

# *P*ORT BOUVARD LIMITED

ABN 12 009 134 114

## ANNUAL FINANCIAL REPORT

30 JUNE 2010

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Corporate Directory

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A.B.N. 12 009 134 114

### DIRECTORS

Lee Verios LLB, MAICD  
Stephen J Court BBus (Acc), FCA  
Ian A Macliver BCom, CA, FFin, MAICD  
Ross J Neumann  
Peter R Brown LLB (Hons), BCom  
Geoff E Grady LLB (Hons), BCom, ACA

### CHIEF EXECUTIVE OFFICER

John VM Wroth MBA, PgD(EIA), BA, MAICD

### COMPANY SECRETARY

Peter Coppini MBA, BBus, CPA

### REGISTERED OFFICE

Port Bouvard House  
Level 2, 129 Melville Parade  
Como WA 6152

Postal Address: Locked Bag 4  
Como WA 6952

Telephone: (08) 6436 2200  
Facsimile: (08) 6436 2223

Website: [www.portbouvardltd.com.au](http://www.portbouvardltd.com.au)  
Email: [admin@portbouvardltd.com.au](mailto:admin@portbouvardltd.com.au)

### SHARE REGISTRY

Computershare Registry Services Pty Ltd  
Level 2 Reserve Bank Building  
45 St George's Terrace  
Perth WA 6000

Postal Address: GPO Box D182  
Perth WA 6001

Telephone: (08) 9323 2000  
Facsimile: (08) 9323 2033

Website: <http://www-au.computershare.com>

### SOLICITORS

Norton Rose	Lavan Legal
Level 39 BankWest Tower	The Quadrant
108 St George's Terrace	1 William Street
Perth WA 6000	Perth WA 6000

### AUDITORS

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

### STOCK EXCHANGE LISTING

Port Bouvard Limited shares are listed on the Australian Securities Exchange (ASX Code: PBD).

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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Your directors present their report on the Consolidated Entity (referred to hereafter as the “**Group**”) consisting of Port Bouvard Limited (“**Company**”) and the entities it controlled at the end of, or during the year ended 30 June 2010.

### DIRECTORS

The following persons were directors of Port Bouvard Limited during the whole of the financial year and up to the date of this report:

Lee Verios *Chairman*  
Stephen John Court *Executive-Director* \*  
Ross James Neumann *Non-executive Director*  
Ian Alexander Macliver *Non-executive Director*  
Peter Ross Brown \*\*  
Geoff Earl Grady \*\*

\* Mr Court was Non-executive Director from 1 July 2009 to 14 December 2009. From 14 December 2009, Mr Court has been an Executive Director of the Company.

\*\* Messrs Brown and Grady were appointed Non-executive Directors on 23 July 2010.

### Names, qualifications, experience and special responsibilities

#### **Lee Verios LLB, MAICD, Chairman**

Mr Verios joined the Board of Port Bouvard Limited in March 2009 and was appointed Chairman in March 2009. He is an experienced commercial and property lawyer. After more than 35 years of practice in Perth, Mr Verios recently retired as a Partner of Norton Rose where he was the leader of their Commercial Property Group. He continues to act as a Consultant to the firm. Mr Verios is also an experienced business manager and company director.

Mr Verios is currently the Non-executive Chairman of the Wyllie Group Pty Ltd, a large private family investment group, Non-executive Director of Decmil Group Limited, a West Australian based civil engineering and construction company and Non-executive Director of the Kailis Organic Olive Group of Companies. He is a member of the Australian Institute of Company Directors, the Law Society of WA and the Hellenic Australian Chamber of Commerce and Industry. He is a past chairman of the Australian Indonesian Business Council.

*Other current directorships of listed companies*  
Non-executive Director – Decmil Group Ltd

*Former directorships of listed companies in last 3 years*  
Vmoto Ltd

#### **Stephen Court, BBus (Acc), FCA, Executive Director**

Mr Court joined the Board of Port Bouvard Limited in March 2009 as a Non-Executive Director. In December 2009 his role changed to Executive Director. Mr Court is also Managing Director of a corporate advisory and business consulting firm. The firm offers a range of corporate advisory services to both public and private companies. In particular, the firm provides a range of advice on residential property projects based in Western Australia.

Mr Court was formerly the Finance Director of the unlisted Emeco Group of Companies between 1982 and 2000. Emeco was later transformed into a public company and listed on the ASX in 2006. Mr Court was involved in establishing the heavy earthmoving equipment rental business of Emeco in 1982. Emeco is now a major earthmoving equipment rental business operating around the world.

Mr Court is a Fellow of the Institute of Chartered Accountants in Australia and serves on various not for profit boards and organisations.

*Other current directorships of listed companies*  
None.

*Former directorships of listed companies in last 3 years*  
None.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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### **Ross Neumann, Non-Executive Director**

Mr Neumann is a well regarded and experienced residential property developer, specializing in canal developments in Mandurah. Mr Neumann was the founder and Managing Director of Cedar Woods Properties Limited from inception in November 1987, to November 1997. During that time Cedar Woods embarked on major projects including Palm Springs, Port Mandurah, Helena Valley Private Estate, Mariner's Cove and Rapids Landing in Laverton, Victoria.

Prior to that, Mr Neumann had been involved in many significant property development projects since he established the Statesman Homes building company in 1971. In 1986/87 Mr Neumann developed two shopping centres in Western Australia.

Mr Neumann was appointed as Director of Port Bouvard Limited in March 1998 and spent 11 years as Managing Director of the Company until his resignation from this position on 30 June 2009. He remains however, a key member of the Board in a non-executive role. Mr Neumann's vision, commitment, leadership and relationship building were key factors in the Company becoming recognised as one of Australia's leading property development companies.

*Other current directorships of listed companies*  
None.

*Former directorships of listed companies in last 3 years*  
None.

