

# Report of Babcock & Brown Residential Land Partners Trust

ARSN 119 613 848

for the period from commencement of operations  
9 May 2006 through 30 June 2007

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# CORPORATE INFORMATION

## **DIRECTORS**

M Maxwell            Chairman  
M Balkin            Managing Director  
R Gelski            Director  
R Wright            Director

## **COMPANY SECRETARIES**

M Hedges  
D Richardson

## **REGISTERED OFFICE**

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

## **SECURITY REGISTER**

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 Phillip Street  
Sydney NSW 2000

## **AUDITORS**

PricewaterhouseCoopers  
Australia

# DIRECTORS REPORT

In respect of the period ended 30 June 2007, the Directors of Babcock & Brown Residential Land Partners Services Limited ("BBRLPS"), the Responsible Entity of Babcock & Brown Residential Land Partners Trust ("BBRLPT") submit the following report on the consolidated annual financial report of BBRLPT and its controlled entities.

The Directors' report is as follows:

## Directors

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

Michael Maxwell	Chairman
Michael Balkin	Managing Director
Richard Gelski	Director
Robert Wright	Director
Melanie Hedges	Secretary
David Richardson	Alternate Secretary

## Review of Operations

During the period ended 30 June 2007, BBRLP completed its initial public offering, issuing 175.0m stapled securities and raising \$163.8m after costs. BBRLPT received \$162.2m of these net proceeds.

BBRLPT's net profit after tax for the period ended 30 June 2007 is \$7.0m. The profit generated in the period to 30 June 2007 is comprised mainly of interest income and costs payable to Babcock & Brown Australian Real Estate Management Pty Limited ("BBAREM" or the "Manager") in accordance with the Management Agreement between BBRLPS and BBAREM dated 5 June 2006.

## Auditor's Independence Declaration

The auditor's independence declaration is included on page 9.

## Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2007 that has significantly affected, or may significantly affect:

- (i) the operations of the Trust in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Trust in future financial years.

## Likely developments and expected results of operations

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

## 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:

**Chairman**

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

Robert Wright	Lead Independent Non-Executive Director
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**Directors**

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

**KPM**

David Wightman	Chief Investment Officer <sup>1</sup>
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Tom Millicevic	Chief Financial Officer <sup>1</sup>
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Mark Salmon	National Development Manager <sup>1</sup>
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Melanie Hedges	Company Secretary <sup>1</sup>
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<sup>1</sup> 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:

Board / Committee	\$
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
		\$	\$	\$
Independent Directors				
Robert Wright	2007	89,567	8,061	97,628
Richard Gelski	2007	79,029	7,113	86,142
<b>Total remuneration for Independent Directors</b>	<b>2007</b>	<b>168,596</b>	<b>15,174</b>	<b>183,770</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:

Executives	Notice period (months)	Base Remuneration per service agreement
Michael Balkin <sup>1</sup>	3	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.

<sup>1</sup> 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.

Short-term employee benefits Remuneration figures are in AUD	Salary	STIP relating to current period	STIP relating to prior years	Non-monetary benefits	Post- Employment benefits	Long-term employee benefits	Total
					Super- annuation	Share based payments	
	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>							
Michael Maxwell <sup>2,3</sup>	75,000	-	-	-	-	-	75,000
Michael Balkin <sup>2,4</sup>	400,000	-	-	-	-	-	400,000
Robert Wright	89,567	-	-	-	8,061	-	97,628
Richard Gelski	79,029	-	-	-	7,113	-	86,142
<b>Total remuneration for Directors</b>	<b>643,596</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,174</b>	<b>-</b>	<b>658,770</b>
<b>KMP<sup>1</sup></b>							
David Wightman <sup>5</sup>	200,000	-	-	-	-	-	200,000
Mark Salmon	190,873	100,000	-	-	12,686	-	303,559
Tom Milicevic	147,850	70,000	-	-	12,686	-	230,536
Melanie Hedges <sup>5</sup>	60,000	-	-	-	-	-	60,000
<b>Total remuneration for KMP</b>	<b>598,723</b>	<b>170,000</b>	<b>-</b>	<b>-</b>	<b>25,372</b>	<b>-</b>	<b>794,095</b>

