



Residential
Community
Living



2010 Annual Report

FRONT COVER PICTURES



1. *Sanctuary Lakes, Point Cook, Victoria.*
2. *Pacific Dunes, Port Stephens, New South Wales.*
3. *Grandvue @ Officer, Victoria.*
4. *Renaissance Rise, Mernda, Victoria.*
5. *Sandhurst, Victoria.*

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Chairman's and Chief Executive Officer's Report

Dear fellow Securityholder,

The 2010 Financial Year has proved to be challenging both for RCL Group (RCLG) and the broader business community. RCLG has achieved a number of significant milestones and made excellent progress in stabilising the business while laying down the foundations to further consolidate the operations and value add RCLG's underlying portfolio.

When we last spoke to you in the 2009 Financial Year Annual Report, we listed a number of significant goals to be achieved during the 2010 Financial Year which were necessary to stabilise and rebuild our business:

- meet the ongoing objective to de-leverage the business, by delivering the significant pre-sales pipeline while continuing to drive sales and value-add the portfolio;
- finalising internalisation of the management structure; and
- extending or refinancing both corporate and project level debt.

We can report with great satisfaction that RCLG has largely achieved two of these objectives and continues to focus on the ongoing goal of de-leveraging the business through adding value to the portfolio.

As part of the de-leveraging initiative, RCLG continues to build a solid pre-sales book. As at 30 June 2010 pre-sales totalled \$183 million (gross) compared to \$157 million (gross) as at 30 June 2009. At the time of writing monthly sales results are continuing to trend above long-term forecasts for both controlled and non-controlled projects.

The internalisation of the management arrangements was completed in April 2010. As a result of this RCLG became completely autonomous and, while a number of the operating functions had already transitioned prior to this date, the finalisation of these arrangements has removed the duplication of work and consequential cost impost that this imposed on the business throughout the transition. In addition to this, the internalisation of the management function has allowed RCLG to continue to refine its operating structures and rationalise its development management arrangements. Further rationalisation is expected to occur during FY2011 as we continue to focus on cost control and reducing leakage of fees to third parties.

As announced to the market in August 2010, RCLG has successfully renegotiated and executed documentation to roll over its expiring senior corporate and project development facilities through to 31 December 2012 with some smaller project facilities expiring and paying out prior to this date. This significant milestone has provided RCLG with a long-term debt structure and further working capital facilities, including the capacity to fund construction works at Grandvue @ Officer in Victoria.

Following RCLG's announcement concerning the rollover of its senior debt facilities and the lodging of RCLG's audited accounts for FY2010 (audited financial statements were lodged with ASX on 30 August 2010), the subordinated corporate lender (Babcock & Brown) has sought to dispute that it has confirmed that it will permit the rollover of its facility to December 2012. RCLG has rejected the assertions from Babcock & Brown and is seeking legal advice. Importantly, and as previously advised to the market, the Babcock & Brown loan is subordinated and is unable to be called for repayment, without the consent of the senior corporate lender, and there are no provisions within the documentation that permit the charging of a higher interest rate.

FY2010 Financial Performance

RCLG's consolidated statutory net loss after tax of \$6.53 million was significantly lower when compared to the \$26.6 million statutory net loss in FY2009.

Strong sales performance and settlements activity across the portfolio resulted in:

- consolidated sales revenue of \$51.4 million (up 75% on the previous year – \$29.3 million);
- operating cash flow of \$24.2 million – materially improved over the \$(7.7) million in the previous year; and
- substantial settlements in non-controlled projects, totalling \$284 million.

Offsetting these significant improvements, interest income was down 53% to \$8.5 million, reflecting the decision to defer recognition of this income to more closely align the recognition of income from this source to the physical receipt of cash.

Non-cash pre-tax adjustments totalled \$7.6 million and comprised:

- \$2.4 million writedown in the loan receivables portfolio; and
- \$5.2 million amortisation of finance fees.

The level of writedowns in the loan receivable portfolio has materially improved against FY2009 (\$21.1 million) and there were no impairments at the consolidated group level in the second half of FY2010.

Finance costs expensed during FY2010 totalled \$18.3 million (up \$3.5 million on the previous year) and reflected the level of external debt the Group is carrying and the amortisation of \$5.2 million in finance fees. Importantly, with the increased level of settlement activity in FY2010 and maturity of several of RCLG's projects, we reduced consolidated debt by a net \$21.9 million.

Net tangible asset (NTA) backing as at 30 June 2010 was \$0.63 per Stapled Security, down from \$0.66 per security at 30 June 2009, reflecting the impact of the statutory loss.

Outlook

FY2011 has witnessed the continuing trend of a strong pre-sales book which comprises 831 lots valued at \$183 million (491 lots valued at \$103 million after adjustment for RCLG's economic interest). Importantly, a number of RCLG's larger projects are reaching a point of maturity that will see them turn cash flow positive and return cash that will be used to reduce consolidated debt over the next 15 months. With the high level of gearing that exists, distributions will remain suspended.

RCLG has benefited from having a diversified portfolio which has seen a continuation of robust market conditions in Victoria and Western Australia across all market segments. Importantly, the wind back of the Federal Government's first home buyer assistance from 1 January 2010 has not adversely impacted on sales activity across RCLG's portfolio.

For FY2011, RCLG expects to benefit from the New South Wales State Government's stamp duty concessions to new home buyers paying up to \$600,000, especially given the regional nature of our NSW portfolio.

During FY2011, RCLG will commence construction at Grandvue @ Officer in Victoria, following the successful sales launch of this project in June 2010 with a total of 130 lots pre-sold to date.

With housing affordability remaining a key issue across Australia, RCLG is focused on developing efficient lots and working with home builders to deliver affordable product across its portfolio. The first small lot product is expected to be marketed at Renaissance Rise in Victoria in FY2011.

RCLG will continue to focus on de-leveraging the business by developing out the portfolio and introducing value-adding initiatives. In addition, RCLG will continue to pursue initiatives that reduce cost, improve efficiency and simplify the business model. A core aspect of this includes RCLG taking direct control of certain projects within its portfolio. During FY2010, RCLG took direct control of two of its projects (Renaissance Rise and Pacific Dunes). Where the opportunity presents across the portfolio, RCLG will look to expand this approach.

We thank Securityholders for their ongoing support and their continued confidence in our business and we thank the RCLG staff for their contribution over the last year.



Robert Wright
Chairman



David Wightman
Chief Executive Officer

24 September 2010

Property Portfolio

WESTERN AUSTRALIA PROJECTS

| Project | Total Project lot yield |
|----------------------------|-------------------------|
| Meve, Beeliar | 80 |
| Armadale Road, Forrestdale | 381 |
| Banksia Grove, Wanneroo | 2,828 |
| Total lots | 3,289 |

VICTORIA PROJECTS

| Project | Total Project lot yield |
|-----------------------------|-------------------------|
| Sanctuary Lakes, Point Cook | 470 |
| Princes Highway, Officer | 851 |
| Renaissance Rise, Mernda | 627 |
| Sandhurst, Skye | 436 |
| Total lots | 2,384 |

QUEENSLAND AND FAR NORTH NSW PROJECTS

| Project | Total Project lot yield |
|---------------------------|-------------------------|
| Seabreeze, Pottsville | 17 |
| Kalynda Chase, Townsville | 782 |
| Total lots | 799 |

NEW SOUTH WALES PROJECTS

| Project | Total Project lot yield |
|------------------------------|-------------------------|
| Pacific Dunes, Port Stephens | 204 |
| Haywards Bay, Wollongong | 176 |
| Mirador, Merimbula | 317 |
| Marie Avenue, Taree | 253 |
| Forster Palms, Forster | 178 |
| Total lots | 1,128 |

NEW ZEALAND PROJECTS

| Project | Total Project lot yield |
|--------------------------|-------------------------|
| Jacks Point, Queenstown | 126 |
| Henley Downs, Queenstown | 450 |
| Total lots | 576 |

Note: The lot yields will vary from time to time in response to market dynamics. For example, lot yield may increase due to a decision to reduce lot size and increase overall project yield as a response to market pressure for smaller lots at lower price points. The above are gross project lot yields and includes both controlled and non-controlled projects.

Performance Overview

FINANCIAL KEY POINTS

- Statutory net loss after tax of \$6.53 million
- Consolidated sales revenue of \$51.4 million (up 75% on PY)
- Operating cash flow of \$24.2 million (up 132% on PY)
- Non-cash interest of \$8.5 million (down 53% on PY)
- NTA of \$0.63 per Stapled Security

EXTENSION OF CORPORATE AND PROJECT FACILITIES

- Corporate and project facilities have been extended to 31 December 2012
- Babcock & Brown has purported to withdraw its letter permitting the rollover of its facility to December 2012. RCLG has rejected this. The Babcock & Brown loan is subordinated and is unable to be called for repayment, without senior corporate lender consent, and there are no provisions to charge higher interest rates.
- Debt reduction from trading activities of \$21.9 million

OPERATIONAL HIGHLIGHTS

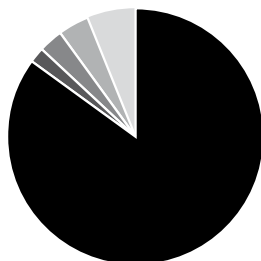
- Throughout FY2010, there was strong sales activity across Victoria and Western Australia, with some improvement in New South Wales and North Queensland
- Pre-sales book as at 30 June 2010 totalled 831 gross project lots valued at \$183 million. This trend has continued post July 2010
- Substantial settlements in non-controlled projects, totalling \$284 million
- Internalisation completed in April 2010 and separation from Babcock & Brown now complete

TARGETS FOR 2011

- Continue to drive sales volumes across all operating projects to de-leverage the business and create greater visibility of underlying asset value
- Continue to apply cash flow to reduce debt position
- Consolidation of business through further rationalisation of operations to reduce costs and simplify the business model

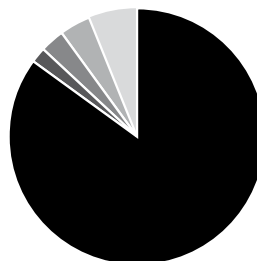
Performance Overview continued

Portfolio Pre-Sales \$183 million at 30 June 2010*



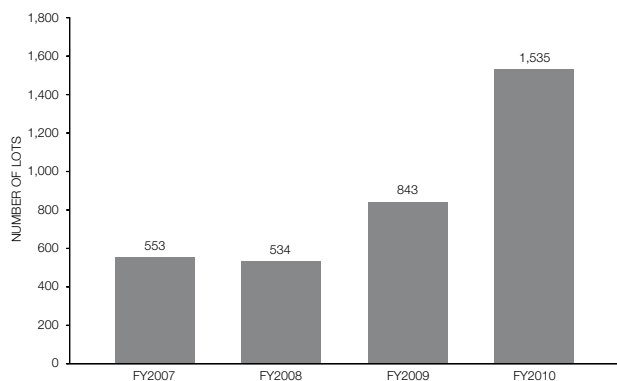
- \$155.55m Victoria
- \$3.66m New South Wales
- \$5.49m Queensland
- \$7.32m Western Australia
- \$10.98m New Zealand

Portfolio Pre-Sales 831 Lots at 30 June 2010*

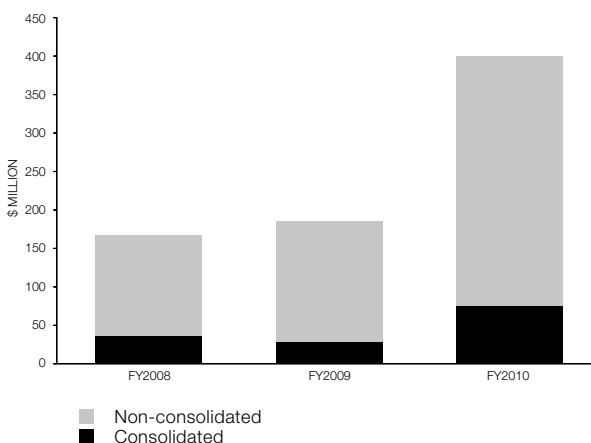


- 706 Victoria
- 17 New South Wales
- 33 Queensland
- 25 Western Australia
- 50 New Zealand

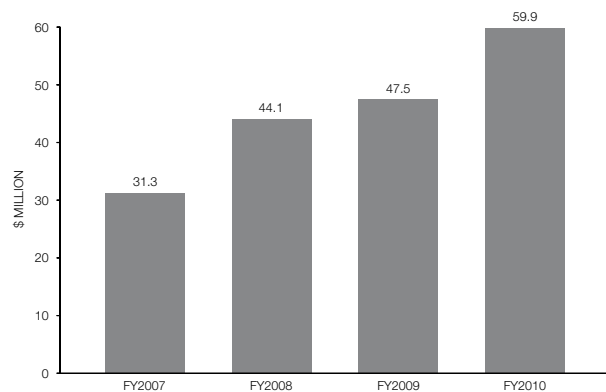
Portfolio Gross Settlements – Year on year increasing



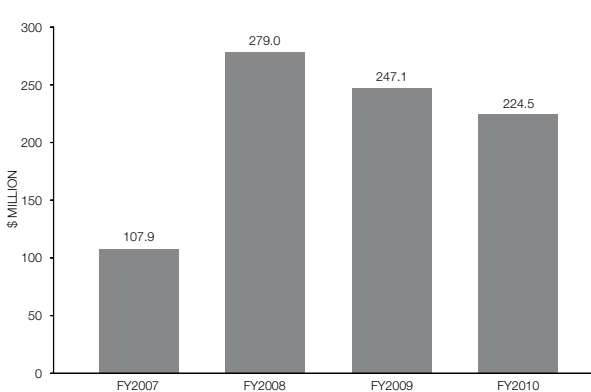
Portfolio Gross Sales Value – Year on year improving



Consolidated Total Revenue from Continuing Operations – Year on year growing



Consolidated Secured Interest-Bearing Debt – Year on year reducing



* Not adjusted for RCLG's economic interest.

Corporate Governance Statement 2010

Introduction

This statement reflects RCL Group's (RCLG) corporate governance framework as at 24 September 2010. A copy of this statement and other documents (or summaries thereof) can be accessed and downloaded from the Corporate Governance section on our website at www.rclgroup.com.au.

RCLG comprises:

- RCL Group Limited ACN 119 517 985 (RCLGL), an Australian public company;
- RCL Group Trust ARSN 119 613 848 (RCLGT), an Australian trust of which RCL Group Services Limited ACN 118 364 499, AFSL No. 298788 (RCLGS) is the responsible entity; and
- the respective subsidiary entities of each of RCLGL and RCLGT.

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

Each RCLGL share is stapled to a RCLGT unit. RCLG Stapled Securities are quoted on the Australian Securities Exchange under the market code ASX: RLG.

The RCLGL Board, together with the RCLGS Board (the Boards), is responsible for overseeing the rights and interests of all investors and is accountable to them for the overall governance and management of RCLG. The RCLGL Board, in consultation and agreement with the RCLGS Board, formulates and approves the strategic direction, investment objectives and goals of RCLG.

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

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

The ASX Listing Rules require listed entities such as RCLG to include a statement in their Annual Report disclosing the extent to which they have followed the eight ASX Principles and 27 ASX Recommendations during the reporting period, identifying any ASX Recommendations that have not been followed and giving reasons for that variance. RCLG's Corporate Governance Statement is structured with reference to the ASX Recommendations. Areas not fully complied with are disclosed under the relevant principle. All of the corporate governance practices referred to herein were in place for the entire year ended 30 June 2010 unless otherwise indicated.

Interaction between the roles of RCLGL and RCLGS

Although, in practice, RCLGL was primarily responsible for conducting the day-to-day operations of RCLG during the 2010 Financial Year, it did and will continue to consult and exchange information with, and seek the agreement of, RCLGS when making decisions in relation to RCLG in accordance with the terms of the stapling deed (Stapling Deed).

The Stapling Deed sets out the terms and conditions of the relationship between RCLGL and RCLGS in respect of RCLG, for so long as the units in RCLGT and shares in RCLGL remain stapled. In summary, the Stapling Deed provides that each of RCLGL and RCLGS must:

- cooperate in respect of all matters relating to RCLG and consult with the other prior to causing any act to be done or omission to be made which may materially affect the value of RCLG Stapled Securities (including the announcement or payment of a dividend or trust distribution);
- make available to the other all information in its possession necessary or desirable to fulfil its respective obligations under the Stapling Deed, and make available to the other all information and provide all assistance in relation to the preparation of financial accounts;

Corporate Governance Statement 2010 continued

- cooperate with the other to ensure that each complies with its obligations under the ASX Listing Rules (including disclosure obligations), coordinate disclosure to the ASX and investors, and liaise with the ASX in relation to ASX Listing Rule matters;
- perform its obligations under the Stapling Deed and its respective constitution with a view to enhancing the market value of RCLG Stapled Securities;
- notify the other of an intention to acquire or sell assets where the value of those assets is greater than 5% of the entity's net tangible assets (RCLGS may only invest in additional material assets where management of the proposed investment has first been approved by the RCLGL Board of Directors);
- act consistently with the investment strategy of RCLG as agreed between them and consult with the other on implementation of this strategy and any changes to its implementation;
- not borrow or raise any money unless the other agrees;
- cooperate to ensure that RCLGL shareholder and RCLGT unitholder meetings are held concurrently or, where necessary, consecutively; and
- consult with the other in relation to any reorganisation or restructure of capital or any changes to stapling arrangements, and not cause a placement, rights issue, distribution or dividend reinvestment plan, buyback, repurchase or redemption without the prior consent of the other.

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

Compliance with the ASX Recommendations

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

ASX Principle 1: Lay solid foundations for management and oversight

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

Role of the RCLG Boards and Management

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

On 11 June 2009, RCLG announced that it had reached an in principle agreement with Babcock & Brown International Pty Ltd regarding the management rights of RCLG. As part of this process, on 3 July 2009, RCLG employed David Wightman to perform the role of Chief Executive Officer.

From 24 December 2009, the previous Management Agreements with RCLG ceased, although transitional services were provided up to 13 April 2010. RCLG finalised its separation from the Babcock & Brown Group and fully integrated management into RCLG on 13 April 2010.

With the termination of the Management Agreements, the RCLG Boards are no longer required to consider any recommendations put to them by the Manager.

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

As outlined in the respective Board Charters, the RCLG Boards are together responsible for the management of the affairs of RCLG. Specific matters reserved for determination by the RCLG Boards include, among other things:

- developing and approving the corporate strategy, policy and objectives of RCLG;
- determining RCLG's distribution policy;
- evaluating and approving major capital expenditure and all major acquisitions, divestitures and other transactions of RCLG;
- approving all accounting policies, financial reports and material reporting of RCLG;
- reviewing and evaluating the performance of the RCLG Boards, each Board Committee, and each individual Director;
- reviewing the performance and effectiveness of RCLG's corporate governance policies and procedures;

- approving contracts, commitments and capital expenditure above specified thresholds and limits determined by the Board from time to time;
- approving expenditure outside the ordinary course of business in excess of thresholds or limits specified by the Board for this purpose;
- major strategic decisions;
- adoption of RCLG's annual budget;
- approval of financial reports and accounts for RCLG that are to be lodged with any regulator, including the ASX;
- the issue of equity securities by RCLG, except under a programme previously approved by the Boards; and
- commencing or taking a significant step in major litigation.

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

The Board Charters also set out the specific powers and responsibilities of the Chairman and the CEO (see Principle 2 below).

Each of the two RCLG Boards acts separately and independently of each other and where there is a joint responsibility between RCLGL and RCLGS over aspects of RCLG's operations, the RCLG Boards will only have responsibility to the extent of their own specific involvement in those operations. However, the RCLG Boards will cooperate to the extent required under the Stapling Deed in meeting those joint responsibilities to ensure that the interests of RCLG Securityholders are met.

The Board Charters also include a summary of the responsibilities of each Director. To assist Directors to understand RCLG's expectations of them, all Directors have been provided with copies of relevant Board Charters and policies.

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

The Nomination, Governance & Remuneration Committee of the RCLGL Board has responsibilities relating to the review and monitoring of the performance of the RCLG Boards, the Chairman, the Chief Executive Officer and other individual members of the RCLG Boards, and for establishing key performance indicators against which the performance of the CEO and other key management personnel in the management team are evaluated.

Following the announcement of 11 June 2009 regarding RCLG's management rights, RCLGL's Nomination, Governance & Remuneration Committee is formulating key performance indicators for the Chief Executive Officer and his key management personnel. Short- and long-term incentive plans are also being established as part of the remuneration structure and any incentive plan requiring Securityholder approval will be considered at the following Annual General Meeting.

Details of the total remuneration, including any bonuses, of the CEO and other key management personnel in the management team are set out in the Remuneration Report.

ASX Principle 2: Structure the board to add value

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

Structure of the Board

ASX Recommendation 2.1: A majority of the board should be independent directors

The size and composition of each of the RCLG Boards is determined in accordance with the Constitution of the relevant entity. It is intended that each of the RCLG Boards will comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds, and will comprise either a majority of independent Directors or, at a minimum, an equal number of independent and non-executive Directors.

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

Details of each Director's skills, experience and expertise relevant to their position and their term in office and details of their attendance at Board and/or Committee meetings are set out in the Directors' Report of the 2010 Annual Report.

Corporate Governance Statement 2010 continued

The Directors of the respective RCLG Boards, at any time during the period, along with their appointment dates, are set out below:

| Name | Position | RCLGL Board appointment | RCLGS Board appointment |
|-----------------|------------------------------------|----------------------------|----------------------------|
| Robert Wright | Independent Non-Executive Chairman | 31/05/06 | 31/05/06 |
| Michael Maxwell | Non-Executive Director | 31/05/06 | 15/02/06 |
| Richard Gelski | Independent Non-Executive Director | 31/05/06 | 31/05/06 |
| Chris Langford | Independent Non-Executive Director | 31/05/06 | 27/04/10 |

Robert Wright was appointed Independent Chairman on 18 June 2008. Prior to this, non-executive Director, Michael Maxwell was Chairman from May 2006.

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

The RCLG Boards have each determined the independent status of each Director utilising the criteria set out in ASX Recommendation 2.1. As shown in the table above, the Board of RCLGS has a majority of independent non-executive Directors during a majority of the 2010 Financial Year. From 27 April 2010, the composition of the RCLGS Board complies with ASX Recommendation 2.1, which recommends that the Board comprise a majority of independent Directors.

The RCLGL Board has a majority of Independent Directors and did so for the entirety of the 2010 Financial Year.

Board committees and membership

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

- The RCLGL Audit & Risk Management Committee;
- The RCLGL Nomination, Governance & Remuneration Committee; and
- The RCLGS Audit, Risk & Compliance Committee.

Each Committee has its own Charter setting out the authority under which each Committee operates and the responsibilities as delegated by the RCLG Boards. Charters are reviewed annually and membership criteria are based on a Director's skills and experience as well as their ability to add value to the Committee. The Managing Director, prior to his resignation, attended all Committee meetings by invitation and non-executive Directors may attend any meeting of a Committee.

The Board Committees and their membership as at 30 June 2010 are set out in the following table:

| | Audit, Risk & Compliance Committee | Audit & Risk Management Committee | Nomination, Governance & Remuneration Committee |
|-----------------|---------------------------------------|--------------------------------------|--|
| Robert Wright | ✓ | ✓ | Chair |
| Michael Maxwell | ✓ | ✓ | ✓ |
| Richard Gelski | Chair | Chair | ✓ |
| Chris Langford | – | – | – |

ASX Recommendation 2.2: The chairperson should be an independent director

Robert Wright was appointed Independent Chairman on 18 June 2008.

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

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

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

The roles of Chairman and Chief Executive Officer are not exercised by the same individual for RCLG. The Board Charters provide that the roles of the Chairman and Chief Executive Officer must not be exercised by the same person. The respective roles and responsibilities of the Chairman and the Chief Executive Officer are described in the Board Charters.

ASX Recommendation 2.4: The Board should establish a nomination committee

The RCLGL Board has established a Nomination, Governance & Remuneration Committee, which is responsible for advising the RCLG Boards on the composition of the Boards and their Committees, reviewing the performance of the Boards, their Committees and individual Directors and advising the Board on appropriate corporate governance standards and policies.

In making recommendations to the RCLG Boards regarding the appointment of Directors, the Nomination, Governance & Remuneration Committee periodically assesses the appropriate mix of skills, experience and expertise required on the relevant Board and assesses the extent to which those skills and experience are represented.

As RCLG develops its existing asset base and continues to seek further investment opportunities, the Nomination, Governance & Remuneration Committee will review the composition of the RCLG Boards to ensure they remain appropriate.

The Nomination, Governance & Remuneration Committee is comprised of three members of the RCLGL Board, and contains a majority of independent non-executive Directors. The Committee is chaired by the Independent Chairman.

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

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

Nomination

In relation to its nomination function the Committee will:

- review and advise the Boards on the composition of the Boards and their Committees;
- periodically assess the skills required to discharge the Board's duties, having regard to the strategic direction of the Group;
- propose candidates for directorships for consideration by the Board having regard to the desired composition of the Boards as stated in their Board Charters;
- inform the Boards of the names of Directors who are retiring in accordance with the provisions of the relevant Constitutions and make recommendations to the Boards as to whether the Boards should support renomination of that retiring Director;
- establish and facilitate an induction programme for new Directors with all such information and advice which may be considered necessary or desirable for the Director to commence their appointment;
- identify any specific responsibilities of individual Board members, including the Chairman and the Chief Executive Officer;
- review succession planning for the Chairman, Chief Executive Officer and other senior management of the Group and provide advice to the Boards on progress; and
- review the membership and performance of other Board Committees and make recommendations to the Boards.

Corporate Governance Statement 2010 continued

Remuneration

- Critically review the performance and effectiveness of the Chairman, the Managing Director/Chief Executive Officer, the Board and its individual members against the relevant Charters, corporate governance policies and agreed goals and objectives at least once per year.
- Review and advise the Board on the Remuneration Report to be disclosed in the Company's annual financial report.
- Make recommendations to the Board for determining the level of remuneration to be applied to the independent Directors.

Governance

- Review developments in corporate governance in Australia and internationally that may be relevant to the Group and to the expectations of the investor market and other stakeholders.
- Monitor the corporate governance requirements of regulators, including the Australian Securities and Investments Commission and the Australian Securities Exchange.
- Review ethical guidelines and standards for Directors.
- Advise the Board on corporate governance standards, and on the adoption or amendment of corporate governance policies that would be appropriate for the Group.
- Review annually the Group's compliance with its corporate governance policies and procedures, and report to the Board on the results of the review together with any recommendations of the Committee.
- Assist the Board to prepare the Group's corporate governance disclosure statements in its Annual Report.

ASX Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors

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

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

The Nomination, Governance & Remuneration Committee undertook a performance evaluation of the Board as a whole, its Committees and individual members during the 2010 Financial Year. Each Director was provided with a detailed questionnaire which was then used to facilitate a discussion with the Chairman. The RCLG Boards as a whole were provided a summary of the discussions that had taken place and reviewed the findings. The RCLG Boards were satisfied with regard to the individual and collective performance of the Directors and there were no significant issues that required attention.

