

## BABCOCK & BROWN RESIDENTIAL LAND PARTNERS

Babcock & Brown Residential Land Partners Limited · ABN 49 119 517 985  
Babcock & Brown Residential Land Partners Services Limited · ABN 40 118 364 499  
as responsible entity of the Babcock & Brown Residential Land Partners Trust · ARSN 119 613 848  
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### ASX Release

29 August 2007

## BLP EXCEEDS FULL YEAR PROFIT FORECAST; STRONG FY08 GUIDANCE

### Financial highlights:

- Net profit after tax of \$3.0 million (compares to PDS forecast of \$1.0 million)
- Strong net profit after tax guidance for FY08 of \$9.5 million
- FY07 distribution of 7.5¢ per stapled security
- FY08 distribution of 8.25¢ per stapled security, representing a yield of 10.3%

### Operational highlights:

- Acquired interests in four projects with 3,222 lots increasing the portfolio to 7,463 lots on acquisition (up 76% on IPO)
- 81% of portfolio now re-zoned to residential (56% at IPO)
- National development management team in place
- Strong acquisition pipeline positioning BLP for growth

### Overview

Babcock & Brown Residential Land Partners (ASX: BLP) today announced a net profit after tax of \$3.0 million for the period ended 30 June 2007. This strong result compares to an IPO Product Disclosure Statement (PDS) forecast of \$1.0 million.

Mr Michael Balkin, Managing Director of BLP, said "This strong result reflects the success of our diversified portfolio and unique development partnership model."

"The Kalynda Chase project in Townsville was our strongest performer in a buoyant north Queensland market, with solid sales also achieved at our Seabreeze project in Pottsville, northern NSW. The remainder of our NSW projects continue to trade in difficult conditions. The Sanctuary Lakes and Sandhurst projects in Melbourne experienced encouraging sales rates."

During the period to 30 June 2007, across all BLP projects 553 lots were settled (up 55% from PDS). In addition BLP has sold a further 80 lots due to settle prior to 30 June 2008.

The portfolio is currently 81% zoned residential (56% at IPO), with the balance expected to be rezoned by 30 June 2008.

## **Outlook**

BLP also announced strong net profit after tax guidance of \$9.5 million for the twelve months ending 30 June 2008, which is approximately 210% higher than the profit for the period ended 30 June 2007.

Mr Michael Balkin said "We have established a great platform for growth, and the strong profit guidance will be driven by improving Victorian and northern NSW markets, and the continued strength of the north Queensland market."

"BLP continues to be presented with numerous acquisition opportunities in both Australia and New Zealand, and is currently undertaking detailed due diligence on a number of projects. With gearing at less than 52%, well within our target gearing range of 50-65%, following today's announcement of the bolt-on acquisition at Mernda, we have capacity to take advantage of these opportunities. Based on our current acquisition pipeline we would expect to be fully invested within a maximum of 12 months."

## **ENDS**

### **For further information:**

Michael Balkin  
Managing Director  
B&B Residential Land Partners  
+61 2 9229 1800

Alison Carter  
Investor Relations  
B&B Residential Land Partners  
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## **About Babcock & Brown Residential Land Partners**

Babcock & Brown Residential Land Partners (BLP) is a listed vehicle managed by Babcock & Brown which invests in a diversified portfolio of quality residential land projects which are developed by a range of Australia's leading private developers.

BLP offers Securityholders liquidity, geographic, project and product diversity, access to quality private developers, long term potential for growth and, importantly, the benefit of access to Babcock & Brown's considerable investment and structuring experience in the real estate sector.

For further details please see our website: [www.bbresidentiallandpartners.com](http://www.bbresidentiallandpartners.com)

Consolidated Report of  
Babcock & Brown Residential Land Partners Limited  
and  
Babcock & Brown Residential Land Partners Trust,  
together  
Babcock & Brown Residential Land Partners,  
for the period from commencement of operations  
3 May 2006 through 30 June 2007

**(Babcock & Brown Residential Land Partners Limited (“BBRLPL”) ABN 49 119 517 985)  
(Babcock & Brown Residential Land Partners Trust (“BBRLPT”) ARSN 119 613 848)  
together, Babcock & Brown Residential Land Partners (“BBRLP”)**

This Report is provided to the Australian Securities Exchange (“ASX”) under ASX Listing Rule 4.3B. This information should be read in conjunction with the BBRLP Prospectus and Product Disclosure Statement dated 6 June 2006.

BBRLPL was incorporated on 3 May 2006. The entity had no trading activities until 30 June 2006 upon listing on the ASX.

BBRLP submitted an application to ASIC for relief from full year reporting requirements for the period ended 30 June 2006, which was granted. Accordingly, the first reporting period for BBRLP is 30 June 2007.

Current Reporting Period: For the period from commencement of operations 3 May 2006 through 30 June 2007

Previous Corresponding Period: N/A

Babcock & Brown Residential Land Partners (BBRLP) comprises Babcock & Brown Residential Land Partners Limited (BBRLPL) (ABN 49 119 517 985) and Babcock & Brown Residential Land Partners Trust (BBRLPT) (ARSN 119 613 848). Each share in BBRLPL is stapled to a unit in BBRLPT.

Babcock & Brown Residential Land Partners Services Limited (BBRLPS) (ABN 40 118 364 499) is the responsible entity of BBRLPT. BBRLPS is a subsidiary of the Babcock & Brown Limited Group.

Babcock & Brown Australian Real Estate Management Pty Ltd (BBAREM) (ACN 111 614 610) is the manager of each of BBRLPL and BBRLPS pursuant to respective management agreements. BBAREM is a wholly owned subsidiary of the Babcock & Brown Group.

Investments in BBRLP are not deposits with or other liabilities of Babcock & Brown or any entity in the Babcock & Brown Group, and are subject to investment risk including possible loss of income and capital invested. Neither BBRLPS nor any member of the Babcock & Brown Group (including BNB and BBAREM) guarantee the performance of BBRLP or its stapled securities or the payment of a particular rate of return on BBRLP stapled securities.

This report is not an offer or invitation for subscription or purchase of or a recommendation of stapled securities in BBRLP. It does not take into account the investment objectives, financial situation and particular needs of an investor. Before making an investment in BBRLP, an investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

BBRLPS, as responsible entity of BBRLPT, and BBAREM, as the manager of each of BBRLPL and BBRLPS, are entitled to fees for so acting. BNB and its related corporations, together with their officers and Directors and officers and Directors of BBRLP, may hold stapled securities in BBRLP from time to time.

The combined and consolidated financial report for BBRLP has been prepared to enable BBRLPL and BBRLPS (as responsible entity of BBRLPT) to comply with their obligations under the Corporations Act, to ensure compliance with the ASX Listing Rules and to satisfy the requirements of the Australian accounting standards in relation to stapled structures. The responsibility for preparation of the combined and consolidated financial report and any financial information contained in this report rests solely with the Directors of BBRLPL and BBRLPS (as responsible entity of BBRLPT).

## Appendix 4E Preliminary Financial Report

### 1. Details of the reporting period

Current Period:	3 May 2006 - 30 June 2007
Previous Corresponding Period:	N/A

(This is the first reporting period for BBRLP since listing on the Australian Securities Exchange on 30 June 2006)

### 2. Results for announcement to the market

			<b>\$A'000</b>
Revenues from ordinary activities	Up	To	33,433
Profit / (loss) from ordinary activities after tax attributable to members	Up	To	2,959
Net profit / (loss) for the period attributable to members	Up	To	2,959

<b>Distributions</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<i>Current Period:</i>		
Final distribution	3.75c	N/A
Interim distribution	3.75c	N/A
<i>Previous Corresponding Period:</i>		
Final distribution	N/A	N/A
Interim distribution	N/A	N/A

Record date for determining entitlements to the distribution	29 June 2007
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Provide a brief explanation of any of the figures reported above necessary to enable the figures to be understood:

Refer to associated ASX results announcement.

### 3. Statement of Financial Performance with notes

Refer to the Income Statements in the attached financial statements.

**4. Statement of Financial Position with notes**

Refer to the Balance Sheets in the attached financial statements.

**5. Statement of Cash Flows with notes**

Refer to the Statements of Cash Flows in the attached financial statements.

**6. Details of distributions**

Refer to the attached financial statements Note 6 Distributions paid or payable and the Director's report.

**7. Details of distribution reinvestment plan**

N/A

**8. Statement of retained earnings showing movements**

Refer to the attached financial statements Note 16 Undistributed income.

**9. Net tangible asset backing per unit**

	Current period	Previous corresponding period
* Net tangible asset backing per unit	\$0.88	N/A

\* Under the listing rules NTA Backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (ie, all liabilities, preference shares, outside equity interests etc).

**10. Control gained or lost over entities during the period**

Refer to the attached financial statements Note 1(b) Principles of consolidation and Note 21 Subsidiaries for information regarding BBRLP interests in subsidiaries.

**11. Details of associates and joint venture entities**

N/A

**12. Other significant information**

Refer to attached Directors' report.

**13. Accounting standards used by foreign entities**

N/A

**14. Commentary on results**

Refer to associated ASX results announcement.