- 1 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.
- 2 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.
- 3 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.
- 4 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.
- 5 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	
	(%)	(%)	(%)	(%)
<b>Directors</b>				
Michael Maxwell	100	-	-	100
Michael Balkin	100	-	-	100
Robert Wright	100	-	-	100
Richard Gelski	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
<b>Total</b>	<b>4,560,000</b>	<b>290,000</b>	<b>-</b>	<b>4,850,000</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 and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to either the officers of Babcock & Brown Residential Land Partners Trust or the auditors of the Trust. So long as the officers of Babcock & Brown Residential Land Partners Trust act in accordance with the Trust Constitution and the Law, the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

### Fees paid to and interests held in the Trust by the responsible entity or its associates

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

No fees were paid out of Trust property to the directors of the responsible entity during the year.

### Environmental regulation

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

### Rounding

The Trust is a registered scheme of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, as amended by Class Order 04/667, and in accordance with that Class Order, amounts in the financial report and the Directors' report have been rounded to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of Directors.

On behalf of the Directors of BBRLPS



M BALKIN  
Director

Babcock & Brown Residential Land Partners Services Limited

Dated at Sydney this 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 Trust 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 Trust and the entities it controlled during the period.



A J WILSON  
Partner  
PricewaterhouseCoopers  
Sydney  
29 August 2007

# CONSOLIDATED INCOME STATEMENT

## Consolidated Income Statement

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

		Consolidated	Parent
	Notes	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Revenue</b>	3	10,938	10,938
Management charges	4	(626)	(626)
Operating expenses		(55)	(55)
Financing costs	4	(27)	(27)
Facilitation fee expense and other fees		(3,190)	(3,190)
<b>Net operating profit</b>		<b>7,040</b>	<b>7,040</b>
Basic earnings per unit (cents)		4.02¢	
Diluted earnings per unit (cents)		4.02¢	

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

# CONSOLIDATED BALANCE SHEET

## Consolidated Balance Sheet As at 30 June 2007

		Consolidated	Parent
	Notes	As at 30-Jun-07 \$'000	As at 30-Jun-07 \$'000
<b>Current assets</b>			
Cash & cash equivalents	6	1,436	1,436
Receivables and other assets	7	4	4
<b>Total current assets</b>		<b>1,440</b>	<b>1,440</b>
<b>Non-current assets</b>			
Related party loan receivables	7	161,362	161,362
<b>Total non-current assets</b>		<b>161,362</b>	<b>161,362</b>
<b>Total assets</b>		<b>162,802</b>	<b>162,802</b>
<b>Current liabilities</b>			
Trade and other payables	9	161	161
Distributions payable	5	6,563	6,563
<b>Total current liabilities</b>		<b>6,724</b>	<b>6,724</b>
<b>Total liabilities</b>		<b>6,724</b>	<b>6,724</b>
<b>Net assets</b>		<b>156,078</b>	<b>156,078</b>
<b>Equity</b>			
Contributed equity	10	162,163	162,163
Retained earnings	11	(6,085)	(6,085)
<b>Total equity</b>		<b>156,078</b>	<b>156,078</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**Consolidated Statement of Changes in Equity**  
**For the period from commencement of operations**  
**9 May 2006 through 30 June 2007**

		Consolidated	Parent
	Notes	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Total equity at the beginning of the period</b>		-	-
Net profit		7,040	7,040
Transactions with equity holders in their capacity as equity holders:			
Contributions on equity, net of transaction costs and tax	10	162,163	162,163
Distributions paid or provided for	5	(13,125)	(13,125)
<b>Total equity at end of the period</b>		<b>156,078</b>	<b>156,078</b>

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

# CONSOLIDATED CASH FLOW STATEMENT

**Consolidated Cash Flow Statement**  
**For the period from commencement of operations**  
**9 May 2006 through 30 June 2007**