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

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

ASX Principle 3: Promote ethical and responsible decision-making

Companies should actively promote ethical and responsible decision-making.

Code of Conduct

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

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

To this end, each RCLG Board has adopted a formal Code of Conduct, which is designed to ensure that high standards of corporate and individual behaviour are observed by all Directors and employees in relation to all of RCLG's activities.

The Code of Conduct requires Directors, employees of RCLG, among other things, to:

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

The Code of Conduct requires Directors and employees of RCLG, to report any actual or potential breach of the law, the Code of Conduct or other RCLG policies. In accordance with RCLG's Whistleblowing Policy, RCLG promotes and encourages ethical behaviour and provides protection for those who report violations. A summary of the Code of Conduct is available on RCLG's website.

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

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

As outlined above, RCLG has established a Code of Conduct requiring Directors and employees seconded to the Manager to observe high standards of corporate and individual behaviour. The objectives of the Code include ensuring that employees, suppliers, clients and competitors can be assured that RCLG will conduct its affairs in accordance with ethical values and practices.

Employees are required to comply with both the spirit as well as the letter of the ASX Listing Rules and all laws that govern the operations of RCLG. The Code of Conduct specifically requires all employees to always deal with Securityholders, clients, customers, suppliers, competitors and other employees in a manner that is lawful, diligent and fair and with honesty, integrity and respect.

Security Trading Policy

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

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

The policy is specifically designed to raise awareness and minimise any potential for breach of regulations relating to insider trading contained in the *Corporations Act 2001* (Cth). The policy is also designed to minimise the chance that misunderstandings or suspicions arise regarding employees trading while in possession of non-public price-sensitive information. The policy is applicable to all RCLG Directors and employees.

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

A summary of RCLG's Securities Trading Policy is available on RCLG's website.

ASX Principle 4: Safeguard integrity in financial reporting

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

Audit, Risk & Compliance Committee

ASX Recommendation 4.1: The board should establish an audit committee

The RCLG Boards are committed to the basic principle that RCLG's financial reports are true and fair and comply with the relevant accounting standards. To assist the RCLG Boards with this commitment, an Audit, Risk & Compliance Committee of each of the

Corporate Governance Statement 2010 continued

RCLG Boards has been established, which is responsible for advising the RCLG Boards on internal controls and appropriate standards for the financial management of RCLG. It is the RCLG Boards' responsibility to ensure that an effective internal control system is in place across RCLG. This includes internal controls to deal with both the effectiveness and the efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The RCLG Boards have delegated the responsibility for the establishment and maintenance of the Company's system of internal control to the Audit, Risk & Compliance Committee.

The respective Committees oversee the financial reporting process, the systems of internal control and risk management, the audit process and RCLG's processes for monitoring compliance with laws and regulations.

The respective Committees provide advice to the RCLG Boards and report on the status of the business risks to RCLG through its risk management processes aimed at ensuring risks are identified, assessed and properly managed.

The respective Committees work on behalf of the RCLG Boards with the external auditor and reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

ASX Recommendation 4.2: The audit committee should be structured so that it:

- **consists only of non-executive directors;**
- **consists of a majority of independent directors;**
- **is chaired by an independent chair, who is not the chair of the board; and**
- **has at least three members**

At the date of this statement, each Committee is comprised of a majority of independent non-executive Directors. Each Committee comprises Mr Richard Gelski (Independent Non-Executive Committee Chairman), Mr Robert Wright (Independent Non-Executive Committee member) and Mr Michael Maxwell (Non-Executive Committee member). All members possess the requisite financial expertise.

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

The structure of the Committees accords with ASX Recommendation 4.2 in that the Committee comprises a majority of independent Directors, has an independent chairman who is not the Chairman of the RCLG Boards and has at least three members.

The Committees generally meet as required but normally not less than four times per year and report to their respective full Board following each Committee meeting, including making any recommendations from the Committees that require Board approval or action. The Committees met four times in the period to 30 June 2010 and all Committee members attended each Committee Meeting. The Directors who are not members of each Committee also attended a number of Committee Meetings.

ASX Recommendation 4.3: The audit committee should have a formal charter

The Audit, Risk & Compliance Committees have each adopted a Charter. The responsibilities of the Committees pursuant to their respective Charters include:

Financial Reports for the Half Year and Full Year

- Review and consider the financial reports for the half year and full year.
- Consider in connection with the half-year and full-year financial reports the CEO and CFO letter of representation to the RCLG Boards.
- Review the financial sections of the Annual Report and related regulatory filings before release.
- Review with management and the external auditors the results of the audit.

Internal Control

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

Internal Audit

- Review with the Manager, and the internal auditor, the Charter, plans and activities of the internal audit activity.
- Meet with the internal auditor to review reports and monitor management response.

- Meet separately, when necessary, to discuss any matters that the Committee or internal audit believes should be discussed privately.
- Review the effectiveness of the internal audit activity.
- Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of the internal auditor.

Refer to the following page for further comments regarding internal audit.

External Audit

- Review the external auditors' proposed audit scope and approach.
- Meet with the external auditors to review reports, and meet separately, at least once a year, to discuss any matters that the Committee or auditors believe should be discussed privately without the presence of management.
- Recommend to the RCLG Boards policies regarding independence of the external auditor.
- Review and confirm the independence of the external auditors.
- Review the performance of the external auditors, and consider the re-appointment and proposed fees of the external auditor and, if appropriate, conduct a tender of the audit for the review of the RCLG Boards. Any subsequent recommendation following the tender for the appointment of an external auditor will be put to the RCLG Boards.

Compliance

- Monitor to what extent the responsible entity complies with the Trust's Compliance Plan and report on its findings to the Board.
- Report to the Board:
 - any breach of the Corporations Act involving the Trust;
 - any breach of the Trust's Constitution; and
 - of which the Committee becomes aware or that it suspects.
- Report to the Australian Securities and Investments Commission if the Committee is of the view that the responsible entity has not taken, or does not propose to take, appropriate action to deal with a breach of the Corporations Act or the Trust's Constitution.
- Assess at regular intervals whether the Compliance Plan is adequate, report to the Board on the assessment and make recommendations to the Board of the responsible entity about any changes that the Committee considers should be made to the Compliance Plan.
- Obtain regular updates from management and the Trust's compliance manager regarding compliance matters.
- Review the effectiveness of the system for monitoring compliance with laws and regulations affecting the Trust and the responsible entity (in its capacity as responsible entity of the Trust) and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- Review the findings of any examinations by regulatory agencies.
- Review the process for communicating the Code of Conduct to the responsible entity's personnel, and for monitoring compliance therewith.

Risk Management

- Consider the overall risk management framework for RCLG and review its effectiveness in meeting sound corporate governance principles and keep the RCLG Boards informed of all significant business risks.
- Review with the Manager the system for identifying, managing and monitoring the key risks of RCLG.
- Obtain reports from management on the status of any key risk exposures or incidents.

Reporting Responsibilities

- Regularly report to the RCLG Boards about Committee activities, issues and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors and the RCLG Boards. For the purpose of supporting the independence of their function, the external auditor and the internal auditor have a direct line of reporting access to the Committee.

Corporate Governance Statement 2010 continued

- Report annually to the Securityholders on matters relating to Committee responsibilities as required by law or the ASX Listing Rules.
- Review any other reports the Company issues that relate to Committee responsibilities.

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

Internal Audit

The RCLG Boards have overall responsibility for RCLG's systems of internal control, supported by the Audit, Risk & Compliance Committees. RCLG did not have an internal audit function during the period to 30 June 2010. Appointment of an internal auditor has been considered by the Audit, Risk & Compliance Committees and although the Committees believe that the appointment of an internal auditor is unnecessary at this time, they periodically assess the appointment of an internal auditor.

RCLG continued to enhance the RCLG risk management framework during the year.

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

In respect of the 12 months ended 30 June 2009, the Chief Executive Officer and Chief Financial Officer provided such a letter to the RCLG Boards (refer to "CEO's and Chief Financial Officer's Declaration" in the Directors' Report).

A summary of the Audit, Risk & Compliance Committee Charters are available in the Corporate Governance section on RCLG's website.

ASX Principle 5: Make timely and balanced disclosure

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

Continuous Disclosure Policy

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

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

The Policy is designed with the intention of ensuring that all investors have equal and timely access to information concerning RCLG, and to ensure that price-sensitive information from any part of RCLG is immediately notified to the ASX in a complete, balanced and timely manner.

The Company Secretary, in conjunction with the Chairman and the Chief Executive Officer, is responsible for overseeing the implementation and operation of the Policy. The Company Secretary is responsible for reviewing information reported by the Directors or staff and which is or may be material, determining with the Chairman and the Chief Executive Officer whether any such information is required to be disclosed to the ASX, and making ASX announcements and issuing media releases and other written public statements on behalf of RCLG. Directors and staff of RCLG are required to ensure that they are familiar with the Policy, and report material information to the Company Secretary to allow a view to be formed as to whether the information requires disclosure.

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

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

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

Continuous Disclosure Processes

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

- **website:** all information released to the ASX is posted on the Investor Information section of RCLG's website as soon as practicable;
- **authorised spokespersons:** communication with the media, share analysts and the market generally in relation to RCLG activities will normally be undertaken only by: the Chairman, CEO, the Chief Financial Officer or Head of Investor Relations;
- **media releases:** no media release of a material nature is to be issued unless it has first been sent to the ASX; and
- **analyst and investor briefings:** RCLG recognises the importance of the relationship between RCLG, investors and analysts. From time to time RCLG conducts analyst and investor briefings and in these situations the following protocols apply:
 - no price-sensitive information will be disclosed at these briefings unless it has been previously, or is simultaneously, released to the market;
 - questions at these briefings that relate to price-sensitive information not previously disclosed will not be answered; and
 - if any price-sensitive information is inadvertently disclosed, it will immediately be released to the ASX and placed on RCLG's website.

ASX Principle 6: Respect the rights of shareholders

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

Communications with shareholders

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

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

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

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

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

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

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

ASX Principle 7: Recognise and manage risk

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

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

Risk Management Policy

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

The RCLG Boards are ultimately responsible for overseeing and managing the material risks of RCLG. The respective Audit, Risk & Compliance Committees assist the Boards in this role. In accordance with their respective Charters, the role of the Committees include reviewing and managing the system for identifying, managing and monitoring the key risks of RCLG and obtaining reports from the Chief Executive Officer on the status of any key risk exposures or incidents. In undertaking these responsibilities, the Committee principally relies on the Chief Executive Officer to implement and report upon the risk management systems and procedures implemented, such that the Committee is able to keep the RCLG Boards informed of all material business risks.

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

The respective Audit, Risk & Compliance Committees include among their responsibilities:

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

The Committees follow commitment of capital and an investment approval process with rigour to the selection, assessment and approval of investment risks assumed under RCLG's principal investment activities. Matters such as legal, accounting, tax and general risk assessment issues are considered in each case. RCLG's most senior executives are involved in all major investment decisions, and all capital investments above specified thresholds require approval of the RCLG Boards and a recommendation for all investment decisions.

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

RCLG has continued to enhance its risk management framework. RCLG's risk function plays a key role in developing and building an approach to assist the RCLG Boards and subsidiary companies in identifying, monitoring and treating risk, and in reporting material risks to the Committees. Key risk areas are identified in a Risk Register and progress in implementing action plans is monitored via regular meetings with management and reported to the Audit, Risk & Compliance Committee quarterly.

RCLG's compliance function promotes a compliance-conscious culture, while ensuring RCLG complies with regulatory requirements across its businesses, functions, and Group entities.

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

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

As outlined above, and in accordance with ASX Recommendation 7.3, the CEO and Chief Financial Officer have stated to the Boards in writing that internal compliance and control systems applicable to the Group's business lines and functional groups were operating efficiently and effectively in all material respects during the period to 30 June 2010 (see the "CEO's and Chief Financial Officer's Declaration" in the Directors' Report).

ASX Principle 8: Remunerate fairly and responsibly

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

Remuneration Policy

The remuneration policies of RCLG are currently under review following internalisation of management rights. These policies are being reviewed with the desired outcome to be competitive in the industry and global marketplace and to ensure that RCLG can attract and retain the talent needed to achieve both short- and long-term success, while maintaining a strong focus on team work, individual performance and the interests of Securityholders.

The policies and principles, which are applied to determine the nature and amount of remuneration paid to the Directors and key management personnel of RCLG, are set out in the Remuneration Report.

Remuneration Committee

ASX Recommendation 8.1: The board should establish a remuneration committee

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

The RCLGL Nomination, Governance & Remuneration Committee has adopted a Charter of which a summary is available on RCLG's website. The responsibilities of the Committee pursuant to the Charter in relation to remuneration include:

- critically review the performance and effectiveness of the Chairman, the CEO, the Board and its individual members against the relevant charters, corporate governance policies and agreed goals and objectives at least once per year;
- consult with the CEO in respect of the key performance indicators (KPIs) for each of the key management personnel and provide feedback to the Committee about their respective performance against such KPIs;
- provide input and advice to the Board about remuneration of key management personnel or other individuals, based on RCLG's remuneration principles and practices;
- review and advise the Board on the Remuneration Report to be disclosed in the Company's annual financial report; and
- make recommendations to the Board for determining the level of remuneration to be applied to the non-executive Directors of the Company.

The RCLGL Nomination, Governance & Remuneration Committee consists of three members, a majority of whom are independent Directors of RCLGL. The members of the Committee as at the date of this statement are Robert Wright (Chairman), Richard Gelski and Michael Maxwell.

Non-Executive Director Remuneration

ASX Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executives

The total remuneration paid to the independent non-executive Directors to 30 June 2010 is set out in the Remuneration Report. Independent non-executive Directors are paid an annual fee according to which Boards and Committees they sit on. Non-executive Directors' fees for RCLGL are determined within a non-executive Director's aggregate fee pool limit, which has been approved by Securityholders. The maximum aggregate sum for RCLGL has been set at \$600,000 annually.

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

2010

Annual Financial Report

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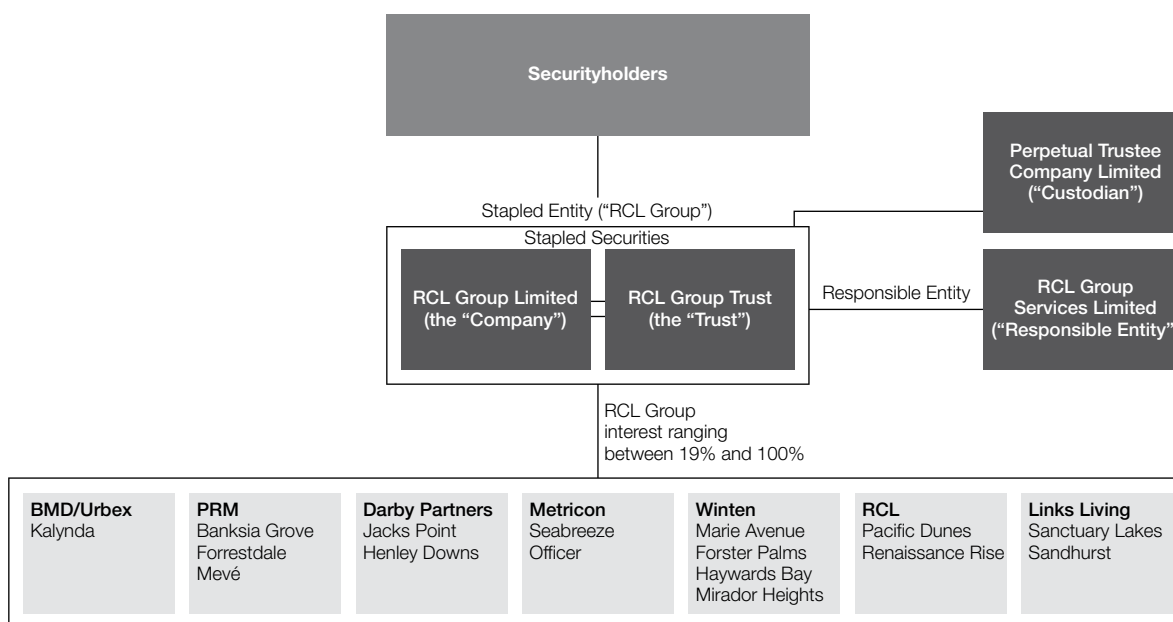
Overview of the RCLG Accounts

RCL Group (“RCLG” or the “Group”) consists of two entities:

- RCL Group Limited (“RCLGL”); and
- RCL Group Trust (“RCLGT”).

The issued securities in these entities have been stapled together and trade as one listed security on the Australian Securities Exchange (ASX code: RLG). The Stapled Security represents one share in RCLGL and one unit in RCLGT.

The following diagram provides an overview of RCLG’s structure.



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

As RCLGT is also considered a disclosing entity, separate consolidated financial statements for RCLGT for the year ended 30 June 2010 have been prepared.

Directors' Report

In respect of the financial year ended 30 June 2010, the Directors of RCL Group Limited (RCLGL) (formerly Babcock & Brown Residential Land Partners Limited (BBRLPL)) submit the following report on the consolidated financial report of the RCL Group (RCLG or Group) (formerly Babcock & Brown Residential Land Partners (BBRLP)).

Directors

The names of the Directors and Secretaries in office as at or since the end of the 2010 Financial Year and up to the date of this report are:

| Name, independence status and special responsibilities | Qualifications and experience |
|--|--|
| <p>Robert Wright</p> <p><i>Independent</i></p> <p><i>Non-Executive Chairman</i></p> <p><i>Member of the Audit, Risk & Compliance Committee</i></p> <p><i>Chairman of the Nomination, Governance & Remuneration Committee</i></p> | <p>Robert was appointed as a Director on 31 May 2006.</p> <p>Robert has over 30 years' financial management experience, having held a number of chief financial officer positions, including finance director of David Jones Limited. Robert was the executive director of The Adelaide Steamship Company during the restructure of that group from 1991 to 1995. He is currently the chairman of SAI Global Limited and Super Cheap Auto Group Limited and is a Director of Australian Pipeline Limited. Robert was the chairman of Dexion Limited until August 2010.</p> <p>Robert holds a Bachelor of Commerce from the University of Canterbury and is a FCPA.</p> |
| <p>Richard Gelski</p> <p><i>Independent</i></p> <p><i>Non-Executive Director</i></p> <p><i>Chairman of the Audit, Risk & Compliance Committee</i></p> <p><i>Member of the Nomination, Governance & Remuneration Committee</i></p> | <p>Richard was appointed as a Director on 31 May 2006.</p> <p>Richard is a partner at Johnson Winter & Slattery, having joined them in 2004 after seven years with Blake Dawson Waldron. Richard has over 30 years' experience in the areas of taxation, corporate and commercial law. From 1974 to 1981 he lectured in tax and corporate law at the University of New South Wales and was a practising barrister from 1981 to 1986. He has particular experience in corporate restructuring, cross border investment, tax effective financing, capital raising, mergers and acquisitions and property trust structures.</p> <p>Richard holds a Bachelor of Arts, Bachelor of Laws (First Class Honours) and University Medal from the University of Sydney and a Master of Laws from London University.</p> |
| <p>Michael Maxwell</p> <p><i>Non-Executive Director</i></p> <p><i>Member of the Audit, Risk & Compliance Committee</i></p> <p><i>Member of the Nomination, Governance & Remuneration Committee</i></p> | <p>Michael was appointed as a Director on 31 May 2006.</p> <p>Until July 2006, Michael was the global head of real estate at Babcock & Brown and ceased employment with Babcock & Brown in October 2008. Prior to joining Babcock & Brown in January 1992, Michael was an executive director of the Australian subsidiary of international merchant bank, Morgan Grenfell. Michael was formerly a director for the responsible entity of the MTM Entertainment Trust and an independent director of the responsible entity of the Grand Hotel Group for the period April 2004 to January 2008.</p> <p>Michael holds a Bachelor of Economics and Bachelor of Laws from the University of Sydney.</p> |
| <p>Chris Langford</p> <p><i>Independent</i></p> <p><i>Non-Executive Director</i></p> <p><i>Member of the Nomination, Governance & Remuneration Committee</i></p> | <p>Chris was appointed as a Director on 31 May 2006.</p> <p>Chris has over 20 years' experience in a range of roles within the property industry and brings significant knowledge to his role as an independent Director. Having worked with Lend Lease and Mirvac on a variety of projects and property classes, Chris has a good understanding of the complex issues involved in the delivery of large scale projects. More recently, Chris was CEO of Mirvac Retail Projects until mid 2005, before forming Spyglass Property to focus on commercial and retail property ventures.</p> <p>Chris is also a commissioner of the Australian Football League and a director of Macarthur Cook Funds Management.</p> <p>Chris holds a Bachelor of Architecture from the University of Melbourne.</p> |

Name, independence status and special responsibilities**Qualifications and experience****Austin James***Company Secretary*

Austin was appointed Company Secretary on 3 February 2010 and is responsible for the company secretarial function and corporate governance for the Boards and Committees of the Group entities.

Prior to RCL Group, Austin was company secretary and general manager corporate for APA Group for eight years. Prior to APA Group, Austin was manager corporate development at Australian Gas Light Company for three years.

Austin holds a Bachelor of Laws and is a Certificate Member, Chartered Secretaries Association.

Details regarding interests in securities held by Directors are disclosed in Note 28(c) on page 70 of the attached financial report.

Meetings of Directors

The number of Directors' meetings (including meetings of the Committees) and the number of meetings attended by each of the Directors during the financial year were:

| Director | RCLG Board | | RCLGSL Board | | Audit, Risk & Compliance Committee | | Nomination, Governance & Remuneration Committee | |
|--------------------------|------------|----|--------------|----|------------------------------------|-----|---|-----|
| | A | H | A | H | A | H | A | H |
| R. Wright | 17 | 17 | 15 | 15 | 4 | 4 | 2 | 2 |
| R. Gelski | 17 | 17 | 15 | 15 | 4 | 4 | 2 | 2 |
| M. Maxwell | 17 | 17 | 15 | 15 | 4 | 4 | 2 | 2 |
| C. Langford ¹ | 16 | 17 | 4 | 4 | N/A | N/A | N/A | N/A |

A – Number of meetings attended.

H – Number of meetings held during the year at the time the Director held office.

N/A – Director not on Board/Committee.

1. Appointed to RCLGSL Board on 27 April 2010.

Principal Activities

The principal activity of the Group during the year consisted of residential land subdivision and property development in the geographical areas of Australia and New Zealand. The Group's principal activities remain unchanged from the prior year.

Dividends/Distributions

There were no dividends or distributions declared during the year ended 30 June 2010 or 30 June 2009. The June 2008 dividend/distribution was paid on 29 August 2008.

Environmental Regulation

RCLG's operations are subject to environmental regulations under both Commonwealth and State legislation.

The Directors monitor compliance with environmental regulations. To the best of their knowledge the Directors are not aware of any significant breaches during the period covered by this report.

Financial and Operational Review

| | FY2010 Total \$'000 | FY2009 Total \$'000 | Favourable/ (Unfavourable) \$'000 | % Change |
|-----------------------------|---------------------------|---------------------------|---|--------------|
| Income | 62,848 | 50,057 | 12,791 | 25.5 |
| Cost of sales | (47,469) | (39,957) | (7,512) | 18.8 |
| Operating costs | (8,095) | (8,330) | 235 | 2.8 |
| Operating profit | 7,284 | 1,770 | 5,514 | 311.4 |
| Impairments of receivables | (2,418) | (21,101) | 18,683 | 88.5 |
| Finance Costs | (18,330) | (14,792) | (3,538) | 23.9 |
| Other gains/(losses) | 2,512 | (1,573) | 4,084 | n/a |
| Net (loss) pre-tax* | (10,952) | (35,696) | 24,744 | 69.3 |
| Net (loss) after tax | (6,530) | (26,605) | 20,075 | 75.5 |

Items above Net (loss) pre-tax are not statutory measures of profit.

The Group recorded a net loss after tax of \$6.53 million for the year ended 30 June 2010 compared to a net loss after tax of \$26.6 million for the prior period.

The improving economic conditions within the regions where the Group has a presence has continued to generate substantial sales volumes across the portfolio, particularly in Victoria and Western Australia where the Group has a number of mature projects. With these improved economic conditions, the Group starts FY2011 with a strong level of pre-sales and an expectation that it will be able to achieve further material debt reduction in the new financial year.

Revenue

| | FY2010 \$'000 | FY2009 \$'000 | Increase/ (Decrease) |
|--------------------------------|------------------|------------------|-------------------------|
| Revenue from the sale of land | 51,411 | 29,354 | 22,057 |
| Interest income | 8,485 | 18,174 | (9,689) |
| Total operating revenue | 59,896 | 47,528 | 12,368 |

Revenue improved by \$12.37 million in FY2010 in comparison to FY2009 due to improved sales and settlement activity throughout FY2010 for consolidated projects. The improvement in revenue occurred notwithstanding the reduction in interest income from the loan receivable portfolio by \$9.6 million between FY2010 and FY2009. The Group has deferred the receipt of this income to more closely align the recognition of income from this source to the physical receipt of cash.

Operating profit

| | FY2010 \$'000 | FY2009 \$'000 | (Increase)/ Decrease |
|--|------------------|------------------|-------------------------|
| Net realisable value writedown and impairment expense items | | | |
| Impairment of loans receivable | 2,418 | 21,101 | 18,683 |
| Impairment of goodwill | – | 1,691 | 1,691 |
| Net realisable value writedown of inventory | – | 8,307 | 8,307 |
| Total | 2,418 | 31,099 | 28,681 |

The substantial improvement in FY2010 compared to FY2009 is due to a reduction in the level of impairment activity and inventory valuation adjustments. Over FY2010 the Group has experienced sales price growth in its key Victorian market and an acceleration of development activities in a number of non-controlled projects that is likely to bring forward a return of capital from the receivables portfolio. Each of these factors has had a positive impact on impairment assessments in FY2010.

Factors that had a negative impact on the 2010 result include one-off costs associated with the separation from Babcock & Brown (e.g. legal expenses, and recruitment costs), and the \$5.2 million in amortisation of finance fees including the amortisation of fees associated with extending the corporate senior debt and subordinated Babcock & Brown facilities to 28 June 2010 (2009: \$1.3 million).

Operating cash flow

| Interest-bearing liabilities | FY2010 \$'000 | FY2009 \$'000 | (Decrease)/ Increase |
|--|------------------|------------------|-------------------------|
| Project facilities | 97,784 | 120,143 | (22,359) |
| Senior corporate debt facility | 100,405 | 104,031 | (3,626) |
| Subordinated Babcock & Brown facility ¹ | 26,284 | 22,906 | 3,378 |
| Total | 224,473 | 247,080 | (22,607) |

1. Increase in FY2010 liability is due only to the capitalisation of interest.

The Group generated a positive net cash flow from operating activities in FY2010 and was able to reduce debt by \$22.6 million in FY2010 whereas in FY2009 the Group increased its debt by \$15.7 million. This improvement is driven by a number of major projects within the Group's portfolio reaching maturity and becoming cash flow positive.