<b>Earnings per unit:</b>	<b>Current Period</b>	<b>Previous corresponding period</b>
EPS	1.69c	N/A

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<b>Returns to shareholders:</b>	<b>Current Period \$A'000</b>	<b>Previous corresponding period \$A'000</b>
Distributions	13,125	N/A

**Significant features of operating performance and trends in operating performance:**

Refer to associated ASX results announcement for commentary on the results for the year ended 30 June 2007

**Segment results:**

N/A

**Trends in performance:**

N/A

**Other factors:**

N/A

**15. Audit / review of accounts upon which this report is based**

This report is based on accounts which have been audited, refer to the attached financial statements.

**16. Qualification of audit / review**

N/A

**BABCOCK & BROWN**  
**RESIDENTIAL LAND PARTNERS (BBRLP)**

Comprising Babcock & Brown Residential Land  
Partners Limited and its controlled entities

ABN 49 119 517 985

**Annual Financial Report**  
**for the period from commencement of operations**  
**3 May 2006 through 30 June 2007**

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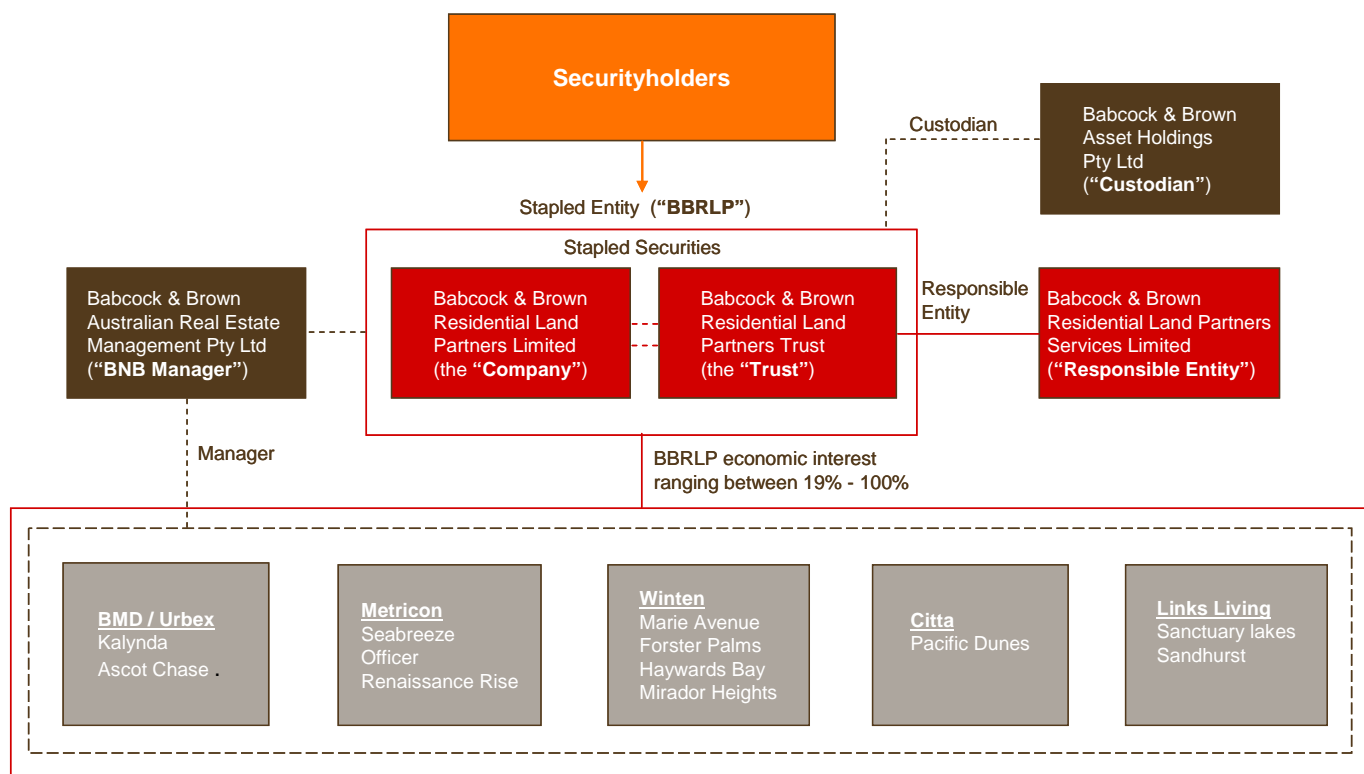
## An Overview of the BBRLP Accounts

Babcock & Brown Residential Land Partners (“BBRLP” or the “Consolidated Entity”) consists of two entities:

- Babcock & Brown Residential Land Partners Limited (“BBRLPL”); and
- Babcock & Brown Residential Land Partners Trust (“BBRLPT”).

The issued securities in these entities have been stapled together and trade as one listed security on the Australian Securities Exchange (ASX code: BLP). The stapled security represents one share in BBRLPL and one unit in BBRLPT.

The following diagram provides an overview of BBRLP’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.

As BBRLPT is also considered a disclosing entity, separate financial statements for the BBRLPT consolidated group at 30 June 2007 are prepared.

## Corporate Information

### Directors

M. Maxwell	Chairman
M. Balkin	Managing Director
R. Gelski	Director
R. Wright	Director
C. Langford	Director

### Company Secretaries

M. Hedges  
D. Richardson

### Registered Office

Level 23, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000

### Security Registry

Link Market Services Limited  
Level 12  
680 George Street  
Sydney NSW 2000

Babcock & Brown Residential Land Partners stapled securities are listed on the Australian Securities Exchange and trade under the code "BLP".

### Solicitors

Minter Ellison Lawyers  
Aurora Place  
88 Philip Street  
Sydney NSW 2000

### Auditors

PricewaterhouseCoopers  
Australia

## Directors' Report

In respect of the period 3 May 2006 to 30 June 2007, the Directors of Babcock & Brown Residential Land Partners Limited ("BBRLPL") submit the following report as the first report on the consolidated annual financial report of Babcock & Brown Residential Land Partners ("BBRLP").

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.

The interests of the equity holders in all stapled securities have been treated as a minority interest under the principles established in AASB Interpretation 1002.

## Directors

The names of the Directors and Secretaries in office at any time during or since the end of the year are:

Name, independence status and special responsibilities	Qualifications and experience
<p><b>Michael Maxwell</b></p> <p><i>Chairman</i></p> <p><i>Chairman of the Nomination, Governance &amp; Remuneration Committee</i></p> <p><i>Member of the Audit, Risk &amp; Compliance Committee</i></p> <p><i>Member of the Audit &amp; Risk Management Committee</i></p>	<p>Michael was appointed as a Director on 3 May 2006.</p> <p>Until July 2006, Michael was the Global Head of Real Estate at Babcock &amp; Brown. Prior to joining Babcock &amp; Brown in January 1992, Michael was an executive Director of the Australian subsidiary of international merchant bank, Morgan Grenfell. Michael's experience encompasses all aspects of major real estate transactions including legal, accounting, structuring and financing matters, listed properties securities markets, syndication of major assets to institutional and large private client investors and all forms of property financing and securitisation. Michael is an executive director for the responsible entity of the MTM Entertainment Trust and formerly an independent director of the responsible entity of the Grand Hotel Group for the period April 2004 to January 2007.</p> <p>Michael holds a Bachelor of Economics and Bachelor of Laws from the University of Sydney.</p>

Name, independence status and special responsibilities	Qualifications and experience
<p><b>Michael Balkin</b></p> <p><i>Managing Director</i></p>	<p>Michael was appointed as a Director on 3 May 2006.</p> <p>Michael joined Babcock &amp; Brown in 1995 and has been a senior executive in the Real Estate Group where he has led the development of Babcock &amp; Brown's Australian residential principal investment activities over the past six years. He has been responsible for investing in, and managing, a portfolio of equity risk and mezzanine investments in residential developments and has cultivated relationships with many of Babcock &amp; Brown's core residential development partners.</p> <p>Michael holds a Bachelor of Science (Business Information Technology) from the University of New South Wales and a Graduate Diploma in Applied Finance and Investment.</p>
<p><b>Robert Wright</b></p> <p><i>Lead Independent non-executive Director</i></p> <p><i>Chairman of the Audit, Risk &amp; Compliance Committee</i></p> <p><i>Chairman of the Audit &amp; Risk Management Committee</i></p> <p><i>Member of the Nomination, Governance &amp; Remuneration Committee</i></p>	<p>Robert Wright 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 Dexion Limited and a director of Australian Pipeline Limited, SAI Global Limited and Super Cheap Auto Group Limited.</p> <p>Robert holds a Bachelor of Commerce from the University of Canterbury and is a FCPA.</p>
<p><b>Richard Gelski</b></p> <p><i>Independent non-executive Director</i></p> <p><i>Member of the Audit, Risk &amp; Compliance Committee</i></p> <p><i>Member of the Audit &amp; Risk Management Committee</i></p> <p><i>Member of the Nomination, Governance &amp; Remuneration Committee</i></p>	<p>Richard Gelski was appointed as Director on 31 May 2006.</p> <p>Richard is a partner at Johnson Winter &amp; 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 - 1981 he lectured in tax and corporate law at the University of New South Wales and was a practising barrister from 1981 - 1986. He has particular experience in corporate law, taxation, 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>