### **Ian Macliver BCom, CA, FFin, MAICD, Non-Executive Director**

Mr Macliver is Managing Director of Grange Consulting Group Pty Ltd which provides specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives.

He is also Executive Chairman of Grange Consulting Group's securities arm, Max Capital Pty Ltd, which specialises in capital raisings and corporate finance transactions.

*Other current directorships of listed companies*  
Non-executive Chairman of Stratatel Limited since July 2000, Director of Otto Energy Limited since January 2004, Non-Executive Director of Mount Gibson Iron Limited since February 2001, Empire Beer Group Limited since May 2006 and Select Vaccines Limited since September 2010.

*Former directorships of listed companies in last 3 years*  
None.

### **Peter R Brown LLB (Hons), BCom, Non-Executive Director**

Mr Brown joined the Board of Port Bouvard Limited as Non-Executive Director on 23 July 2010. Mr Brown has in excess of twenty years' experience in property development. Prior to his appointment as Managing Director and Chief Executive Officer of FKP Property Group in 2003, Mr Brown held senior executive positions in national ASX listed companies including Thakral Holdings Group, Walker Corporation Limited and Australand Property Group. Mr Brown is a Director of FKP Property Group and Metlifecare Limited, a company listed on the New Zealand Stock Exchange.

*Other current directorships of listed companies*  
FKP Property Group and Metlifecare Limited (New Zealand Stock Exchange)

*Former directorships of listed companies in last 3 years*  
None.

### **Geoff E Grady LLB (Hons), BCom, ACA, Non-Executive Director**

Mr Grady joined the Board of Port Bouvard Limited as Non-Executive Director on 23 July 2010. Prior to his appointment as Chief Operating Officer of FKP Property Group in 2009, Mr Grady was the Chief Executive Officer of Mulpha Sanctuary Cove, a premium waterfront residential and marina development located on Queensland's Gold Coast. Prior to this, Mr Grady was a partner of KPMG. Mr Grady is also a Director of Forest Place Group Limited

*Other current directorships of listed companies*  
Forest Place Group Limited.

*Former directorships of listed companies in last 3 years*  
None.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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### CHIEF EXECUTIVE OFFICER

#### **John Wroth MBA, PgD(EIA), BA, MAICD**

Mr Wroth was appointed Chief Executive Officer of Port Bouvard Limited in December 2009. Prior to this appointment he held the role as Joint Chief Executive Officer from March 2009. Mr Wroth previously held the position of Development Director and has been with the Company since its inception over 10 years ago.

Mr Wroth's background is in land development and has extensive experience in planning and environmental approvals, project due diligence, working with both local, and state government, political strategy and community relationship building. He is a graduate of the Australian Institute of Company Directors and leads executive management of Port Bouvard Limited.

### COMPANY SECRETARY

#### **Peter Coppini MBA, BBus, CPA**

Mr Coppini joined Port Bouvard Limited in December 2007 as Financial Controller and was appointed Company Secretary in March 2009. He has over 15 years experience in the accounting profession in both Australia and overseas (Dubai). Mr Coppini has spent the majority of his career in the property development industry but also has experience in manufacturing, fast moving consumer goods and professional services. He holds an MBA (Curtin); a Bachelor of Business Degree (Accounting & Finance); is a Certified Practising Accountant; and is working toward completion of a Graduate Diploma in Applied Corporate Governance (CSA).

### DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

As at the date of this report, the relevant interests of the directors in the shares of Port Bouvard Limited were:

<b>Director</b>	<b>Ordinary Shares *</b>	<b>Share Options</b>
Lee Verios	3,000,000	-
Ross J Neumann	15,097,721	-
Ian A Macliver	2,500,000	-
Stephen J Court	6,000,000	-
Peter R Brown	175,000,000	-
Geoff E Grady	175,000,000	-

\* Includes balance nominally held

### DIVIDENDS

No dividends were paid or payable during the year or previous year.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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### CORPORATE INFORMATION

#### Corporate Structure

Port Bouvard Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity of the Group and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year ended, which are detailed in the accompanying notes to the financial statements.

#### Principal Activities

The principal activity of the Group during the financial year was the development and sale of residential land and built-form products. The Company primarily focuses its development in the Mandurah / Peel Region of Western Australia.

#### Summarised History

Port Bouvard Limited (then Menzies Court Holdings Limited) acquired a 100% interest in the Port Bouvard Residential Estate (**Port Bouvard**) (south of Mandurah W.A.) in May 1998 and renaming of the Company occurred in 2002. Initially Port Bouvard Limited was to wind up following completion of its two main original projects at Port Bouvard, one of the most successful and awarded masterplanned canal residential developments in Australia, and Princeton Private Estate in Stirling W.A. in which the Company had a 50% interest.

During 2006 the Company announced that it would pursue the vision of becoming a significant contributor to the design and development of residential property in Australia by utilising new construction technologies and community based planning and design concepts targeted to meet the needs of the market. In order to achieve this vision, the Company would aim to utilise its considerable goodwill, intellectual property, skills and experience retained by the young professional management team and the strength of the W.A. property market and opportunities present at the time.

Following the announcement by the Company of its intention to continue in land development, englobo land was acquired at Esperance, Dawesville, Point Grey, Melros and Gidgegannup (one of three parcels of land). Further, a development agreement was entered into with an owner of property located at Furnissdale in Western Australia.

During the financial year ended 30 June 2010 the Company made a number of difficult but necessary "transformational" decisions through its capital management strategy, to ensure long term success. Significantly, the Company determined it would not acquire the remaining parcels of land at Gidgegannup and executed the Gidgegannup Cancellation Agreement with the vendor of the remaining parcels of land. The Company also decided not to pursue the development agreement at Furnissdale.