Operational highlights

Documentation to complete the separation from Babcock & Brown was signed on 24 December 2009. The completion of the separation from Babcock & Brown occurred on 13 April 2010 through the internalisation of the responsible entity Babcock & Brown Residential Land Partners Services Limited (now called RCL Group Services Limited) and the acquisition of the management rights and advisory functions previously performed by Babcock & Brown for a nominal sum. The custodial function previously performed by Babcock & Brown in relation to RCL Group Trust has been transferred to Perpetual Trustee Company Limited.

With the separation from Babcock & Brown, the business operations transferred from Sydney to Melbourne with all core personnel now being employed by the Group. In addition to this, the Group has further rationalised its operations throughout FY2010 by taking on the project and development management function on two projects and it will continue to pursue these opportunities where operational and financial efficiencies can be identified.

The Group received a short-term extension to its corporate and project debt facilities on 28 June 2010 through to 28 July 2010 pending consideration from its financiers of a request for a longer-term funding package, including provision of sufficient working capital to enable the development of its project located at Officer in Victoria. The Group has now finalised and executed documentation for a long-term funding package for its controlled projects and corporate debt facilities with the facility term extended through to 31 December 2012. In addition to this, the subordinated corporate lender, Babcock & Brown, has provided written confirmation that it is prepared to extend the term of its facility through to December 2012 with no other changes to the existing terms and conditions of this facility. We are awaiting documentation to reflect those arrangements from Babcock & Brown. The Group now has a weighted average debt maturity profile of 2.42 years.

Sales rates continued to strengthen over the last six months of FY2010 and this has enabled the Group to start FY2011 with a pre-sales book of 831 lots for a gross value of \$183.3 million. Both the Victorian and Western Australian markets continue to be buoyant and there has been some improvement in the regional New South Wales market. The recent announcement by the NSW State Government with respect to stamp duty concession for new house and land packages priced at under \$600,000 is expected to strengthen markets where the Group is actively selling. The improving sales trend across the portfolio will provide support for future forecast cash flows and importantly is expected to deliver material debt reduction over the short to medium term.

Going Concern

As at 30 June 2010, the Group has a deficiency of current liabilities over current assets of \$171.3 million. This deficiency is largely due to the classification of the majority of the Group's interest-bearing debt as current. The Group's interest-bearing debt facilities as at 30 June 2010 consists of the Group's senior corporate debt facility and the Babcock & Brown subordinated debt facility, together with the Group's project debt facilities. As at 30 June 2010 there was only one project debt facility, totalling \$15 million, that had an expiry date beyond 12 months (December 2011), all other corporate and project facilities expired within 12 months of the 2010 balance date.

It is noted, as discussed in the subsequent event disclosures at Note 32, that in August 2010 the Group successfully rolled over the senior corporate debt facility and the project debt facilities. The terms of this debt rollover provided for the extension of the abovementioned interest-bearing debt facilities through to 31 December 2012. However, it should be noted that the senior corporate debt facility is required to be partially repaid progressively prior to this date and that all surplus cash flows are to be diverted to a reduction in the senior corporate debt facility. In addition to this, the Group holds a letter of confirmation from Babcock

Directors' Report continued

& Brown that it is prepared to roll over its subordinated debt facility to December 2012 on the same terms and conditions that are currently in place. Further documentation reflecting these arrangements between Babcock & Brown and the Group has yet to be entered into as at the date of this report. The Babcock & Brown corporate debt is subordinated to the senior corporate debt facility and cannot be called for repayment without the consent of the senior corporate lender.

The new facility agreements provide for a cross guarantee and supporting security between the senior corporate borrower and each of the Group's subsidiaries. Further information relating to the terms of the refinanced debt facilities are provided at Note 20.

The continuing viability of the Group and its ability to continue as a going concern and to meet its debts as they fall due are dependent upon the Group being successful in the following:

- The ability of the Group to achieve forecast cash inflows from operations and meet required debt repayment milestones that were agreed as part of the rollover of the Group's interest-bearing debt facilities.

It is noted that if the Group does not attain the forecast cash inflows or pay down the interest-bearing debt facilities in accordance with agreed milestones that are included in the updated facility agreement, this could result in an event of review under the amended facility agreements. An event of review, post expiry of a prescribed remedy or cure period, provides the Group's financiers with the ability to amend the various facility final repayment dates and any other matters in connection with the facilities. To achieve the forecast cash inflows and meet the required debt repayment milestones, the Group will need to successfully manage its operations in the prevailing economic environment.

- The ability of the Group to effectively manage its cash flow position given limited liquidity maintained within the Group's operations. Limited liquidity may have the impact of restricting the Group's operations, including the development of existing assets. The structuring of the rolled over project debt facilities requires significant portions of cash generated from the sale and settlement of developed lots to be applied towards debt repayment, which limits the Group's ability to apply cash generated from one development to service the cash flow requirements of other developments.

As a result of these matters and the fact that the Group continues to rely on the support of its financiers, there is significant uncertainty whether the Group will continue as a going concern and, therefore, whether it will generate sufficient cash flow from the construction, sale and settlement of developed lots to settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. It is noted that the Directors believe that the level of uncertainty over the Group's ability to trade within its cash flow forecast parameters and to continue as a going concern has improved compared to the 2009 balance date with the successful rollover of the majority of the Group's interest-bearing debt facilities through to 31 December 2012, (refer to the subsequent events disclosures at Note 32 for further information relating to extension of maturity of the Group's interest-bearing debt facilities).

Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Matters Subsequent to the End of the Year

RCL Group debt

Since the end of the year, the Group has signed documentation with its corporate and project financier to extend through to 31 December 2012 the term of the facilities that were due to expire on 28 July 2010.

The key amendments to the terms of the corporate and key project facilities include:

- Common expiry date of 31 December 2012 for all facilities other than those project facilities that are targeted to payout prior to this date.
- Provision of development funding for the Grandvue @ Officer development where the Group has secured development approval for the staged development of this project.
- Continuation of the primary covenant test, being compliance with specific tolerance levels of an Agreed Cash Flow Forecast (ACFF), which will continue to be tested on a monthly basis.
- Removal of covenants relating to interest coverage, debt to asset ratio and net tangible asset backing.
- Cross collateralisation of project and senior corporate debt facilities.
- Incurrence of a further \$5.5 million restructure fee that is payable at the end of the facility term.

- Introduction of repayment milestones in June 2011, December 2011 and June 2012 in relation to the senior corporate debt facility.

Other

The Directors of the Company are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations, or state of the Group's affairs in future financial years.

Indemnification of Officers and Auditors

RCLG has agreed to indemnify its Directors and Officers against losses incurred in their role as Director, Secretary or Executive Officers of RCLG or its subsidiaries, subject to certain exclusions, including to the extent that such indemnity is prohibited by law. The agreement stipulates that RCLG will meet the full amount of any liabilities incurred by the relevant Officer in his/her capacity as an Officer of the Company or any subsidiary (including reasonable legal fees). RCLG has not been advised of any claims under any of these indemnities.

Since the date of commencement, RCLG has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an auditor of RCLG.

During the financial year RCLG paid insurance premiums for a Directors' and Officers' liability insurance contract that provides cover for the current and former Directors, Secretaries and Executive Officers of both RCLG and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract. The current insurance contract will be due for renewal on 30 October 2010.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of RCL Group, or to intervene in any proceedings to which RCL Group is a party, for the purpose of taking responsibility on behalf of RCL Group for all or part of those proceedings.

No proceedings have been brought or intervened in or on behalf of RCL Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Remuneration Report

Under the *Corporations Act 2001* only disclosing entities that are companies are required to prepare a remuneration report. Accordingly, this report is only required to address remuneration disclosures applicable to RCLGL (the Company), as RCLGT (the Trust) is not an Australian listed company and in any event does not employ staff directly. Remuneration information included in this report relates to that remuneration paid for services rendered to the Group.

The information provided in this Remuneration Report has been audited as required by section 308(3c) of the *Corporations Act 2001*. The Remuneration Report is set out on pages 27 to 30.

Remuneration policy

The Board has established a Nomination, Governance & Remuneration Committee to consider and make recommendations to the Board on, among other things, remuneration policies and packages applicable to Board members and other key management personnel of the RCL Group. Three non-executive Directors – Robert Wright (Chairman), Richard Gelski and Michael Maxwell are members of the Committee, which met twice during the 2010 Financial Year.

RCL Group aims to attract, retain and motivate highly specialised and skilled Directors and employees who have the expertise to manage the RCL Group in the best interests of the Securityholders of RCLG.

In prior years staff employed full-time in the management of RCLG or whose employment from time to time related to RCLG were Babcock & Brown employees and were remunerated in accordance with Babcock & Brown remuneration policies. During the current financial year, as a part of internalisation of the responsible entity and management function, full-time employees were employed directly by RCL Group with assistance from some Babcock & Brown personnel who provided services until completion of internalisation.

Directors' Report continued

This Remuneration Report outlines the remuneration arrangements in place for Directors and other key management personnel who were employees of RCL Group or its related subsidiaries during the financial year.

Other key management personnel

David Wightman was appointed to the position of Chief Executive Officer on 3 July 2009. Base remuneration per the service agreement is \$400,000. A redundancy payment of \$222,115 was paid by Babcock & Brown as a result of his leaving Babcock & Brown. The short-term and long-term incentive components of Mr Wightman's remuneration are yet to be finalised and will be completed as part of the new Group-wide incentive structure. Refer to discussion further below in the section entitled "Short-term and Long-term Incentives". Arrangements relating to termination benefits are also yet to be finalised.

During the year ended 30 June 2010, RCLG employed some executives directly while also reimbursing Babcock & Brown for non-transitioning staff, and staff who did transition prior to their direct employment with RCLG. In addition, transitioning staff were paid a sign-on bonus in lieu of a redundancy from Babcock & Brown. The reimbursements to Babcock & Brown along with the sign-on bonuses paid were set off against an outstanding account payable to Babcock & Brown as agreed with Babcock & Brown.

Transitioning staff were also provided with income protection insurance policies, as such were previously provided under their Babcock & Brown superannuation plans and were not available under the RCL Group employee superannuation plan.

The following persons were the five officers of RCL Group and its related subsidiaries receiving the highest emolument:

| | |
|-----------------|---|
| David Wightman | Chief Executive Officer (previously Chief Investment Officer) |
| Stuart Pauly | Chief Financial Officer (transitioned from Babcock & Brown, redundant 12 February 2010) |
| James McInally | Development Manager (transitioned from Babcock & Brown) |
| Emma Tarlinton | Treasury Manager (transitioned from Babcock & Brown) |
| Steve Robertson | General Manager, PRM Group, consolidated subsidiary of the Group |

Short-term and long-term incentives

Short- and long-term incentive schemes are being developed to ensure that RCL Group can attract and retain personnel who will create long-term sustainable value for Securityholders. As at 30 June 2010, no such incentive scheme was in place, and any future scheme will be subject to approval by the Nomination, Governance & Remuneration Committee. As a consequence, no elements of the 2010 payments were "at risk" for the employees. No share-based compensation was granted to the Directors or key management personnel of RCLG during the 2010 or 2009 Financial Years.

Remuneration of Directors and other key management personnel for the year ended 30 June 2010

Details of the nature and amount of each element of the emoluments of the Directors and executives of the RCL Group for the year ended 30 June 2010 are set out in the table below.

Total salary below includes amounts paid by both Babcock & Brown and RCLGL. All RCLGL employees were paid their statutory entitlements for employer contributed superannuation only, however amounts in the table below may be greater due to having received payments from both employers during the period. No employees were paid long service leave, however it was accrued at the applicable rates.

The below Directors and other key management personnel are employed on an open contract basis, with no fixed term contractual periods. All contracts contain minimum redundancy requirements and may contain notice periods of up to three months.

| 2010 payments | Base salary \$ | Super-annuation \$ | Termination benefit \$ | Sign-on benefit \$ | Other allowances \$ | Total \$ |
|--------------------------------|-------------------|-----------------------|---------------------------|-----------------------|------------------------|-------------|
| Directors | | | | | | |
| Robert Wright | 114,679 | 10,321 | | | | 125,000 |
| Richard Gelski | 78,808 | 7,093 | | | | 85,901 |
| Michael Maxwell | 75,000 | 6,750 | | | | 81,750 |
| Christopher Langford | 62,431 | 5,619 | | | | 68,050 |
| Top five earners | | | | | | |
| David Wightman ¹ | 388,137 | 14,784 | 222,115 | | | 625,036 |
| Stuart Pauly | 155,448 | 11,176 | 33,654 | 112,500 | | 312,778 |
| James McInally | 174,193 | 15,701 | | 99,935 | 6,750 | 296,579 |
| Emma Tarlinton | 171,250 | 15,436 | | 71,513 | | 258,199 |
| Stephen Robertson ² | 196,538 | 50,000 | | | 3,653 | 250,191 |
| David Finney | 200,000 | 15,346 | | | | 215,346 |

1. David Wightman's total remuneration of salary and super should equal \$400,000 per annum. however, as two separate employers made compulsory superannuation contributions during the financial year, the total amount paid was \$402,921.
2. Stephen Robertson is an employee of PRM Group, a consolidated entity of the Group. The remaining top earners were direct employees of RCL Group Limited during the financial year ended 30 June 2010.

| 2009 payments | Base salary \$ | Super-annuation \$ | Termination benefit \$ | Long service leave \$ | Short-term incentives ¹ \$ | Total \$ |
|------------------------------|---------------------|-----------------------|---------------------------|--------------------------|--|-------------|
| Directors | | | | | | |
| Robert Wright | 115,844 | 10,426 | | | | 126,270 |
| Richard Gelski | 79,125 | 7,121 | | | | 86,246 |
| Michael Maxwell ² | 68,808 ² | 6,192 | | | | 75,000 |
| Christopher Langford | 59,633 | 5,367 | | | | 65,000 |
| Top five earners | | | | | | |
| Michael Balkin ³ | 348,409 | 13,745 | 466,540 | | | 828,694 |
| David Wightman | 330,000 | 13,745 | | 5,500 | | 349,245 |
| Stephen Robertson | 290,577 | 13,745 | | 6,074 | | 310,396 |
| Stuart Pauly | 250,000 | 13,745 | | 4,167 | 37,500 | 305,412 |
| Mark Salmon | 275,000 | 13,745 | | 4,583 | | 293,328 |

1. Executives of RCLG were eligible for an award of short-term incentive remuneration during the year. All short-term incentive remuneration provided to executives during the year ended 30 June 2009 was paid in cash, available immediately to the executive. Long-term incentives were previously provided by way of equity – and cash-settled share-based payment awards. No share-based compensation was granted to executives of RCLG during the 2009 Financial Year.
2. Mr M Maxwell was an employee of Babcock & Brown Australia Pty Limited and his role as a Director of RCLGL was included in those employment arrangements. Mr Maxwell's employment with Babcock & Brown Australia Pty Limited concluded on 31 October 2008. Since 1 November 2008 Mr Maxwell has been a non-executive Director of RCLGL.
3. Mr M Balkin resigned on 7 April 2009.

Directors' Report continued

Non-executive Directors

The following persons were Directors of RCLG during the financial year:

| | |
|-----------------|------------------------------------|
| Robert Wright | Independent Chairman |
| Richard Gelski | Independent Non-Executive Director |
| Chris Langford | Independent Non-Executive Director |
| Michael Maxwell | Non-Executive Director |

All non-executive Directors' individual fees, including Committee fees, are determined by the RCLG Nomination, Governance & Remuneration Committee within the aggregate amount approved by Securityholders. The current maximum aggregate amount which may be paid to all non-executive Directors is \$600,000 per annum.

All non-executive Directors receive a fee paid in cash for their services. They do not receive any performance-based remuneration or any retirement benefits, other than receiving statutory superannuation which is generally included in the gross fee.

Fees payable to all non-executive Directors during the year ended 30 June 2010 and the year ended 30 June 2009 are set out in the following table:

| 2009 and 2010 Financial Year Board/Committee compensation | \$ |
|---|---------|
| Chairman, RCLGL and RCLGSL | 125,000 |
| Director, RCLGL | 65,000 |
| Director, RCLGSL | 10,000 |
| Chairman, Audit, Risk & Compliance Committee | 10,000 |

Note: No additional fees are payable for membership of any Board Committees.

Fees for the year commencing 1 July 2010 have been revised by the Nomination, Governance & Remuneration Committee as set out below. These fees were deemed reasonable by an independent remuneration consultant.

| 2011 Financial Year Board/Committee compensation | \$ |
|--|---------|
| Chairman, RCLG and RCLGSL | 140,000 |
| Director, RCLG and RCLGSL | 85,000 |
| Chairman, Audit, Risk & Compliance Committee | 10,000 |

Note: No additional fees are payable for membership of any Board Committees.

Share-based compensation

No securities in the Group were issued to the Directors or the key management personnel during the 2010 Financial Year as part of their remuneration. Securities have previously been granted to the Directors and certain key management personnel as part of their remuneration in previous years. No Directors or key management personnel have any unexercised options in the Group's securities that were provided to them as part of remuneration in prior periods.

Loans to Directors and key management personnel

The Group does not have any loaned funds owing by the Directors or other key management personnel as at 30 June 2010. Similarly, no loans were extended to the Directors or other key management personnel of the Group during the 2010 Financial Year.

Non-Audit Services

The RCL Group *Audit Independence and Provision of Non-Audit Services by the External Auditor Policy* states that the external auditor may not provide non-audit services if the provision of such services would compromise or be perceived to compromise the independence of, or otherwise be in conflict with, the role of the statutory auditor. Non-audit services that are or could be perceived to be in conflict include those where the auditor may be acting in the role of management or engagements where the auditor may ultimately be required to express an opinion on its own work.

Specifically the policy:

- limits the non-audit services that may be provided;
- requires that audit and permitted non-audit services above \$30,000 must be pre-approved by the Audit, Risk & Compliance Committee (ARCC); and
- requires that the external auditor not commence an engagement for the Group, until the Group has confirmed that the engagement has been pre-approved.

The ARCC has reviewed a summary of non-audit services provided by the external auditor for the year ended 30 June 2010, and has confirmed that the provision of non-audit services for 2010 is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. On advice from the ARCC, the Directors are satisfied that the auditor did not compromise the auditor's independence requirements of the *Corporation Act 2001*. The external auditor has confirmed to the ARCC that it has maintained its independence in accordance with their firm requirements, with the provisions of APES 110 *Code of Ethics for Professional Accountants* and with the applicable provisions of the *Corporations Act 2001*, for the year ended 30 June 2010.

Amounts paid or payable to the PricewaterhouseCoopers Australian firm for non-audit services provided during the year amounted to \$92,135 in relation to taxation services.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

Auditor's Independence Declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 32.

Rounding of Amounts

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

Stapled Securities on Issue

176.1 million securities of the RCL Group were on issue at 30 June 2010 (30 June 2009: 176.1 million).

| | Consolidated Period ended 30 June 2010 |
|---|--|
| Net (loss) after tax attributable to Securityholders (\$'000) | (6,639) |
| Time weighted average number of securities for basic and diluted earnings per security at 31 December 2009 ('000) | 176,108 |
| Basic (loss) per Stapled Security for net profit attributable to stapled Securityholders (cents per Stapled Security) | (3.77) |
| Diluted (loss) per Stapled Security for net profit attributable to stapled Securityholders (cents per Stapled Security) | (3.77) |

Dated at Sydney this 30th day of August 2010.

Signed in accordance with a resolution of Directors.



R. Wright
Director
RCL Group Limited

PricewaterhouseCoopers
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Auditor's Independence Declaration

As auditor for the audit of RCL Group Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of RCL Group Limited and the entities it controlled during the period.



Christopher Lewis
Partner
PricewaterhouseCoopers

Melbourne
30 August 2010

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

| | Note | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|---|------|--------------------------------------|--------------------------------------|
| Revenue from continuing operations | 4 | 59,896 | 47,528 |
| Other income | 4 | 2,952 | 2,529 |
| Total revenue and other income | | 62,848 | 50,057 |
| Cost of sales | | (47,469) | (39,957) |
| Employee benefits expense | | (3,499) | (1,135) |
| Management charges | | (240) | (3,789) |
| Marketing and other operating expenses | 5 | (4,691) | (3,406) |
| Finance costs | 5 | (18,330) | (14,792) |
| Impairment of loans receivable | 11 | (2,418) | (21,101) |
| Impairment of goodwill | | – | (1,691) |
| Unrealised foreign exchange gain/(loss) | | 509 | (2,081) |
| Realised gain/(loss) on derivative financial instruments | | – | 1,245 |
| Share of profit of equity-accounted investments | | 2,338 | 954 |
| (Loss) before tax | | (10,952) | (35,696) |
| Tax benefit | 9 | 4,422 | 9,091 |
| (Loss) for the year | | (6,530) | (26,605) |
| Other comprehensive income | | | |
| Changes in fair value of cash flow hedges | | 2,745 | (1,872) |
| Income tax relating to components of other comprehensive income | | (824) | 562 |
| Other comprehensive income, net of tax | | 1,921 | (1,310) |
| Total comprehensive (loss) for the year | | (4,609) | (27,914) |
| (Loss)/gain for the year is attributable to: | | | |
| Equity holders of the parent | | (1,348) | (18,832) |
| Non-controlling interest | | 109 | (294) |
| Equity holders of the other stapled entity | | (5,291) | (7,478) |
| | | (6,530) | (26,604) |
| Total comprehensive (loss)/gain for the year is attributable to: | | | |
| Equity holders of the parent | | 573 | (20,142) |
| Non-controlling interest | | 109 | (294) |
| Equity holders of the other stapled entity | | (5,291) | (7,478) |
| | | (4,609) | (27,914) |
| Basic (loss) per security (cents) | 8 | (3.77) | (14.96) |
| Diluted (loss) per security (cents) | 8 | (3.77) | (14.96) |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2010

| | Note | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---|------|---------------------------------|---------------------------------|
| Current assets | | | |
| Cash | 10 | 3,533 | 1,009 |
| Receivables | 11 | 287 | 15,492 |
| Inventories | 12 | 41,957 | 50,063 |
| Other assets | 11 | 2,624 | 2,763 |
| Total current assets | | 48,401 | 69,327 |
| Non-Current assets | | | |
| Loans receivable | 11 | 106,268 | 97,589 |
| Inventories | 12 | 170,557 | 187,663 |
| Other financial assets at fair value through profit or loss | 13 | 4,049 | 4,733 |
| Equity-accounted investments | 15 | 15,451 | 14,263 |
| Deferred tax assets | 9 | 11,775 | 7,819 |
| Property, plant and equipment | 16 | 440 | 176 |
| Intangible assets | 17 | 1,848 | 1,848 |
| Total non-current assets | | 310,388 | 314,091 |
| Total assets | | 358,789 | 383,418 |
| Current liabilities | | | |
| Trade and other payables | 18 | 9,711 | 9,877 |
| Provisions | 19 | 227 | 160 |
| Interest-bearing liabilities | 20 | 209,391 | 205,844 |
| Other financial liabilities | 21 | 369 | 2,788 |
| Total current liabilities | | 219,698 | 218,669 |
| Non-Current liabilities | | | |
| Payables | 22 | 2,000 | 2,000 |
| Provisions | 19 | 85 | 37 |
| Borrowings | 20 | 8,402 | 7,673 |
| Interest-bearing liabilities | 20 | 15,082 | 36,369 |
| Other financial liabilities | 21 | – | 34 |
| Total non-current liabilities | | 25,569 | 46,113 |
| Total liabilities | | 245,267 | 264,782 |
| Net assets | | 113,522 | 118,636 |
| Equity holders of the parent | | | |
| Contributed equity | 23 | 1,656 | 1,656 |
| Reserves | 24 | – | (1,921) |
| Retained earnings/(accumulated losses) | 25 | (29,801) | (28,453) |
| | | (28,145) | (28,718) |

Consolidated Statement of Financial Position continued

As at 30 June 2010

| | Note | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---|------|---------------------------------|---------------------------------|
| Equity holders of the other stapled entity | | | |
| Contributed equity | 23 | 162,448 | 162,448 |
| Reserves | | – | – |
| Retained earnings/(accumulated losses) | 25 | (20,139) | (14,848) |
| | | 142,309 | 147,600 |
| Non-controlling interest | | (642) | (246) |
| Total equity | | 113,522 | 118,636 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

Attributable to equity holders of:

| | The Parent | | | The Other Stapled Entity | | | External Non-Controlling Interests | | Total Equity | |
|---|---------------------------|-----------------|--------------------------|--------------------------|---------------------------|-----------------|------------------------------------|----------------|--------------|-----------------|
| | Contributed equity \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total \$'000 | Contributed equity \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total \$'000 | | |
| Balance at 1 July 2008 | 1,653 | (611) | (9,621) | (8,579) | 162,163 | - | (7,370) | 154,793 | 48 | 146,262 |
| Total comprehensive income | - | (1,310) | (18,832) | (20,142) | - | - | (7,478) | (7,478) | (294) | (27,914) |
| Transactions with equity holders in their capacity as equity holders | | | | | | | | | | |
| Distribution reinvestment plan | 3 | - | - | 3 | 285 | - | - | 285 | - | 288 |
| Balance at 30 June 2009 | 1,656 | (1,921) | (28,453) | (28,718) | 162,448 | - | (14,848) | 147,600 | (246) | 118,636 |
| Balance at 1 July 2009 | 1,656 | (1,921) | (28,453) | (28,718) | 162,448 | - | (14,848) | 147,600 | (246) | 118,636 |
| Total comprehensive income | - | 1,921 | (1,348) | 573 | - | - | (5,291) | (5,291) | 109 | (4,609) |
| Transactions with equity holders in their capacity as equity holders | | | | | | | | | | |
| Dividend paid | - | - | - | - | - | - | - | - | (505) | (505) |
| Distribution reinvestment plan | - | - | - | - | - | - | - | - | - | - |
| Balance at 30 June 2010 | 1,656 | - | (29,801) | (28,145) | 162,448 | - | (20,139) | 142,309 | (642) | 113,522 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2010

| | Note | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|--|------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Cash receipts in the course of operations | | 59,179 | 34,335 |
| Cash payments in the course of operations | | (19,461) | (27,129) |
| Interest received | | 70 | 157 |
| Interest paid | | (15,610) | (15,094) |
| Net cash inflow/(outflow) from operating activities | 34 | 24,178 | (7,731) |
| Cash flows from investing activities | | | |
| Loan receivable – investment funding | | (2,277) | (16,769) |
| Loan receivable – payments received | | 17,237 | 13,724 |
| Payments for purchase of property, plant and equipment | | (310) | (4) |
| Net cash inflow/(outflow) from investing activities | | 14,650 | (3,049) |
| Cash flows from financing activities | | | |
| Dividend paid to non-controlling interest in subsidiary | | (505) | – |
| Proceeds from interest-bearing liability facilities | | 22,576 | 38,988 |
| Repayment of interest-bearing liabilities | | (58,375) | (23,273) |
| Dividends and distributions paid | | – | (6,931) |
| Vendor loans (borrowings) repaid | | – | 2,100 |
| Net cash inflow/(outflow) from financing activities | | (36,304) | 10,884 |
| Net increase in cash assets held | | 2,524 | 104 |
| Cash and cash equivalents at beginning of the year | | 1,009 | 1,211 |
| Cash in entities deconsolidated | | – | (306) |
| Cash and cash equivalents at end of the year | 10 | 3,533 | 1,009 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of Preparation

This general purpose financial report for the year ended 30 June 2010 has been prepared in accordance with the Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth).