Name, independence status and special responsibilities	Qualifications and experience
<p><b>Chris Langford</b></p> <p><i>Independent non-executive Director</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 2005, before forming Spyglass Property to focus on retail property development.</p> <p>Chris is also a commissioner of the Australian Football League and a director of NSW Cultural Management, the manager of Sydney Theatre.</p> <p>Chris holds a Bachelor of Architecture from the University of Melbourne.</p>
<p><b>Melanie Hedges</b></p> <p><i>Company Secretary</i></p>	<p>Melanie was appointed Company Secretary on 3 May 2006.</p> <p>Melanie joined Babcock &amp; Brown in October 2005 as Company Secretary for a number of the group's listed and unlisted specialised funds and is responsible for the company secretarial function and corporate governance for the boards and committees of these group entities. Prior to joining Babcock &amp; Brown, Melanie was Joint Company Secretary from July 2005 and Assistant Company Secretary from 2002 of the Mirvac Group. Melanie is an Affiliate of Chartered Secretaries Australia.</p>
<p><b>David Richardson</b></p> <p><i>Alternate Company Secretary</i></p>	<p>David was appointed alternate Company Secretary to Melanie Hedges on 25 May 2006.</p> <p>David joined Babcock &amp; Brown in 2005 as Company Secretary for a number of the Specialised Funds and is responsible for the company secretarial function for the respective Boards and Committees, as well as the corporate governance requirements within those Funds. Prior to joining Babcock &amp; Brown, David was a Company Secretary within the AMP Group, and at various stages was appointed Company Secretary for the AMP Capital Investors, Financial Services and Insurance divisions. David holds a Diploma of Law, Bachelor of Economics and a Graduate Diploma in Company Secretarial Practice. David is a Member of Chartered Secretaries Australia.</p>

## 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	BBRLPL Board		BBRLPSL Board		Audit, Risk & Compliance Committee		Nomination & Governance Committee	
	A	H	A	H	A	H	A	H
<b>M Maxwell</b>	6	7	6	7	4	4	1	1
<b>M Balkin</b>	7	7	7	7	n/a	n/a	n/a	n/a
<b>R Wright</b>	7	7	7	7	4	4	1	1
<b>R Gelski</b>	7	7	7	7	4	4	1	1
<b>C Langford</b>	7	7	n/a	n/a	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.

## Principal Activities

The principal activity of the Consolidated Entity during the year consisted of property development. There were no significant changes in the nature of the activities of the Consolidated Entity during the period.

Currently BBRLP operates in one geographical area, Australia and the Consolidated Entity has no employees.

## Results of Operation

- Net profit after tax of \$3.0 million (compares to PDS forecast of \$1.0 million)
- Strong net profit after tax guidance for FY08 of \$9.5 million
- FY07 distribution of 7.5¢ per stapled security
- FY08 distribution of 8.25¢ per stapled security, representing a yield of 10.3%

## Review of Operation

- Settled 553 lots (up 55% from PDS)
- Acquired interests in 4 projects with 3,222 lots increasing the portfolio to 7,463 lots (up 76% on IPO)
- 81% of portfolio now re-zoned to residential (56% at IPO)
- National development management team in place
- Strong acquisition pipeline positioning BLP for growth

## Distributions

Distributions declared and / or paid during the period ended 30 June 2007 were:

	Cents per security	Total amounts	Date of payment	Tax deferred
		\$'000		%
Interim distribution:	3.75 c	6,563	23 February 2007	45
Final distribution:	3.75 c	6,562	31 August 2007	45
	7.50 c	13,125		

Distributions of 7.5 cents per security for the period ended 30 June 2007 is consistent with the forecast distribution as disclosed in the PDS.

In accordance with the PDS, distributions for the period ended 30 June 2008 are set at 8.25 cents per security.

## Significant Changes in the State of Affairs

In the opinion of the Directors there was no significant change in the state of BLP other than that referred to in the financial statements or notes thereto.

## Environmental Regulation

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

The Directors monitor compliance with environmental regulations. The Directors are not aware of any significant breaches during the period covered by this Report

## Matters Subsequent to the end of the Period

On 25 January 2007, BBRLP announced that it had contracted to acquire a 100% freehold interest in 707 Princess Highway, a future residential development site in Officer, Victoria, for \$22.16m. The property is located within the South-Eastern Metropolitan Growth Corridor of Victoria and comprises 54.6 hectares. The property adjoins the existing BBRLP site at 625 Princes Highway. The forecast lot yield of the combined site is expected to be approximately 950 allotments.

Settlement of the above transaction in the amount of \$20.06m occurred on 2 July 2007.

On 24 August 2007, BBRLP in conjunction with its development partner Links Living Limited announced the sale of a 38 hectare super lot parcel which was previously adjoining its existing Sandhurst Club development in Melbourne for \$41 million.

## Likely Developments & Expected Results of Operations

Disclosure of information regarding likely developments in the operations and business strategy of Babcock & Brown Residential Land Partners in future financial years, and the expected results of those operations and strategies, is likely to result in unreasonable prejudice to Babcock & Brown Residential Land Partners. Accordingly, this information has not been disclosed in this report.

## Remuneration Report (Audited)

### Specialised Fund Platform

Babcock & Brown has established a Specialised Funds platform which consists of entities ("Funds") established and managed by Babcock & Brown wholly owned subsidiaries under long term Management Agreements. All staff who are employed full time in the management of the Funds or whose employment from time to time relates to the Funds are Babcock & Brown employees and are remunerated in accordance with Babcock & Brown's remuneration policies. As a Babcock & Brown managed fund, Babcock & Brown Residential Land Partners does not have any employees and the executives provided by Babcock & Brown to enable the manager, Babcock & Brown Australian Real Estate Management Pty Ltd to comply with its obligations under the Management Agreement with BLP are paid in accordance with Babcock & Brown's remuneration policies and practices. Accordingly, this Remuneration Report details the philosophy and framework currently applicable to the Babcock & Brown Group ("B&B Group"). It should be noted that the employees of subsidiaries of Babcock & Brown Residential Land Partners Limited ("BLP") may be remunerated on a different basis than that applicable to Babcock & Brown employees.

Babcock & Brown is currently reviewing the philosophy and framework as it applies to the Babcock & Brown employees in the Specialised Funds platform. Babcock & Brown intends that the remuneration policies applicable to these employees should be designed to further align their interests with the interests of the Manager and the investors in the Funds.

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

The Babcock & Brown remuneration philosophy seeks to focus on:

- Driving performance over and above security holder and market expectations; and
- Ensuring variable pay is very directly linked to performance and that individuals who contribute to this performance are rewarded.

This report outlines the remuneration arrangements in place for Directors of BLP and Babcock & Brown employees who provide services to BLP. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 Related Party Disclosures, which have been transferred to the Remuneration Report in accordance with the Corporations Amendment Regulations 2001. In this report, Key Management Personnel (KMP) refers to the five highest remunerated employees of Babcock & Brown who provide services to BLP.

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

#### Executive Chairman

<i>Michael Maxwell</i>	Chairman <sup>1</sup>
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#### Lead Independent Non-Executive Director

<i>Robert Wright</i>	Lead Independent Non-executive Director
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#### Directors

<i>Michael Balkin</i>	Managing Director <sup>1</sup>
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<i>Richard Gelski</i>	Independent Non-Executive Director
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<i>Chris Langford</i>	Independent Non-Executive Director
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The following persons were KMP of BLP during the financial year:

#### KMP

<i>David Wightman</i>	Chief Investment Officer <sup>1</sup>
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<i>Tom Milicevic</i>	Chief Financial Officer <sup>1</sup>
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<i>Mark Salmon</i>	National Development Manager <sup>1</sup>
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<i>Melanie Hedges</i>	Company Secretary <sup>1</sup>
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1. These persons are employed by Babcock & Brown Australia Pty Limited.

## Remuneration Committee

### Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown Remuneration Committee (“B&B Remuneration Committee”) assists the B&B Board in achieving fairness and transparency in relation to remuneration issues whilst overseeing the remuneration and human resources policies and practices of the B&B Group.

The B&B Remuneration Committee seeks to ensure that the remuneration framework is consistent with market expectations for listed entities and stakeholder body guidelines. In doing this, the B&B Remuneration Committee seeks advice from independent remuneration advisors.

## Membership of the B&B Remuneration Committee

The B&B Remuneration Committee consists of five Directors, of which three are independent Non-Executive Directors. Its members throughout 2006/2007 were:

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

## Non-Executive Directors

### Remuneration Policy and Structure

Independent Directors' individual fees, including committee fees, are determined by the constitution 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 as approved by securityholders. Babcock & Brown senior executives who are directors of BLP do not personally receive any Directors' fees but these fees are paid to Babcock & Brown for their services and are netted against the management fee.

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

Fees payable to Independent Directors during the period ended 30 June 2007 are set out below:

<b>Board / Committee</b>	<b>\$</b>
Director of BBRLPL	65,000
Director of BBRLPSL	10,000
Lead Independent/Audit, Risk & Compliance Chairman	10,000

Note: No additional fees are payable for membership of any board committees.

**Table 1: Remuneration of Independent Directors for the year ended 30 June 2007**

Details of the nature and amount of each element of the emoluments of each Independent Director of BLP and of the consolidated entity for the period ended 30 June 2007 are set out in the table below.

Remuneration figures are in AUD	Year	Primary Fees <sup>1</sup>	Post-Employment Superannuation <sup>1</sup>	Total
	\$	\$	\$	\$
<b>Independent Directors</b>				
Robert Wright	2007	89,567	8,061	97,628
Richard Gelski	2007	79,029	7,113	86,142
Chris Langford	2007	67,411	6,067	73,478
<b>Total remuneration for Independent Directors</b>	<b>2007</b>	<b>236,007</b>	<b>21,241</b>	<b>257,248</b>

Note 1: Independent Directors did not receive any non-monetary benefits in 2007. However, the fees above include fees for work done prior to listing on 30 June 2006 which was paid in the 2007 period.

