value movements in investment properties are recognised in the income statement under AASB 140 'Investment Property', but were taken to the asset revaluation reserve under AGAAP. The increase in fair value during the period increased the profit under AIFRS. As a consequence, the net gain on turnover of retirement village units no longer has a direct impact on the Group's income statement.

(B) Additional depreciation was recorded because the Aged Care assets were depreciated from a higher cost base, i.e. the revalued amount.

(C) There was nil tax effect of the adjustments above (note (A)) because the assets being revalued were pre-CGT assets, or were not revalued above their original cost.

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

(iii) **Explanation of material adjustments to cash flow statements**

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

2. REVENUE AND EXPENSES

(a) **Specific items**

Profit before income tax expense includes the following revenues and expenses whose disclosures is relevant in explaining the performance of the entity.

	Consolidated	
	2005	2004
	\$'000	\$'000
(i) Revenue		
Daily care fees	1,640	1,505
Aged care subsidies	3,103	3,035
Annual loan reduction fees	1,740	710
Revaluation increments	2,400	4,164
Interest	1,086	1,491
Other trading revenue	351	530
	<u>10,320</u>	<u>11,435</u>
(ii) Expenses		
Share based payments	158	109
(iii) Significant items included in expenses		
ASX listing costs	-	391
Defence costs associated with takeover	-	255
National Exchange legal costs	-	116

3. DIVIDENDS PAID AND PROPOSED

	Consolidated	
	2005	2004
	\$'000	\$'000
Equity dividends on ordinary shares:		
(a) Dividends paid during the half-year		
- Final unfranked dividend for financial year ended 30 June 2005: 6.0 cents (2004: 3.0 cents)	4,920	2,452
(b) Dividends proposed and not recognised as a liability		
- Interim unfranked dividend for financial year ended 30 June 2006: 3.5 cents (2004: nil)	2,869	-
	<u>7,789</u>	<u>2,452</u>

Notes to the Half Year Financial Statements

For the half year ended 31 December 2005

4. ISSUED CAPITAL

	Dec-05 \$'000	Jun-05 \$'000
Ordinary shares		
Issued and fully paid	8,669	8,465
	Thousands of shares	\$'000
Movements in ordinary shares on issue		
At 1 July 2005	81,869	8,465
Employee share scheme	127	204
At 31 December 2005	81,996	8,669

5. SEGMENT REPORTING

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

	Aged Care \$'000	Retirement \$'000	Unallocated \$'000	Eliminations \$'000	Total \$'000
31 December 2005					
Segment revenue	4,825	4,188	1,307	-	10,320
Segment result	497	3,916	(813)	-	3,600
31 December 2004					
Segment revenue	4,569	4,889	1,977	-	11,435
Segment result	720	4,839	(906)	-	4,653

6. CONTINGENT ASSETS AND LIABILITIES

Under the terms of the 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.

There are no other material contingent liabilities or contingent assets not elsewhere reported in this half year financial report. Since the last annual reporting date, the Group has settled the contingent stamp duty liability relating to the acquisition of the Castle Ridge Resort, in a manner that required no further payments to the Office of State Revenue.

7. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant transactions subsequent to balance date that may, in the opinion of the Directors, affect significantly the operations of the entity, the results of those operations or the state of affairs of the consolidated entity in the subsequent reporting periods.

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 and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the 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.

On behalf of the Board



Graham Lenzner
Chairman

Sydney, 6 March 2006

Independent Review Report

For the half year ended 31 December 2005



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Independent review report to members of Aevum Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Aevum Limited (the company) and the entities it controlled during the half year, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which follows the Directors' Report.

Independent Review Report

For the half year ended 31 December 2005



Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Aevum Limited and the entities it controlled during the six months to 31 December 2005 is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Karen Ray'.