Significant "transformational" activities achieved during the financial year include:

- Appointment of CEO John Wroth to lead the Company's management;
- Refinancing of \$167.6m to 31 December 2011 of bank facilities with long-term lender St George Bank;
- Cancellation of put and call Option agreements to acquire further land at Gidgegannup removing future commitments of between \$45-54m, pursuant to the Gidgegannup Cancellation Agreement;
- A fully underwritten \$60.2m capital raising, that concluded in July 2010 which;
  - Provided funds to permanently reduce debt to St George Bank by \$20m;
  - Introduced a major listed Australian property company FKP Property Group (ASX: FKP) as a strategic long-term investor; and
  - Sourced the funds required to develop the initial infrastructure and stage one of Point Grey, a development which is forecast to deliver approximately 3,080 lots over 13 years, in excess of \$1b in revenue and greater than \$500m in profit before tax; and
- Added further institutional shareholders to the Company's share register.

Since the Company acquired the Port Bouvard Residential Estate in 1998 it has consistently delivered positive achievements. Up to and including 30 June 2010 it has sold 2,650 lots at both Port Bouvard Residential Estate and Princeton Private Estate, realising \$760m in sales revenue. Shareholders have received \$1.67 per share in dividend payments between 2003 and 2007. It is this track record and management expertise which the Company plans to use moving forward into its new flagship development at Point Grey as well as its Esperance development.

### FINANCIAL REVIEW

The Company completed the financial year with an after tax loss of (\$25.8m). Significant asset impairment to its former Gidgegannup land holding, with impairment write downs of \$19.2m before tax, contributed to the Company's result. Additionally, the finalisation of the Port Bouvard Residential Estate, with fewer lots to sell, resulted in sales revenue from land being \$20.2m, down from \$25.1m from the previous corresponding period.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

In a General Meeting held on 23 June 2010, Shareholders of the Company voted in favour of a capital raising which has provided the Company with a strengthened statement of financial position, fresh start and a positive outlook. As a result of the capital raising \$60.2m was raised, with net proceeds of \$46.2m being received during the financial year (the balance of funds was received during July 2010). The capital raising provided funds for the Company to permanently reduce debt with its bank by \$20m, provide additional short term working capital, and most significantly, funds for the development of the initial infrastructure and stage one of its flagship asset, Point Grey.

### Financial Performance

A summary of the financial performance of the Group for the year and the previous corresponding period is as follows:

	Group	
	2010	2009
	\$'000	\$'000
Revenue from sale of land	20,195	25,144
Other revenue	594	224
Expenses	(25,530)	(26,106)
<b>Operating loss before tax</b>	<b>(4,741)</b>	<b>738</b>
Impairment adjustments	(21,362)	(40,865)
Gidgegannup cancellation agreement	(10,658)	-
<b>Loss before income tax</b>	<b>(36,761)</b>	<b>(41,603)</b>
Income tax benefit	10,996	11,422
<b>Loss after income tax</b>	<b>(25,765)</b>	<b>(30,181)</b>
Profit from discontinued operation after tax	-	1,263
<b>Loss after income tax</b>	<b>(25,765)</b>	<b>(28,918)</b>

### Financial Position and Cash Flows

#### Financial Position

The Company was part way through its capital raising at the end of the financial year. During the year it had issued 378,340,824 new shares of the total 463,076,923 new shares to be issued pursuant to the capital raising.

The newly issued shares provided the Company with \$46.2m in net proceeds at the end of the financial year, and considerably strengthened the Company's true current asset position (before non-current assets held-for-sale) to \$119.0m (2009: \$60.1m).

The Company reports total assets as \$311.3m (2009: \$237.3m). This was offset by an increase in payables and borrowings of \$50.4m, increased to finance the construction of the Oceanique Luxury Apartments (**Oceanique**). There was an overall increase to net assets to \$139.5m (2009: \$118.7m).

Notably, the Company ended the financial year with a deferred tax asset balance of \$29.9m. This asset arose mainly from the Company's losses during the 2009 and 2010 financial years. It will be used to reduce the income tax liability arising from future profits. Although this asset doesn't feature in the Company net tangible asset per share calculation, it clearly does have value to Shareholders and the Company's statement of financial position reflects this value.

As a result of asset impairments to its former Gidgegannup project, the Company's share issue and the Gidgegannup cancellation agreement, consolidated net tangible assets per share is \$0.23 at the end of the financial year.

#### Cash Flows

Receipts from customers being \$25.5m was significantly lower than payments to supplier and employees of (\$56.8m), and after interest and tax resulted in cash used in operating activities being (\$41.206m). Receipts from customers decreased from the previous corresponding period due to there being fewer lots available for sale by the Company. Although decreasing from the previous corresponding period, payments to suppliers and employees was significant as a result of required payments for construction costs on both Oceanique and Eastport 5 canals. The timing difference between construction costs and receipts from settlements is likely to reverse in the financial year ending 30 June 2011.

Receipts from the Stirling Lakes Joint Venture (Princeton Private Estate) of \$0.6m contributed to cash flows from investing activities being \$0.5m (2009: \$5.9m) after capital expenditure payments.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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Draw downs on the Company's bank facilities with St George Bank, to pay for construction of both Oceanique and Eastport 5 canal lots, occurred throughout the financial year. These draw downs lead to proceeds from borrowings being \$65.1m (2009: \$79.0m). Whilst \$25.7m was repaid to St George Bank, the net funds of \$46.2m received from the capital raising resulted in net cash flows from financing activities being \$85.6m.

The Group ended the financial year with a cash balance of \$47.5m. Of this balance, \$20m was used to repay debt to St George bank in July 2010, with the balance being part of the \$32.2m the Company has set aside for the initial infrastructure and stage one of Point Grey.

### PROPERTY AND BUILT-FORM DEVELOPMENT

Although significant Board and management resources was allocated to implementation of the Company's capital management strategy, ongoing planning and rezoning continued, added value to its flagship project at Point Grey, to Esperance, and non-core assets at Melros and the Port Bouvard Villa and Hotel Sites.