The shares of RCLGL and the units in RCLGT are stapled and issued as Stapled Securities in RCL Group. The shares in RCLGL and the units of RCLGT cannot be traded separately and can only be traded as Stapled Securities.

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. RCLGL is an entity to which the Class Order applies.

Compliance with IFRS

The financial report of the Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Financial statement presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective in 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is in conformity with the revised standard.

The accounting policies adopted are consistent with those of the previous financial year, except as referred to in Note 1(c) set out further below.

Separate parent entity financial statements have not been provided

As a result of the granting of royal assent to the *Corporations Amendment (Corporate Reporting Reform) Act 2010* on 28 June 2010, the Group has applied the new authoritative guidance and has not prepared separate parent entity financial statements. Financial information of the Group parent entity is provided at Note 33.

(b) Going Concern Basis of Preparation

As at 30 June 2010, the Group has a deficiency of current liabilities over current assets of \$171.3 million. This deficiency is largely due to the classification of the majority of the Group's interest-bearing debt facilities as current. The Group's interest-bearing debt facilities as at 30 June 2010 consists of the Group's senior corporate debt facility and the Babcock & Brown subordinated debt facility, together with the Group's project debt facilities. As at 30 June 2010 there was only one project debt facility, totalling \$15 million, that had an expiry date beyond 12 months (December 2011), all other corporate and project facilities expired within 12 months of the 2010 balance date.

It is noted, as discussed in the subsequent event disclosures at Note 32, that in August 2010 the Group successfully rolled over the senior corporate debt facility and the project debt facilities. The terms of this debt rollover provided for the extension of the abovementioned interest-bearing debt facilities through to 31 December 2012. However it should be noted that the senior corporate debt facility is required to be partially repaid progressively prior to this date and that all surplus cash flows are to be diverted to a reduction in the senior corporate debt facility. In addition to this, the Group holds a letter of confirmation from Babcock & Brown that it is prepared to roll over its subordinated debt facility to December 2012 on the same terms and conditions that are currently in place. Further documentation reflecting these arrangements between Babcock & Brown and the Group has yet to be entered into as at the date of this report. The Babcock & Brown corporate debt is subordinated to the senior corporate debt facility and cannot be called for repayment without the consent of the senior corporate lender.

The new facility agreements provide for a cross guarantee and supporting security between the senior corporate borrower and each of the Group's subsidiaries. Further information relating to the terms of the refinanced debt facilities are provided at Note 20.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts as they fall due are dependent upon the Group being successful in the following:

- (i) The ability of the Group to achieve forecast cash inflows from operations and meet required debt repayment milestones that were agreed as part of the rollover of the Group's interest-bearing debt facilities.

It is noted that if the Group does not attain the forecast cash inflows or pay down the interest-bearing debt facilities in accordance with agreed milestones that are included in the updated facility agreement, this could result in an event of review under the amended facility agreements. An event of review, post expiry of a prescribed remedy or cure period, provides the Group's financiers with the ability to amend the various facility final repayment dates and any other matters in connection with the facilities. To achieve the forecast cash inflows and meet the required debt repayment milestones, the Group will need to successfully manage its operations in the prevailing economic environment.

- (ii) The ability of the Group to effectively manage its cash flow position given limited liquidity maintained within the Group's operations.

Limited liquidity may have the impact of restricting the Group's operations, including the development of existing assets. The structuring of the rolled over project debt facilities requires significant portions of cash generated from the sale and settlement of developed lots to be applied towards debt repayment, which limits the Group's ability to apply cash generated from one development to service the cash flow requirements of other developments.

As a result of these matters and the fact that the Group continues to rely on the support of its financiers, there is significant uncertainty whether the Group will continue as a going concern and therefore, whether it will generate sufficient cash flow from the construction, sale and settlement of developed lots to settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. It is noted that the Directors believe that the level of uncertainty over the Group's ability to trade within its cash flow forecast parameters and to continue as a going concern has improved compared to the 2009 balance date with the successful rollover of the majority of the Group's interest-bearing debt facilities through to 31 December 2012 (refer to the subsequent events disclosures at Note 32 for further information relating to extension of maturity of the Group's interest-bearing debt facilities).

Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(c) Changes in Accounting Policy

The Group had to change some of its accounting and financial reporting policies as the result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements* and changes made to AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segments – new AASB 8 *Operating Segments*

The abovementioned changes to policies and standards relating to principles of consolidation and business combinations are discussed below. Discussion relating to segment reporting is provided at Note 1(d).

Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of RCL Group Limited as at 30 June 2010.

Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances and unrealised gains on intercompany transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests

AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Group's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the Group.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must now be remeasured to fair value and a gain or loss is recognised in profit or loss. Under the Group's current accounting policy, the retained interest in the carrying amount of the former subsidiary's assets and liabilities becomes the cost of the investment. If the

Notes to the Consolidated Financial Statements continued

Note 1 Summary of Significant Accounting Policies continued

(c) Changes in Accounting Policy continued

investment is accounted for as an available-for-sale financial asset, it is subsequently remeasured to fair value; however, any revaluation gain or loss is recognised in the available-for-sale investments revaluation reserve.

The Group will in future allocate losses to the non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

Business combinations

AASB 3 (revised) continues to apply the acquisition method to business combinations, but with some significant changes.

All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial acquisition accounting, there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes were implemented prospectively from 1 July 2009, and were applied in the accounting for the acquisition of RCL Group Services Limited (the Trust's responsible entity). However, there were no related costs of acquisitions recognised in profit or loss relating to this acquisition. The acquisition of

RCL Group Services Limited was completed for a nominal sum, in consideration for net assets valued at near zero.

(d) Segment Reporting

The Group has adopted AASB 8 *Operating Segments* (which supersedes AASB 114 *Segment Reporting*) in the preparation of these financial statements from 1 July 2009. AASB 8 requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in segments now being reported for different asset classes, whereas segments were previously reported by geographic region.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer and the Board of Directors who make the strategic decisions.

Goodwill is allocated by management to groups of cash generating units on a segment level.

There has been no impact on the measurement of the Group's assets and liabilities.

(e) Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenues are net of trade allowances, amounts collected on behalf of third parties and net of the amount of goods and services tax ("GST") levied.

Revenue is recognised for the major business activities as follows:

Property development sales

Revenue from residential land sales is recognised in the statement of comprehensive income upon settlement and after contractual obligations are completed.

Vendor-financed sales are recognised net of any discounted amounts arising on the measurement of vendor-financing arrangements.

Interest income

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method.

Dividends/Distributions

Revenue from dividends/distributions from controlled entities and other investments are recognised in the statement of comprehensive income on the date the entity's right to receive payment is established, being the date when they are declared by those entities. Dividends/distributions received out of pre-acquisition reserves are eliminated against the carrying amount of the investment accounted for using the equity method and not recognised in revenue.

(f) Income Tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

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

Tax consolidation legislation

RCL Group and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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

In addition to its own current and deferred tax amounts, RCL Group 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. Details about the tax funding agreement are disclosed in Note 9.

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.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the lease property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under the finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. All leases during the financial year 30 June 2010 relate to the consolidated minority interest entity, PRM Property Group Ltd, and are finance leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, are classified as operating leases.

Notes to the Consolidated Financial Statements continued

Note 1 Summary of Significant Accounting Policies continued

(h) Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(i) Loans Receivable

Loans receivable are recorded at amortised cost, less impairment, using the effective interest method. Loans receivable are recorded at the principal amount outstanding plus accrued interest. All loans receivable are reviewed regularly for impairment. A loan receivable is considered impaired when, based on current information and events it is probable that the Group will be unable to collect all amounts due. The amount of the specific impairment provision is equal to the difference between the current carrying amount of a receivable and the greater of:

- (i) the net present value of the expected cash flows from the borrower, discounted at the original effective interest rate of the transaction; or
- (ii) the net fair value of the collateral, if any.

Any impairment provisions are included in the statement of comprehensive income in the period in which the asset is impaired.

Loans receivables and other assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are all included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

(j) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in

associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to Note 27).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive incomes. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(k) Inventories

Land held for resale

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

Capitalisation of borrowing costs

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

(l) Investments and Other Financial Assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Other investments, excluding investment in subsidiaries, are designated as assets held at fair value through profit or loss. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets and non-current assets.

(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. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet Note 11.

Recognition and derecognition

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables are carried at amortised cost less impairment using the effective interest method.

Financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the income statement within other income or other expenses in the period in which they arise.

Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when the Group’s right to receive payment is established.

Details on how the fair value of financial instruments is determined are disclosed in Note 2.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. For financial assets where management’s estimate of expected future cash flows is less than the original estimated future cash flows, this is considered objective evidence that an impairment may have been incurred. If there

is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is then reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

(m) Payables

Trade payables and other accounts payable are recognised at cost when the Group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are usually paid within 30 days.

(n) Provisions

A provision is recognised when a present legal or constructive obligation exists as a result of a past event, the amount of which can be reliably estimated and it is probable that a future outflow of resources will be required to settle the obligation, the timing or amount of which is uncertain.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Dividends and distributions

Provision is made for any amount of any distribution/dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(o) Interest-bearing Loans and Borrowings

All loans and notes payable are initially recorded at the fair value of the consideration received, net of transaction costs. After initial recognition, interest-bearing loans and borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption amount being recognised in profit and loss over the period of the borrowings using the effective interest rate method.

Amounts classified as borrowings represent interest-bearing loans provided by minority interest partners, whilst interest-bearing liabilities represent interest-bearing debt funding from external parties.

Notes to the Consolidated Financial Statements continued

Note 1 Summary of Significant Accounting Policies continued

(o) Interest-bearing Loans and Borrowings continued

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income as “other income” or “finance costs”.

Interest-bearing loans and 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 balance sheet date.

(p) Borrowing Costs

Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds. Borrowing costs are expensed as incurred except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In these circumstances, borrowing costs are capitalised to the costs of the asset. Capitalisation of borrowing costs shall be suspended during extended periods in which active development is interrupted. Where funds are borrowed specifically for the acquisition or construction of a qualifying asset, the amount of borrowing costs capitalised are those incurred in relation to that borrowing. To the extent that funds are borrowed generally, the amount of borrowing costs capitalised is calculated by applying a capitalisation rate to the expenditures on that asset.

(q) Contributed Equity

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

(r) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (“GST”), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

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

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing

and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flow.

(s) Earnings per Security

Basic earnings per security is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than ordinary securities), divided by the weighted average number of ordinary securities, adjusted for any bonus element.

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

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(t) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Directors’ assessment of the impact of these new standards (to the extent relevant to the Group) and interpretations is set out below:

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group’s accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group’s accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group has not yet decided when to adopt AASB 9.

AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(u) Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions concerning the future. Estimates and assumptions that have or that may materially affect financial results or the financial position in future periods include the following:

Inventories

Inventories are stated at the lower of cost or net realisable value, which have been determined using forecast feasibility estimates. These development feasibility estimates require the application of estimations around sales volume rates, selling prices and financing costs over the life of each project. The basis for which inventory is carried in the financial statements is disclosed in Note 1(k), whilst the carrying values of inventory are disclosed in Note 12.

Estimated impairment of intangible assets

The Group tests whether there is any impairment of intangible assets annually, in accordance with the accounting policy stated in Note 1(h). The recoverable amounts of cash generating units have been determined based on value in use calculations. These calculations require the use of assumptions, including forecast cash flows and a discount factor.

Refer to Note 17 for further disclosure on the assumptions used to test impairment.

Estimated impairment of loans receivable

The Group assesses at each balance date whether there is objective evidence that any of the loans receivable are impaired in accordance with the accounting policy stated in Note 1(i). This requires the use of estimates and assumptions surrounding the forecast feasibility estimates of the underlying projects to which these loans relate.

Refer to Note 11 for further disclosure on the assumptions used to test impairment.

Income tax

The Group has recognised deferred tax assets relating to carry-forward tax losses. Refer to Note 9 for further discussion in relation to recognition of the deferred tax asset.

(v) Employee Benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables or provisions in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) 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. 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 currency that match, as closely as possible, the estimated future cash outflows.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(w) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Notes to the Consolidated Financial Statements continued

Note 1 Summary of Significant Accounting Policies continued

(w) Property, Plant and Equipment continued

Depreciation is calculated using the straight line method to allocate an asset's cost or revalued amount, net of their residual values, over its estimated useful life, as follows:

| | |
|----------------------------------|-------------|
| Office Equipment | 7-15 years |
| Office Equipment – Finance Lease | 4-20 years |
| Fit-out – Finance Lease | 10-20 years |
| Capitalised Software | 3 years |
| Computer Equipment | 1-3 years |
| Office Furniture | 8-15 years |

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(x) Derivatives and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- (ii) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements in the hedging reserve in shareholders' equity are shown in Note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining

maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate collars hedging variable rate borrowings is recognised in the income statement within "finance costs".

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The interest rate collar no longer meets the cash flow hedge requirements of AASB 139 *Financial Instruments: Recognition and Measurement* and accordingly is classified as at fair value through profit and loss.

There are no hedge accounted cash flow hedges as at 30 June 2010.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate collars hedging fixed rate borrowings is recognised in the income statement within finance costs, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognised in the income statement within other income or other expenses.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

There are no hedge accounted fair value hedges as at 30 June 2010.

(y) Foreign Currency Translation

Functional and presentation currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is RCLGL's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(z) Parent Entity Financial Information

The financial information for the parent entity, RCLG, disclosed in Note 33 has been prepared on the same basis as the consolidated financial statements, except as set out below:

- (i) *Investments in subsidiaries, associates and joint venture entities:* Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of RCLG. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

- (ii) *Tax consolidation legislation:* RCLG and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, RCL Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

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

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

Notes to the Consolidated Financial Statements continued

Note 2 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and equity price risk), credit risk and liquidity risk.

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

The Group's principal financial instruments subject to financial risk include cash, loans receivable, derivative financial instruments, other financial assets at fair value through profit or loss, payables, and interest-bearing liabilities.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Audit, Risk & Compliance Committee (AR&C Committee), which is responsible for identifying, managing and monitoring the key risks to the business. The AR&C Committee meets regularly and reports to the Board of Directors on its activities.

The responsibility for operational risk management is carried out by a central Treasury function under policies approved by the Board. Specifically, the Board has established a Treasury Policy which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The policy contains principles for overall risk management and policies covering specific areas including the mitigation of foreign exchange, interest rate, credit and liquidity risks. The Treasury function's objective in this regard is to identify, evaluate, report and manage the risks in line with the Board's policies and prevailing procedures.

The Group may use derivative financial instruments such as foreign exchange contracts and interest rate derivatives to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments.

The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and cash flow forecasting for liquidity risk.

There have been no significant changes in the types of financial risks since the prior year. The responsibility of Treasury management now delegated to the Group Treasury Manager.

(a) Market Risk

Market risk refers to the potential for changes in the value of the Group's financial instruments or revenue streams from changes in market prices. There are various types of market risks to which the Group is exposed including those associated with interest rates, currency rates and equity market prices.

(i) Interest rate risk

Interest rate risk refers to the potential fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates.

The Group's main interest rate risk arises from its interest-bearing liabilities. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Interest-bearing liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group has adjusted its interest rate policy to reflect its ability to enter transactions as a result of credit limitations occurring both globally and especially within real estate markets in Australia. The Group manages its cash flow interest rate risk by using fixed rate debt, or interest rate swaps and other hedging techniques to fix interest rates. Interest rate swaps and collars have the economic effect of converting variable rate interest-bearing liabilities from floating rates to fixed rates. Under the interest rate swaps or collars the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to agreed notional principal amounts. The Group is willing to forgo the potential economic benefit that could result in a falling interest rate environment to protect its downside risks and improve the predictability of cash flows generated from assets by fixing rates.

An interest rate swap was entered into on 13 June 2008 for a notional amount of \$50 million which matured on 30 June 2009. After maturity of the interest rate swap an interest rate collar commenced for an additional 18 months. The collar in place covers approximately 50% (2009: 50%) of the post 30 June 2010 floating rate corporate debt facility and 25% (2009: 20%) of post 30 June 2010 total floating rate borrowings. The new borrowings have an average term to expiry of one month (2009: 9.6 months). See Note 32 for discussion around the expiry and subsequent extension of the Group's interest-bearing debt.

The contract requires settlement of net interest payables quarterly. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis. The fair value of the interest rate collar at 30 June 2010 is disclosed in Note 21.

The gain or loss from remeasuring the interest rate collar at fair value is deferred in equity in the hedging reserve, to the extent the hedge is effective, and recycled into profit and loss when the hedged interest expense is recognised. As at 30 June 2010, the interest rate collar was deemed an ineffective hedge, and therefore all future movements in the value of the hedge instrument will be recognised in the profit and loss when such movement in fair value occurs, rather than being deferred to equity.

The Group's exposure to interest rate risk and its profile by maturity is set out below:

| Consolidated 30 June 2010 | Weighted average interest rate (% pa) | Floating interest rate \$'000 | Fixed Interest Rate | | | Non-interest- bearing \$'000 | Total \$'000 |
|--|--|-------------------------------------|-------------------------------|---------------------|--------------------------------|------------------------------------|------------------|
| | | | Less than 1 year \$'000 | 1-5 years \$'000 | More than 5 years \$'000 | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 4.00 | 3,533 | – | – | – | – | 3,533 |
| Receivables | – | – | – | – | – | 287 | 287 |
| Other assets | – | – | – | – | – | 2,624 | 2,624 |
| Loans receivable – fixed | 17.01 | – | – | 89,490 | 16,778 | – | 106,268 |
| Other financial assets | – | – | – | – | – | 4,049 | 4,049 |
| Total financial assets | | 3,533 | – | 89,490 | 16,778 | 6,960 | 116,761 |
| Financial liabilities | | | | | | | |
| Trade and other payables | – | – | – | – | – | 11,711 | 11,711 |
| Borrowings – fixed | 6.00 | – | – | 4,040 | – | 4,362 | 8,402 |
| Interest-bearing debt | 8.20 | 198,190 | 26,283 | – | – | – | 224,473 |
| Other financial liabilities | 8.55 | 335 | – | – | – | 34 | 369 |
| Total financial liabilities | | 198,525 | 26,283 | 4,040 | – | 16,107 | 244,955 |
| Total net financial assets/liabilities | | (194,992) | (26,283) | 85,450 | 16,778 | (9,147) | (128,194) |
| Net (increase)/decrease in exposure from interest rate collar (notional principal) | | 50,000 | – | – | – | – | 50,000 |
| Net exposure | | (144,992) | (26,283) | 85,450 | 16,778 | (9,147) | (78,194) |

Notes to the Consolidated Financial Statements continued

Note 2 Financial Risk Management continued

(a) Market Risk continued

| Consolidated 30 June 2009 | Weighted average interest rate (% pa) | Floating interest rate \$'000 | Fixed Interest Rate | | | Non-interest- bearing \$'000 | Total \$'000 |
|--|--|-------------------------------------|-------------------------------|---------------------|--------------------------------|------------------------------------|------------------|
| | | | Less than 1 year \$'000 | 1-5 years \$'000 | More than 5 years \$'000 | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 3.00 | 1,009 | – | – | – | – | 1,009 |
| Receivables | 6.00 | – | 15,058 | – | – | 434 | 15,492 |
| Other assets | | – | – | – | – | 2,763 | 2,763 |
| Loans receivable – fixed | 17.06 | – | – | 81,143 | 16,446 | – | 97,589 |
| Other financial assets | | – | – | – | – | 4,733 | 4,733 |
| Total financial assets | | 1,009 | 15,058 | 81,143 | 16,446 | 7,930 | 121,586 |
| Financial liabilities | | | | | | | |
| Trade and other payables | | – | – | – | – | 11,877 | 11,877 |
| Borrowings – fixed | 6.00 | – | – | 3,805 | – | 3,868 | 7,673 |
| Interest-bearing debt | 7.94 | 224,173 | 22,906 | – | – | – | 247,079 |
| Other financial liabilities | 8.55 | 2,788 | – | – | – | – | 2,788 |
| Total financial liabilities | | 226,961 | 22,906 | 3,805 | – | 15,745 | 269,417 |
| Total net financial assets/liabilities | | (225,909) | (7,848) | 77,338 | 16,446 | (7,815) | (147,831) |
| Net (increase)/decrease in exposure from interest rate collar (notional principal) | | 50,000 | – | – | – | – | 50,000 |
| Net exposure | | (175,909) | (7,848) | 77,338 | 16,446 | (7,815) | (97,831) |

The majority of the Group's interest rate risk arises from external interest-bearing liabilities. However, other sources of interest rate risk for the Group may include:

- (i) interest-bearing investments;
- (ii) vendor financing (classified as borrowings);
- (iii) creditors' accounts offering a discount; and
- (iv) debtors' accounts on which discounts are offered.

The primary objectives of interest rate risk management are to ensure that:

- (i) only the net interest exposure (i.e. the repricing of financial assets is offset against the repricing of financial liabilities) is managed in a manner consistent with the underlying assets being funded, related cash flows and any influences on net revenue determination;
- (ii) the Group is not exposed to interest rate movements which could adversely impact on its ability to meet its financial obligations as they fall due;
- (iii) earnings and distributions per share/unit are not adversely affected;
- (iv) volatility of debt servicing costs, because of possible movements in interest rates, is managed within acceptable parameters; and
- (v) all borrowing covenants under the terms of the Group's borrowing facilities, including interest cover ratios, are complied with.

Having regard to the above constraints and targets, the Group's objective in managing interest rate risk is to minimise interest expense whilst ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements and movements in market interest rates.

To achieve this, the Group's interest cost will be comprised of a mix of fixed and floating debt (where fixed is defined as a rate fixed with an original maturity of 12 months or longer). Fixed rate debt is achieved either through fixed rate debt funding or through the use of financial derivative instruments approved by the Board. It is noted that given the liquidity position of the Group (refer Note 1(b)), its ability to undertake active interest rate risk management has been limited.

Interest rate risk is measured by the effect of interest rate movements on the total portfolio of:

- (i) current and forecast debt; and
- (ii) interest rate hedging transactions.

The method to be used by RCL Group to measure interest rate risk is as follows:

- (i) identify outstanding and forecast debt levels by individual currency;
- (ii) identify amount of debt that is fixed (including hedges) and amount that is floating;
- (iii) estimate the market range of interest rates over the forecast period; and
- (iv) use range of likely interest rate scenarios plus borrowing margins to determine a range of likely interest expense outcomes and its impact on earnings/distribution.

Summarised sensitivity analysis on profit and equity

The sensitivity measure that is regularly reported to the AR&C Committee and the Board is the impact that a 75 basis point (2009: 50 basis point) movement in interest rates would have on the Group's finance costs before capitalisation. This measure is illustrated below:

| Measurement against interest rates | 2010 Australian dollar \$'000 | 2009 Australian dollar \$'000 |
|------------------------------------|-------------------------------------|-------------------------------------|
| \$ impact of a 75 bps increase | 1,085 | |
| \$ impact of a 75 bps decrease | (1,085) | |
| \$ impact of a 50 bps increase | | 866 |
| \$ impact of a 50 bps decrease | | (866) |

(ii) Currency risk

The Group's principal activity is investing in interests in Australian and New Zealand real estate, and as a result the Group is exposed to currency risk with respect to movements in the AUD/NZD exchange rate.

Transaction risk and translation risk are the two main risks associated with currency movements.

Translation risk is the risk that the net tangible assets of the Group will fluctuate as a result of relative movements in the value of the Australian dollar as foreign assets or liabilities are converted into Australian dollars.

Transaction risk is the risk that profits generated offshore and intended to be repatriated to Australia will vary in Australian dollar terms due to movements in the value of the Australian dollar against the currency in which they are earned/incurred.

Transaction risk is measured using sensitivity analysis and cash flow forecasting. Because of the component of foreign denominated investment and earnings (i.e. New Zealand property investments at Henley Downs and Jacks Point), future earnings growth is particularly exposed to changes in exchange rates. The Group monitors the extent to which AUD funds will be required to meet anticipated foreign currency expenditures and investments and when the timing and amount of such expenditures are reasonably certain of being ascertained will seek to hedge the foreign currency exposure.

During the year ended 30 June 2009, all foreign currency hedges were closed out and gains and losses transferred to the statement of comprehensive income. Therefore at the current and previous balance date there is no direct impact to the cash flow hedge reserve from foreign currency risk.

Notes to the Consolidated Financial Statements continued

Note 2 Financial Risk Management continued

(a) Market Risk continued

As at the reporting date, the translated Australian dollar amount of New Zealand dollar loans receivable was:

| | 2010 Australian dollar \$'000 | 2009 Australian dollar \$'000 |
|--|-------------------------------------|-------------------------------------|
| Australian dollar carrying amount ¹ | 45,096 | 44,195 |

1. Prior to provision for Impairment.

Summarised sensitivity analysis on profit and equity

The sensitivity measure that is regularly reported to the AR&C Committee and the Board is the impact that a 5% (2009: 10%) movement in the relevant base currency rates would have on profit. This is illustrated below.

| Measurement against interest rates | 2010 Australian dollar \$'000 | 2009 Australian dollar \$'000 |
|------------------------------------|-------------------------------------|-------------------------------------|
| \$ impact of a 5% increase in NZD | 2,294 | |
| \$ impact of a 5% decrease in NZD | (2,076) | |
| \$ impact of a 10% increase in NZD | | 3,627 |
| \$ impact of a 10% decrease in NZD | | (4,433) |

(iii) Market equity price risk

The Group is exposed to price risk through its investment in the Kalynda Chase project, classified as a financial asset at fair value through the profit or loss.

Management continuously monitors and reviews the performance of this project and is provided with detailed project models which forecast the cash flow distributions and the internal rate of return (IRR) of the project.

The investment management policy, whereby each project is closely monitored on an ongoing basis, ensures that management is in the best possible position to identify potential concerns early allowing management to act quickly. Sensitivity analysis has not been provided on the performance of this asset as its performance is in line with forecast. Any potential impact to its carrying value is considered to be immaterial to the results of the Group.

(b) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss.