Karen Ray
Partner
Sydney

Date: 6th March 2006

Operating and Financial Commentary

Key features of the company's performance for the period include:

- Trading profit (pre revaluation, depreciation and tax) of \$1.6 million, up 100% on December 2004
- Inaugural interim dividend declared of 3.5 cents per share
- Operating cash flows of \$5.2 million
- Accommodation bond inflows of \$3.8 million (net) for the period
- Annual loan reduction fees of \$1.7 million, up 145% on December 2004
- NTA of \$1.51 per share (14% discount rate)

The Directors of Aevum today announced a trading profit for the period (pre-tax and excluding revaluation increments) of \$1.6 million (Dec 2004: \$0.8 million) reflecting a 100% increase on the previous corresponding period or 1.8% when adjusted for non-recurring costs such as the ASX listing process and Primelife takeover defence. The net profit for the period is \$3.2 million (Dec 2004: \$4.5 million) including a revaluation increment of \$2.4 million (Dec 2004: \$4.2 million) net of residents entitlements.

Key Comparatives

Key comparatives across the past three six-month periods are as follows:

(\$'000)	Dec 05 (AIFRS)	Dec 04 (AIFRS)	Variance %	Jun 05 (AIFRS)	Variance %
Aged care revenues	4,825	4,569	5.6%	4,738	1.8%
Annual loan reduction fees	1,740	710	145.1%	1,519	14.5%
Interest revenue	1,086	1,491	(27.2%)	1,327	(18.2%)
Other	269	501	(46.3%)	641	(58.0%)
Revenue from ordinary activities	7,920	7,271	8.9%	8,225	(3.7%)
Employee costs	4,275	3,937	8.6%	4,383	(2.5%)
Other ordinary expenses	2,445	2,083	17.4%	2,245	8.9%
Non-recurring costs	-	762	-	480	-
Expenses from ordinary activities	6,343	6,485	(2.2%)	7,108	(10.8%)
Trading profit	1,577	786	100.6%	1,117	41.2%
Revaluation increment	2,400	4,164	(42.4%)	4,164	(42.4%)
Depreciation	(377)	(297)	26.9%	(399)	(5.5%)
Profit before income tax	3,600	4,653	(22.6%)	4,882	(26.3%)
Income tax expense	437	139	214.4%	203	115.3%
Net profit	3,163	4,514	(29.9%)	4,679	(32.4%)
Operating cashflows	5,218	5,394	(3.2%)	3,261	60.0%
Capital expenditure (net)	1,999	7,409	(73.0%)	2,236	(10.6%)
Gearing	Nil	Nil	-	Nil	-
NTA	\$1.51	\$1.53	(1.3%)	\$1.53	(1.3%)

Basic earnings per share was 3.9 cents for the period compared to 6.0 cents (AIFRS restated) for the previous corresponding period.

Net operating cashflows for the six months from the company's activities were slightly down at \$5.2 million (Dec 04: \$5.4 million) which compares to the six months ending 30 June 2005 of \$3.3 million. Capital expenditure and unit upgrade costs were \$2.0 million for the period (Dec 04: \$7.4 million).

Interim Dividend

As announced by the Chairman at the 2005 Annual General Meeting the company has moved to the payment of both an interim and final dividend. In recognition of the continued strong cashflows from operating activities and significant cash balance as at 31 December 2005, the Directors are pleased to declare an inaugural interim dividend of 3.5 cents per share, unfranked, to be paid on 29 March 2006 to shareholders on the register at 5:00pm on 16 March 2006.

This dividend represents a payout ratio of 90.7% of profits after tax and 55.0% of operating cashflows.

AIFRS

Aevum implemented the Australian equivalent to International Financial Reporting Standards (AIFRS) during the six months ending 31 December 2005 and has restated all comparative statements and notes to the accounts. The application of AIFRS does not impact the company's operations or cashflows however it does cause some volatility to the income statement due to the ongoing requirement to revalue the company's retirement village's (independent living units and serviced apartments).

The company no longer records gains (or losses) on turnover to individual units but rather reviews the carrying value each six months of the company's entire retirement unit portfolio.

In conjunction with the introduction of AIFRS, Aevum has adopted a policy of undertaking a rolling program of external valuations such that each asset is independently reviewed every two years. In between external valuations management will assess and where appropriate reaffirm the parameters of the prior external valuation. If during a period the external valuation parameters have been consistently exceeded management will bring a revaluation increment to account, adjusting balance sheet asset values, resident loan liabilities (for their share of any unrealised capital gain) and a residual component to the income statement. Similarly it should be noted that a valuation decrement is required to be recognised in the Income Statement if during a period the value of the Group's retirement villages is assessed to have fallen.