Development highlights for the year ended 30 June 2010 are as follows:

- Planning approval milestones achieved at Point Grey;
- 47 Eastport 5 canal lots all sold and settled;
- 34 Eastport 5 island lots all sold during a successful marketing campaign. 26 lots settled during the financial year and the remainder have all settled subsequent to the end of the financial year;
- Oceanique completed to 98%, with practical completion occurring on 23 July 2010 and settlements commencing on 26 July 2010; and
- Non-core asset sale of Melros site for \$4m (unconditional contract for settlement on or before November 2010). The contract for the Dawesville site (sold in previous corresponding period for \$4.95m) remained on foot, and settlement of Dawesville occurred in July 2010.

The Company is focussing its resources on achieving medium to long term delivery of its assets which will deliver approximately 3,300 lots over the next thirteen years at both Point Grey and Esperance. Project specific updates are shown below.

#### Port Bouvard Residential Estate

The final stage of sub-division of Eastport 5 at the masterplanned Port Bouvard Residential Estate has been completed. Of the 47 canal lots and 34 island lots 73 of those 81 lots had settled at 30 June 2010. The remaining lots settled by the date of this director's report. These 81 lots provided the Company with \$23.7m in gross proceeds.

The completion of Eastport 5 culminates 12 years of development at Port Bouvard Residential Estate, where the Company delivered 2,200 lots and realised sales of approximately \$750m.

Port Bouvard Residential Estate received the Urban Development Institute of Australia's (UDIA) Award for Excellence 2010, for Western Australia's best Masterplanned Development. In addition to residential lots, the development included a state of the art marina and commercial area, waterfront canal subdivisions, a world-class golf course and club house and built-form products such as the Mediterranean styled Bouvard Island, The Links Luxury Villas and Oceanique.

#### Oceanique Luxury Apartments

The iconic Oceanique at Port Bouvard Residential Estate was 98% complete at 30 June 2010 and was completed during July 2010. Settlements of the 40 pre-sale contracts commenced in late July 2010 and have been progressing to date.

Constructed by DORIC, one of Australia's premier construction companies and situated adjacent to The Cut Golf Course, Oceanique has been finished to an exceptionally high standard with each luxury apartment offering uninterrupted ocean views. The Oceanique development was a finalist in the High Density category of the UDIA Awards for Excellence 2010.

#### Point Grey

The Company continues to achieve the various planning and environment approvals of its flagship landholding of 275 hectares at Point Grey, in order to commence development and settlements in 2011. The development is expected to be cash flow positive by 30 June 2012.

Point Grey, a residential marina based masterplanned community, will yield approximately 3,080 lots on approximately 205 hectares of urban zoned land, over the next 13 years. The site has over 5km of foreshore offering direct ocean

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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access and an elevated peninsula offering magnificent views of the Peel and Harvey Estuaries. Anticipated gross revenues from Point Grey are in the order of \$1b and profits are expected to be in excess of \$500m.

Significant planning milestones were achieved throughout the year including the lodgement of the Outline Development Plan (ODP) and the Town Planning Scheme (TPS). Both the ODP and the TPS were approved by the Shire of Murray for advertisement and public comment. Finalisation and shire approval is anticipated toward the end of 2010.

Point Grey is approximately 75km south of Perth. The recent opening of the Forrest Highway (Perth to Bunbury freeway) has reduced travel time from Perth to less than an hour.

Most importantly, funding for the initial infrastructure and stage one of Point Grey has been secured by the Company's Capital Raising. This was a key element with the capital raising to ensure the Company had the capacity to commence and execute its next flagship project. The Company has set aside the \$32.2m for this purpose. It is planned for infrastructure to be constructed in a staged approach to ensure consistent positive cash flows from the development.

### Esperance

The Company continues to work closely with the Shire of Esperance, the Department of Planning and other adjacent landowners to develop the Bandy Creek Structure Plan which was approved by the Shire in August 2009.

This approval followed by the gazettal of the Shire of Esperance New Town Planning Scheme expected later this year will provide a clear planning framework for the Company to progress its canal development proposal on its landholdings.

It is anticipated the 17 hectares of strategically located land immediately adjacent to the existing marina will yield up to 217 canal lots. The necessary environmental investigations and reporting are well underway.

### Non Core Assets

The Company's non-core asset disposal strategy has been effective, assisting with debt reduction and providing working capital. Having been sold during the previous financial year for \$4.95m, the contract for the Dawesville site remained on foot, and subsequently settled in July 2010. During the financial year the Company sold the Melros site for \$4m with settlement to occur on or before 30 November 2010. Marketing of the Company's Port Bouvard Villa and Hotel Sites continues.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the capital raising and associated matters mentioned above, during the financial year there were no significant changes in the state of affairs of the Company.

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Other than finalisation of the capital raising and completion of the Gidgegannup Cancellation Agreement as noted above, there were no matters of a material nature that occurred subsequent to the end of the financial year.

### FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Company aims to continue the approvals process for both Point Grey and Esperance and over the forthcoming financial years realise settlements from its recently completed Oceanique.

### ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in respect of its land development as set out below. The Group is committed to undertake its developments in an environmentally responsible manner and to a high environmental standard. This approach was demonstrated throughout development of the Port Bouvard Residential Estate and is continuing on the Group's Point Grey development.

#### Land Development Approvals

All current projects are being undertaken with approvals issued under the Town Planning & Development Act (2005), the Environmental Protection Act (1986) and if applicable the Environment Protection and Biodiversity Conservation

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### Directors' Report

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Act 1999. To the best of the directors' knowledge, all activities to implement the projects have been undertaken in compliance with the requirements of the existing approvals.

The objective in respect to future projects is to obtain the required approvals mentioned in the preceding paragraph.

The directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the measurement period 1 July 2009 to 30 June 2010 the directors have assessed that there are no current reporting requirements, but the Company may be required to do so in the future.