## Executives

### Remuneration Policy

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

Attracting, developing and retaining talent is essential for BLP's ongoing success. In the last year, Babcock & Brown secured the services of key individuals in a number of areas to manage the operations of the growing Specialised Funds platform. The recruitment of further key employees is integral to meeting the growth strategy of the Specialised Funds.

B&B Executives who are directors of BLP have significant securityholdings in BLP.

### Remuneration Framework and Philosophy

The Babcock & Brown remuneration framework has three components which are consistent with those of competitors and have been designed to drive superior levels of performance and to closely align Executive and security holder interests:

- Fixed remuneration (base salary and benefits, primarily superannuation and ancillary benefits);
- Short-term Incentive Plan (annual cash bonus and equity deferral); and
- Long-term Incentive Plan (executive share options and performance rights).

The remuneration philosophy currently provides for Executive remuneration to be significantly “at-risk”, meaning that base salary and benefits form only part of potential annual remuneration known at the commencement of a Financial Year.

### **Fixed Remuneration**

The B&B Board has set fixed remuneration for its Executives at or lower than the median for comparable executives in companies with comparable businesses to that of BLP. This complements the strategy of weighting the variable amount of Executive pay to encourage superior performance consistent with a strong performance oriented culture. Adjustments to fixed remuneration are made annually and are based on job role, pay relative to comparable market pay, and performance in the role.

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

### **Short Term Incentive Plan (STIP) – Delivered as Cash and Deferred Equity (Bonus Deferral Rights)**

For employees who receive a STIP allocation above a certain threshold level (see below), the STIP allocation is made partly in cash and partly through a grant of Bonus Deferral Rights. All bonuses below the threshold level 2007: \$350,000 (2006: \$350,000) are generally delivered entirely as cash.

Under the Bonus Deferral Rights Plan at least 25% of the STIP allocation above the threshold level is delivered as Bonus Deferral Rights which entitle the holder to shares in Babcock & Brown at no cost after a four year vesting period. The Bonus Deferral Rights act as a retention mechanism. Any Executive leaving Babcock & Brown will forfeit their Bonus Deferral Rights if they terminate employment within the four-year vesting period, unless special circumstances, such as redundancy or retirement, apply. The B&B Board also reserves the right to allow vesting in other circumstances which would include an employee leaving Babcock & Brown to pursue other interests which the B&B Board is satisfied will not compete with the B&B Group (including BLP).

As part of the corporate governance framework for Babcock & Brown’s Specialised Funds, as set out in the Babcock & Brown Annual Report on pages 81 and 82, BLP’s Board going forward will develop specific Key Performance Indicators for the senior management providing services to the Fund. The framework provides that BLP independent directors will be given the opportunity to provide formal input to Babcock & Brown on the performance of the Manager as a whole and the key Babcock & Brown employees who perform services for them. The framework also provides that this input will be taken into account in determining the proposed remuneration of those key employees, as it relates to the services to BLP, and the independent directors are consulted on that remuneration.

As Short-term Incentive allocations are determined after the end of the financial year and are directly dependent on the B&B Group’s financial performance, employees are not advised of a target bonus amount. As such, Chapter 2M.3.03(2)(c)(i)(ii) of the Corporations Act 2001 Regulations does not apply to Babcock & Brown.

### Long-term Incentive Plan (LTIP)

To complement the STIP, Babcock & Brown has established a LTIP which aims to motivate and retain key executives. Going forward, selected employees will receive a mix of:

- Executive Share Options: These will entitle the employee to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price on each option will generally be based on the market value of shares at the time of grant; and/or
- Performance Rights: These will entitle the employee to one share in Babcock & Brown upon vesting.

Vesting of Executive Share Options and Performance Rights will typically be at least three years and be subject to performance hurdles. For the current year, those performance hurdles relate to the Total Shareholder Return (TSR) of Babcock & Brown Limited in comparison to all ASX 100 index companies over a 4.5 year period. Going forward, as part of the review of the remuneration philosophy and framework as it applies to the Babcock & Brown employees in the Specialised Funds platform, Babcock & Brown anticipates that such performance hurdles for LTIP awarded to those employees will take into account BLP performance.

### Executive Employment Contracts

The base salaries for KMP as at 30 June 2007, in accordance with their employment contract, are shown below:

	Notice period (months)	Base Remuneration per service agreement
<b>Executives</b>		
Michael Balkin <sup>1</sup>	1	400,000
David Wightman <sup>1</sup>	3	200,000
Mark Salmon	3	250,000
Tom Milicevic	1	150,700
Melanie Hedges <sup>1</sup>	1	60,000

All of the above KMP employment contracts are open-ended and contain no other termination payment provisions.

1. These are the Executives that received the highest emoluments in 2006/2007. Executive fees paid for their service is part of the Babcock & Brown Australian Real Estate Management Pty Ltd management agreement. The remuneration for their service to BLP cannot be determined due to their other commitments within the B&B Group. The remuneration has been based on an assessment by management of the services performed directly for BLP.

**Table 2: Remuneration of the Directors and KMP for the year ended 30 June 2007**

Details of the nature and amount of each element of the emoluments of each Director of BLP and KMP for the period ended 30 June 2007 are set out in the table below.

Remuneration figures are in AUD	Short-term employee benefits				Post-Employment benefits	Long-term employee benefits	Total
	Salary	STIP relating to current period	STIP relating to prior years	Non-monetary benefits	Super-annuation	Share based payments	
	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>							
Michael Maxwell <sup>1,2</sup>	75,000	-	-	-	-	-	<b>75,000</b>
Michael Balkin <sup>1,3</sup>	400,000	-	-	-	-	-	<b>400,000</b>
Robert Wright	89,567	-	-	-	8,061	-	<b>97,628</b>
Richard Gelski	79,029	-	-	-	7,113	-	<b>86,142</b>
Chris Langford	67,411	-	-	-	6,067	-	<b>73,478</b>
<b>Total remuneration for Directors</b>	<b>711,007</b>	-	-	-	<b>21,241</b>	-	<b>732,248</b>
<b>KMP*</b>							
David Wightman <sup>4</sup>	200,000	-	-	-	-	-	<b>200,000</b>
Mark Salmon	190,873	100,000	-	-	12,686	-	<b>303,559</b>
Tom Milicevic	147,850	70,000	-	-	12,686	-	<b>230,536</b>
Melanie Hedges <sup>4</sup>	60,000	-	-	-	-	-	<b>60,000</b>
<b>Total remuneration for KMP</b>	<b>598,723</b>	<b>170,000</b>	-	-	<b>25,372</b>	-	<b>794,095</b>

\* These are the four KMP that received the highest emoluments in 2006/2007. As this is the first reporting period of BLP there are no comparatives.

1. Mr M Maxwell & Mr M Balkin are not remunerated by BLP. Fees paid for their service are part of the Babcock & Brown Australian Real Estate Management Pty Ltd management agreement.
2. Mr M Maxwell's remuneration for his service to BLP cannot be determined due to his other commitments within the B&B Group. As such the remuneration included is consistent with the fees earned for the non-executive Directors.
3. Mr M Balkin's remuneration for his service to BLP cannot be determined due to his other commitments within the B&B Group. The remuneration has been based on an assessment by management of the services performed directly for BLP.
4. These are the KMP that received the highest emoluments in 2006/2007. Fees paid for their service are part of the Babcock & Brown Australian Real Estate Management Pty Ltd management agreement. The remuneration for their service to BLP cannot be determined due to their other commitments within the B&B Group. The remuneration has been based on an assessment by management of the services performed directly for BLP.

**Table 3: Remuneration Components as a Proportion of Total Remuneration**

	Fixed remuneration	Performance-based remuneration		Total
		Cash STIP	Share based payments <sup>1</sup>	
	(%)	(%)	(%)	
<b>Directors</b>				
Michael Maxwell	100	-	-	100
Michael Balkin	100	-	-	100
Robert Wright	100	-	-	100
Richard Gelski	100	-	-	100
Chris Langford	100	-	-	100
<b>KMP</b>				
David Wightman	100	-	-	100
Mark Salmon	66	34	-	100
Tom Milicevic	68	32	-	100
Melanie Hedges	100	-	-	100

**Outstanding Executive Share Options**

During the period ended 30 June 2007, no BBRLP options under the LTIP were granted as equity remuneration benefits.

**Bonus Deferral Rights – granted and vested during the period**

During the year period 30 June 2007, no BBRLP Bonus Deferral Rights under the LTIP were granted as equity remuneration benefits.

**Table 4: Equity instrument disclosures relating to Directors & KMP in BBRLP**

Parent entity Directors	Balance 30 June 2006	Purchased	Sale of shares	Balance 30 June 2007
<b>Directors</b>				
M. Maxwell	4,000,000	-	-	4,000,000
M. Balkin	500,000	150,000	-	650,000
R. Gelski	50,000	50,000	-	100,000
R. Wright	10,000	90,000	-	100,000
C. Langford	-	40,000	-	40,000
<b>Total</b>	<b>4,560,000</b>	<b>330,000</b>	<b>-</b>	<b>4,890,000</b>
<b>KMP</b>				
D. Wightman	440,000	-	-	440,000
M. Salmon	-	50,000	-	50,000
T. Milicevic	50,000	-	-	50,000
M. Hedges	-	-	-	-
<b>Total</b>	<b>490,000</b>	<b>50,000</b>	<b>-</b>	<b>540,000</b>

### Indemnification of Officer and Auditors

BLP has agreed to indemnify its Directors and Officers against losses incurred in their role as Director or Secretary of BLP or its subsidiaries, subject to certain exclusions, including to the extent that such indemnity is prohibited by law. The agreement stipulates that BLP 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). BLP has not been advised of any claims under any of these indemnities.