For the six months ending 31 December 2005, based on sales price growth recorded of 4.6% for the period on actual unit transactions, a \$4 million valuation increment was brought to account. This resulted in an increase in asset values of \$4 million, resident capital gain share of \$1.6 million and a net income statement contribution of \$2.4 million.

The Board wishes to remind shareholders that as at 31 December 2005 the discount rate used to value the company's retirement village unit portfolio (not including aged care assets) remained at 14% consistent with that used at 30 June 2005.

The company would like to draw attention to the revaluation increment recorded for the 31 December 2005 and 31 December 2004 periods of \$2.400 million and \$4.164 million respectively which significantly impacts corresponding period comparative performance. The revaluation for the period ending 31 December 2005 of \$2.400 million was arrived at using actual sales price growth achieved year to date of 4.6% (annualised) across the 20 unit contracts settled during the period.

The revaluation for the period ending 31 December 2004 of \$4.164 million is an AIFRS comparative which is influenced by a catch-up in the portfolio valuation between 30 June 2004 and 30 June 2005 as well as sales price growth recorded in the six months ending 31 December 2004. The company suggests that shareholders bear this in mind when comparing corresponding period performance.

Retirement

Operating revenue for the retirement division (pre-revaluation increments) was \$1.8 million for the period, 147% higher than previous corresponding period of \$0.7 million. Retirement revenue for the period, including revaluation increments, was \$4.2 million (Dec 2004: \$4.9 million). Earnings before tax and interest for the retirement division were \$3.9 million (Dec 2004: \$4.8 million).

The retirement division continued to benefit from the ongoing upgrade program at the Lourdes village supplemented by earnings from the recently acquired CastleRidge village. Demand remains firm for the company's retirement accommodation and sales price growth of 5.47% was achieved for the period on units both sold and reserved across the portfolio which is a particularly pleasing outcome. It should be noted, however, that sales and sales price growth continue to be impacted by further softening of the Sydney property market and settlement delays experienced by incoming residents when selling their existing home.

The company continues to invest additional resources in the marketing and positioning of Aevum's retirement communities and a variety of new promotions and financing initiatives were trialled during the period leading to solid inquiry interest and sales leads.

The village occupancy rate across the retirement division averaged 93.8% at the end of the period compared to 92.6% at 30 June 2005 and 90.1% at 30 June 2004.

Key Retirement Statistics

	Sales / Reservations			Occupancy Rate ²	
	Total Units	Year to Date	Full Year Budget	31 Dec 05	30 Jun 05
Cardinal Freeman	218	11	21	98.2%	99.1%
Lourdes	164	16	19	89.6%	85.4%
CastleRidge	113	4	12	94.7%	92.0%
Bexley ¹	22	-	3	81.8%	86.4%
Total	517	31	55	93.8%	92.6%

Note¹: Units withheld from sale pending upgrade and release program

Note²: Calculated as units occupied plus those under contract and withdrawn from sale

The 113 unit CastleRidge village in Castle Hill (Sydney Hills district), acquired in February 2005, was a key contributor to the company's retirement earnings during the period following the commencement of a sales and marketing campaign and minor upgrade program and changes to key personnel. Occupancy at 31 December 2005 was 94.7% compared to 92.0% at the time of acquisition with a number of further sales pending. A variety of options are now being assessed for the expansion of the CastleRidge village.

An upgrade program has recently been commenced at the 22 unit Bexley Gardens village in Bexley North (South West Sydney) including individual unit refurbishments and gardens and grounds improvements. Management anticipates a one-off uplift in unit values plus the commencement of a recurrent income stream as available units are released for the first time under loan-licence contracts. In recent years the Bexley Gardens village has made no contributions to company revenues or earnings and currently has a carrying value of less than \$0.7 million.

Divisional Outlook

The company's focus in the current period will be on bringing occupancy rates at all villages up to 95% whilst seeking to maintain current sales price growth momentum. The Lourdes village upgrade program will continue in earnest and the formal Bexley Gardens marketing launch commences on Saturday 11 March with a community open day.