### DIRECTORS' MEETINGS

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

Number of meetings attended	Directors' Meetings		Audit Committee Meetings	
	A	B	A	B
Lee Verios	42	42	*	*
Ross J Neumann	41	42	*	*
Ian A Macliver	37	42	6	7
Stephen J Court	42	42	7	7

*Where:*

A = Number of meetings attended

B = Number of meetings held during the time the director was in office or member of the committee during the year

\* = Not a member of the Audit Committee

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

### REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- Key management personnel
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share based compensation
- Additional information

#### Key Management Personnel

The following persons were key management personnel (KMP) of the Group during the financial year:

Name	Position	Period Held Position as a Key Management Personnel
<b>Directors</b>		
Mr L Verios	Chairman – Non-Executive	Full year
Mr SJ Court	Director – Non-Executive	To 14 December 2009
	Director – Executive	From 14 December 2009
Mr IA Macliver	Director – Non-Executive	Full year
Mr RJ Neumann	Director – Non-Executive	Full year
<b>Other key management personnel</b>		
Mr JVM Wroth	Chief Executive Officer (Joint)	To 15 December 2009
	Chief Executive Officer	From 15 December 2009
Mr MJ Perrott	Chief Executive Officer (Joint)	To 15 December 2009
Mr P Coppini	Company Secretary	Full year

Messrs P Brown and G Grady have not been considered key management personnel for the purposes of the remuneration report as they were appointed subsequent to the end of the financial year.

#### Principles Used to Determine the Nature and Amount of Remuneration

The Company does not have a formal remuneration committee due to its limited size. The Board of Directors therefore sets the parameters and objectives for the remuneration of the Company's senior executive.

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives being mindful of the market, position and work required;
- Be acceptable to Shareholders;
- Be linked to and aligned with performance in order to motivate executives;
- Ensure the reward is transparent; and
- Ensure the reward only be given after due consideration to the Company's capital management requirements and strategies.

The reward structure has been designed to be aligned with both shareholder and executive interests.

To ensure alignment with shareholder interests, the reward structure:

- Has the Group's economic profit as a core component of the structure design;
- Focuses on sustained growth in shareholder wealth, being dividends and growth in share price, and delivering consistent return on assets. Executives are also driven to focus on non-financial drivers of value; and
- Attracts and retains high calibre executives.

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To ensure alignment with executives' interests, the reward structure:

- Rewards capability, effort and experience;
- Reflects competitive reward for contribution to growth in shareholder wealth;
- Provides a clear structure for earning rewards;
- Allows executives, to a limited extent, to determine how bonuses shall be received; and
- Provides recognition and reward for contribution.

The framework provides a mix of fixed and variable pay. The base level of executive remuneration takes into account the performance of the Group over a number of years, but primarily the current and prior years. However, it also takes into consideration the development pipeline. Core assets of the Group are progressing through planning and approvals processes, some of which will have several years lead time to commencement of sales.

### ***Bonus Payments***

There are no specific criteria for bonuses however bonuses can be paid as non-cash benefits where the Board deems it to be appropriate.

### ***Non-Executive Directors***

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of the directors. Non-executive fees are not specifically linked to the results of the Group in a particular year however in setting non-executive directors' fees the Board gives consideration to the overall recent performance of the directors and the Group as a whole in setting future fees. Non-executive directors are also encouraged to hold shares in the Company.

The current base remuneration was last reviewed with effect 1 July 2005. Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by Shareholders. This amount was set at a maximum of \$400,000 at a general meeting of Shareholders held on 25 November 2005. The Board determines how it should be remunerated having regard to non-executive directors for similar companies, the time spent on the Company's matters and the performance of the Company.

Additional remuneration, at arm's length rates, may be paid for specific additional services from time to time as determined by the Board. The non-executive directors do not receive retirement benefits nor do they participate in any incentive schemes. In addition, non-executive directors do not receive additional fees for being members of Board committees.

The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The fees take into account time spent and the complexity of issues with which he is required to deal. The chairman guides and leads the Company on major issues such as strategy, risk management and staff issues. He is not present at any discussions relating to determination of his own remuneration.

### ***Executive Director***

The remuneration of the executive director is governed by a letter of engagement. The terms of the engagement does not have provision for leave entitlements nor provide for specific retirement or termination benefits except for compulsory superannuation. The payment of remuneration to the executive director is as per the letter of engagement after having regard to the Company's performance, goals achieved and remuneration paid in the market place for a similar position.

### ***Other Key Management Personnel***

The executive pay and reward framework has four components:

- Base pay and benefits;
- Short-term incentives;
- Long-term incentives; and
- Other remuneration such as superannuation.

Share options have been previously granted as part of key management personnel compensation. None were granted during the financial year ended 30 June 2010. Details of the options issued are shown in the key management personnel compensation table.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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### **Base Pay and Benefits**

Executives are rewarded through a base salary and certain non-cash benefits, where they are deemed to be appropriate. Such remuneration is discussed and determined by the Board upon receiving appropriate advice.

Key management personnel salary and superannuation is reviewed in the first month's of every new financial year where individual performance and the performance of the Company as a whole is taken into account when setting the next year's base salary and remuneration.

The following table shows the gross revenue, profits and dividends paid to Shareholders over the past five years.

	<b>Restated 2006</b>	<b>Restated 2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Revenue	\$64.0m	\$64.2m	\$23.4m	\$25.3m	\$20.8m
Net profit / (loss) after tax	\$31.6m	\$26.9m	\$3.2m	(\$28.9m)	(\$25.8m)
Share price at year end	\$2.50	\$2.25	\$0.64	\$0.38	\$0.13
No shares on issue at year end	63.1m	130.6m	130.6m	130.8m	509.1m
Dividends paid (per share)	90 cents	31 cents	Nil	Nil	Nil

Benefits paid to key management personnel may include motor vehicle, telephone benefits and payment of any associated fringe benefits tax that may arise.

### **Short-Term Incentives**

Executives may be eligible for bonuses paid as either cash or non-cash benefits.