The Group's concentration of credit risk and measures in place to mitigate this risk are as follows:

- (i) Cash and derivative financial instruments are held with authorised counterparties which are subject to annual review under the Treasury Policy of the Group.
- (ii) Loans and receivables comprise project loans to three property developments in Australia and one property development in New Zealand. Repayment of these loans is subject to the underlying performance of the residential land development project to which they relate. The Group has policies in place to ensure that sales of inventory are made under settlement procedures to ensure title is not released until the cash is received, securing the ability of the project loan to be repaid. There is not considered to be any significant concentration of credit risk relating to receivables other than the project loans identified.
- (iii) Other financial assets at fair value through profit or loss include an equity interest in an Australian property development.

Where entities have a right of set-off and intend to settle on a net basis under netting arrangements, this set-off has been recognised in the financial statements on a net basis.

Receivables

Included within receivables are amounts owing from the Australian Taxation Office (ATO) for GST refunds.

Loans receivable and other financial assets at fair value through profit or loss

In certain instances, the Group's investment in a residential land project is structured as a loan receivable with an interest coupon return underpinned by the performance of the underlying residential land development project.

Management seeks to mitigate credit risk of loan receivables and other financial assets through:

- (i) the asset selection process;
- (ii) the structuring of investments to minimise credit risk;
- (iii) security in the form of a second ranking charge over the underlying residential property asset; and
- (iv) active ongoing monitoring of the Group's investment.

A significant element of the monitoring involves conducting due diligence in respect of servicers, originators and managers of the Group's investments including regular project Committee meetings through the life cycle of the underlying development project.

Management also conducts the following ongoing monitoring of the Group's investments through the following procedures:

- (i) reviewing monthly investment reports detailing cash flows and the Group's project status in respect of each investment;
- (ii) monitoring and analysing performance metrics such as IRRs derived from internal and external discounted forecast models for each project;
- (iii) analysing macroeconomic factors to gauge possible effects on the performance of the Group's investments; and
- (iv) regular meetings and discussions with counterparties regarding investment performance and broader market performance conditions with industry participants.

Derivative financial instruments

The Group is also exposed to credit risk arising from interest rate collars discussed above. For credit purposes, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout. The Treasury Policy outlines the counterparty credit risk management policy, including limits around the amount of credit exposure to any financial institution. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria which is updated from time to time and approved by the Board. At 30 June 2010, the only derivative financial instrument the Group had in place was an interest rate collar, which it had contracted with the Group's major lender.

At the reporting date the Group has no significant concentration of credit risk except for the fact that a majority of cash and cash equivalents are held with National Bank of Australia (rated Aa1/P-1 by Moody's).

(c) Liquidity Risk

Liquidity risk refers to the potential that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management is carried out by maintaining sufficient cash including working capital and other reserves. It is the Group's policy to maintain sufficient liquid financial assets to cover current liabilities and any unforeseen. The Group prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flows.

The tables below set out the Group's liabilities as at 30 June 2010 and 30 June 2009 into the relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed in the tables below are the contractual undiscounted cash flows, including the capitalisation of interest where appropriate.

| 2010 Consolidated | Up to 1 month \$'000 | 1 to 12 months \$'000 | 1 to 5 years \$'000 | Over 5 years \$'000 | Total contractual cash flow \$'000 | Carrying amount \$'000 |
|-------------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|---|------------------------------|
| Trade and other payables | – | 9,711 | 2,000 | – | 11,711 | 11,711 |
| Interest-bearing liabilities | | | | | | |
| Corporate facilities | 127,648 | – | – | – | 127,648 | 126,689 |
| Project facilities | 57,610 | 27,050 | 15,734 | – | 100,394 | 97,784 |
| Borrowings | – | – | 9,023 | – | 9,023 | 8,402 |
| Other financial liabilities | – | 369 | – | – | 369 | 369 |
| Total | 185,258 | 37,130 | 26,757 | – | 249,145 | 244,955 |

Notes to the Consolidated Financial Statements continued

Note 2 Financial Risk Management continued

(c) Liquidity Risk continued

| 2009 Consolidated | Up to 1 month \$'000 | 1 to 12 months \$'000 | 1 to 5 years \$'000 | Over 5 years \$'000 | Total contractual cash flow \$'000 | Carrying amount \$'000 |
|--------------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|---|------------------------------|
| Trade and other payables | – | 9,877 | 2,000 | – | 11,877 | 11,877 |
| Interest-bearing liabilities: | | | | | | |
| Corporate facilities | 267 | 136,295 | – | – | 136,562 | 122,070 |
| Project facilities | 619 | 87,214 | 36,393 | – | 124,226 | 120,143 |
| Borrowings | – | – | 9,235 | – | 9,235 | 7,673 |
| Other financial liabilities | – | 2,788 | – | – | 2,788 | 2,788 |
| Total | 886 | 236,174 | 47,628 | – | 284,645 | 269,418 |

The Group does not expect all of the above to be payable at the earliest possible date. The main liquidity risk is the ability to repay its interest-bearing liabilities. The classification of the large portion of the interest-bearing liabilities as payable in one month has been addressed post balance date, see Note 32. New debt facilities may be at a higher or lower cost, reflecting the market conditions at that time. The interest-bearing liabilities are effectively secured by all the assets of the Group. The terms and conditions relating to the security are normal terms and conditions.

An element of liquidity risk is refinancing risk. Refinancing risk is the risk that unfavourable interest rate and credit market conditions result in an unacceptable increase in the Group's credit margins and interest cost or that new debt funding cannot be obtained upon maturity. Refinancing risk arises when the Group is required to obtain debt to fund existing and new debt positions.

The Group is exposed to refinancing risk from the availability of finance as well as the interest rate and credit margins at which finance is available. The Group manages this risk by reviewing potential transactions to understand the impact on debt requirements.

(d) Capital Risk Management

The Group maintains a prudent policy of managing its capital structure with the objective to safeguard the Group's ability to continue as a going concern, to increase the returns for Securityholders and to maintain an optimal capital structure which achieves the lowest cost of capital.

An objective of capital risk management is also to ensure that the Group continues to comply with its loan covenants.

The funding structure of the Group consists of interest-bearing debt, as listed in Note 20, and equity as listed in Note 23.

In order to achieve the optimal capital structure, the Board may use any of these strategies: amend the distributions policy of the Group; issue new securities through a private or public placement, activate or suspend the Distribution Reinvestment Program (DRP); issue securities under a Security Purchase Plan (SPP); or conduct an on-market buyback of securities.

On 29 August 2008, the entity issued 1,107,825 units under the DRP for the final June 2008 distribution. The DRP plan was suspended during the year ended 30 June 2010.

The Group has a policy to maintain gearing within a target range of 60% to 65%. The Group may temporarily go above or below the gearing range depending on circumstances.

The Group's gearing as at 30 June 2010 is 66% (30 June 2009: 64%).

Neither the Group nor the Company is subject to externally imposed capital requirements.

(e) Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, the Group has adopted the amendments to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) quoted prices in active markets for identical asset or liabilities (level 1);

(ii) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following assets and liabilities are measured at fair value as at 30 June 2010:

Derivative contracts

The fair value of interest rate collars is estimated by using the quoted market prices from banks or dealer quotes for similar instruments. This instrument is included in level 2 in the table below.

Financial assets at fair value through the profit and loss

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security. Discounted cash flows are used to determine fair value of the Kalynda investment. This asset is classed as Level 3 in the following table.

The following table presents the Group's assets and liabilities that are measured and recognised at fair value at 30 June 2010:

| 2010 Consolidated | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Assets | | | | |
| Financial asset at fair value through profit or loss: | - | - | - | - |
| Kalynda investment | - | - | 4,049 | 4,049 |
| Total assets | - | - | 4,049 | 4,049 |
| Liabilities | | | | |
| Derivatives financial instrument | - | 335 | - | 335 |
| Total liabilities | - | 335 | - | 335 |

Note 3 Segment Information

Management has determined the operating segments based on reports provided to the Chief Executive Officer and the Board of Directors, which are used to make strategic decisions impacting the business. The operating segments are reported as follows:

| | |
|-------------------------------|---|
| Consolidated projects | Residential inventory projects controlled by the Group. |
| Australian Mezzanine projects | Australian residential projects not controlled by the Group, but for which the Group has provided mezzanine finance. |
| NZ mezzanine projects | New Zealand residential projects not controlled by the Group, but for which the Group has provided mezzanine finance. |
| Other | Includes all other facets of the Group's business, including its 60% controlling investment in PRM Property Group, its 50% equity accounted investment in PRM Holdings, its investment in a residential development at Kalynda in Townsville, Queensland, accounted for at fair value through profit or loss, as well as allocated Group overheads. |

Notes to the Consolidated Financial Statements continued

Note 3 Segment Information continued

The following segment information provided to the Chief Executive Officer and the Board of Directors for the reportable segments for the year ended 30 June 2010 is as follows:

(a) Profit and Loss

| | Consolidated projects \$'000 | Australian mezzanine projects \$'000 | New Zealand mezzanine projects \$'000 | Other \$'000 | Total \$'000 |
|--|------------------------------------|---|--|-----------------|-----------------|
| For the year ended 30 June 2010 | | | | | |
| Total segment revenue interest | 51,411 | 8,354 | 393 | 2,690 | 62,848 |
| Intersegment revenue | – | – | – | – | – |
| Revenue from external customers | 51,411 | 8,354 | 393 | 2,690 | 62,848 |
| Share of profit from associate | – | – | – | 2,338 | 2,338 |
| Segment profit | 4,448 | 8,354 | 393 | 5,028 | 17,258 |
| For the year ended 30 June 2009 | | | | | |
| Total segment revenue | 29,354 | 10,417 | 6,323 | 3,963 | 50,057 |
| Intersegment revenue | – | – | – | – | – |
| Revenue from external customers | 29,354 | 10,417 | 6,323 | 3,963 | 50,057 |
| Share of profit from associates | – | – | – | 954 | 954 |
| Segment profit | (3,234) | 10,417 | 6,323 | 1,146 | 14,651 |

Revenues from external customers are derived from the sale of land and interest income from loans receivable. Refer to item (d) below for information showing management's composition of Segment profit.

(b) Balance Sheet

The amounts provided to the Chief Executive Officer and the Board with respect to total assets are measured in a manner consistent with that of the financial statements.

Reportable segments' assets are reconciled to total assets as follows:

| | Consolidated projects \$'000 | Australian mezzanine projects \$'000 | New Zealand mezzanine projects \$'000 | Other \$'000 | Total \$'000 |
|---------------------------|------------------------------------|---|--|-----------------|-----------------|
| As at 30 June 2010 | | | | | |
| Investment in associate | – | – | – | 15,451 | 15,451 |
| Total segment assets | 212,514 | 62,675 | 43,593 | 4,441 | 323,223 |
| Unallocated assets | – | – | – | 20,115 | 20,115 |
| Total assets | 212,514 | 62,675 | 43,593 | 40,007 | 358,789 |
| As at 30 June 2009 | | | | | |
| Investment in associate | – | – | – | 14,263 | 14,263 |
| Total segment assets | 237,726 | 57,694 | 39,985 | 4,397 | 339,712 |
| Unallocated assets | – | – | – | 29,443 | 29,443 |
| Total assets | 237,726 | 57,694 | 39,985 | 48,103 | 383,418 |

Total segment assets include the carrying value of inventory for consolidated projects, and the carrying value of loans receivable for mezzanine projects. For other they include all assets of the relevant entities excluding deferred tax. Unallocated assets include deferred tax assets, other receivables, property, plant and equipment.

(c) Segment Revenue

The entity is domiciled in Australia and operates solely in the business of property development in the geographical areas of Australia and New Zealand. Segment revenues and assets are allocated based on the country in which the development is located.

| | Income from External Customers | | Total Non-Current Assets ¹ | |
|--------------------------|--------------------------------------|--------------------------------------|---------------------------------------|---------------------------------|
| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
| Australia | 62,455 | 43,733 | 248,729 | 264,329 |
| New Zealand ¹ | 393 | 6,323 | 42,636 | 41,767 |
| Total | 62,848 | 50,057 | 291,365 | 306,096 |

1. Total non-current assets excludes property, plant and equipment and deferred tax assets.

(d) Other Segment Information

A reconciliation of segment profit to operating profit before income tax is provided as follows:

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|--|--------------------------------------|--------------------------------------|
| Segment profit | 17,258 | 14,651 |
| Finance costs | (18,330) | (14,792) |
| Impairment of loans receivable | (2,418) | (21,101) |
| Write down of inventory | – | (8,307) |
| Unrealised foreign exchange loss | 509 | (2,081) |
| Unrealised gain on derivative financial instrument | (335) | – |
| Realised gain on derivative financial instruments | – | 1,245 |
| Unallocated overheads | (7,636) | (5,311) |
| (Loss) before income tax from continuing operations | (10,952) | (35,696) |

Note 4 Revenue and Other Income

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Revenue from continuing operations | | |
| Revenue from the sale of land | 51,411 | 29,354 |
| Interest income | 8,485 | 18,174 |
| Total revenue from continuing operations | 59,896 | 47,528 |
| Other income | | |
| Fair value gains on other financial assets at fair value through profit or loss | 292 | 134 |
| Project management fees | 2,497 | 1,516 |
| Profit on sale of Ascot Chase | – | 758 |
| Other income | 163 | 121 |
| Total other income | 2,952 | 2,529 |

Notes to the Consolidated Financial Statements continued

Note 5 Expenses

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Finance costs | | |
| Interest and finance charges | 33,717 | 33,384 |
| Amounts capitalised | (15,387) | (18,592) |
| Total | 18,330 | 14,792 |
| Marketing and other operating expenses | | |
| Legal fees | 691 | 508 |
| Depreciation | 47 | 25 |
| Unrealised loss on financial instrument | 335 | – |
| Marketing and other | 3,618 | 2,873 |
| Total | 4,691 | 3,406 |

Note 6 Significant Items

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|--|--------------------------------------|--------------------------------------|
| Sale of interest in land assets | – | 758 |
| Impairment of loan receivables | (2,416) | (21,101) |
| Net realisable value adjustment to inventory | – | (8,307) |
| Impairment of goodwill | – | (1,691) |
| Total | (2,416) | (30,341) |

Significant items are material adjustments to the income statement which by virtue of size or nature should be drawn to the user's attention.

Note 7 Dividends and Distributions

There were no dividends/distributions declared for the year ended 30 June 2010 or for the year ended 30 June 2009. Nor were there any dividends/distributions payable at either 30 June 2010 or 30 June 2009. On 18 December 2008, the Board announced to the market that it had elected to suspend payment of Stapled Security distributions until further notice.

Note 8 Loss per Security

| | Year ended 30 June 2010 | Year ended 30 June 2009 |
|---|----------------------------|----------------------------|
| Net (loss) after tax attributable to Securityholders (\$'000) | (6,639) | (26,296) |
| Time weighted average number of securities for basic and diluted earnings per security (\$'000) | 176,108 | 175,926 |
| Basic earnings per Stapled Security for net profit attributable to stapled Securityholders (cents per Stapled Security) | (3.77) | (14.95) |
| Diluted earnings per Stapled Security for net profit attributable to stapled Securityholders (cents per Stapled Security) | (3.77) | (14.95) |

Note 9 Income Tax

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|--|--------------------------------------|--------------------------------------|
| (a) Income Tax Expense/(Benefit) | | |
| Income tax comprises: | | |
| Current tax benefit | (332) | (8,522) |
| Deferred tax expense/(benefit) | (2,422) | (45) |
| Under/(Over) provided in prior years | (1,668) | (524) |
| Income tax expense/(benefit) | (4,422) | (9,091) |
| Deferred income tax expense included in income tax (revenue)/expense comprises: | | |
| Decrease/(Increase) in deferred tax assets | (1,385) | (4,625) |
| Increase/(Decrease) in equity | – | – |
| (Decrease)/Increase in deferred tax liabilities | 3,807 | 4,580 |
| | (2,422) | (45) |
| (b) Numerical Reconciliation of Income Tax (Benefit) to Prima Facie Tax Payable | | |
| (Loss)/profit from continuing operations before income tax expense | (10,952) | (35,696) |
| Income tax (benefit) calculated at 30% | (3,286) | (10,709) |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-assessable income | (15,846) | (10,054) |
| Non-deductible expenses | 14,791 | 9,479 |
| Group net loss not deductible | 1,587 | 2,210 |
| Impairment of goodwill | – | 507 |
| Change in prior period tax estimates | (1,668) | (524) |
| Income tax expense/(benefit) | (4,422) | (9,091) |
| (c) Amounts Recognised Directly in Equity | | |
| The following current and deferred amounts were not recognised in net profit or loss but charged directly to equity during the period: | | |
| Net deferred tax expense/(benefit) | 824 | (561) |
| (d) Tax Expense/(Benefit) Relating to Items of Other Comprehensive Income | | |
| Changes in fair value of cash flow hedges | 824 | (561) |
| (e) Tax Losses | | |
| Unused tax losses – a deferred tax asset has been recognised | 51,825 | 49,567 |
| Potential tax benefit at 30% | 15,548 | 14,870 |

As at 30 June 2010 the Group had carry-forward tax losses of \$51.8 million (2009: \$49.6 million). This tax loss arises as a result of the available tax deduction upfront for the Group's share of development costs incurred at the project level, whilst under Australian Accounting Standards these costs are capitalised and expensed as lots are sold. As projects continue through their respective life cycles there will come a point when this timing difference is projected to reverse and a taxable income will be generated.

Forecast life of project cash flow modelling for the Group, indicate that it is probable that future taxable profit will be available against which unused tax losses can be utilised. These forecasts assume that the Group will continue as a going concern and realise its assets in the ordinary course of business. If this was not to occur the recoverability of this deferred tax asset would need to be reassessed.

Notes to the Consolidated Financial Statements continued

Note 9 Income Tax continued

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|--|--------------------------------------|--------------------------------------|
| (f) Recognised Deferred Tax Assets and Deferred Tax Liabilities | | |
| Deferred tax assets | | |
| Tax losses | 15,548 | 14,870 |
| Provision for diminution | 5,392 | 5,021 |
| NZD denominated loans | 1,166 | 1,318 |
| Hedge funding liability | 101 | 823 |
| Other | 30 | 56 |
| Gross deferred tax assets | 22,237 | 22,088 |
| Deferred tax liabilities | | |
| Deductible development costs | 6,187 | 8,890 |
| Development fee revenue | 3,352 | 4,630 |
| Other | 923 | 749 |
| Foreign exchange gain arising on hedge assets | – | – |
| Gross deferred tax liabilities | 10,462 | 14,269 |
| Net deferred tax asset/(liability) | 11,775 | 7,819 |
| Balance at the beginning of the financial period | 7,819 | (1,828) |
| Credited/(charged) to the income statement | 2,422 | (45) |
| Credited to equity | (824) | 561 |
| Deferred tax asset relating to current year tax losses | 678 | 8,517 |
| Deferred tax asset relating to change in prior period tax estimate | 1,680 | 524 |
| Balance at the end of the financial period | 11,775 | 7,819 |

(g) Tax Consolidation Legislation

RCL Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in Note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, is effective to exclude joint and several liability of the wholly-owned entities in the case of a default by the head entity, RCL Group Limited.

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

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

Note 10 Cash and Cash Equivalents

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--------------------------|---------------------------------|---------------------------------|
| Cash at bank and on hand | 3,533 | 1,009 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The Group's exposure to interest rate risk is discussed in Note 2.

Note 11 Receivables

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---------------------------------------|---------------------------------|---------------------------------|
| Current | | |
| Receivables | | |
| GST receivable | 287 | 434 |
| Loans receivable | – | 15,058 |
| | 287 | 15,492 |
| Other assets | | |
| Prepayments | 402 | 404 |
| Deposits and other receivables | 2,222 | 2,359 |
| | 2,624 | 2,763 |
| Non-current | | |
| Loans receivable | | |
| Loans receivable ¹ | 118,874 | 108,033 |
| Provision for impairment ² | (12,606) | (10,444) |
| | 106,268 | 97,589 |

1. Integral to the recoverable amount of the New Zealand loans receivable is an assumption that certain sections of land within the development footprint will be rezoned to allow future residential subdivision.

2. Impaired receivables – The provision for impairment on loans receivable reflect deterioration in the internal rate of return on underlying development projects to which these loans relate discounted at their original effective interest rate, indicating a difference between the carrying value of the loans and the present value of estimated future cash flows to repay those loans.

The Group's maximum credit exposure for receivables is the carrying value.

Movement in the provision for impairment is as follows:

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Provision at the beginning of the year | (10,444) | – |
| Impairment raised during the year | (2,418) | (21,101) |
| Impairment provision written off against asset | 256 | 10,657 |
| Provision at the end of the year | (12,606) | (10,444) |

At 30 June 2010, no loans receivable were past due.

Notes to the Consolidated Financial Statements continued

Note 11 Receivables continued

Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency and interest rate risk in relation to trade and other receivables is provided in Note 2.

Fair value and credit risk

The carrying amounts of the receivables are assumed to approximate their fair value. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each receivable. Information about the Group's exposure to credit risk is provided in Note 2.

Note 12 Inventories

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|-----------------------------|---------------------------------|---------------------------------|
| Current | | |
| Land held for resale | | |
| – cost of acquisition | 35,059 | 31,436 |
| – write-down of inventory | (6,809) | (6,809) |
| – development costs | 9,617 | 19,267 |
| – asset facilitation fees | 634 | 913 |
| – capitalised finance costs | 3,456 | 5,256 |
| | 41,957 | 50,063 |
| Non-current assets | | |
| Land held for resale | | |
| – cost of acquisition | 137,758 | 162,171 |
| – write-down of inventory | (1,498) | (1,498) |
| – development costs | (7,551) | 4,866 |
| – asset facilitation fees | 2,534 | 3,651 |
| – capitalised finance costs | 24,212 | 18,473 |
| | 170,557 | 187,663 |

Inventory expense

Current inventory is that which is expected to sell within the next 12 months.

Inventories recognised as expense during the year ended 30 June 2010 amounted to \$47,469,000 (2009: \$39,957,000).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2010 amounted to nil (2009: \$8,307,000). The expense has been included in "Cost of sales" in the 2009 statement of comprehensive income.

Note 13 Other Financial Assets at Fair Value through Profit or Loss

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---|---------------------------------|---------------------------------|
| Non-current | | |
| Other financial assets at fair value through profit or loss | 4,049 | 4,733 |
| | 4,049 | 4,733 |

(a) Other Financial Assets at Fair Value through Profit or Loss

Changes in fair values of other financial assets at fair value are recorded as other income in the statement of comprehensive income. Refer to Note 4.

Note 14 Assets Held-for-Sale

As at balance date 30 June 2010 there are no assets held-for-sale.

On 19 August 2008, RCLG completed the sale of 25% of its interest in the Ascot Chase project to the BMD Group. This resulted in the Ascot Chase project becoming a 50:50 joint venture between RCL Group and the BMD Group.

On 28 September 2009, RCLG settled the disposal of its remaining 50% interest in the Ascot Chase project to the BMD Group.

| Ascot Chase disposal group assets and liabilities | As at 30 June 2009 \$'000 |
|--|--|
| Cash | 675 |
| Inventory | 91,439 |
| Other assets | 1,701 |
| Total assets | 93,815 |
| Interest-bearing liabilities | 57,310 |
| Shareholder loans | 36,505 |
| Total liabilities | 93,815 |

Note 15 Investments Accounted for Using the Equity Method

(a) Movements in Carrying Amounts

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|--|--|
| Equity-accounted investments | | |
| <i>Investment in PRM Holdings Pty Ltd¹</i> | | |
| Carrying amount at the beginning of the financial year | 14,263 | 13,309 |
| Distributions received during the year | (1,150) | – |
| Share of profits after income tax | 2,338 | 954 |
| Carrying amount at the end of the financial year | 15,451 | 14,263 |

1. Ownership interest 50%.

(b) Summarised Financial Information of Equity-accounted Investments

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|-------------------------------------|--|--|
| Financial position | | |
| Total assets | 6,534 | 4,763 |
| Total liabilities | (1,572) | (1,319) |
| Net assets | 4,962 | 3,444 |
| Group's share of net assets | 2,481 | 1,722 |
| Financial performance | | |
| Total revenue | 4,869 | 1,915 |
| Total profit for the year | 4,676 | 1,909 |
| Group's share of associates' profit | 2,338 | 954 |

Assessment of carrying value

A discount cash flow analysis was undertaken to assess whether the above equity-accounted investment is subject to any indication of impairment. Using a discount rate of 10%, the Group is satisfied that the investment in PRM Holdings is not impaired.

Notes to the Consolidated Financial Statements continued

Note 16 Property, Plant and Equipment

| | Office equipment \$'000 | Finance lease equipment \$'000 | Leased fitout \$'000 | Computer software \$'000 | Computer equipment \$'000 | Office furniture \$'000 | Total \$'000 |
|---|-------------------------------|---|----------------------------|--------------------------------|---------------------------------|-------------------------------|-----------------|
| Cost or deemed cost | | | | | | | |
| Balance as at 1 July 2009 | 6 | 46 | 161 | 23 | 6 | 38 | 280 |
| Additions | 25 | – | – | 262 | 24 | 1 | 312 |
| Disposals | – | – | – | – | – | – | – |
| Transfers | – | – | – | – | – | – | – |
| Balance as at 30 June 2010 | 31 | 46 | 161 | 285 | 30 | 39 | 592 |
| Depreciation and impairment losses | | | | | | | |
| Balance as at 1 July 2009 | 2 | 31 | 42 | 20 | 2 | 7 | 104 |
| Additions | – | 1 | – | 10 | 24 | 13 | 48 |
| Disposals | – | – | – | – | – | – | – |
| Balance as at 30 June 2010 | 2 | 32 | 42 | 30 | 26 | 20 | 152 |
| Carrying amounts | | | | | | | |
| At 1 July 2009 | 4 | 15 | 119 | 3 | 4 | 31 | 176 |
| At 30 June 2010 | 29 | 14 | 119 | 255 | 4 | 19 | 440 |

| | Office equipment \$'000 | Finance lease equipment \$'000 | Leased fitout \$'000 | Computer software \$'000 | Computer equipment \$'000 | Office furniture \$'000 | Total \$'000 |
|---|-------------------------------|---|----------------------------|--------------------------------|---------------------------------|-------------------------------|-----------------|
| Cost or deemed cost | | | | | | | |
| Balance as at 1 July 2008 | 5 | 46 | 161 | 17 | 9 | 38 | 276 |
| Additions | 1 | – | – | 1 | 2 | – | 4 |
| Disposals | – | – | – | – | – | – | – |
| Transfers | – | – | – | 5 | (5) | – | – |
| Balance as at 30 June 2009 | 6 | 46 | 161 | 23 | 6 | 38 | 280 |
| Depreciation and impairment losses | | | | | | | |
| Balance as at 1 July 2008 | 1 | 26 | 31 | 17 | – | 4 | 79 |
| Additions | 1 | 5 | 11 | 3 | 2 | 3 | 25 |
| Disposals | – | – | – | – | – | – | – |
| Acquisition of subsidiary | – | – | – | – | – | – | – |
| Balance as at 30 June 2009 | 2 | 31 | 42 | 20 | 2 | 7 | 104 |
| Carrying amounts | | | | | | | |
| At 1 July 2008 | 4 | 20 | 130 | – | 9 | 34 | 197 |
| At 30 June 2009 | 4 | 15 | 119 | 3 | 4 | 31 | 176 |

Note 17 Intangible Assets

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--------------------------|---------------------------------|---------------------------------|
| Intangible assets | | |
| Opening net book amount | 1,848 | 3,539 |
| Impairment | – | (1,691) |
| Closing net book amount | 1,848 | 1,848 |

During the 2009 Financial Year, the Group assessed the recoverable amount of goodwill and determined that goodwill associated with the Group's acquisition of the 60% interest in PRM Property Group Pty Ltd was impaired by \$1,691,000, due to the portfolio of the asset under management changing, and the development life cycle extending. In accordance with accounting standards the goodwill was tested for impairment during the 2010 Financial Year. The recoverable amount was assessed by reference to "value in use" for the cash generating units applying a discount rate of 10%. As at 30 June 2010 no indicators of impairment were noted and therefore no impairment has been recorded.