The company has also made significant progress with redevelopment plans for the Cardinal Freeman villages and is targeting the lodgement of several Development Applications prior to 30 June 2006. Redevelopment plans for vacant land at the Lourdes village is also well underway and the company expects to be in a position to provide further information on both villages over the coming months.

Organic growth and margin improvement opportunities are expected to be supplemented through the acquisition of existing villages with a number of prospects currently under review.

Aged Care

Operating revenue for the aged care division, excluding interest received on accommodation bonds, was \$4.8 million for the period (Dec 2004: \$4.6 million). Earnings before tax and interest and inclusive of corporate costs were \$0.5 million (Dec 2004: \$0.7 million).

EDITDA returns for the six month period, annualised and excluding corporate costs, were \$6,900 per bed (Dec 2004: \$8,900). Managements stretch target per aged care bed is \$10,000 EBITDA per bed.

Numerous operational improvements were introduced or enhanced over the period however continual margin pressure caused by operating costs, particularly labour, escalating at a rate quicker than the largely Commonwealth regulated and funded revenue line, eroded all of the gains.

Aged care revenues and earnings were also adversely impacted during the period by enforced vacancies during capital works required to upgrade and convert 21 high care beds at Lourdes and 18 high care beds at Cardinal Freeman to Extra Services.

Occupancy rates in the company's nursing homes dropped during this period from 99.5% to around 92.0%. The conversion program commenced in August 2005 and was largely completed by late November. Extra Services enables the company to charge an accommodation bond in high care in addition to an extra daily care fee of approximately \$50 per resident per day.

The capital works required for the conversion program totalled approximately \$0.8 million and at full occupancy Extra Services will bring in additional accommodation bonds exceeding \$10 million plus a further \$0.7 million in services revenue per year.. The benefits arising from the introduction of Extra Services should commence to flow through in the June 2006 half.

The company is still awaiting approval from the Commonwealth to convert an additional 6 high care nursing home beds at Lourdes over to Extra Services.

Considerable progress was also made during the period with accommodation bonds received in the company's low care (hostel) facilities. Minor upgrades undertaken as each low care room turns over have resulted in significant increases in bonds received.

Accommodation bonds (both low care and Extra Services) were \$8.9 million at the end of the period (Dec 2004: \$3.8 million) up 71% on the balance as at of \$5.2 million as at 30 June 2005.

Divisional Outlook

The company has budgeted for growth in both revenues and earnings during the second half, principally through the introduction of Extra Services and a return to long term occupancy rates following recent upgrade works however margins will remain under pressure.

Internal business improvement opportunities may be supplemented through the acquisition of existing aged care facilities, particularly those where an accommodation bond can be levied or introduced.

Finance

At 31 December 2005 the company had cash on hand and investments of \$35.3 million. Allowing for prudent reserves set by the board the company has considerable funds available to capitalise on acquisition and organic growth opportunities.

Net operating cashflows for the six months from the company's activities were slightly down for the period at \$5.2 million (Dec 04: \$5.4 million) which compares to the six months ending 30 June 2005 of \$3.3 million. Key sources of operating cash flows for the period included new accommodation bonds received following the introduction of Extra Services in the company's Nursing Homes and steady increases achieved in loans received from incoming residents at the Lourdes and Cardinal Freeman villages.

Resident loans and accommodation bonds were \$123.4 million at the end of the period (Dec 04: \$92.1 million) compared to \$117.4 million at 30 June 2005. The introduction of Extra Services in the company's Nursing Homes enables the company to collect accommodation bonds on an additional 39 beds. Accommodation bonds collected to date on these beds range between \$200,000 and \$480,000 per bed.

These loans and accommodation bonds are non-interest bearing and are typically repaid from contributions received from incoming residents. The above loan balance also includes resident's share (as applicable) of

unrealised capital gains which are generally not payable until the accommodation unit is subsequently sold and the cash from the next incoming resident received (irrespective of the time involved).

Resident loans and accommodation bonds are now required to be classified as current liabilities because the company 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. The company expects to pay \$8,716,000 (2004: \$6,384,000) of resident loans and accommodation bonds in the next 12 months which will largely be funded by contributions from incoming residents.