Executives currently do not have specific performance criteria in order to receive bonuses and therefore any current bonuses paid are done so at the discretion of the Board. When making decisions with respect to bonuses, the Board closely considers the following factors:

- Overall Company performance and contribution to shareholder value;
- Attainment of project-specific goals or solutions that may arise in the natural course of the Company's operations;
- Performance of an individual's role relative to the Board's expectations; and
- The individual's ongoing loyalty to the Company.

All executives have regular contact and interaction with the Board, whereby they are able to clearly understand the Board's expectations of their performance. This ensures that the goals attained by executives, and by which their short-term incentives are determined, are in line with the Board and Company's short and long-term strategies.

### **Long-Term Incentives**

In 2007 the Board approved the establishment of the Port Bouvard Employee Option Plan. The objective of the long-term incentive plan is to reward key management personnel in a manner that aligns remuneration with the creation of shareholder wealth and also to incorporate a degree of "at risk" remuneration as part of the overall package. The Option Plan currently vests based on time of service, therefore is at risk until vested. The Board has no policy to limit the exposure to this risk.

### **Performance-Based (At-Risk) Remuneration**

There is no proportion of total remuneration to other key management personnel which is at risk and only payable on the basis of performance achieving defined outcomes.

### **Other Remuneration**

Executives receive superannuation in line with current superannuation guarantee requirements.

### **Details of Remuneration**

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director of the Company. The key management personnel are the same for the Parent Entity as for the Group.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Directors' Report

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For the year ended 30 June 2010 there were no cash bonuses paid to key management personnel. While bonuses are a reward for performance, they are paid at the absolute discretion of the Board and do not represent an ongoing variable component of remuneration.

Details of the Group's remuneration to key management personnel during the full year, regardless of whether the person was part of key management personnel for the entire period, are outlined in the tables below:

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Directors' Report

#### Key Management Personnel Compensation

2010	Short-term benefits			Post-employment benefits	Share based payments	Total	Performance related
	Cash, salary and fees	Cash bonus	Non-cash benefit	Super-annuation	Options		
	\$	\$	\$	\$	\$		
<b>Directors</b>							
Mr L Verios	91,743	-	-	8,257	-	<b>100,000</b>	-
Mr RJ Neumann <sup>1</sup>	68,807	-	7,248	6,193	-	<b>82,248</b>	-
Mr IA Macliver	68,807	-	-	6,193	-	<b>75,000</b>	-
Mr SJ Court	220,183	-	-	19,817	-	<b>240,000</b>	-
<b>Other key management personnel</b>							
Mr JVM Wroth	351,039	-	28,802	14,461	49,364	<b>443,666</b>	-
Mr P Coppini	155,246	-	5,293	14,461	-	<b>175,000</b>	-
Mr MJ Perrott <sup>2</sup>	161,036	-	2,059	9,775	25,756	<b>198,626</b>	-
<b>Totals</b>	<b>1,116,861</b>	<b>-</b>	<b>43,402</b>	<b>79,157</b>	<b>75,120</b>	<b>1,314,540</b>	<b>-</b>

*Key management personnel for the period:*

<sup>1</sup> See note 21 for further information with respect to consultancy fees paid to Mr Neumann by the Group during the year

<sup>2</sup> From 1 July 2009 to 14 December 2009 - Joint Chief Executive Officer

PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

Directors' Report

Key Management Personnel Compensation (Continued)

2009	Short-term benefits			Post-employment benefits	Share based payments		Performance related
	Cash, salary and fees	Cash bonus	Non-cash benefit	Super-annuation	Options	Total	
	\$	\$	\$	\$	\$	\$	
<b>Directors</b>							
Mr MD Perrott AM <sup>1</sup>	147,184	-	3,533	-	-	<b>150,717</b>	-
Mr RJ Neumann <sup>8</sup>	771,154	-	15,888	100,000	181,475	<b>1,068,517</b>	-
Mr IA Macliver	68,807	-	-	6,193	-	<b>75,000</b>	-
Mr RW Crabb <sup>2</sup>	46,154	-	-	15,000	-	<b>61,154</b>	-
Mr L Verios <sup>3</sup>	21,277	-	-	1,915	-	<b>23,192</b>	-
Mr SJ Court <sup>4</sup>	17,731	-	-	1,596	-	<b>19,327</b>	-
<b>Other key management personnel</b>							
Mr NJ Kroyer <sup>5</sup>	31,752	-	-	2,858	-	<b>34,610</b>	-
Mr JVM Wroth	299,255	-	29,861	13,745	162,536	<b>505,397</b>	-
Mr MJ Perrott	236,355	-	1,840	13,745	135,610	<b>387,550</b>	-
Mr AD Graham <sup>6</sup>	170,665	-	20,471	11,960	90,342	<b>293,438</b>	-
Mr P Coppini <sup>7</sup>	36,104	-	2,593	3,336	-	<b>42,033</b>	-
<b>Totals</b>	<b>1,846,438</b>	<b>-</b>	<b>74,186</b>	<b>170,348</b>	<b>569,963</b>	<b>2,660,935</b>	<b>-</b>

Key management personnel for the period:

<sup>1</sup> From 1 July 2008 to 23 April 2009

<sup>2</sup> From 1 July 2008 to 23 April 2009

<sup>3</sup> From 30 March 2009

<sup>4</sup> From 30 March 2009

<sup>5</sup> From 1 July 2008 to 30 November 2008

<sup>6</sup> From 1 July 2008 to 30 March 2009

<sup>7</sup> From 30 March 2009

<sup>8</sup> Includes amounts paid out for unused annual and long service leave

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

### Service Agreements

#### *Non-Executive Chairman*

During the year Mr Verios received a combined Chairman's and Director's fee of \$90,000 per annum from 1 July 2009 to 28 February 2010, and \$120,000 per annum from 1 March 2010 to 30 June 2010.