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

During the financial year BLP 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 BLP 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.

### 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 Babcock & Brown Residential Land Partners, or to intervene in any proceedings to which Babcock & Brown Residential Land Partners is a party, for the purpose of taking responsibility on behalf of Babcock & Brown Residential Land Partners for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of Babcock & Brown Residential Land Partners with leave of the Court under section 237 of the Corporations Act 2001.

### Non-Audit Services

Babcock & Brown Residential Land Partners 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 be such as to compromise the independence of, or otherwise be in conflict with the role of the statutory auditor. The services include those where the auditor may be acting in the role of management and 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, or pre-approved by the Chairman of the Audit, Risk & Compliance Committee and notified to the Audit, Risk & Compliance Committee; and
- requires the external auditor to not commence an audit engagement for the Group, until the Group has confirmed that the engagement has been pre-approved.

The Audit, Risk & Compliance Committee has reviewed a summary of non-audit services provided by the external auditor for the period ended 30 June 2007, and has confirmed that the provision of non-audit services for 2007 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. This has been formally advised to the Board of Directors. The external auditor has confirmed to the Audit, Risk & Compliance Committee that it has complied with the Company's Audit Independence and Provision of Non-Audit Services by the External Auditor Policy in the provision of non-audit services by the external auditor for 2007.

Amounts paid or payable to the auditor for non-audit services provided during the year by the auditor amounted to nil.

### Auditor's Independence Declaration

The auditor's independence declaration is included on page 26.

### Rounding off of Amounts

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

**Auditor**

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

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.



On behalf of the Directors

on 29 AUGUST 2007

PricewaterhouseCoopers  
ABN 52 780 433 757

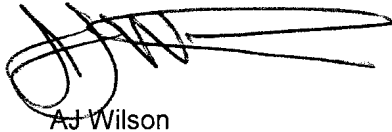
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## Auditors' Independence Declaration

As lead auditor for the audit of Babcock & Brown Residential Land Partners Limited for the period ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Babcock & Brown Residential Land Partners Limited and the entities it controlled during the period.



AJ Wilson

Partner  
PricewaterhouseCoopers

Sydney  
29 August 2007

## Consolidated Income Statement

For the period from commencement of operations 3 May 2006 through 30 June 2007

		Consolidated	Parent
		Period ended	Period ended
		30-Jun-07	30-Jun-07
	Notes	\$'000	\$'000
<b>Revenue from continuing operations</b>	4	<b>31,342</b>	<b>5,431</b>
<b>Other income</b>	4	<b>2,091</b>	<b>-</b>
Cost of sales		(21,434)	-
Management charges	5	(5,717)	(5,090)
Marketing & other operating expenses		(1,623)	(4)
<b>Operating profit</b>		<b>4,659</b>	<b>337</b>
Finance costs	5	(1,321)	(2,477)
<b>Net profit/(loss) before tax</b>		<b>3,338</b>	<b>(2,140)</b>
Tax (expense)/benefit	7	(379)	5,920
<b>Net profit/(loss) after tax</b>		<b>2,959</b>	<b>3,780</b>
<b>Net profit after tax attributable to stapled security holders as:</b>			
Equity holders of the parent		(6,926)	3,780
Minority interest	17	(98)	-
Equity holders of the other stapled entity		9,983	-
		2,959	3,780
Basic earnings per security (cents)		1.69 c	
Diluted earnings per security (cents)		1.69 c	

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

## Consolidated Balance Sheet

### As at 30 June 2007

		Consolidated	Parent
		As at	As at
		30-Jun-07	30-Jun-07
	Notes	\$'000	\$'000
<b>Current assets</b>			
Cash	8	8,850	5,930
Receivables	9	1,806	6
Inventories	10	63,000	-
Other assets	9	1,513	111
<b>Total current assets</b>		<b>75,169</b>	<b>6,047</b>
<b>Non-current assets</b>			
Loans receivable	9	49,040	58,527
Inventories	10	190,892	545
Other financial assets at fair value through profit or loss	11	4,268	-
Deferred tax assets	7	5,931	5,931
<b>Total non-current assets</b>		<b>250,131</b>	<b>65,003</b>
<b>Total assets</b>		<b>325,300</b>	<b>71,050</b>
<b>Current liabilities</b>			
Trade and other payables	12	24,839	1,449
Distribution payable	6	6,563	-
<b>Total current liabilities</b>		<b>31,402</b>	<b>1,449</b>
<b>Non-current liabilities</b>			
Other payables	13	2,000	-
Borrowings	14	12,799	60,101
Deferred tax liabilities	7	6,277	75
Interest bearing liabilities	14	119,180	4,000
<b>Total non-current liabilities</b>		<b>140,256</b>	<b>64,176</b>
<b>Total liabilities</b>		<b>171,658</b>	<b>65,625</b>
<b>Net assets</b>		<b>153,642</b>	<b>5,425</b>
<b>Equity holders of the parent</b>			
Contributed equity	15	1,645	1,645
Retained earnings	16	(6,926)	3,780
		<b>(5,281)</b>	<b>5,425</b>
<b>Equity holders of the Other Stapled Entity</b>			
Contributed equity	15	162,163	-
Retained earnings	16	(3,142)	-
		<b>159,021</b>	-
<b>Minority Interest</b>	16,17	(98)	-
<b>Total equity</b>		<b>153,642</b>	<b>5,425</b>

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

### For the period from commencement of operations 3 May 2006 through 30 June 2007

		Consolidated	Parent
		Period ended	Period ended
		30-Jun-07	30-Jun-07
	Notes	\$'000	\$'000
<b>Total equity at the beginning of the period</b>		-	-
Net profit/(loss) after tax		2,959	3,780
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs and tax	15	163,808	1,645
Distributions paid or provided for	6	(13,125)	-
<b>Total equity at end of the period</b>		<b>153,642</b>	<b>5,425</b>
<b>Total recognised income and expenses for the period is attributable to:</b>			
Equity holders of the parent		(6,926)	3,780
Minority interest	17	(98)	-
Equity holders of the other stapled entity		9,983	-
		<b>2,959</b>	<b>3,780</b>

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

## Consolidated Cash Flow Statement

For the period from commencement of operations 3 May 2006 through 30 June 2007

		Consolidated	Parent
		Period ended	Period ended
		30-Jun-07	30-Jun-07
	Notes	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		32,094	-
Cash payments in the course of operations		(253,780)	(4,339)
Interest received		2,171	96
Interest paid		(4,393)	-
<b>Net cash outflow from operating activities</b>	23	<b>(223,908)</b>	<b>(4,243)</b>
<b>Cash flows from investing activities</b>			
Notes Receivable - funding		(50,550)	-
Notes Receivable - payments received		2,775	-
Proceeds from controlled entities		-	57,656
Payments to controlled entities		-	(53,094)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(47,775)</b>	<b>4,562</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of securities, net of costs		163,774	1,611
Proceeds from borrowings		146,197	4,000
Repayment of borrowings		(22,875)	-
Dividends & Distributions Paid		(6,563)	-
<b>Net cash inflow from financing activities</b>		<b>280,533</b>	<b>5,611</b>
<b>Net increase in cash assets held</b>	8	<b>8,850</b>	<b>5,930</b>
Cash and cash equivalents at beginning of period		-	-
<b>Cash and cash equivalents at end of period</b>	8	<b>8,850</b>	<b>5,930</b>

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

## Notes to the Consolidated Financial Statements

### Note 1 Summary of Significant Accounting Policies

Babcock & Brown Residential Land Partners (“BBRLP” or the “Group”) was established for the purpose of joint quotation of Babcock & Brown Residential Land Partners Limited and its controlled entities (“BBRLPL” or the “Company”) and Babcock & Brown Residential Land Partners Trust and its controlled entities (“BBRLPT” or the “Trust”) on the Australian Securities Exchange. Both the Company and the Trust were incorporated/formed and are domiciled in Australia.

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

#### a) Basis of preparation

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

##### *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Babcock & Brown Residential Land Partners comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132.

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention.

The Company commenced operations on 3 May 2006, accordingly no comparative financial information is available.

The shares of BBRLPL and the units in BBRLPT are combined and issued as stapled securities in Babcock & Brown Residential Land Partners (“BBRLP” or the “Group”). The shares in the Company and the units of the Trust 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 98/0100. The Company is an entity to which the Class Order applies.

#### b) Principles of consolidation

AASB Interpretation 1002, *Post-Date-of-Transition Stapling Arrangements*, applies to stapling arrangements occurring during the 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 interests 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.

##### (i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Babcock & Brown Residential Partners Limited (“BBRLPL”) (deemed “parent entity”) as at 30 June 2007. BBRLP and its subsidiaries together with Babcock & Brown Residential Partners Trust (“BBRLPT”) and its subsidiaries are together referred to in this financial report as the Group or the Consolidated Entity.

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 Group controls another entity.