		Consolidated	Parent
	Notes	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Cash flows from operating activities</b>			
Cash payments in the course of operations		(951)	(951)
Payment for facilitation fees	5	(2,761)	(2,761)
Interest received		1,939	1,939
Interest paid		(28)	(28)
<b>Net cash outflow from operating activities</b>	<b>17</b>	<b>(1,801)</b>	<b>(1,801)</b>
<b>Cash flows from investing activities</b>			
Proceeds from repayment of borrowings		2,776	2,776
Borrowings provided		(155,139)	(155,139)
<b>Net cash outflow from investing activities</b>		<b>(152,363)</b>	<b>(152,363)</b>
<b>Cash flows from financing activities</b>			
Dividends & Distributions paid		(6,563)	(6,563)
Proceeds from issue of securities, net of costs		162,163	162,163
<b>Net cash inflow from financing activities</b>		<b>155,600</b>	<b>155,600</b>
<b>Net increase in cash assets held</b>		<b>1,436</b>	<b>1,436</b>
Cash and cash equivalents at beginning of period		-	-
<b>Cash and cash equivalents at end of period</b>		<b>1,436</b>	<b>1,436</b>

The above Consolidated Cashflow 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 Trust 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 Trust commenced operations on 9 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 Trust under ASIC Class Order 98/0100. The Trust is an entity to which the Class Order applies.

### **(b) Principles of consolidation**

#### **Subsidiaries**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Babcock & Brown Residential Land Partners Trust ("BBRLPT") as at 30 June 2007.

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

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

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

### **(c) Trust formation**

BBRLPT was established on 9 May 2006. On 23 May 2006, the Trust became a registered scheme and Babcock & Brown Residential Land Partners Services Limited became the responsible entity of the Trust.

### **d) Revenue recognition**

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

### **(e) Income tax**

Under current legislation, BBRLPT is not subject to income tax as unit holders are presently entitled to the income of BBRLPT.

### **(f) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and short term deposits with 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.

## **Note 1: Summary of significant accounting policies (continued)**

### **(g) Loan and other receivables**

Loan and other receivables are recorded at amortised cost less impairment.

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

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.

### **(h) Investments**

Controlled entities are included from the date control commences until the date control ceases and transactions eliminated on consolidation.

### **(i) 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 of recognition.

### **(j) Distributions**

Distributions are paid within three months of each period end. The period ends are 30 June and 31 December.

### **(k) 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.

### **(l) Earnings per unit**

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

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

**(m) Rounding of amounts**

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

**Note 1: Summary of significant accounting policies (continued)****(n) Segment information**

The principle activities of the trust during the period were to lend and manage funds to entities carrying on land development activities in Australia.

**(o) Critical accounting estimates and judgements**

The trust has made no estimates or assumptions that have a significant risk of a material adjustment to the carrying value.

**(p) 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 Trust 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 Trust 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 Trust'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 Trust 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.
- (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 Trust has not adopted this standard early. Application of this standard will not affect any of the amounts recognised in the financial statements.

**Note 2: Financial risk management**

The Trust'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 Trust'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 Trust.

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

**(a) Credit risk**

The Trust has no significant concentrations of credit risk. The Trust has policies in place to ensure that customers have 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 Trust 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 Trust'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 Trust has no significant market risk.

**Note 3: Revenue**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Interest income</b>		
Related party interest income	10,938	10,938
	<b>10,938</b>	<b>10,938</b>
	Average balance \$'000	Average rate %
Loans to related parties	165,979	6.59%

This table shows the average balance for each of the major categories of interest bearing assets, the amount of interest revenue and the average interest rate. The average balances are calculated using daily balances.

**Note 4: Expenses**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Management expenses</b>		
Base Management Fee	12	12
Responsible Entity Fee	581	581
Custodian Fee	33	33
	<b>626</b>	<b>626</b>
<b>Finance costs</b>		
Interest and finance charges	27	27
Amount capitalised	-	-
	<b>27</b>	<b>27</b>

**Note 5: Distributions to unitholders**

Distributions were paid as follows:

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

**Note 6: Cash and cash equivalents**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Cash at bank and on hand</b>	<b>1,436</b>	<b>1,436</b>

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

**Note 7: Loans and other receivables**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Current</b>		
<b>Receivables</b>		
GST receivable	4	4
<b>Non-current</b>		
<b>Loans Receivable</b>		
Loans to related parties	161,362	161,362

The fair values and carrying values of non-current receivables of the Group are identical to the above schedule.