Capital Management

As at 31 December 2005 the company remained debt free and with cash and liquid investments of \$35.3 million. The company is currently in negotiations with several banks regarding the establishment of a debt facility to assist fund acquisition and business growth opportunities and as part of a broader capital management review. Indications received to date suggest that the company could comfortably accommodate a debt facility of \$40 million based on its existing portfolio of villages and operational cash flows.

Valuations

The company continues to value its retirement village unit portfolio using a discount rate of 14% and annual property price growth rates of between 3.5% and 4.0%, unchanged from that used at 30 June 2005.

The company is aware that some other publically listed operators value their portfolios using discount rates as low as 8.0%. It is also noted that several recent village portfolios have transacted at discount rates reported to be in the range of 10-12%. The company is also aware that it owns and operates one of the largest for-profit portfolios in a tightly held Sydney market.

The company's retirement village portfolio (independent living units and serviced apartments only) of its three largest villages (Lourdes, Cardinal Freeman and CastleRidge) was last independently valued at 30 June 2005 by Colliers International.

The following indicative values, net of resident loans and resident entitlement to unrealised capital gains, are derived using a variety of discount rates:

	Discount Rate		
	10%	12%	14%
Valuation	\$85.5 m	\$72.4 m	\$62.2 m

Directors intend to review the discount rate prior to 30 June 2006 based on prevailing market rates and recent transactions. Each percentage point change in the discount rate changes the value of the company's retirement village unit portfolio (independent living units and serviced apartments only) by approximately \$5.5 million or 6.5 cents per share.

The company's 202 operational low care, high care and high care Extra Service beds continue to be valued at approximately \$100,000 per bed which is conservative when compared to recent reported market transactions.

Key Board and Management Changes

Over the past six months a number of key changes have been made at both Board and Executive levels, as previously advised to the market.

In November 2005 it was announced that Mr Graham Lenzner has been elected Chairman of the company. Mr Allen Kavanagh, Chairman for the previous 24 years, including steering the company in recent years through demutualisation and listing on the ASX, is continuing on as a Non-Executive Director. Allen's colleagues on the Board would formally like to acknowledge his outstanding contribution to the company during that period.

Mr Simon Owen was promoted to the role of Chief Executive Officer in September 2005. Simon has been with Aevum since early 2003, in the roles of Chief Financial Officer and most recently Chief Operating Officer.

In January 2006 the company appointed Mr Peter Homan to the newly created role of Chief Financial Officer and Company Secretary. Peter joins Aevum from Baycorp Advantage where he worked in a variety of senior finance, commercial and business development roles. Prior to Baycorp Advantage Peter worked at Westfield Holdings in planning and business development.

Group Outlook

Aevum is forecasting growth in both revenues and earnings in the second half. Key contributors are expected to include the recently converted Extra Service nursing home beds at Lourdes and Cardinal Freeman, the release of upgraded independent living units at the Bexley Gardens village and conversion of strong sales leads at the Lourdes and CastleRidge villages.

The company anticipates the lodgement of Development Applications for the redevelopment and upgrade of the Cardinal Freeman village prior to 30 June 2006 and expects to be in a position to make further announcements regarding this significant project and plans for expansion of the Lourdes village over the coming months.

Trading conditions continue to be difficult with aged care margins under constant pressure due to salary costs outpacing increases in Commonwealth funding. Retirement earnings continue in line with internal forecasts however the softening property market and delayed settlement periods require constant management attention.

Aevum continues to look for appropriate acquisition opportunities and currently has several prospects under consideration. The move into the sector of a number of new entrants over the past year has seen prices tighten considerably and made it difficult to find value opportunities particularly amongst the larger portfolios. The company has a strong pipeline of lower risk organic development opportunities at its existing villages and is not reliant on acquisitions to grow earnings and cash flows. The company will continue to look to supplement its organic growth pipeline with appropriately priced acquisitions of existing operators and to a lesser extent greenfields sites, most likely in a joint-venture with a reputable developer or fund.

Simon Owen
Chief Executive Officer

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