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

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests would result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transaction between Group 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 Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

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

### **c) Segment reporting**

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

### **d) Revenue recognition**

Revenue is measured at fair value of the 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 income statement upon settlement and after contractual obligations are complete.

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 income statement as it accrues using the effective interest method.

#### *Dividends/Distributions*

Revenue from dividends/distributions from controlled entities and other investments are recognised in the income statement 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 and not recognised in revenue.

### **e) Income tax**

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

Deferred 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 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*

Babcock & Brown Residential Land Partners Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Babcock & Brown Residential Land Partners 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, Babcock & Brown Residential Land Partners 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 consolidation 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 7.

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

#### **f) Impairment of assets**

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.

#### **g) Cash and cash equivalents**

Cash and cash equivalents comprises of cash at bank and short term deposits with an original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

#### **h) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

The collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

Notes receivable are recorded at the principal amount outstanding plus accrued interest. All notes receivable are reviewed at each reporting period for impairment. A note receivable is considered impaired when, based on current information and events it is probable that BBRLP 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

(a) the net present value of the expected cash flows from the borrower, discounted at the original effective interest rate of the transaction, or

(b) the net fair value of the collateral, if any.

Any impairment provisions are included in the Income Statement in the period in which the asset is impaired.

#### **i) Inventories**

Through a series of contractual arrangements, the Group has the rights to obtain the economic benefits and risks of development properties held by external parties, but not the legal title. In these instances, the underlying entities' development properties are recognised as inventories in the consolidated financial statements as the risks and rewards of ownership have transferred to the Group. The contractual arrangements in place ensure that title over the assets is only released when the Group sells developed properties to customers.

Development properties are stated at the lower of cost and net realisable value.

##### *Net Realisable Value*

Net Realisable Value is determined on the basis of each class of inventory's normal selling pattern. Expenses of marketing, selling and distribution to customers are estimated and deducted to establish net realisable value.

##### *Development Work in Progress*

Cost includes variable and fixed costs directly related to specific contracts and those costs related to contract activity in general which can be allocated to specific contracts on a reasonable basis and other costs specifically chargeable under the contract. Costs expected to be incurred under penalty clauses and rectification provisions and borrowing costs where contracts are classified as qualifying assets, are also included.

##### *Land and Property Held for Resale*

Development properties are stated at the lower of cost or net realisable value. Cost includes the costs of acquisition, development and holding costs such as borrowing costs, rates and taxes. Holding costs incurred after completion of development are expensed.

#### **j) Investments and other financial assets**

##### *Classification*

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans receivables and other assets. 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

The interest in Kalynda is classified as a financial asset at fair value through profit or loss, as the Group is entitled to participate in the revenue & costs of the project according to relevant beneficial interest of 30% but doesn't have significant influence over the interest. Depending on the progress of the development this classification could vary between a financial asset & financial liability.

The policy of management is to designate a financial asset or financial liability as at fair value through profit and loss if designation significantly reduces a measurement inconsistency which may arise where a financial asset and a financial liability are measured using different methods.

(ii) Loans receivable and other assets

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.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

*Subsequent measurement*

Financial assets at fair value through profit and loss are 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. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

*Fair value*

The Group establishes fair value by referring to contractual terms and conditions over participation rights in the interest.

### **k) Payables**

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

### **l) Provisions**

A provision is recognised when a present legal, equitable 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 sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value 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*

A provision for dividends and distributions payable is recognised in the reporting period in which the dividends and distributions are declared, determined, or publicly recommended by the Directors on or before the end of the financial period, but not distributed at balance date.

### **m) Interest bearing loans and borrowings**

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

### **n) 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 assets. 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.

#### **o) 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.

#### **p) 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 flows.

#### **q) Earnings per security**

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

Diluted earnings per security is calculated as net profit attributable to member of the parent, adjusted for:

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

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

#### **r) Rounding of amounts**

The Company is 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) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Group) and interpretations is set below:

- (i) *AASB 7 Financial Instruments: Disclosures* and *AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB1023 & AASB 1038]* AASB 7 and AASB 2005-

10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Fund's financial instruments.

- (ii) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. The Group has not adopted these standards early. Application of these standards will not affect any of the amounts recognised in the financial statements, but will affect the segment disclosures provided in note 16.
- (iii) AASB 101 *Presentation of Financial Statements (Revised)*. AASB 101 (Revised) is applicable to annual reporting period beginning on or after 1 January 2007. The Group has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements.

#### **t) Critical accounting estimates and judgements**

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of carrying a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

##### *Inventories*

Development properties are stated at the lower of cost or net realisable value, which have been determined using forecast feasibility estimates.

## **Note 2 Financial risk management**

The Group's activities expose it to a variety of financial risks; market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the core management team under policies approved by the Board of Directors.

### **(a) Credit Risk**

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

### **(b) Liquidity risk**

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

### **(c) Cash flow & fair value interest rate risk**

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

### **(d) Market risk**

The Group has no significant market risk.

**Note 3 Segment Information**

The Group operates solely in the business of property development in Australia.

**Note 4 Revenue and other income**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue from continuing operations</b>		
Revenue from the sale of land	24,038	-
Interest Income	7,304	5,431
<b>Total</b>	<b>31,342</b>	<b>5,431</b>
<b>Other income</b>		
Fair value gains on other financial assets at fair value through profit & loss	2,091	-
<b>Total Revenue</b>	<b>2,091</b>	<b>-</b>

**Note 5 Expenses**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Management expenses</b>		
Base Management Fee	1,603	1,590
Manager Expense Fee	3,500	3,500
Responsible Entity Fee	581	-
Custodian Fee	33	-
<b>Total management expenses</b>	<b>5,717</b>	<b>5,090</b>
<b>Finance costs</b>		
Interest and finance charges	12,011	2,977
Amount capitalised	(10,690)	(500)
<b>Total finance costs</b>	<b>1,321</b>	<b>2,477</b>

**Note 6 Dividends and distributions**

Distributions recognised in the year by the Group are detailed below:

	<b>Cents per security</b>	<b>Total amounts \$'000</b>	<b>Date of payment</b>	<b>Tax deferred %</b>
Interim distribution:	3.75 c	6,562	23 February 2007	45
Final distribution:	3.75 c	6,563	on or about 31 August 2007	45
<b>Total</b>	<b>7.50 c</b>	<b>13,125</b>		

**Note 7 Income tax**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Income tax expense / (benefit)</b>		
Income tax comprises:		
Current tax benefit	-	-
Deferred tax expense	379	(5,920)
Under / (over) provided in prior years	-	-
<b>Income tax expense / (benefit)</b>	<b>379</b>	<b>(5,920)</b>
Deferred income tax expense included in income tax (revenue) / expense comprises:		
Decrease / (increase) in deferred tax assets	(5,931)	(5,931)
Increase (decrease) in equity	33	33
(Decrease) / increase in deferred tax liabilities	6,277	75
	<b>379</b>	<b>(5,823)</b>
<b>(b) Numerical reconciliation of income tax / (benefit) expense to prima facie tax payable</b>		
(Loss) / profit from continuing operations before income tax expense	3,338	(2,140)
Income tax expense calculated at 30%	1,001	(642)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Non-assessable income	(18,551)	(76)
Non-deductible expenses	11,660	-
Amortisation of share issue costs	(8)	(8)
<b>Income tax (benefit) / expense</b>	<b>(5,898)</b>	<b>(726)</b>
Income tax/(benefit) expense in relation to transfer of unused tax losses	-	(5,823)

Equity raising costs	8	8
Parent entity's tax loss used to offset subsidiaries taxable income	-	629
Unused tax losses for which deferred tax asset has been recognised	5,898	-
Other miscellaneous items	371	(8)
<b>Income tax (benefit)/expense</b>	<b>379</b>	<b>(5,920)</b>

**(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:

Current tax	-	-
Net deferred tax	33	33
	<b>33</b>	<b>33</b>

**(d) Tax losses**

Unused tax losses for which a deferred tax asset has been recognised	19,659	324
Potential tax benefit at 30%	<b>5,898</b>	<b>97</b>

**(e) Current tax liabilities**

Current tax payables:

Income tax payable	-	-
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**(f) Recognised deferred tax assets and deferred tax liabilities****Deferred tax liabilities**

Deductible development costs	6,277	-
Other	-	75
Gross deferred tax liabilities	<b>6,277</b>	<b>75</b>

The deferred tax expense/(income) included in income tax expense in respect of the temporary differences resulted from the following movements:

Balance at the beginning of the financial period	-	-
Movement	(6,277)	(75)
<b>Decrease in deferred tax liabilities included in income tax expense</b>	<b>(6,277)</b>	<b>(75)</b>

**Deferred tax assets**

Current year tax losses	5,898	5,898
Other	33	33
Gross deferred tax assets	<b>5,931</b>	<b>5,931</b>

The deferred tax expense/(income) included in income tax expense in respect of the temporary differences resulted from the following movements:

Balance at the beginning of the financial period	-	-
Deferred tax asset relating to current year tax losses	(5,898)	(5,898)
Deferred tax recognised directly in equity	(33)	(33)
<b>Increase in deferred tax assets included in income tax expense</b>	<b>(5,931)</b>	<b>(5,931)</b>

### Tax consolidation legislation

Babcock & Brown Residential Land Partners 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(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, is effective to exclude joint and several liability of the wholly-owned entities in the case of a default by the head entity, Babcock & Brown Residential Land Partners Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Babcock & Brown Residential Land Partners Limited for any current tax payable assumed and are compensated by Babcock & Brown Residential Land Partners Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are automatically transferred to Babcock & Brown Residential Land Partners 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 8 Cash & cash equivalents

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and on hand	8,850	5,930

Cash at bank earns interest at floating rates based on daily bank deposit rates. There are no restrictions on the use of cash facilities.