Note 18 Trade and Other Payables

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---------------------------|---------------------------------|---------------------------------|
| Current | | |
| Trade payables | 269 | 657 |
| Other liabilities | 894 | 645 |
| Accrued facilitation fees | 6,500 | 6,000 |
| Accrued management fees | – | 1,024 |
| Income taxes payable | 333 | – |
| Deferred land payments | – | 500 |
| GST payable | 1,715 | 79 |
| Accrued interest | – | 972 |
| | 9,711 | 9,877 |

Due to the short-term nature of these payables, their carrying amounts approximate their fair values.

Note 19 Provisions

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--------------------------------------|---------------------------------|---------------------------------|
| Current | | |
| Employee benefits | 178 | 55 |
| Other employee provisions | 49 | – |
| Provisions for internalisation costs | – | 105 |
| Total current provisions | 227 | 160 |
| Non-current | | |
| Long service leave provisions | 85 | 37 |
| Total non-current provisions | 85 | 37 |

Notes to the Consolidated Financial Statements continued

Note 19 Provisions continued

(a) Movements in Provisions

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Current | | |
| Employee provision | | |
| Carrying amount at start of year | 55 | 50 |
| Credited to profit or loss | | |
| – Additional provisions recognised | 193 | 5 |
| – Unused amounts reversed | – | – |
| Amounts used during the period | (70) | – |
| Carrying amount at the end of the year | 178 | 55 |
| Internalisation cost provision | | |
| Carrying amount at start of year | 105 | – |
| Credited to profit or loss | | |
| – Additional provisions recognised | – | 105 |
| – Unused amounts reversed | (105) | – |
| Carrying amount at the end of the year | – | 105 |

(b) Amounts Not Expected to be Settled within the Next 12 Months

The current provision for employee benefits includes accrued annual leave. The entire provision is presented as a current liability in the statement of financial position, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts relate to long service leave that is not expected to be taken or paid within the next 12 months.

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Non-current | | |
| Long service leave provision not expected to be taken in next 12 months | | |
| Carrying amount at start of year | 37 | 32 |
| Credited to profit or loss | | |
| – Additional provisions recognised | 48 | 5 |
| – Unused amounts reversed | | |
| Amounts used during the period | | |
| Carrying amount at the end of the year | 85 | 37 |

Note 20 Interest-Bearing Liabilities and Borrowings

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Current | | |
| Senior corporate debt facility secured | 100,405 | 104,031 |
| Less: Deferred finance costs | – | (3,245) |
| Babcock & Brown subordinated debt facility – secured | 26,284 | 22,906 |
| Less: Deferred finance costs | – | (1,622) |
| Project facilities – secured | 82,702 | 83,774 |
| | 209,391 | 205,844 |
| Non-current | | |
| Unsecured loans classified as borrowings | 8,402 | 7,673 |
| Secured loans: | | |
| Corporate facility | – | – |
| Project facilities – secured | 15,082 | 36,369 |
| | 15,082 | 36,369 |

The fair value of interest-bearing liabilities at balance date are as per the above schedule.

The fair value of borrowings is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

Maturity risk associated with borrowings is referred to in the interest rate table displayed in Note 2 Financial Risk Management.

(a) Total Secured Liabilities

The total secured liabilities (current and non-current) are as follows:

| | As at 30 June 2010 | As at 30 June 2009 |
|------------------------------|-----------------------|-----------------------|
| Interest-bearing liabilities | 224,473 | 224,174 |

(b) Assets Pledged as Security

The Project facilities are secured by first-ranking registered mortgages over the Group's freehold land held as inventory secured project by project. At any time all money that the borrower is liable to pay to the financier in relation to the senior corporate debt facility is secured by a fixed and floating charge over the assets of the Group.

As a result of the internalisation process with Babcock & Brown, it was a requirement that the outstanding amounts with Babcock & Brown become secured in subordination to the senior corporate debt provider.

(c) Unsecured Loans

The unsecured loans which are classified as borrowings in the statement of financial position will be repaid the earlier of 10 years from loan date or completion of the project and bear interest at 6% per annum. The debt repayment profile at the project level stipulates that third party project debt has priority over unsecured loans. Accordingly, unsecured loans are classified as non-current.

(d) Interest-bearing Liabilities

The interest-bearing liabilities are an Australian dollar facility subject to variable interest rates and are repayable over the next 18 months. The effective interest rates vary between 5.60% and 13.2%. There are also deferred fees in relation to the senior corporate debt and Babcock & Brown debt worth a total of \$6.5 million which have been incurred (see Note 18) and were fully amortised at 30 June 2010.

Notes to the Consolidated Financial Statements continued

Note 20 Interest-Bearing Liabilities and Borrowings continued

(e) Unused Funding Arrangements

Access was available at balance date to the following lines of credit. Access to the project facilities is restricted for use on the development which secures the facility.

| | Total \$'000 | Unused \$'000 |
|--------------------------------|-----------------|------------------|
| Corporate facilities – secured | 102,200 | 1,795 |
| BNB facility – secured | 26,284 | – |
| Project facilities – secured | 122,224 | 24,440 |

(f) Extension of Interest-bearing Debt Facilities

Information relating to the extension of the Group's debt facilities that occurred subsequent to 30 June 2010 is provided at Note 32.

The information at Note 32 should be reviewed to provide a complete understanding of the terms of the extension of the interest-bearing debt facilities.

Fees totalling \$5.5 million were incurred relating to the extension of the Group's senior debt facilities post 30 June 2010.

Note 21 Other Financial Liabilities

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Current | | |
| Other financial liabilities | | |
| Derivative financial instrument ¹ | 335 | 2,745 |
| Finance lease liability | 34 | 43 |
| | 369 | 2,788 |
| Non-current | | |
| Other financial liabilities | | |
| Finance lease liability | – | 34 |
| | – | 34 |

1. Refer to Note 2 Financial Risk Management (e) fair values of assets and liabilities.

Note 22 Payables

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|-----------------------|---------------------------------|---------------------------------|
| Non-current | | |
| Deferred land payment | 2,000 | 2,000 |

The deferred land payments will be made when target hurdles are reached which will not be achieved within the next 12 month period.

Note 23 Contributed Equity

An ordinary Stapled Security comprises one share in RCL Group Limited and one unit in RCL Group Trust. Ordinary Stapled Securities entitle the holder to participate in distributions and the proceeds on winding up of the Company or Trust in proportion to the number of and amounts paid on the securities held. The value of Stapled Securities on issue is apportioned between the Company and the Trust. On the show of hands, every holder of ordinary securities present as at meeting in person or by proxy is entitled to one vote and upon a poll each Stapled Security is entitled to one vote.

| | As at 30 June 2010 \$'000 | As at 30 June 2010 Number of securities | As at 30 June 2009 \$'000 | As at 30 June 2009 Number of securities |
|--------------------------------|---------------------------------|--|---------------------------------|--|
| Fully paid securities | | | | |
| Opening balance | 164,104 | 176,107,825 | 163,816 | 175,000,000 |
| Distribution reinvestment plan | – | – | 288 | 1,107,825 |
| Closing balance | 164,104 | 176,107,825 | 164,104 | 176,107,825 |

The above contributed equity reconciles to the contributed equity of the Group's parent and the other stapled entity as shown on the statement of changes in equity.

Distribution reinvestment plan

On 29 August 2008, the entity issued 1,107,825 units under the distribution reinvestment plan.

Note 24 Reserves

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Changes in fair value of cash flow hedges | | |
| Balance as at commencement of year | (1,921) | (611) |
| Loss on cash flow hedge | – | (1,872) |
| Deferred tax | – | 562 |
| Recognised in statement of comprehensive income | 1,921 | – |
| Balance as at year end | – | (1,921) |

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred. At 30 June 2010, there are no effective cash flow hedges.

Note 25 Retained Profits/(Accumulated Losses)

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Movements in retained profits/(accumulated losses) | | |
| Balance as at beginning of financial year | (43,547) | (16,942) |
| (Loss) for the year | (6,530) | (26,605) |
| Distributions provided for or paid to non-controlling interests | (505) | – |
| Balance at the end of the financial year | (50,582) | (43,547) |
| Retained profits/(accumulated losses) attributable to stapled Securityholders as: | | |
| Equity holders of the parent | (29,801) | (28,453) |
| Minority interest | (642) | (246) |
| Equity holders of the other stapled entities | (20,139) | (14,848) |
| | (50,582) | (43,547) |

Notes to the Consolidated Financial Statements continued

Note 26 Disposal of Subsidiaries

On 28 September 2009, RCLG settled the disposal of its remaining 50% interest in the Ascot Chase project to the BMD Group. Profit on the sale of Ascot Chase of \$758,000 is recorded in the 2009 Financial Year on the face of the statement of comprehensive income.

There were no other disposals of subsidiaries during the year ended 30 June 2010.

Note 27 Acquisition of Subsidiaries

On 11 June 2009, RCLG announced that it had reached an in-principle agreement with Babcock & Brown International Pty Ltd (B&B) to either acquire or terminate the management rights for a nominal sum. This transaction was also completed on 13 April 2010 when the management rights were transferred to RCL Group Management Pty Ltd, a 100% owned subsidiary of the RCL Group.

On 13 April 2010, the Consolidated Entity acquired a 100% interest in RCL Group Services Limited (previously BBRLPL Services Limited) at fair value. Only a nominal consideration was paid for this acquisition.

Note 28 Key Management Personnel Disclosures

(a) Directors

The following persons were Directors of RCL Group Limited during the financial year:

| | |
|-------------|----------|
| R. Gelski | Director |
| C. Langford | Director |
| M. Maxwell | Director |
| R. Wright | Chairman |

(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| | |
|-------------|----------------------------------|
| D. Wightman | CEO (appointed 3 July 2009) |
| S. Pauly | CFO (redundant 12 February 2010) |

(c) Key Management Personnel Unit Holdings in RCLG Stapled Securities

| | Balance 30 June 2009 | Change during the year | Other changes during the year | Balance 30 June 2010 |
|---------------------------------------|-------------------------|------------------------------|-------------------------------------|-------------------------|
| Directors | | | | |
| M. Maxwell | 4,000,000 | – | – | 4,000,000 |
| R. Gelski | 231,732 | – | – | 231,732 |
| C. Langford | 105,000 | – | – | 105,000 |
| R. Wright | 231,732 | – | – | 231,732 |
| Total | 4,568,464 | – | – | 4,568,464 |
| Other Key Management Personnel | | | | |
| D. Wightman | 347,597 | – | – | 347,597 |
| Total | 347,597 | – | – | 347,597 |

(d) Key Management Personnel Loan Disclosures

The Group has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the year.

(e) Other Transactions within the Group

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

(f) Key Management Personnel Compensation

| 2010 Payments | Base salary \$ | Super- annuation | Termination benefit | Sign-on benefit | Total \$ |
|---------------------------------------|-------------------|---------------------|------------------------|--------------------|-------------|
| Directors | | | | | |
| Robert Wright | 114,679 | 10,321 | – | – | 125,000 |
| Richard Gelski | 78,808 | 7,093 | – | – | 85,901 |
| Michael Maxwell ¹ | 75,000 | 6,750 | – | – | 81,750 |
| Christopher Langford | 62,431 | 5,619 | – | – | 68,050 |
| Other Key Management Personnel | | | | | |
| David Wightman | 388,137 | 14,784 | 222,115 | – | 625,036 |
| Stuart Pauly | 155,448 | 11,176 | 33,654 | 112,500 | 312,778 |

| 2009 Payments | Base salary \$ | Super- annuation | Long service leave | Short-term ² incentives | Total \$ |
|---------------------------------------|-------------------|---------------------|-----------------------|---------------------------------------|-------------|
| Directors | | | | | |
| Robert Wright | 115,844 | 10,426 | – | – | 126,270 |
| Richard Gelski | 79,125 | 7,121 | – | – | 86,246 |
| Michael Maxwell ¹ | 68,808 | 6,192 | – | – | 75,000 |
| Christopher Langford | 59,633 | 5,367 | – | – | 65,000 |
| Other Key Management Personnel | | | | | |
| David Wightman | 330,000 | 13,745 | 5,500 | – | 349,245 |
| Stuart Pauly | 250,000 | 13,745 | 4,167 | 37,500 | 305,412 |

1. Mr M Maxwell was an employee of Babcock & Brown Australia Pty Limited and his role as a Director of RCLGL was included in those employment arrangements. Mr Maxwell's employment with Babcock & Brown Australia Pty Limited concluded on 31 October 2008. Since 1 November 2008, Mr Maxwell has been a non-executive Director of RCLGL and of the fees for the current year Mr Maxwell received directly \$50,000 in this capacity.

2. Executives of BBRLP were eligible for an award of short-term incentive remuneration during the year. All short-term incentive remuneration provided to executives during the year ended 30 June 2009 was paid in cash, available immediately to the executive. Long-term incentives were previously provided by way of equity- and cash-settled share-based payment awards. No share-based compensation was granted to executives of BBRLP during the year.

(g) Short-term and Long-term Incentives

Short- and long-term incentive schemes are being developed to ensure that RCL Group can attract and retain personnel who will create long-term sustainable value for Securityholders. As at 30 June 2010, no such incentive scheme was in place, and any future scheme will be subject to approval by the Nominations & Remuneration Committee, as a consequence no element of the 2010 payments were "at risk" for the employees. No share-based compensation was granted to executives of RCLG during the 2009 or 2010 Financial Years.

Notes to the Consolidated Financial Statements continued

Note 29 Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the Auditor, its related practices and non-related audit firms:

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|---|----------------------------------|----------------------------------|
| Audit services | | |
| PricewaterhouseCoopers Australian firm: | | |
| Audit and review of financial reports | 454,000 | 602,000 |
| Non-audit services | | |
| PricewaterhouseCoopers Australian firm: | | |
| Taxation services | 92,135 | 25,000 |
| Total auditor's remuneration | 546,135 | 627,000 |

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice. Refer to Auditor's Independence Declaration.

Note 30 Related Party Disclosures

(a) Parent Entity

The parent entity within the Group is RCL Group Limited (ABN 49 119 517 985).

(b) Subsidiaries

Interests in subsidiaries are set out in Note 31.

(c) Key Management Personnel

Disclosures relating to key management personnel are set out in Note 28.

(d) Transactions with Related Parties

RCL Group Services Limited (formerly Babcock & Brown Residential Land Partners Services Ltd)

On 13 April 2010, RCLGL acquired from Babcock & Brown 100% of the ordinary shares in RCL Group Services Limited for fair value. Refer to Note 27 Acquisition of Subsidiaries.

RCLGSL issued a further \$770,000 of equity to RCL Group Limited in order to assist RCLGSL in meeting its NTA requirements.

No amounts were paid directly by RCL Group to the Directors of the responsible entity, except as disclosed at Note 28.

Babcock & Brown International Proprietary Limited (BIPL)

The relationship between RCL Group and BIPL was governed by a number of agreements including the Management Services Agreements with Babcock & Brown Australian Real Estate Management Pty Limited (BBAREM). All provision of services by Babcock & Brown International Group and its subsidiaries ceased on 13 April 2010 with fees for management services effectively ceasing from 31 December 2008.

During the current reporting period until 13 April 2010, a transitional agreement operated to charge fees for specific services including use of business premises, IT software and support and secretarial functions. These were incrementally phased out over the period with total separation and cessation of fees occurring on 13 April 2010. Payments made to BIPL and its subsidiaries are shown on page 73 as "Fee expense/Cost recovery".

On 13 April 2010, all services provided by Babcock & Brown International Group ceased, with RCL Group employing its own executives and staff, renting its own premises and managing the business day to day.

The fees incurred during the year include:

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|-------------------------------------|----------------------------------|----------------------------------|
| Manager's fee expense/cost recovery | 20,000 | 1,909,000 |
| Base management fee | – | 1,560,000 |
| Asset facilitation fee | 190,000 | 51,000 |
| Responsible entity fee | – | 320,000 |
| Custodian fee | 30,000 | (1,000) |
| Facilitation fee | – | 2,000,000 |
| Cost recovery | 252,665 | – |

Loans to/from related parties

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|-------------------------------------|----------------------------------|----------------------------------|
| Loans from related parties | | |
| Beginning of the year | 22,906,000 | 7,596,000 |
| Loans advanced from Babcock & Brown | – | 14,000,000 |
| Interest charged | 3,378,000 | 1,761,000 |
| Interest received | – | (451,000) |
| End of year | 26,284,000 | 22,906,000 |

The Babcock & Brown Group continues to be a related party as at 30 June 2010, given that various Babcock & Brown entities continue to hold a significant equity interest in the RCL Group.

Amounts owing to related parties

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|------------------------|----------------------------------|----------------------------------|
| Facilitation fee | 2,000,000 | 2,000,000 |
| Manager's fee expense | – | 529,000 |
| Asset facilitation fee | – | – |
| Responsible entity fee | – | – |
| Custodian fee | – | 8,000 |
| Cost recovery fee | – | – |

Notes to the Consolidated Financial Statements continued

Note 31 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(c):

| Name of entity | Country of incorporation | Ownership 2010 | Ownership 2009 |
|--|--------------------------|----------------|----------------|
| Parent entity | | | |
| RCL Group Limited | Australia | | |
| Other stapled entity | | | |
| RCL Group Trust | Australia | | |
| Subsidiaries of the Group | | | |
| RCL Group Services Limited ¹ | Australia | 100% | 100% |
| BBRLPL Taree Pty Limited | Australia | 100% | 100% |
| BBRLPL Forster Pty Limited | Australia | 100% | 100% |
| BBRLPL Haywards Bay Pty Limited | Australia | 100% | 100% |
| RCL Management Pty Limited | Australia | 100% | 100% |
| BBRLPL Mirador Heights Pty Limited | Australia | 100% | 100% |
| RCL Pacific Dunes Pty Limited | Australia | 100% | 100% |
| RCL Kalynda Pty Limited | Australia | 100% | 100% |
| RCL RR2 Pty Limited | Australia | 100% | 100% |
| RCL Links Pty Limited | Australia | 100% | 100% |
| RCL Queenstown Pty Limited | Australia | 100% | 100% |
| RCL Coburg Pty Limited | Australia | 100% | 100% |
| BBRLPL Officer Pty Limited | Australia | 100% | 100% |
| BBRLPL Seabreeze Pty Limited | Australia | 100% | 100% |
| BBRLPL Mernda Pty Limited | Australia | 100% | 100% |
| BBRLPL Mernda No. 2 Pty Limited | Australia | 100% | 100% |
| BBRLPL Officer 707 Pty Limited | Australia | 100% | 100% |
| BBRLPL Ripley Valley Pty Limited | Australia | 100% | 100% |
| RCL PRM Pty Limited | Australia | 100% | 100% |
| PRM Property Group Pty Limited | Australia | 60% | 60% |
| Taree (Marie Avenue) Nominee Pty Limited | Australia | 92% | 92% |
| Forster (Southern Parkway) Nominee Pty Limited | Australia | 92% | 92% |
| Haywards Bay Nominee Pty Limited | Australia | 92% | 92% |
| Mirador Heights Nominee Pty Limited | Australia | 92% | 92% |
| Ascot Chase Nominee Pty Limited ² | Australia | 0% | 50% |
| RCLT Pacific Dunes Pty Limited | Australia | 100% | 100% |
| RCLT URB Pty Limited | Australia | 100% | 100% |
| RCLT WPG Pty Limited | Australia | 100% | 100% |
| RCLT MET Pty Limited | Australia | 100% | 100% |
| BBRLP Pacific Dunes Trust | Australia | 100% | 100% |
| BBRLP Kalynda Trust | Australia | 100% | 100% |
| BBRLP Ascot Chase Trust | Australia | 100% | 100% |
| BBRLP Taree Trust | Australia | 100% | 100% |
| BBRLP Haywards Bay Trust | Australia | 100% | 100% |
| BBRLP Mirador Heights Trust | Australia | 100% | 100% |
| BBRLP Forster Trust | Australia | 100% | 100% |
| BBRLP Officer Trust | Australia | 100% | 100% |
| BBRLP Seabreeze Trust | Australia | 100% | 100% |
| BBRLP Mernda Trust | Australia | 100% | 100% |
| Mernda Land Trust ³ | Australia | 42% | 42% |

1. RCL Group Services was acquired from Babcock & Brown for fair value on 13 April 2010, for nominal consideration.

2. Refer Note 26.

3. Whilst the Group holds less than 50% of the shares in this entity, the Group has the power to govern the financial and operating policies of this entity through its 60% majority of the project control group.

Note 32 Events Subsequent to Balance Date

(a) RCL Group Debt

Since the end of the year, the Group has signed documentation with its senior corporate and project financier to extend the term of the facilities that were due to expire on 28 July 2010 through to 31 December 2012.

The key amendments to the terms of the corporate and key project facilities include:

- (i) Common expiry date of 31 December 2012 for all facilities other than those that are targeted to payout prior to this date.
- (ii) Provision of development funding for the Grandvue @ Officer development where the Group has secured development approval for the staged development of this project.
- (iii) Continuation of the primary covenant test, being compliance with specific tolerance levels of an Agreed Cash Flow Forecast (ACFF), which will continue to be tested on a monthly basis.
- (iv) Removal of covenants relating to interest coverage, debt to asset ratio and net tangible asset backing.
- (v) Cross collateralisation of project and senior corporate debt facilities.
- (vi) Incurrence of a further \$5.5 million restructure fee that is payable at the end of the facility term.
- (vii) Introduction of repayment milestones in June 2011, December 2011 and June 2012 in relation to the senior corporate debt facility.

(b) Other Events Subsequent

The Directors of the Company are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly or may significantly affect the operations of the Group, the results of those operations, or state of the Group's affairs in future financial years.

Note 33 Parent Entity Financial Information

(a) Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|------------------------------------|----------------------------------|----------------------------------|
| Balance sheet | | |
| Current assets | 1,344 | 3,868 |
| Total assets | 193,562 | 177,595 |
| Current liabilities | (133,469) | (132,537) |
| Total liabilities | (215,849) | 190,673 |
| <i>Shareholders' equity</i> | | |
| Issued capital | 1,656 | 1,656 |
| Reserves | | |
| Cash flow hedges | – | (1,921) |
| Retained earnings/(losses) | (23,943) | (12,813) |
| | (22,287) | (13,078) |
| Profit or loss for the year | (11,130) | (6,397) |
| Total comprehensive income | (11,130) | (5,087) |

The information included in this note should be read in conjunction with the disclosure at Note 1(b).

Notes to the Consolidated Financial Statements continued

Note 33 Parent Entity Financial Information continued

(b) Guarantees Entered into by the Parent

The parent entity did not have any outstanding guarantees as at 30 June 2010 or 30 June 2009.

(c) Contingent Liabilities and Commitments of the Parent Entity

The parent entity did not have any contingent liabilities or commitments as at 30 June 2010 or 30 June 2009 save for it being a party to the documents relating to the Group's contingent liabilities and commitments referred to in Note 36 below.

Note 34 Cash Flow Statement Reconciliation

| | Consolidated Year ended 30 June 2010 \$'000 | Consolidated Year ended 30 June 2009 \$'000 |
|---|--|--|
| Reconciliation of net profit after tax to net cash flows from operations | | |
| Net profit/(loss) before tax | (10,952) | (35,696) |
| Add/(Deduct) non-cash items: | | |
| Unrealised gain on derivative financial instruments | (335) | (1,245) |
| Unrealised foreign exchange gain/(loss) | (509) | 2,081 |
| Bad debts | 176 | – |
| Impairment of goodwill | – | 1,691 |
| Impairment of receivables | 2,418 | 21,101 |
| Write-down of inventory | – | 8,307 |
| Depreciation | 47 | 26 |
| Share of profit of equity-accounted investment | (1,188) | (954) |
| Fair value gain on financial assets | – | – |
| Changes in assets and liabilities | | |
| (Increase)/Decrease in other receivables | 148 | (9,140) |
| (Increase)/Decrease in other financial asset at fair value | 684 | 1,766 |
| (Increase)/Decrease in land and development costs | 36,277 | 9,958 |
| (Increase)/Decrease in other assets | (123) | 940 |
| (Decrease)/Increase in trade and other payables | (170) | (106) |
| (Decrease)/Increase in provisions | 115 | 83 |
| (Decrease)/Increase in other financial liabilities | (2,410) | 1,831 |
| (Decrease)/Increase in tax effected balances | – | (8,374) |
| Net cash (outflow) from operating activities | 24,178 | (7,731) |

Note 35 Non-Cash Financing and Investing Activities

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|--|--------------------------------------|--------------------------------------|
| Securities issued under the Distribution Reinvestment Plan | – | (288) |

Note 36 Contingent Assets and Liabilities

At 30 June 2010, the Group was finalising renegotiating a roll-over of various project and corporate debt facilities with its principal lender. As discussed at Note 32, these negotiations were subsequently successful. As at 30 June 2010, the Group was aware that upon successful finalisation of the renegotiation the roll-over of various project and corporate debt facilities would incur a fee of \$5.5 million.

Directors' Declaration on the Consolidated Financial Report of RCL Group Limited (RCLGL) (formerly Babcock & Brown Residential Land Partners Limited (BBRLPL))

Except for the matters referred to at Note 1, in the opinion of the Directors of RCL Group Limited (RCLGL) (formerly Babcock & Brown Residential Land Partners Limited (BBRLPL)):

- (a) the consolidated financial statements and notes for the RCL Group (formerly Babcock & Brown Residential Land Partners) as set out on pages 33 to 77 are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated financial position of RCLGL as at 30 June 2010 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the RCL Group will be able to pay its respective debts as and when they become due and payable, and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001* (Cth).