#### *Non-Executive Directors*

In addition to Mr L Verios other Non-Executive Board members during the year were Mr IA Macliver, Mr RJ Neumann and Mr SJ Court (1 July 2009 to 14 December 2009). Mr Court was appointed to Executive Director on 14 December 2009. All Non-Executive Directors have entered into service agreements with the Company in the form of letters of appointment.

Messrs Macliver, Neumann and Court receive a director's fee of \$75,000 per annum.

All Non-Executive Directors, including the Chairman, serve three year terms and compulsory retire at the end of each term and eligible for re-appointment. No termination benefits are payable on termination by the Company to the Non-Executive Directors.

#### *Executive Director*

Mr Court was appointed to Executive Director on 14 December 2009. The remuneration of Mr Court was governed by a letter of engagement dated 15 February 2010, however the engagement was effective 14 December 2009. The terms of the engagement does not have provision for leave entitlements nor provide for specific retirement or termination benefits except for compulsory superannuation. The engagement is at the discretion of the Chairman, and may be terminated by either Mr Court or the Company, with immediate effect. The payment of remuneration to Mr Court is as per the letter of engagement after having regard to the Company's performance, goals achieved and remuneration paid in the market place for a similar position.

#### *Other Key Management Personnel*

Mr JVM Wroth is employed under an executive services agreement (**ESA**). Mr Wroth's ESA includes statutory superannuation, no termination benefits, apart from statutory long service leave and requires six month's written notice by either party to terminate the agreement.

Other key management personnel, being Messrs P Coppini and MJ Perrott (1 July 2009 to 15 December 2009) are employed through letters of engagement. The letters of engagement contain the same terms and conditions and include statutory superannuation, no termination benefits (apart from statutory long service leave) and requires one month's written notice by either party to terminate the agreement.

Contracts with key management personnel are shown in the table below:

<b>Name</b>	<b>Term of agreement</b>	<b>Base salary including superannuation *</b>	<b>Termination benefit</b>
JVM Wroth <i>Chief Executive Officer</i> <i>(from 15 December 2009)</i> <i>Chief Executive Officer (Joint)</i> <i>(until 15 December 2009)</i>	2 years commencing 1 January 2010	\$336,000 <i>(to 31 December 2009)</i> \$395,000 <i>(from 1 January 2010)</i>	-
P Coppini <i>Company Secretary</i>	On-going, commencing 3 December 2007	\$175,000	-
MJ Perrott <i>Chief Executive Officer (Joint)</i> <i>(until 15 December 2009)</i>	Commenced 4 September 2006 and ended 15 January 2010	\$280,000	-

\* Base salaries quoted are for the year ended 30 June 2010 and are reviewed at least annually.

### Share Based Compensation

The current remuneration structure includes share based compensation by way of the Port Bouvard Limited Employee Share Option Plan. This has been discussed above under *Long-Term Incentives* and also mentioned below under *Share Based Compensation: Options*.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

### Additional Information

#### *Details of remuneration: cash bonuses*

No cash bonuses were paid to key management personnel during the year.

#### *Share Based Compensation: Options*

On 30 July 2007 the Board approved the Port Bouvard Employee Option Plan that entitles key management personnel to purchase shares in the entity. Options granted under the plan carry no dividend or voting rights.

On 23 June 2010, Shareholders of the Parent Entity approved the issue of new shares pursuant to a capital raising. As a result of the capital raising, Options granted on 22 August 2007 and 9 December 2008 have been re-valued on 23 June 2010 in accordance with AASB 2 Share Based Payments and the rules of the Company's Employee Option Plan.

The terms and conditions of grants affecting remuneration in the previous and this reporting period are as follows:

Grant date	Number of options	Date vested and exercisable	Contractual life of instrument (and expiry)	Exercise price	Fair value per option
22 August 2007	1,500,000	(1) 1/3 <sup>rd</sup> on 22 August 2007; (2) 1/3 <sup>rd</sup> 22 August 2008; and (3) 1/3 <sup>rd</sup> 22 August 2009.	5 years (21 August 2012)	\$2.12 <sup>1</sup> \$2.05 <sup>2</sup>	\$0.36 <sup>3</sup> \$0.03 <sup>4</sup> \$0.03 <sup>5</sup>
28 November 2007	2,000,000	(1) 1/3 <sup>rd</sup> on 28 November 2007; (2) 1/3 <sup>rd</sup> 28 November 2008; and (3) 1/3 <sup>rd</sup> 28 November 2009.	5 years (27 November 2012)	\$2.40 <sup>1</sup>	\$0.41 <sup>3</sup>
9 December 2008	3,250,000	(1) 1/3 <sup>rd</sup> on 9 December 2008; (2) 1/3 <sup>rd</sup> 9 December 2009; and (3) 1/3 <sup>rd</sup> 9 December 2010.	5 years (8 December 2013)	\$0.26 <sup>1</sup> \$0.19 <sup>2</sup>	\$0.06 <sup>3</sup> \$0.17 <sup>4</sup> \$0.18 <sup>5</sup>

<sup>1</sup> Exercise price at grant date

<sup>2</sup> Exercise price at revaluation date (23 June 2010)

<sup>3</sup> Fair value of Option at grant date

<sup>4</sup> Fair value of Option at re-valuation date (23 June 2010) at initial exercise price

<sup>5</sup> Fair value of Option at re-valuation date (23 June 2010) at revised exercise price

The Options above were issued for no consideration. During the financial year 2,033,334 Options were forfeited (2009: 1,333,333) and no Options were exercised (2009: 150,000 were exercised at an exercise price of \$0.26 per instrument).

In addition to being an eligible employee as defined by the *Rules of the Port Bouvard Employee Option Plan* certain exercise conditions must be met before an Option can be exercised. Exercise conditions in relation to an Option under the Plan means the period of time, performance hurdles and other conditions (if any) determined by the Board that must be satisfied before the Option can be exercised. These are the overriding criteria for determining compensation under the Plan. The service period is the overriding criteria used to determine compensation under the Employee Share Option Plan.