**Note 9 Receivables**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
<b>Receivables</b>		
GST receivable	158	6
Vendor finance loan	1,648	-
	<b>1,806</b>	<b>6</b>
<b>Other Assets</b>		
Prepayments	393	-
Deposits & other receivables	1,120	111
	<b>1,513</b>	<b>111</b>
<b>Non-current</b>		
<b>Loans Receivable</b>		
Loans to related parties	-	58,527
Loans receivable	49,040	-
	<b>49,040</b>	<b>58,527</b>

The carrying values of non-current receivables approximate fair value.

**a) Interest rate risk**

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the tables following:

2007	Floating interest rate \$'000	Fixed interest maturing in:						Non-interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000		
<b>Current</b>									
GST receivable	-	-	-	-	-	-	-	158	158
Vendor finance loan	-	-	-	-	-	-	-	1,648	1,648
	-	-	-	-	-	-	-	1,806	1,806
Prepayments	-	-	-	-	-	-	-	393	393
Deposit & other receivables	-	-	-	-	-	-	-	1,120	1,120
	-	-	-	-	-	-	-	1,513	1,513
<b>Non-current</b>									
Loans receivable	-	-	-	5,131	24,676	19,233	-	-	49,040
	-	-	-	5,131	24,676	19,233	-	-	49,040
Weighted average interest rate	-	-	-	15%	16.64%	17%	-	-	-

**b) Credit risk**

All credit risk exposure is monitored by the Group on an ongoing basis. At reporting date there were no significant credit risk exposures.

**Note 10 Inventories**

	Consolidated	Parent
	Period ended 30-Jun-07	Period ended 30-Jun-07
	\$'000	\$'000
<b>Current</b>		
Land held for resale		
- cost of acquisition	49,672	-
- development costs	11,541	-
- asset facilitation fees	229	-
- capitalised finance costs	1,558	-
	63,000	-
<b>Non current assets</b>		
Land held for resale		
- cost of acquisition	169,934	-
- development costs	10,225	-
- asset facilitation fees	2,837	545
- capitalised finance costs	7,896	-
	190,892	545

### Inventory expense

Inventories recognised as expense during the year ended 30 June 2007 amounted to \$21,433,630.

### Note 11 Other financial assets at fair value through profit or loss

	Consolidated	Parent
	Period ended	Period ended
	30-Jun-07	30-Jun-07
	\$'000	\$
Other financial assets at fair value through profit or loss	4,268	-
Shares in subsidiaries	-	120

#### (a) Other financial assets at fair value through profit or loss

Changes in fair values of other financial assets at fair value through profit or loss are recorded as other income in the income statement (note 4).

#### (b) Share in subsidiaries

Represents the parent entity's nominal interest in the landowner entities at cost.

### Note 12 Current - trade and other payables

	Consolidated	Parent
	Period ended	Period ended
	30-Jun-07	30-Jun-07
	\$'000	\$'000
<b>Trade and other payables</b>		
Trade payables	887	-
Other payables	2,871	1,449
Deferred land payments <sup>1</sup>	500	-
GST payable	521	-
Contracted commitment <sup>2</sup>	20,060	-
	24,839	1,449

<sup>1</sup> The deferred land payments, \$0.5m will be repaid within 12 months.

<sup>2</sup> Refer to note 22 for further details.

**Note 13 Non current - Payables**

	Consolidated	Parent
	Period ended	Period ended
	30-Jun-07	30-Jun-07
	\$'000	\$'000
<b>Other Payables</b>		
Deferred land payments	2,000	-

**Note 14 Non current - Borrowings**

	Consolidated	Parent
	Period ended	Period ended
	30-Jun-07	30-Jun-07
	\$'000	\$'000
<b>Borrowings</b>		
Unsecured loans	12,799	60,101
<b>Interest bearing loans</b>		
Corporate facility	4,000	4,000
Project facilities	115,180	-
	119,180	4,000

The carrying amounts and fair values of borrowings at balance date are approximate to 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.

**(a) Total secured liabilities**

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

Bank overdrafts and bank loans	119,680
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**(b) Assets pledged as security**

The Project facilities are secured by first ranking registered mortgages over the Consolidated entity's freehold land held as inventory (refer to note 10).

At any time all money that the borrower is liable to pay to the financier in relation to the corporate facility is secured by a fixed & floating charge over the assets of the Group.

**(c) Borrowings**

The unsecured loans will be repaid the earlier of 10 years or completion of the project and bear interest at 6% per annum. The debt repayment profile at the project level stipulates that 3rd party project debt has priority over the unsecured loans hence resulting in a classification of non-current.

**(d) Interest bearing loans**

The interest bearing liabilities are provided under Australian dollar facility. They have variable interest rates and are repayable over the next 3 years. The effective interest rates vary between 7.39% & 9.03%.

**(e) Financing arrangements**

Unrestricted access was available at balance date to the following lines of credit:

	Total	Unused
Corporate facility	100,000	95,500
Project facilities	178,295	63,115

The Corporate facilities may be drawn at any time and may be terminated by the lender with 5 business days notice.

**(e) Interest rate risk exposures**

The following table sets out the Group's exposure to interest rate risk, including the effective weighted average interest rate by maturity periods.

2007	Floating interest rate \$'000	Fixed interest maturing in:						Non-interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000		
<b>Borrowings</b>									
Unsecured loans	-	-	-	-	-	-	12,799	-	12,799
	-	-	-	-	-	-	12,799	-	12,799
Weighted average interest rate	-	-	-	-	-	-	6.00%	-	6.00%
<b>Interest bearing liabilities</b>									
Corporate facility	4,000	-	-	-	-	-	-	-	4,000
Project facilities	115,180	-	-	-	-	-	-	-	115,180
	119,180	-	-	-	-	-	-	-	119,180
<b>Total</b>									131,979
Weighted average interest rate	8.06	-	-	-	-	-	-	-	8.06%

**Note 15 Contributed equity**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Movements in contributed equity</b>		
Balance as at 29 June 2006	-	-
Capital raising <sup>(i)</sup>	175,000	1,750
Capital raising costs & tax	(11,192)	(105)
<b>Balance as at 30 June 2007</b>	<b>163,808</b>	<b>1,645</b>
<b>(i) Capital raising</b>		
On 30 June 2006 the entity issued 175.0m securities at a price of \$1.00. Total proceeds amounted to \$175.0m as part of the Initial Public Offering and listing its securities on the Australian Securities Exchange.		
<b>(ii) Securities buy-back</b>		
There is no current on-market buy-back.		

**Note 16 Retained profits**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Movements in retained profits</b>		
Balance as at beginning of financial year	-	-
Profit/(loss) for the year	2,959	3,780
Distributions provided for or paid	(13,125)	-
<b>Balance as at 30 June 2007</b>	<b>(10,166)</b>	<b>3,780</b>
<b>Retained profits attributable to stapled security holders as:</b>		
Equity holders of the parent	(6,926)	3,780
Minority interest	(98)	-
Equity holders of the other stapled entities	(3,142)	-
	<b>(10,166)</b>	<b>3,780</b>

**Note 17 Minority Interest**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
Retained profits	(98)	-

**Note 18 Key management personnel disclosures****(a) Directors**

The following persons were directors of Babcock & Brown Residential Land Partners Limited during the financial year:

M. Maxwell	Chairman
M. Balkin	Managing Director
R. Gelski	Director
R. Wright	Director
C. Langford	Director

**(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	Chief Operating Officer
T. Milicevic	Chief Financial Controller
M. Salmon	National Development Manager
M. Hedges	Company Secretary

**(c) Key management personnel compensation**

Details of the nature and amount of each element of the emoluments of each Director and KMP of BLP (and of the consolidated entity) for the period ended 30 June 2007 are set out in the table below (details of disclosure apply to parent and consolidated group):

30 June 2007	Short term			Post employment	Equity	Other	Total
	Salary, fees & commissions	Cash bonus	Non-cash benefits	Super-annuation	Options		
<b>Directors</b>							
M. Maxwell <sup>1,2</sup>	75,000	-	-	-	-	-	75,000
M. Balkin <sup>1,3</sup>	400,000	-	-	-	-	-	400,000
R. Wright	89,567	-	-	-	8,061	-	97,628
R. Gelski	79,029	-	-	-	7,113	-	86,142
C. Langford	67,411	-	-	-	6,067	-	73,478
<b>Total</b>	<b>711,007</b>	-	-	-	<b>21,241</b>	-	<b>732,248</b>
<b>KMP</b>							
D. Wightman <sup>4</sup>	200,000	-	-	-	-	-	200,000
T. Milicevic	147,850	70,000	-	12,686	-	-	230,536
M. Salmon	190,873	100,000	-	12,686	-	-	303,559
M. Hedges <sup>4</sup>	60,000	-	-	-	-	-	60,000
<b>Total</b>	<b>598,723</b>	<b>170,000</b>	-	<b>25,373</b>	-	-	<b>794,095</b>

1. Mr M Maxwell & Mr M Balkin are not remunerated by BLP. Fees paid for their service is part of the Babcock & Brown Australian Real Estate Management Pty Ltd management agreement.