This declaration is made in accordance with a resolution of the Directors.

On behalf of the Directors:



R. Wright
Director
RCL Group Limited

Sydney, 30 August 2010

Independent auditor's report to the members of RCL Group Limited

Report on the financial report

We have audited the accompanying financial report of RCL Group Limited (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, 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 for RCL Group (the "Consolidated Entity"). The Consolidated Entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of RCL Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as 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*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Significant uncertainty regarding going concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report. Note 1 makes comment on the ability of the RCL Group to continue as a going concern being dependent on certain matters, including the successful renegotiation of an existing project facility, management of limited liquidity and achievement of cash flow forecasts and debt repayment milestones. Accordingly, there is a significant uncertainty whether the RCL Group will continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 27 to 30 of 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 RCL Group Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of the Company for the year ended 30 June 2010 included on the Company's web site. The Company's directors are responsible for the integrity of the Company's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

CLewis

Christopher Lewis
Partner

Melbourne
30 August 2010

2010 Financial Report of RCL Group Trust (formerly Babcock & Brown Residential Land Partners Trust)

ARSN 119 613 848

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Directors' Report

In respect of the year ended 30 June 2010, the Directors of RCL Group Services Limited (RGLGSL) (formerly Babcock & Brown Residential Land Partners Services Limited (BBRLPS)), the responsible entity of the RCL Group Trust (RCLGT) (formerly Babcock & Brown Residential Land Partners Trust (BBRLPT)) submit the following report on the consolidated financial report of RCLGT ("the Trust") and its controlled entities.

The Directors' Report is as follows:

Directors

The names of the Directors of the responsible entity in office at any time during or since the end of the year and to the date of this report are:

| | |
|----------------|------------------------------------|
| Mr R. Wright | Chairman |
| Mr M. Maxwell | Director |
| Mr R. Gelski | Director |
| Mr C. Langford | Director (appointed 27 April 2010) |

Principal Activities

The Trust provides loans to entities carrying on land development in Australia in accordance with the provisions of the Trust Constitution. There were no significant changes in the nature of the activities of the Group during the year.

Review of Operations and Significant Changes in the State of Affairs

RCLGT's loss after tax for the year ended 30 June 2010 is \$5,291,000 (2009: loss: \$7,368,000).

On 13 April 2010, RCL Group Limited, RCL Group Trust's ultimate parent for purposes of financial reporting in accordance with Australia's equivalents to International Financial Reporting (AIFRS), acquired a 100% interest in RCL Group Services Limited (previously BBRLPL Services Limited) at fair value. RCL Group Services Limited is the responsible entity for RCL Group Trust. At the same time Perpetual Trustee Company Limited was appointed Custodian of the Trust assets, replacing Babcock & Brown Asset Holdings. These transactions occurred to formalise RCL Group Limited's separation from its previous relationship with various Babcock & Brown entities.

Distributions

There were no distributions declared during the year ended 30 June 2010 or 30 June 2009.

Matters Subsequent to the End of Financial Year

Since 30 June 2010, RCL Group Limited, RCL Group Trust's ultimate parent for the purposes of financial reporting in accordance with AIFRS, obtained extension of various debt facilities through to 31 December 2012. This debt extension provided extension of debt facilities, which as at 30 June 2010 were set to expire at the end of July 2010.

The extension of RCL Group Limited's debt facilities was necessary for the continued operation of RCL Group Trust, as the operations are inherently linked to the operating and financial position of RCL Group Limited.

No other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect the operation or results of those operations of the Trust in future financial years, or the state of affairs of the Trust in future financial years.

Likely Developments and Expected Results of Operations

The Trust will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

Further information on likely developments in the operations of the Trust and the expected results of those operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Trust.

Directors' Report continued**Directors Meetings**

The number of meetings of Directors (including meetings of Committees of Directors) held during the year ended 30 June 2010, and the number of meetings attended by each Director, are as follows:

| Director | RCL Group Services Limited Board (responsible entity) | | Audit, Risk & Compliance Committee ¹ | | Nomination, Governance & Remuneration Committee | |
|--------------------------|--|----|---|-----|--|-----|
| | A | H | A | H | A | H |
| M. Maxwell | 15 | 15 | 4 | 4 | 2 | 2 |
| R. Wright | 15 | 15 | 4 | 4 | 2 | 2 |
| R. Gelski | 15 | 15 | 4 | 4 | 2 | 2 |
| C. Langford ² | 4 | 4 | n/a | n/a | n/a | n/a |

A – Number of meetings attended.

H – Number of meetings held during the year at the time the Director held office.

n/a – Director not on Board/Committee.

1. Audit, Risk & Compliance Committee of RCL Group.

2. Appointed to the responsible entity Board on 27 April 2010.

Indemnification and Insurance of Officers and Auditors

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of RCL Group Trust's responsible entity or the auditors of the Trust. So long as the officers of RCL Group Trust act in accordance with the Trust Constitution and the Law, the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust.

Fees Paid to and Interests Held in the Trust by the Responsible Entity or its Associates

Fees paid to the responsible entity and its associates out of Trust property during the year are disclosed in Note 14 to the financial statements.

No fees were paid out of Trust property to the Directors of the responsible entity during the year. Refer to discussion at Note 12 in relation to the entity that provided the remuneration of the Directors of the Trust's responsible entity.

Non-Audit Services

The RCL Trust Audit Independence and Provision of Non-Audit Services by the External Auditor Policy states that the external auditor may not provide non-audit services if the provision of such services would compromise or be perceived to compromise the independence of, or otherwise be in conflict with, the role of the statutory auditor. Non-audit services which are or could be perceived to be in conflict include those where the auditor may be acting in the role of management or engagements where the auditor may ultimately be required to express an opinion on its own work.

Specifically the policy:

- limits the non-audit services that may be provided;
- requires that audit and permitted non-audit services must be pre-approved by the Audit, Risk & Compliance Committee (ARCC), or pre-approved by the Chairman of the ARCC and notified to the ARCC; and
- requires the external auditor to not commence an engagement for the Group, until the Group has confirmed that the engagement has been pre-approved.

The ARCC has reviewed a summary of non-audit services provided by the external auditor for the year ended 30 June 2010, and has confirmed that the provision of non-audit services for 2010 is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). On advice from the ARCC, the Directors are satisfied that the auditor did not compromise the auditor's independence requirements of the *Corporations Act 2001* (Cth). The external auditor has confirmed to the ARCC that it has maintained its independence in accordance with their firm requirements, with the provisions of APES 110 – *Code of Ethics for Professional Accountants* and with the applicable provisions of the *Corporations Act 2001* (Cth), for the year ended 30 June 2010.

Amounts paid or payable to the PricewaterhouseCoopers Australian firm for non-audit services provided during the year amounted to \$92,135 in relation to taxation services. This amount covers all services provided to the RCL Group and were paid for by the RCL Group Limited parent entity, and were not directly recovered from Trust assets.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001* (Cth).

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) is set out on page 86.

Environmental Regulation

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Interest in the Trust

The movement in units on issue during the year is disclosed in Note 10 to the financial statements.

Rounding

The Trust is a registered scheme of a kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, amounts in the financial report and the Directors' Report have been rounded to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of Directors.

On behalf of the Directors of RCLGSL



R. Wright

Director

RCL Group Services Limited

Dated at Sydney this 30th day of August 2010

PricewaterhouseCoopers
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Auditor's Independence Declaration

As auditor for the audit of RCL Group Trust for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of RCL Group Trust and the entities it controlled during the period.



Christopher Lewis
Partner
PricewaterhouseCoopers

Melbourne
30 August 2010

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2010

| | Note | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|--|------|--------------------------------------|--------------------------------------|
| Revenue from continuing operation | 3 | 8,325 | 11,238 |
| Management charges | 4 | (2,591) | (326) |
| Operating expenses | | (34) | (31) |
| Financing costs | 4 | (125) | (30) |
| Impairment of related party loans receivable | 7 | (10,744) | (18,219) |
| Bad debts | | (122) | – |
| (Loss) before income tax | | (5,291) | (7,368) |
| Income tax expense | | – | – |
| (Loss) for year and from continuing operations | | (5,291) | (7,368) |
| Total comprehensive (loss) for the year | | (5,291) | (7,368) |
| Total comprehensive (loss) for the year is attributable to: | | | |
| Owners of RCL Group Trust | | (5,291) | (7,368) |
| | | (5,291) | (7,368) |
| Earnings per unit for (loss) from continuing operations attributable to the ordinary equity holders of the Trust: | | | |
| Basic (loss) per unit: | | (3.00) | (4.18) |
| Diluted (loss) per unit: | | (3.00) | (4.18) |
| Earnings per unit for (loss) attributable to the ordinary equity holders of the Trust: | | | |
| Basic (loss) per unit: | | (3.00) | (4.18) |
| Diluted (loss) per unit: | | (3.00) | (4.18) |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2010

| | Note | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|----------------------------------|------|--------------------------------------|--------------------------------------|
| Current assets | | | |
| Cash | 6 | 1 | 9 |
| Receivables and other assets | 7 | 188 | 13,724 |
| Total current assets | | 189 | 13,733 |
| Non-current assets | | | |
| Related party loan receivables | 7 | 140,482 | 132,141 |
| Total non-current assets | | 140,482 | 132,141 |
| Total assets | | 140,671 | 145,874 |
| Current liabilities | | | |
| Trade and other payables | 8 | 1 | 39 |
| Interest-bearing liabilities | 9 | 976 | 850 |
| Total current liabilities | | 977 | 889 |
| Total liabilities | | 977 | 889 |
| Net assets | | 139,694 | 144,985 |
| Equity | | | |
| Contributed equity | 10 | 162,448 | 162,448 |
| Retained earnings | 11 | (22,754) | (17,463) |
| Total equity | | 139,694 | 144,985 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2010

| | Attributable to Equity Holders of the Trust | | | Total equity \$'000 |
|---|---|--------------------|-----------------------------|------------------------|
| | Contributed equity \$'000 | Reserves \$'000 | Retained earnings \$'000 | |
| Balance at 1 July 2008 | 162,163 | | (10,095) | 152,068 |
| Total comprehensive (loss) | – | – | (7,368) | (7,368) |
| Transactions with equity holders in their capacity as equity holders | | | | |
| Distribution reinvestment plan | 285 | – | – | 285 |
| Balance at 30 June 2009 | 162,448 | – | (17,463) | 144,985 |
| Balance at 1 July 2009 | 162,448 | – | (17,463) | 144,985 |
| Total comprehensive (loss) | – | – | (5,291) | (5,291) |
| Transactions with equity holders in their capacity as equity holders | | | | |
| Distribution reinvestment plan | – | – | – | – |
| Balance at 30 June 2010 | 162,448 | – | (22,754) | 139,694 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2010

| | Note | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|---|------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Cash receipts in the course of operations | | 684 | – |
| Cash payments in the course of operations | | (2,822) | (1,162) |
| Net cash inflow/(outflow) from operating activities | 16 | (2,138) | (1,162) |
| Cash flows from investing activities | | | |
| Proceeds from repayment of borrowings provided to related parties | | 26,158 | 7,244 |
| Loans to related parties | | (24,154) | – |
| Net cash inflow/(outflow) from investing activities | | 2,004 | 7,244 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 126 | 850 |
| Distributions paid | | – | (6,934) |
| Net cash inflow/(outflow) from financing activities | | 126 | (6,084) |
| Net decrease in cash assets held | | (8) | (2) |
| Cash and cash equivalents at beginning of year | 6 | 9 | 11 |
| Cash and cash equivalents at end of year | 6 | 1 | 9 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

RCL Group Trust together with RCL Group Limited form RCL Group (formerly Babcock & Brown Residential Land Partners). Both the Company and the Trust are incorporated and are domiciled in Australia.

This report is to be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by RCL Group (RCLG or the Group) (formerly Babcock & Brown Residential Land Partners) during the reporting period, in accordance with the continuous disclosure requirements of the *Corporations Act 2001* (Cth).

The shares of RCL Group Limited (RCLGL) and the units in RCLGT are stapled and issued as Stapled Securities in RCLG. The RCLGL shares and the units of RCLGT cannot be traded separately and can only be traded as Stapled Securities.

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 RCLGT under ASIC Class Order 98/0100. RCLGT is an entity to which the Class Order applies.

The accounting policies adopted are set out below and are consistent with those of the previous financial year and the corresponding period unless stated otherwise.

(a) Basis of Preparation

This general purpose financial report for the year ended 30 June 2010 has been prepared in accordance with the Australian Accounting Standards (AASB) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* (Cth).

Separate parent entity financial statements have not been provided.

As a result of the granting of royal assent to the *Corporations Amendment (Corporate Reporting Reform) Act 2010* on 28 June 2010, the Trust has applied the new authoritative guidance and has not prepared separate parent entity financial statements. Financial information of the Trust parent entity is provided at Note 21.

(b) Going Concern Basis of Preparation

The consolidated financial report of RCL Group Trust as at 30 June 2010 has been prepared on a going concern basis as the Directors of the responsible entity, after reviewing the Trust's going concern position, have concluded that the Trust has reasonable grounds to expect to be able to pay its debts as and when they become due and payable and continue operations in its current form.

The principal activities of the Trust consist of related party loans to RCL Group Limited and the entities it controls. As disclosed

in the financial report of RCL Group Limited for the financial year ending 30 June 2010, there is significant uncertainty as to whether RCL Group Limited will continue as a going concern. The going concern discussion included in the RCL Group Limited financial statement is incorporated via reference to these financial statements. The RCL Group Limited financial statements should be reviewed in conjunction with these financial statements.

The ability of RCL Group Trust to continue its operations in their current form is dependent on RCL Group Limited continuing as a going concern. As a result, there is significant uncertainty over the recoverability of the related party loans and whether RCL Group Trust will continue as a going concern and therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. The Directors are of the opinion that on the basis that RCL Group and RCL Group Trust continue as a going concern, that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements at 30 June 2010. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset's carrying amounts or the amounts and classification of liabilities that might be necessary should the Trust not continue as a going concern.

(c) Compliance with IFRS

These financial statements and the financial report of RCLGL comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(d) Historical Cost Convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(e) Financial Statement Presentation

The Trust has applied the revised AASB 101 *Presentation of Financial Statements* which became effective in 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Trust had to change the presentation of its financial statements. Comparative information has been re-presented so that it is in conformity with the revised standard.

The Trust commenced operations on 9 May 2006.

The financial report is presented in Australian dollars.

Notes to the Consolidated Financial Statements continued

Note 1 Summary of Significant Accounting Policies continued

(f) Critical Accounting Estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Trust's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(t).

(g) Changes in Accounting Policy

RCLGT had to change some of its accounting and financial reporting policies as the result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements* and changes made to AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*;
- Business combinations – revised AASB 3 *Business Combinations*;
- Segments – new AASB 8 *Operating Segments*.

The abovementioned changes to policies and standards relating to principles of consolidation and business combinations are discussed below. Discussion relating to segment reporting is provided at Note 1(s).

Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of RCL Group Trust ("RCLGT") as at 30 June 2010.

Subsidiaries are those entities (including special purpose entities) over which the Trust has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Trust controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Trust. There have been no changes in the consolidated subsidiaries for the 2009 financial statements.

Intercompany transactions, balances and unrealised gains on transactions between Trust companies are eliminated. Unrealised losses are also eliminated unless the transaction

provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Trust.

Non-controlling interests

AASB 127 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. This is different to the Trust's previous accounting policy where transactions with minority interests were treated as transactions with parties external to the Trust.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity must now be remeasured to fair value and a gain or loss is recognised in profit or loss. Under the Trust's current accounting policy, the retained interest in the carrying amount of the former subsidiary's assets and liabilities becomes the cost of the investment. If the investment is accounted for as an available-for-sale financial asset, it is subsequently remeasured to fair value; however, any revaluation gain or loss is recognised in the available-for-sale investments revaluation reserve.

The Trust will in future allocate losses to the non-controlling interest in its subsidiaries even if the accumulated losses should exceed the non-controlling interest in the subsidiary's equity. Under the previous policy, excess losses were allocated to the parent entity.

Lastly, dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 are recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the entity's previous policy, these dividends would have been deducted from the cost of the investment.

Business combinations

AASB 3 (revised) continues to apply the acquisition method to business combinations, but with some significant changes.

All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Trust recognises acquired deferred tax assets after the initial acquisition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Trust's net profit after tax.

The changes were implemented from 1 July 2009. There has been no impact on the current accounting period as the Trust has not entered into any business combinations during the period.

(h) Trust Formation

RCLGT was established on 9 May 2006. On 23 May 2006, the Trust became a registered scheme and Babcock & Brown Residential Land Partners Services Limited became the responsible entity of the Trust. On 13 April 2010, the responsible entity was acquired by RCL Group Limited, and renamed RCL Group Services Limited.

(i) Revenue Recognition

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method. If the interest income is not received at balance date, it is reflected in the balance sheet as a receivable in the loan receivable balance.

(j) Income Tax

Under current legislation, the Trust is not subject to income tax as unitholders are presently entitled to the income of the Trust.

(k) Cash and Cash Equivalents

Cash and cash equivalents on the balance sheet comprise cash at bank and short-term deposits with original maturities of three months or less which are readily convertible to known amounts of cash and that are subject to an insignificant risk of change 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.

(l) Loans and Other Receivables

Loans and other receivables are recorded at amortised cost, less impairment, using the effective interest method. Loan receivables are recorded at the principal amount outstanding plus accrued interest. All loan receivables are reviewed regularly for impairment. A loan receivable is considered impaired when, based on current information and events, it is probable that the Trust will be unable to collect all amounts due. The amount of the specific impairment provision is equal to the difference

between the current carrying amount of a receivable and the greater of:

- (i) the net present value of the expected cash flows from the borrower, discounted at the original effective interest rate of the transaction; or
- (ii) the net fair value of the collateral, if any.

Any impairment provisions are included in the statement of comprehensive income in the period in which the asset is impaired.

Loans receivables and other assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are all included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

(m) Payables

Trade payables and other accounts payable are recognised at cost when the Trust becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are usually paid within 30 days of recognition.

(n) Distributions

In accordance with the Trust Constitution, the Trust fully distributes (taxable) income, and any other amounts determined by the responsible entity, to unitholders by cash (where available). In the prior comparative period a distribution was paid relating to the year ended 30 June 2008. On 18 December 2008, the Board announced to the market that it had elected to suspend payment of Stapled Security distributions until further notice.

(o) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

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

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

Notes to the Consolidated Financial Statements continued

Note 1 Summary of Significant Accounting Policies continued

(p) Contributed Equity

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

(q) Earnings per Unit

Basic earnings per unit are calculated as net profit attributable to the Trust, divided by the weighted average number of ordinary units, adjusted for any bonus element.

Diluted earnings per unit is determined by dividing net profit attributable to the Trust by the weighted average number of ordinary units and dilutive potential ordinary units on issue during the period.

(r) Rounding of Amounts

The Trust is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(s) Segment Reporting

The Trust has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in segments now being reported for different asset classes, whereas segments were previously reported by geographic region.

Operating segments are now reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Chief Executive Officer and the Board of Directors who make the strategic decisions.

There has been no impact on the measurement of the Company's assets and liabilities.

(t) Critical Accounting Estimates and Judgement

The Trust makes estimates and assumptions concerning the future. Estimates and assumptions that have or that may materially affect financial results or the financial position in future periods include the following:

Estimated impairment of loans receivable

The Trust assesses at each balance date whether there is objective evidence that any of the loans receivable are impaired in accordance with the accounting policy stated in Note 1(l). This requires the use of estimates and assumptions surrounding the forecast feasibility estimates of the underlying projects to which these loans relate.

Refer to Note 7 for further disclosure on the assumptions used to test impairment.

(u) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2010 reporting period. The Directors' assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set out below:

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Trust has not yet decided when to adopt AASB 9.

AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Trust has not entered into any debt for equity swaps since that date.

Note 2 Financial Risk Management

The Trust's activities are exposed to a variety of financial risks: market risk (including currency risk, interest rate risk, and equity price risk), credit risk and liquidity risk.

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

The Trusts principal financial instruments subject to financial risk include cash, loan receivables and other receivables.

The Board of Directors of the responsible entity (the Board) has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the RCL Group Audit, Risk & Compliance Committee (ARCC), which is responsible for identifying, managing and monitoring the key risks to the business. The ARCC meets regularly and reports to the Board of Directors on its activities.

The responsibility for operational risk management has been delegated by the Board to the RCL Group Chief Executive Officer (CEO). Specifically, the Board has established a Treasury Policy which focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. The policy contains principles for overall risk management and policies covering specific areas including the mitigation of foreign exchange, interest rate, credit and liquidity risks.

The Trust may use derivative financial instruments such as foreign exchange contracts and interest rate derivatives to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments.

The Trust uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and cash flow forecasting for liquidity risk.

There have been no significant changes in the types of financial risks since the prior year. The responsibility of treasury management is now delegated to the Group Treasury Manager.

(a) Market Risk

Market risk refers to the potential for changes in the value of the Trust's financial instruments or revenue streams from changes in market prices. There are various types of market risks to which the Trust is exposed including those associated with interest rates and foreign currency exchange rates.

(i) Interest rate risk

Interest rate risk refers to the potential fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates.

As at reporting date, the Trust had the following interest-bearing assets and interest-bearing liabilities:

| | 30 June 2010 Weighted average interest rate (% pa) | Balance \$'000 | 30 June 2009 Weighted average interest rate (% pa) | Balance \$'000 |
|------------------------------|--|-------------------|--|-------------------|
| Cash and cash equivalents | 4.00 | 1 | 3.00 | 9 |
| Loans and other receivables | 7.09 | 140,670 | 6.93 | 145,865 |
| Interest-bearing liabilities | 14.00 | 976 | 14.00 | 850 |

All the loans receivable in the loans and other receivables total in the above table have fixed interest rates, and therefore do not face any market interest relating to movement in market determined interest rates. Other receivables, which contribute a total of \$0.18 million to the loans and other receivables total of \$140.67 million, do not accumulate interest.

Only a minimal amount of cash on hand is held. Interest rate sensitivity has not been calculated as the Trust is exposed only to an immaterial amount of cash holdings.

Notes to the Consolidated Financial Statements continued

Note 2 Financial Risk Management continued

(a) Market Risk continued

The interest rate on the interest-bearing liability is discussed further at Note 9 and is fixed.

The interest rates on related party loan receivables will be reviewed from time to time. In many cases the amount owing by the related entity to a member of the RCL Group Trust is heavily subordinated and may not be fully recovered. Where the continual accrual of interest would prejudice the Group as a whole, the Directors of the responsible entity of the Trust may agree to suspend the charging of further interest on the related party balance.

During the year ended 30 June 2010, the Trust suspended the further accrual of interest on the balance due and payable from RCL Group Limited. This will have an impact on the revenue of the Trust in future periods. This policy decision by the Directors of the Trust's responsible entity also contributed to a decrease in revenue during the 2010 year, but will not impact the earnings of the RCL Group as a whole upon consolidation.

(ii) Currency risk

The Trust's principal activity is investing in interests in Australian real estate by providing Australian dollar fixed interest loans, and as a result the Group is not exposed to any currency risk with respect to movements in currency.

(b) Credit Risk

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

The Trust's concentration of credit risks are considered as follows:

Related party – loans receivable comprise a number of related parties investing in Australian property developments. There is not considered to be any significant concentration of credit risk relating to cash and receivables, excluding those loans receivable discussed above. The counterparties to the loans receivable are unrated.

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | 2010 \$'000 | 2009 \$'000 |
|---------------------------------|----------------|----------------|
| Cash and other cash equivalents | 1 | 9 |
| Loans and other receivables | 140,670 | 145,865 |
| | 140,671 | 145,874 |

Where entities have a right of set-off and intend to settle on a net basis under netting arrangements, this set-off has been recognised in the financial statements on a net basis.

Related party loans receivable

Management closely manages the performance of all development projects for which the loans receivable relate, to ensure that the amount provided will be recovered and performance is as expected. As at 30 June 2010, \$122,026 of a related party debt has previously been written off as bad debt. During the year a further \$10,743,588 was provided as impaired. Information relating to impairment assessment undertaken in relation to loans receivable is provided at Note 7. Of the Trust's \$140.4 million of related party loans receivable, \$125.9 million is owed by RCL Group Limited and its subsidiaries. Refer to going concern discussion at Note 1(b) on page 91 for further information relevant to the assessment of credit risk relating to the Trust's related party loans receivable.

(c) Liquidity Risk

Liquidity risk refers to the potential that the Trust will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management is carried out by maintaining sufficient cash including working capital and other reserves. The Trust monitors current and future cash flows to manage its short-term and long-term liquidity.

The tables below set out the Trust liabilities as at 30 June 2010 and 30 June 2009 into the relevant maturity groupings based on the remaining period at balance sheet to the contractual maturity date. The amounts disclosed in the tables below are the contractual undiscounted cash flows, including the capitalisation of interest where appropriate.

| | Up to 1 month \$'000 | 1 to 12 months \$'000 | 1 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
|------------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|-----------------|
| 2010 Consolidated | | | | | |
| Trade and other payables | – | 1 | – | – | 1 |
| Interest-bearing liabilities | – | 976 | – | – | 976 |
| Total | – | 977 | – | – | 977 |
| | | | | | |
| | Up to 1 month \$'000 | 1 to 12 months \$'000 | 1 to 5 years \$'000 | Over 5 years \$'000 | Total \$'000 |
| 2009 Consolidated | | | | | |
| Trade and other payables | – | 39 | – | – | 39 |
| Interest-bearing liabilities | – | 969 | – | – | 969 |
| Total | – | 1,008 | – | – | 1,008 |

(d) Capital Risk Management

The Trust maintains a prudent policy of managing its capital structure with the objective to safeguard the Trust's ability to continue as a going concern.

On 29 August 2008, the Trust issued 1,107,825 units under the distribution reinvestment plan for the final June 2008 distribution. The Trust has since suspended distributions (refer to Note 1(n)).

There were no changes in the Trust's approach to capital management during the 2010 Financial Year.

(e) Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, the Trust has adopted the amendments to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices in active markets for identical asset or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

As at 30 June 2010, the Trust does not have any assets and liabilities measured and recognised at fair value. The Trust does have certain loans receivable at 30 June 2010 that have been measured, at the net present value of the expected cash flows from the borrower, discounted at the loans receivable original effective interest rate. This measurement is consistent with measurement requirements provided in AASB 139 *Financial Instruments: Recognition and Measurement*. Disclosure relating to the measurement of certain loan receivables on a non-recurring basis is provided at Note 7 to these financial statements.