**Note 8: Financial risk management**

The trust is exposed to credit risk, interest rate risk and cash flow risk arising from the financial instruments it holds. The risk management policies employed by the fund to manage these risks are discussed below.

**(a) Credit risk**

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under contract. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved
- ensuring that collateral is obtained over counterparty assets, where considered necessary

There were no significant concentrations of credit risk to counterparties at 30 June 2007.

**(b) Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

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

2007	Floating interest rate \$'000	Fixed Rate Interest						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>Assets</b>									
Cash & cash equivalents	1,436	-	-	-	-	-	-	-	1,436
Receivables & other assets	-	-	-	-	-	-	-	4	4
Related party loan receivables	-	2,767	14,721	22,251	37,903	16,825	66,895	-	161,362
<b>Total</b>	<b>1,436</b>	<b>2,767</b>	<b>14,721</b>	<b>22,251</b>	<b>37,903</b>	<b>16,825</b>	<b>66,895</b>	<b>4</b>	<b>162,802</b>
Weighted average interest rate	6.20%	6.00%	6.00%	8.08%	6.90%	6.00%	6.22%	-	6.59%
<b>Liabilities</b>									
Trade & other payables	-	-	-	-	-	-	-	161	161
Distribution payable	-	-	-	-	-	-	-	6,563	6,563
<b>Total</b>								<b>6,724</b>	<b>6,724</b>

**Note 8: Financial risk management (continued)****(c) Liquidity and cash flow risk**

Liquidity risk is the risk that the trust will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

**Note 9: Trade and other payables**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Trade and other payables</b>		
Accrued liabilities	161	161

**Note 10: Contributed Equity**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Movements in contributed equity</b>		
Balance as at 29 June 2006	-	-
Capital raising (i)	173,250	173,250
Capital raising costs & tax	(11,087)	(11,087)
<b>Balance as at 30 June 2007</b>	<b>162,163</b>	<b>162,163</b>

**(i) Capital raising**

On 30 June 2006, the entity issued 175.0 million units at a price of \$0.99. Total proceeds amounted to \$173.25 million as part of the Initial Public Offering and listing its securities on the Australian Securities Exchange.

**(ii) Securities buy-back**

There is no current on-market buy-back.

**Note 11: Retained profits**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
<b>Movements in retained profits</b>		
Balance as at beginning of financial year	-	-
Profit for the year	7,040	7,040
Distributions provided for or paid	(13,125)	(13,125)
<b>Balance as at 30 June 2007</b>	<b>(6,085)</b>	<b>(6,085)</b>

## Note 12: Key management personnel disclosures

### (a) Directors

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

M Maxwell	Chairman
M Balkin	Managing Director
R Gelski	Director
R Wright	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 Investment Officer
T Milicevic	Chief Financial Officer
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):

Short-term employee benefits Remuneration figures are in AUD	Salary	STIP relating to current period	STIP relating to prior years	Non-monetary benefits	Post- Employment benefits	Long-term employee benefits	Total
					Super- annuation	Share based payments	
	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>							
Michael Maxwell <sup>2,3</sup>	75,000	-	-	-	-	-	75,000
Michael Balkin <sup>2,4</sup>	400,000	-	-	-	-	-	400,000
Robert Wright	89,567	-	-	-	8,061	-	97,628
Richard Gelski	79,029	-	-	-	7,113	-	86,142
<b>Total remuneration for Directors</b>	<b>643,596</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,174</b>	<b>-</b>	<b>658,770</b>
<b>KMP<sup>1</sup></b>							
David Wightman <sup>5</sup>	200,000	-	-	-	-	-	200,000
Mark Salmon	190,873	100,000	-	-	12,686	-	303,559
Tom Milicevic	147,850	70,000	-	-	12,686	-	230,536
Melanie Hedges <sup>5</sup>	60,000	-	-	-	-	-	60,000
<b>Total remuneration for KMP</b>	<b>598,723</b>	<b>170,000</b>	<b>-</b>	<b>-</b>	<b>25,372</b>	<b>-</b>	<b>794,095</b>

1 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.