2. Mr M Maxwell's remuneration for his service to BLP cannot be determined due to his other commitments within the B&B Group. As such the remuneration included is consistent with the fees earned for the non-executive Directors.

3. Mr M Balkin's remuneration for his service to BLP cannot be determined due to his other commitments within the B&B Group. The remuneration has been based on an assessment by management of the services performed directly for BLP.

4. These are the KMP that received the highest emoluments in 2006/2007. Fees paid for their service is part of the Babcock & Brown Australian Real Estate Management Pty Ltd management agreement. The remuneration for their service to BLP cannot be determined due to their other commitments within the B&B Group. The remuneration has been based on an assessment by management of the services performed directly for BLP.

**(d) Equity instrument disclosures relating to key management personnel**

<b>Parent entity Directors</b>	<b>Balance 30 June 2006</b>	<b>Purchased</b>	<b>Sale of shares</b>	<b>Balance 30 June 2007</b>
<b>Directors</b>				
M. Maxwell	4,000,000	-	-	4,000,000
M. Balkin	500,000	150,000	-	650,000
R. Gelski	50,000	50,000	-	100,000
R. Wright	10,000	90,000	-	100,000
C. Langford	-	40,000	-	40,000
<b>Total</b>	<b>4,560,000</b>	<b>330,000</b>	<b>-</b>	<b>4,890,000</b>
<b>KMP</b>				
D. Wightman	440,000	-	-	440,000
T. Milicevic	50,000	-	-	50,000
M. Salmon	-	50,000	-	50,000
M. Hedges	-	-	-	-
<b>Total</b>	<b>490,000</b>	<b>50,000</b>	<b>-</b>	<b>540,000</b>

**Note 19 Remuneration of auditors**

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

<b>Audit services</b>		
PricewaterhouseCoopers Australian firm	396	396
Audit and review of financial reports		

As part of the Groups management services agreement Babcock & Brown Australian Real Estate Management Pty Limited pays all audit related fees on behalf of the Group.

## Note 20 Related party disclosures

### (a) Parent entities

The parent entity within the Group is Babcock & Brown Residential Land Partners Limited (ABN 49 119 517 985).

### (b) Subsidiaries

Interest in subsidiaries are set out in note 21.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 18.

### (d) Transactions with related parties

#### (i) Fees

The profit before income tax includes management and other fees paid and owed to Babcock & Brown Australian Real Estate Management Limited and Babcock & Brown Group.

The fees were calculated in accordance with the terms disclosed in the BBRLP Prospectus and Product Disclosure Statement dated 6 June 2006. The fees expensed during the period include:

	<b>Consolidated</b>	<b>Parent</b>
	<b>Period ended</b>	<b>Period ended</b>
	<b>30-Jun-07</b>	<b>30-Jun-07</b>
	<b>\$'000</b>	<b>\$'000</b>
Managers Expense Fee	3,500	3,500
Base Management Fee	1,603	1,590
Asset facilitation Fee	3,338	2,554
Responsible Entity Fee	581	-

#### (ii) Loans to/from related parties

Loans to other related parties		
Beginning of the year	-	-
Loans advanced	-	59,782
Loan repayment received	-	(6,593)
Interest charged	-	5,338
Interest received	-	-
End of year	-	58,527

## Note 21 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 (b):

Name of Entity	Country of incorporation	Ownership
Parent entity		
Babcock & Brown Residential Land Partners Limited	Australia	
Other stapled entity		
Babcock & Brown Residential Land Partners Trust	Australia	
Subsidiaries of BBRLP		
BBRLPL Taree Pty Limited	Australia	100%
BBRLPL Forster Pty Limited	Australia	100%
BBRLPL Haywards Bay Pty Limited	Australia	100%
BBRLPL Mirador Heights Pty Limited	Australia	100%
BBRLPL Pacific Dunes Pty Limited	Australia	100%
BBRLPL Kalynda Pty Limited	Australia	100%
BBRLPL Ascot Chase Pty Limited	Australia	100%
BBRLPL Links Pty Limited	Australia	100%
BBRLPL Coburg Pty Limited	Australia	100%
BBRLPL Officer 707 Pty Limited	Australia	100%
BBRLPL Ripley Valley Pty Limited	Australia	100%
Taree (Marie Avenue) Nominee Pty Limited	Australia	92%
Forster (Southern Parkway) Nominee Pty Limited	Australia	92%
Haywards Bay Nominee Pty Limited	Australia	92%
Mirador Heights Nominee Pty Limited	Australia	92%
Ascot Chase Nominee Pty Limited	Australia	75%
BBRLPT Pacific Dunes Pty Limited	Australia	100%
BBRLPT URB Pty Limited	Australia	100%
BBRLPT WPG Pty Limited	Australia	100%
BBRLPT MET Pty Limited	Australia	100%
BBRLP Pacific Dunes Trust	Australia	100%
BBRLP Kalynda Trust	Australia	100%
BBRLP Ascot Chase Trust	Australia	100%
BBRLP Taree Trust	Australia	100%

BBRLP Haywards Bay Trust	Australia	100%
BBRLP Mirador Trust	Australia	100%
BBRLP Forster Trust	Australia	100%
BBRLP Officer Trust	Australia	100%
BBRLP Seabreeze Trust	Australia	100%
BBRLP Mernda Trust	Australia	100%

## Note 22 Events subsequent to balance date

On 2 July 2007 the Group acquired a 100% freehold interest in 707 Princess Highway, Officer VIC, for total cash consideration of \$22.16million. The effective date of this transaction was 30 June 2007 and has been taken into account in the consolidated financial statements.

On 24 August 2007, BBRLP in conjunction with its development partner Links Living Limited announced the sale of a 38 hectare super lot parcel which was previously adjoining its existing Sandhurst Club development in Melbourne for \$41 million.

## Note 23 Cash flow statement reconciliation

	Consolidated	Parent
	Period ended	Period ended
	30-Jun-07	30-Jun-07
	\$'000	\$'000
<b>Reconciliation of net profit after tax to net cash flows from operations</b>		
<b>Net profit/(loss) before tax</b>	3,338	(2,140)
<b>Add/(Deduct) non cash items:</b>		
Related Party Interest	-	(2,890)
Amortisation of cost of goods sold	20,957	32
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in other receivables	(158)	(6)
(Increase)/decrease in loan receivables	(5,534)	-
(Increase)/decrease in land and development costs	(247,740)	(577)
(Increase)/decrease in other assets	(1,514)	(111)
(Decrease)/increase in trade and other payables	6,743	1,449
<b>Net cash from operating activities</b>	<b>(223,908)</b>	<b>(4,243)</b>

## Directors' Declaration on the Consolidated Financial Report of Babcock & Brown Residential Land Partners ("BBRLP")

In the opinion of the Directors of Babcock & Brown Residential Land Partners Limited ("BBRLPL"),

- a) the consolidated financial statements and notes for Babcock & Brown Residential Land Partners (as defined in Note 1) as set out on pages 26 to 53 are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
  - ii. giving a true and fair view of the consolidated financial position of BBRLP as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
- b) there are reasonable grounds to believe that the Company will be able to pay its respective debts as and when they become due and payable.
- c) the audited remuneration disclosures set out on pages 15 to 23 comply with Accounting Standards AASB 124 Related Party Disclosures and the *Corporations Regulations 2001*.

The directors have been given the declarations by the manager required by section 295A of the *Corporations Act 2001*.

On behalf of the Directors:



**Michael Balkin**  
**Director**  
**Sydney, 29 August 2007**

**Independent audit report to the members of  
Babcock & Brown Residential Land Partners Limited**

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

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**Matters relating to the electronic presentation of the audited  
financial report**

This audit report relates to the financial report and remuneration disclosures of Babcock & Brown Residential Land Partners Limited (the company) and the Babcock & Brown Residential Land Partners Group (defined below) for the financial period ended 30 June 2007 included on the Babcock & Brown Residential Land Partners Limited web site. The company's directors are responsible for the integrity of the Babcock & Brown Residential Land Partners Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. 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 disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

**Audit opinion**

In our opinion:

1. the financial report of Babcock & Brown Residential Land Partners Limited:
  - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Babcock & Brown Residential Land Partners Limited and the Babcock & Brown Residential Land Partners Group (defined below) as at 30 June 2007, and of their performance for the period ended on that date, and
  - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and
2. the remuneration disclosures that are contained on pages 15 to 23 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

## Scope

### **The financial report, remuneration disclosures and directors' responsibility**

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Babcock & Brown Residential Land Partners Limited (the company) and the Babcock & Brown Residential Land Partners Group (the consolidated entity) for the period ended 30 June 2007. The consolidated entity comprises both the company and the entities it controlled during that period.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "Remuneration Report" on pages 15 to 23 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

### **Audit approach**

We conducted an independent audit in order to express an opinion to the members of the consolidated entity. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of Babcock & Brown Residential Land Partners Limited's and the Babcock & Brown Residential Land Partners Group's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

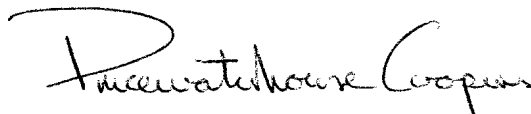
Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

### **Independence**

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



PricewaterhouseCoopers



AJ Wilson  
Partner

Sydney  
29 August 2007