Notes to the Consolidated Financial Statements continued**Note 3 Revenue**

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Interest income | | |
| Interest income – related parties | 8,325 | 11,238 |
| | 8,325 | 11,238 |

Note 4 Expenses

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|------------------------------|--------------------------------------|--------------------------------------|
| Management expenses | | |
| Base management fee | – | 6 |
| Responsible entity fee | 2,561 | 321 |
| Custodian fee | 30 | (1) |
| Asset management fee | – | – |
| | 2,591 | 326 |
| Finance costs | | |
| Interest and finance charges | 125 | 30 |
| | 125 | 30 |

In the 2010 Financial Year, the responsible entity was transferred to RCL Group Limited from the Babcock & Brown Group, and the Custodian responsibility was transferred from Babcock & Brown to Perpetual Trustee Company Limited. Prior to internalisation of this function, during the 2010 Financial Year, fees were not being charged by Babcock & Brown and instead RCL Group Limited was paying Babcock & Brown on a cost recovery basis. These cost recharges are shown in the respective expense line items in the statement of comprehensive income. The current responsible entity fee has been charged by the responsible entity, which is now controlled by RCL Group Limited, to recover a reasonable estimate of the cost of managing the Trust.

Note 5 Distributions to Unitholders

There were no distributions paid or payable for the year ended 30 June 2010. On 18 December 2008, the Board announced to the market that it had elected to suspend payment of Stapled Security distributions until further notice.

Note 6 Cash and Cash Equivalents

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|----------------------|--------------------------------------|--------------------------------------|
| Cash at bank on hand | 1 | 9 |
| | 1 | 9 |

Cash at bank earns a floating rate of interest based on daily deposit rates.

Note 7 Loans Receivable and Receivables and Other Assets

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|--|---------------------------------|---------------------------------|
| Current | | |
| GST receivable | 188 | 56 |
| Related party loan receivable | – | 13,010 |
| Other receivables | – | 658 |
| Total | 188 | 13,724 |
| Non-Current | | |
| Related party loan receivable | 158,109 | 139,024 |
| Provision for diminution of loans/impairment | (17,627) | (6,883) |
| Total | 140,482 | 132,141 |

(a) Impaired Receivables

The Trust has applied the accounting policy relating to the impairment of loans receivable as discussed at Note 1(l). Reviews of cash flow forecasts indicated that loan receivable relating to the Haywards Bay, Pacific Dunes and Mernda developments were potentially impaired as it was not forecast that all loaned funds will be repaid to the Trust. In accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, these loan receivables have been written down to the net present value of the expected cash flows for the borrower discounted at the original effective interest rate of the transaction. The original effective interest rate applied in the abovementioned calculations are as follows:

| | |
|---|-------|
| Receivable relating to Haywards Bay Development: | 6.0% |
| Receivable relating to Mernda Development: | 6.0% |
| Receivable relating to Pacific Dunes Development: | 15.0% |

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---|---------------------------------|---------------------------------|
| Related party loans receivable | | |
| Carrying value prior to impairment | 151,226 | 150,360 |
| Net present value | 140,482 | 132,141 |
| Impairment provision raised during year | 10,744 | 18,219 |

Movements in the provision for impairment are as follows:

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---|---------------------------------|---------------------------------|
| Provision at the beginning of the year | (6,883) | – |
| Impairment raised during the year | (10,744) | (18,219) |
| Impairment adjusted against asset value | – | 11,336 |
| Provision at the end of the year | (17,627) | (6,883) |

Notes to the Consolidated Financial Statements continued**Note 8 Trade and Other Payables**

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|---------------------------------|--------------------------------------|--------------------------------------|
| Trade and other payables | | |
| Accrued liabilities | 1 | 39 |
| | 1 | 39 |

Note 9 Interest-Bearing Liabilities

| | Year ended 30 June 2010 \$'000 | Year ended 30 June 2009 \$'000 |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Current | | |
| Subordinated Babcock & Brown facility | 976 | 850 |
| | 976 | 850 |

On 6 April 2009, as part of the Group's restructuring of its finance facilities, Babcock & Brown agreed to retrospectively amend its management fee structure at 31 December 2008. The interest-bearing liabilities represent management fees accrued but unpaid up to 31 December 2008, which have been capitalised to the restructured finance facility provided plus interest post the restructuring of the facility. This interest-bearing liability is a subordinated secured loan that expired on 28 June 2010. Prior to the expiry of the subordinated secured loan, the lender provided a letter of confirmation to the borrower that it was prepared to extend the term of repayment of this loan to December 2012 in line with the Group's senior debt refinancing. Further discussion relating to the RCL Group Limited debt refinancing is included in the RCL Group Limited consolidated financial statements. The interest rate on the subordinated finance facility is 14% per annum.

Note 10 Contributed Equity

| | Period ended 30 June 2010 No. of units | Period ended 30 June 2009 No. of units | Period ended 30 June 2010 \$'000 | Period ended 30 June 2009 \$'000 |
|-----------------------------------|--|--|--|--|
| Fully paid units | | | | |
| Opening balance | 176,107,825 | 175,000,000 | 162,448 | 162,163 |
| Distribution reinvestment plan | – | 1,107,825 | – | 285 |
| Balance as at 30 June 2010 | 176,107,825 | 176,107,825 | 162,448 | 162,448 |

(i) Distribution Reinvestment Plan

On 29 August 2008, the Trust issued 1,107,825 units under the distribution reinvestment plan. No distributions were paid during the 2010 Financial Year and therefore no distribution reinvestment transactions occurred in the 2010 Financial Year.

Note 11 Retained Earnings

| | As at 30 June 2010 \$'000 | As at 30 June 2009 \$'000 |
|---|---------------------------------|---------------------------------|
| Movements in retained earnings | | |
| Balance as at beginning of financial year | (17,463) | (10,095) |
| (Loss) for the year | (5,291) | (7,368) |
| Distributions provided for or paid | – | – |
| Balance as at 30 June 2010 | (22,754) | (17,463) |

Note 12 Key Management Personnel Disclosures

(a) Directors

The following persons were Directors of RCL Group Services Limited (the responsible entity of the Trust) during the financial year:

| | |
|-------------|------------------------------------|
| R. Gelski | Director |
| C. Langford | Director (appointed 27 April 2010) |
| M. Maxwell | Director |
| R. Wright | Chairman |

(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year, but were not employees of RCL Group Services Limited or RCL Group Trust:

| | |
|-------------|----------------------------------|
| D. Wightman | CEO (appointed 3 July 2009) |
| S. Pauly | CFO (redundant 12 February 2010) |

(c) Key Management Personnel Unit Holdings in RCL Group Stapled Securities

| Parent entity Directors | Balance 30 June 2009 | Change during the year | Other changes during the year | Balance 30 June 2010 |
|---------------------------------|-------------------------|---------------------------|-------------------------------------|-------------------------|
| Directors | | | | |
| M. Maxwell | 4,000,000 | – | – | 4,000,000 |
| R. Gelski | 231,732 | – | – | 231,732 |
| C. Langford | 105,000 | – | – | 105,000 |
| R. Wright | 231,732 | – | – | 231,732 |
| Total | 4,568,464 | – | – | 4,568,464 |
| Key Management Personnel | | | | |
| D. Wightman | 347,597 | – | – | 347,597 |
| Total | 347,597 | – | – | 347,597 |

(d) Key Management Personnel Loan Disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the year.

Notes to the Consolidated Financial Statements continued

Note 12 Key Management Personnel Disclosures continued

(e) Other Transactions within the Trust

Apart from those details disclosed in this note, no key management personnel has entered into a material contract with the Trust since the end of the previous financial year and there were no material contracts involving each Director's interests subsisting at year end.

(f) Responsible Entity's Holding of Units

As at the 30 June 2009, the responsible entity held 1,000,000 units (0.6%) directly in the Trust. The Babcock & Brown Group and its associates held 21,596,800 units (12.3%) in the Trust, which included the responsible entity's holding as above. On 13 April 2010, the responsible entity disposed of its holdings to Babcock & Brown, and Babcock & Brown sold the responsible entity to RCL Group Limited for fair value. The result is at 30 June 2010, the responsible entity no longer holds any shares directly in the Trust. As at 30 June 2010, Babcock & Brown Group held 20,837,848 units in the Trust.

(g) Key Management Personnel Compensation

It is to be noted that remuneration of the Directors and key management personnel is not provided directly by the Trust. Rather, all Directors and employees of the RCL Group are remunerated by RCL Group Limited, which together with the Trust forms the RCL Group.

The compensation information provided below details the compensation that the Directors and key management personnel received for their services to RCL Group, consisting of both the Trust and RCL Group Limited:

| 2010 Payments | Base salary \$ | Super- annuation | Termination benefit | Sign-on benefit | Other allowances | Total \$ |
|---------------------------------------|-------------------|---------------------|------------------------|--------------------|---------------------|-------------|
| Directors | | | | | | |
| Robert Wright | 114,679 | 10,321 | | | | 125,000 |
| Richard Gelski | 78,808 | 7,093 | | | | 85,901 |
| Michael Maxwell | 75,000 | 6,750 | | | | 81,750 |
| Christopher Langford | 62,431 | 5,619 | | | | 68,050 |
| Other Key Management Personnel | | | | | | |
| David Wightman ¹ | 388,137 | 14,784 | 222,115 | | | 625,036 |
| Stuart Pauly ² | 155,448 | 11,176 | 33,654 | 112,500 | | 312,778 |

| 2009 Payments | Base salary \$ | Super- annuation | Termination benefit | Long service leave | Short-term incentives | Total \$ |
|---------------------------------------|---------------------|---------------------|------------------------|--------------------------|--------------------------|-------------|
| Directors | | | | | | |
| Robert Wright | 115,844 | 10,426 | | | | 126,270 |
| Richard Gelski | 79,125 | 7,121 | | | | 86,246 |
| Michael Maxwell ³ | 68,808 ² | 6,192 | | | | 75,000 |
| Christopher Langford ⁴ | 59,633 | 5,367 | | | | 65,000 |
| Other Key Management Personnel | | | | | | |
| Michael Balkin ⁵ | 348,409 | 13,745 | 466,540 | | | 828,694 |
| David Wightman | 330,000 | 13,745 | | 5,500 | | 349,245 |
| Stuart Pauly | 250,000 | 13,745 | | 4,167 | 37,500 | 305,412 |
| Mark Salmon | 275,000 | 13,745 | | 4,583 | | 293,328 |

1. Termination benefits to D. Wightman related to his employment with Babcock & Brown and were paid by Babcock & Brown.

2. The termination payments made to S. Pauly were made as a result of his position at RCL Group being made redundant; the sign-on benefits were made as a result of his transition from Babcock & Brown to RCL Group and were paid by Babcock & Brown.

3. Mr M. Maxwell was an employee of Babcock & Brown Australia Pty Limited and his role as a Director of RCLGL was included in those employment arrangements. Mr Maxwell's employment with Babcock & Brown Australia Pty Limited concluded on 31 October 2008. Since 1 November 2008, Mr Maxwell has been a non-executive Director of RCLGL.

4. Mr Langford was appointed a Director of the Trust's responsible entity in April 2010, but has been a Director of the RCL Group Limited since 2006. As discussed above, the remuneration information shown above is for compensation as Director for RCL Group, consisting of both the Trust and RCL Group.

5. Mr M. Balkin resigned on 7 April 2009; termination benefits were paid by Babcock & Brown.

Note 13 Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditor of the Trust. Fees were paid by RCL Group Limited and work was performed as part of the RCL Group Audit.

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|--|----------------------------------|----------------------------------|
| Audit services | | |
| PricewaterhouseCoopers Australian firm | | |
| Audit and review of financial reports | 71,200 | 75,300 |
| Non-audit services | | |
| PricewaterhouseCoopers Australian firm | | |
| Other services | 8,400 | 3,750 |
| Total auditor's remuneration | 79,600 | 79,050 |

Note 14 Related Party Disclosure

(i) Fees and Interest Income

From 13 April 2010, RCL Group's responsible entity and management function has been fully internalised and is no longer dependent upon nor incurs further fees from Babcock & Brown entities in relation to such responsible entity functions. No responsible entity fees were charged for the period through to 13 April 2010 (refer to discussion at Note 4).

For the previous financial year, the profit before income tax included management and other fees paid and owing to the related parties, Babcock & Brown Australian Real Estate Management Limited (previous Manager) and Babcock & Brown Group.

Until 31 December 2008 management fees were calculated in accordance with the terms disclosed in the BBRLP (now known as RCL Group) Prospectus and Product Disclosure Statement dated 6 June 2006. On 6 April 2009, as part of the Group's restructure of its finance facilities, Babcock & Brown agreed to retrospectively amend its management fee structure at 31 December 2008. From 31 December 2008, Babcock & Brown agreed to waive the right to fees arising from that date, and since that date has instead agreed to levy a substantially reduced charge. While the fund continued to be managed by BBAREM, it was agreed that the fees would be charged based on a different calculation, reflecting the direct costs for employees engaged in the management of the Trust. On the 13 April 2010, RCL Management Pty Ltd (a 100% owned subsidiary of the Group) acquired the management rights from Babcock & Brown.

The Babcock & Brown Group continues to be a related party as at 30 June 2010, given that various Babcock & Brown entities through Babcock & Brown Asset Holdings Pty Ltd continue to hold a significant interest in the RCL Group, and therefore a significant ownership interest in the Trust.

Notes to the Consolidated Financial Statements continuedNote 14 Related Party Disclosure continued

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|---|----------------------------------|----------------------------------|
| Description of fee: | | |
| Custodian fee | 30,000 | (1,000) |
| Base management fee | – | 6,000 |
| Responsible entity fee | 2,561,000 | 320,000 |
| (ii) Loans to Related Parties | | |
| Loans to other related parties: | | |
| Beginning of the year | 145,151,000 | 159,405,000 |
| Loans advanced | 24,261,000 | 18,798,000 |
| Loan repayment received | (26,158,000) | (25,922,000) |
| Interest charged | 8,326,000 | 11,237,000 |
| Interest received | (232,000) | (148,000) |
| Bad debts | (122,000) | – |
| Loans impaired | (10,744,000) | (18,219,000) |
| End of year | 140,482,000 | 145,151,000 |
| Loans from other related parties: | | |
| Beginning of the year | 850,000 | – |
| Loans advanced | – | 820,000 |
| Interest charged | 126,000 | 30,000 |
| End of year | 976,000 | 850,000 |
| (iii) Amounts Owing to Related Parties | | |
| Custodian fee | – | 8,000 |

Loans made to related parties are negotiated on normal commercial terms allocating a fixed interest rate comparable to market rates at the establishment of the loan of between 6.00% and 7.25%. However, as discussed at Note 2, certain loans receivable from related parties bear interest as determined by the Directors of the Trust's responsible entity. Security is held over \$61.7 million of loans receivable in the form of second-ranking mortgages over the underlying property to which these loans relate.

Note 15 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1:

| Name of entity | Country of incorporation | Ownership 2010 | Ownership 2009 |
|----------------------------------|--------------------------|----------------|----------------|
| Parent entity | | | |
| RCL Group Trust | Australia | | |
| Subsidiaries of the Trust | | | |
| RCLT Pacific Dunes Pty Limited | Australia | 100% | 100% |
| RCLT URB Pty Limited | Australia | 100% | 100% |
| RCLT WPG Pty Limited | Australia | 100% | 100% |
| RCLT MET Pty Limited | Australia | 100% | 100% |
| BBRLP Pacific Dunes Trust | Australia | 100% | 100% |
| BBRLP Kalynda Trust | Australia | 100% | 100% |
| BBRLP Ascot Chase Trust | Australia | 100% | 100% |
| BBRLP Taree Trust | Australia | 100% | 100% |
| BBRLP Haywards Bay Trust | Australia | 100% | 100% |
| BBRLP Mirador Heights Trust | Australia | 100% | 100% |
| BBRLP Forster Trust | Australia | 100% | 100% |
| BBRLP Officer Trust | Australia | 100% | 100% |
| BBRLP Seabreeze Trust | Australia | 100% | 100% |
| BBRLP Mernda Trust | Australia | 100% | 100% |

Note 16 Cash Flow Statement Reconciliations

| | Year ended 30 June 2010 \$ | Year ended 30 June 2009 \$ |
|---|----------------------------------|----------------------------------|
| Reconciliation of net (loss) after tax to net cash flows from operations | | |
| Net (loss) | (5,291) | (7,368) |
| Add/(Deduct) non-cash items: | | |
| Impairment of receivables | 10,744 | 18,219 |
| Write off bad debts | 122 | - |
| Accrued interest expense on loan | 125 | - |
| Interest income | (8,325) | (11,209) |
| Changes in assets and liabilities | | |
| (Increase)/decrease in trade and other receivables | 525 | (394) |
| (Decrease)/increase in trade and other payables | (38) | (410) |
| Net cash used in operating activities | (2,138) | (1,162) |

Notes to the Consolidated Financial Statements continued

Note 17 Non-Cash Financing and Investing Activities

| | Year ended 30 June 2010 | Year ended 30 June 2009 |
|--|----------------------------|----------------------------|
| | \$ | \$ |
| Securities issued under the Distribution Reinvestment Plan | – | (285) |

Note 18 Contingent Asset and Liability Commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2010 and 30 June 2009.

Note 19 Operating Segments

The principal activity of the Trust during the period was to lend funds to entities carrying on land development activities in Australia. RCLGT is stapled to RCLGL to form the RCL Group. Whilst management review the consolidated results of RCLGT separately, monthly management reporting focuses on the segmentation of the RCL Group results. Accordingly, the financial position and results of the Trust reflect a single operating segment, being that of financier to the stapled Group.

Note 20 Events Subsequent to Balance Date

Since 30 June 2010, RCL Group Limited, RCL Group Trust's ultimate parent for the purposes of financial reporting in accordance with AIFRS, obtained extension of debt facilities through to 31 December 2012, which as at 30 June 2010 were set to expire at the end of July 2010.

Since the end of the period, the Directors of the responsible entity are not aware of any matter or circumstance not otherwise dealt with in this report or the financial statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or state of the Trust's affairs in future financial years

Note 21 Parent Entity Information

(a) Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amount:

| | Parent 2010 \$'000 | Parent 2009 \$'000 |
|-----------------------------------|--------------------------|--------------------------|
| Balance sheet | | |
| Current assets | 189 | 13,733 |
| Total assets | 150,759 | 151,405 |
| Current liabilities | 977 | 889 |
| Total liabilities | 977 | 889 |
| Unitholders' equity | | |
| Contributed equity | 162,448 | 162,448 |
| Retained earnings | (12,477) | (11,932) |
| | 149,971 | 150,516 |
| (Loss) for the year | (545) | (1,837) |
| Total comprehensive (loss) | (545) | (1,837) |

(b) Guarantees Entered into by the Parent Entity

The parent entity does not have any outstanding guarantees as at 30 June 2010 or 30 June 2009.

(c) Contingent Liabilities and Commitments of Parent Entity

The parent entity did not have any contingent liabilities or commitments as at 30 June 2010 or 30 June 2009.

Note 22 Earnings per Unit

| | Year ended 30 June 2010 | Year ended 30 June 2009 |
|--|----------------------------|----------------------------|
| (a) Basic (loss) per unit (cents) | (3.00) | (4.18) |
| (b) Diluted (loss) per unit (cents) | (3.00) | (4.18) |
| (c) (Loss) from continuing operations attributed to ordinary equity holders of the Trust used in calculating basic and diluted loss per unit (\$000's) | \$(5,291) | \$(7,368) |
| (d) Weight average number of securities used as the denominator in calculating basic and diluted loss per unit (000's) | 176,108 | 175,926 |

Directors' Declaration on the Consolidated Financial Report of RCL Group Trust (the Trust) (formerly Babcock & Brown Residential Land Partners Trust)

In the opinion of the Directors of RCL Group Services Limited:

- (a) the consolidated financial statements and notes for RCL Group Trust (formerly Babcock & Brown Residential Land Partners Trust) (as defined in Note 1) as set out on pages 87 to 107 are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated financial position of the Trust as at 30 June 2010 and of its performance, as represented by the results of its operations and cash flows, for the period ended on that date; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Note 1(c) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer, required by section 295A of the *Corporations Act 2001* (Cth).

This declaration is made in accordance with a resolution of Directors.

On behalf of the Directors:



R. Wright
Director
RCL Group Services Limited
Sydney, 30 August 2010

Independent auditor's report to the unit holders of RCL Group Trust

Report on the financial report

We have audited the accompanying financial report of RCL Group Trust (the "Trust"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, 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 for RCL Trust Group (the "Consolidated entity"). The Consolidated Entity comprises the Trust and the entities it controlled at the year's end or from time to time during the financial year.

The responsibility of the directors' of the responsible entity for the financial report

The directors of RCL Group Services Limited, the Responsible Entity of the Trust, are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors of the Responsible Entity also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of RCL Group Trust is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as 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*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Significant uncertainty regarding going concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report. Note 1 makes comment on the ability of the RCL Group Trust to continue as a going concern being dependent on the continued operations of RCL Group Limited, which together with the Trust forms the stapled RCL Group. Accordingly, there is a significant uncertainty whether the RCL Trust Group will continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of the Trust for the year ended 30 June 2010 included on the Trust's web site. The directors of the Responsible Entity are responsible for the integrity of the Trust's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chewis

Christopher Lewis
Partner

Melbourne
30 August 2010

ASX Additional Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 10 September 2010.

Substantial Securityholders

The names of substantial Securityholders who have notified RCL Group in accordance with section 671B of the *Corporations Act 2001* are set out below:

| Securityholder | Number | Percentage |
|--|------------|------------|
| Babcock & Brown Asset Holdings Pty Ltd | 20,837,848 | 11.83% |

Voting Rights

At meetings of shareholders of RCLGL and unitholders of RCLGT, on a show of hands each Securityholder will have one vote. On a poll, the voting rights attaching to a share in RCLGL will be one vote for each fully paid ordinary share. The voting rights attaching to a unit in RCLGT is one vote for each dollar of the value of the total interests that they have in the RCLGT. The value of the unit which is part of a quoted Stapled Security will be 99% of the closing price on the trading immediately before the day on which the poll is taken.

On-Market Buybacks

RCL Group has no on-market buyback currently in place.

Distribution of Securities

| Category | Holders | Ordinary securities |
|--------------------|--------------|---------------------|
| 1 – 1,000 | 38 | 24,794 |
| 1,001 – 5,000 | 245 | 991,441 |
| 5,001 – 10,000 | 285 | 2,431,779 |
| 10,001 – 100,000 | 528 | 18,359,633 |
| 100,001 – and over | 154 | 154,300,178 |
| Total | 1,401 | 176,107,825 |

The number of Securityholders holding less than a marketable parcel is 377.

Disclosure of ASX's reservation of right to de-list

RCL Group advises that the ASX has reserved the right (but without limiting its absolute discretion) to remove either or both RCLGL and RCLGT from the official list if any of the Babcock & Brown Residential Land Partners Stapled Securities cease to be stapled together, or any equity securities are issued by RCLGL and RCLGT which are not stapled to corresponding securities in the other.

Twenty Largest Securityholders

| Name | Securities held | Percentage of ordinary securities held |
|--|-------------------|--|
| Babcock & Brown Asset Holdings Pty Ltd | 20,837,848 | 11.83% |
| Henlia No. 15 Pty Limited | 8,743,555 | 4.96% |
| Links Living Limited | 8,700,000 | 4.94% |
| L J K Nominees Pty Ltd | 7,150,000 | 4.06% |
| Citicorp Nominees Pty Limited | 4,773,446 | 2.71% |
| Snowblock Superannuation Pty Ltd | 4,586,957 | 2.60% |
| Golden Riches Pty Ltd | 4,586,957 | 2.60% |
| 4M Investments Pty Ltd | 4,000,000 | 2.27% |
| Mr James Vincent Babcock | 4,000,000 | 2.27% |
| Monal Pty Limited | 3,000,000 | 1.70% |
| Lanox Pty Ltd | 3,000,000 | 1.70% |
| McNeil Nominees Pty Limited | 3,000,000 | 1.70% |
| Dylide Pty Ltd | 2,880,000 | 1.64% |
| Green Family Pty Ltd | 2,500,000 | 1.42% |
| HSBC Custody Nominees (Australia) Limited | 2,291,330 | 1.30% |
| KMSJ Pty Ltd | 2,268,536 | 1.29% |
| ANZ Nominees Limited | 2,101,721 | 1.19% |
| Urbex Pty Ltd | 2,000,000 | 1.14% |
| HAH Pty Ltd | 2,000,000 | 1.14% |
| High Australian Investment Corporation Pty Ltd | 2,000,000 | 1.14% |
| Total | 91,026,310 | 51.69 |

Number and Class of Securities that are Restricted or Subject to Voluntary Escrow

There are no ordinary Stapled Securities which are subject to voluntary escrow.

Corporate Directory

Directors

| | |
|-----------------|----------|
| Robert Wright | Chairman |
| Richard Gelski | Director |
| Chris Langford | Director |
| Michael Maxwell | Director |

Company Secretary

Austin James (RCL Group Limited and RCL Group Services Limited as responsible entity)

Registered Office

C/- First Advisers
Level 5
50 Margaret Street
Sydney NSW 2000

Security Registry

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000

RCL Group Stapled Securities are listed on the Australian Securities Exchange and trade under the code “**RLG**”.
RCL Group Limited and RCL Group Trust are together the RCL Group.

Auditors

PricewaterhouseCoopers
Freshwater Place
Level 19
2 Southbank Boulevard
Southbank VIC 3006

Website Address

www.rclgroup.com.au

Disclaimer

The RCL Group (RCL) (formerly Babcock & Brown Residential Land Partners (BBRLP)) comprises RCL Group Limited (RCLGL) (formerly Babcock & Brown Residential Land Partners Limited (BBRLPL) (ABN 49 119 517 985) and RCL Group Trust (RCLGT) (formerly Babcock & Brown Residential Land Partners Trust (BBRLPT)) (ARSN 119 613 848). Each share in RCLGL is stapled to a unit in RCLGT.

RCL Group Services Limited (RCLGSL) (formerly Babcock & Brown Residential Land Partner Services Limited (BBRLPSL)) (ABN 40 118 364 499) is the responsible entity of RCLGT. RCLGSL from 13 April 2010 is a subsidiary of RCL Group Limited.

This Annual Report is not financial product advice and is not an offer or invitation for subscription or purchase of or a recommendation of RCL securities. This Annual Report does not take into account the investment objectives, financial situation and particular needs of an investor. Before making a decision with respect to securities issued by RCL, an investor should consider their own investment objectives, financial circumstances and needs and, if necessary, consult appropriate professional advisers.

The Annual Report of RCL has been prepared to enable it to comply with its obligations under the Corporations Act; to ensure compliance with the ASX Listing Rules; and to satisfy the requirements of the Australian accounting standards. The responsibility for preparation of the Annual Report and any financial information contained in this Annual Report rests solely with the Directors of the Company and the responsible entity.

This Annual Report may include forward looking statements. By their nature, forward looking statements are subject to uncertainty and contingencies, many of which are outside of the control of the Company and the responsible entity. Forward looking statements may prove to be incorrect and any differences may prove to be material. Neither the Company nor the responsible entity make any representation or warranty in relation to any forward looking statement.