2 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.

3 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.

4 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.

5 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.

**Note 12: Key management personnel disclosures (continued)****(d) Equity instrument disclosures relating to key management personnel**

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
<b>Total</b>	<b>4,560,000</b>	<b>290,000</b>	<b>-</b>	<b>4,850,000</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 13: Remuneration of auditors**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
<b>Audit services</b>		
PricewaterhouseCoopers Australian firm	396	396
Audit and review of financial reports		

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

**Note 14: Related Party Disclosure****Transactions with related parties****(i) Fees & interest income**

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 BBRLPL Prospectus and Product Disclosure Statement dated 6 June 2006. The fees expensed during the period include:

Description of fee	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
Custodian Fee	33	33
Base Management Fee	12	12
Asset facilitation Fee	2,761	2,761
Responsible Entity Fee	581	581
<b>(ii) Loans to/from related parties</b>		
Loans to other related parties		
Beginning of the year	-	-
Loans advanced	181,935	181,935
Loan repayment received	(31,924)	(31,924)
Interest charged	11,612	11,612
Interest received	(261)	(261)
End of year	161,362	161,362

**Note 15: Subsidiaries**

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

Name of Entity	Country of incorporation	Ownership
<b>Parent entity</b>		
Babcock & Brown Residential Land Partners Trust	Australia	
<b>Subsidiaries of the Trust</b>		
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 Heights Trust	Australia	100%
BBRLP Forster Trust	Australia	100%
BBRLP Officer Trust	Australia	100%
BBRLP Seabreeze Trust	Australia	100%
BBRLP Mernda Trust	Australia	100%

**Note 16: Events subsequent to balance date**

There were no significant events subsequent to 30 June 2007 outside the ordinary course of business.

**Note 17: Cash flow statement reconciliation**

	Consolidated	Parent
	Period ended 30-Jun-07 \$'000	Period ended 30-Jun-07 \$'000
Reconciliation of net profit after tax to net cash flows from operations		
<b>Net profit</b>	7,040	7,040
<b>Add/(Deduct) non cash items</b>		
Related party interest	(3,961)	(3,961)
Loan receivable interest	(5,039)	(5,039)
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in trade and other receivables	(4)	(4)
(Decrease)/increase in trade and other payables	161	161
<b>Net cash from operating activities</b>	<b>(1,801)</b>	<b>(1,801)</b>

**Directors' Declaration on the Consolidated Financial Report of Babcock & Brown Residential Land Partners Trust ("BBRLPT")**

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

- (a) the consolidated financial statements and notes for Babcock & Brown Residential Land Partners Trust (as defined in Note 1) as set out on pages 10 to 23 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 BBRLPT as at 30 June 2007 and of its performance, as represented by the results of its operations and cash flows, for the period ended on that date; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out on page 20 comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

This declaration is made in accordance with a resolution of Directors pursuant to s295A of the Corporations Act 2001.

On behalf of the Directors of BBRLPS:



MICHAEL BALKIN  
Director

Sydney, 29 August 2007

## **Independent audit report to the unitholders of Babcock & Brown Residential Land Partners Trust**

### **Audit opinion**

In our opinion:

1. the financial report of Babcock & Brown Residential Land Partners Trust:
  - 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 Trust and the Babcock & Brown Residential Land Partners Trust 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 within 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 Trust (the registered scheme) and the Babcock & Brown Residential Land Partners Trust Group (the consolidated entity) for the period ended 30 June 2007. The consolidated entity comprises both the registered scheme and the entities it controlled during that period.

The registered scheme has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "Remuneration Report" in the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of Babcock & Brown Residential Land Partners Services Limited 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 unitholders of the registered scheme. 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 Trust's and the Babcock & Brown Residential Land Partners Trust 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



ANDREW WILSON  
Partner

Sydney, 29 August 2007