Details of Options over ordinary shares in the company provided as remuneration to each director and each key management personnel are set out below. When exercised, each option is convertible into one ordinary share in Port Bouvard Limited. Further information on the options is set out in note 28 to the financial statements.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
<b>Directors</b>				
Mr RJ Neumann	-	-	-	666,667
<b>Key management personnel</b>				
Mr JVM Wroth	-	1,250,000	633,333	633,333
Mr MJ Perrott	-	1,250,000	583,333	583,333
<b>Other employees</b>				
Mr AD Graham	-	750,000	366,668	366,667

Assuming the participants to which Options have been granted satisfy the criteria mentioned above, the full details of the cumulative number of Options which may vest are shown in the table below.

Name	Total Options which may vest	Cumulative number of Options which may vest	
		Options vested / (forfeited) during the year	Total Options vested at 30 June 2011
<b>Directors</b>			
Mr RJ Neumann	-	(666,667)	-
<b>Key management personnel</b>			
Mr JVM Wroth	1,900,000	633,333	1,900,000
Mr MJ Perrott	-	(416,667)	-
<b>Other employees</b>			
Mr AD Graham	-	(950,000)	-

For each of the Options granted included in the tables above, the percentage of the available options granted that vested in the financial year and the percentage that was forfeited because the participant did not meet the service and performance criteria is set out below. Providing the vesting conditions are met (see tables above), the Options will vest one-third on date of the grant, one-third on the first anniversary of the date of grant, and one-third on the second anniversary of the date of grant. No Options will vest if the conditions are not satisfied, hence the minimum value of the Option yet to vest is nil. The maximum value of the Options yet to vest has been determined as the amount of the grant date fair value of the Options that is yet to be expensed over the vesting period.

Name	Financial year granted	Vested %	Forfeited / Lapsed %	Financial years in which Options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
<b>Directors</b>						
Mr RJ Neumann	2008	67	100	-	-	-
<b>Key management personnel</b>						
Mr JVM Wroth	2008	100	-	-	-	-
	2009	67	-	2011	-	9,542
Mr MJ Perrott	2008	100	100	-	-	-
	2009	67	-	-	-	-
<b>Other employees</b>						
Mr AD Graham	2008	100	100	-	-	-
	2009	67	67	-	-	-

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

Further details relating to Options for this reporting period are set out below.

Name	A. Remuneration consisting of Options %	B. Value at grant date \$	C. Value at exercise date \$	D. Value at forfeit / lapse date \$
<b>Directors</b>				
Mr RJ Neumann	-	-	-	266,667
<b>Key management personnel</b>				
Mr JVM Wroth	11	-	-	-
Mr MJ Perrott	13	-	-	104,167
<b>Other employees</b>				
Mr AD Graham	8	-	-	237,500

Where:

- A = The percentage of the value of remuneration consisting of Options, based on the value of the Options expensed during the current year.
- B = The value at the date of grant calculated in accordance with *AASB 2 Share-based Payments* of Options granted during the year as part of remuneration.
- C = The value at exercise date of Options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the Options at that date.
- D = The value at lapse date of Options that were granted as part of remuneration and that were either forfeited or lapsed during the year because a vesting condition was not satisfied or due to an employee voluntarily allowing Options to lapse. The value is determined at the time of lapsing, but assuming the condition was satisfied. The volume weighted average price on lapse date for Messrs Neumann, Perrott and Graham were \$0.40, \$0.25 and \$0.25 respectively.

End of audited remuneration report.

## SHARES UNDER OPTION

Un-issued ordinary shares of Port Bouvard Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Adjusted Issue price of shares <sup>1</sup>	Number under option
22 August 2007	21 August 2012	\$2.05	650,000
09 December 2008	08 December 2013	\$0.19	1,250,000

<sup>1</sup> Pursuant to the capital raising of the Company and in accordance with ASX Listing Rule 6.22 (which is consistent with the Company's constitution) adjustments to the issue price of shares has been calculated.

## AUDIT COMMITTEE

The directors of the Company have formed an Audit Committee, consisting of Mr IA Macliver (Chairman) and Mr SJ Court. The committee's responsibilities include:

- Reviewing the annual report and all other financial information published by the Company;
- Reviewing the effectiveness of the organisation's internal control environment;
- Reviewing the risk management framework; and
- Considering the appointment, removal and remuneration of external auditors and reviewing terms of their engagement, scope and quality of the audit.

## INSURANCE OF OFFICERS

During the financial year Port Bouvard Limited paid a premium of \$28,818 (2009: \$27,462) to insure the directors and secretaries of the Company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage to themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Directors' Report

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### NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

The following fees for non-audit services were paid to the external auditors and their affiliated entities during the year ended 30 June 2010 by the Group:

<b>Service</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Taxation compliance services provided by BDO Corporate Tax (WA) Pty Ltd	49,934	52,692
Member of due diligence committee provided by BDO Corporate Finance (WA) Pty Ltd	17,711	-
<b>Total</b>	<b>67,645</b>	<b>52,692</b>

### AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration as required by Section 307C of the Corporations Act can be found on page 21 forms part of the Directors' Report for the year ended 30 June 2010

### ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the Directors.



**Lee Verios**  
Chairman  
30 September 2010  
Perth  
Western Australia

30 September 2010

The Directors  
Port Bouvard Limited  
Level 2, Port Bouvard House  
129 Melville Parade  
COMO, WA 6152

Dear Sirs

**DECLARATION OF INDEPENDENCE BY BRAD MCVEIGH TO THE DIRECTORS OF  
PORT BOUVARD LIMITED**

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

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Port Bouvard Limited and the entities it controlled during the year.



**Brad McVeigh**  
Director



**BDO Audit (WA) Pty Ltd**  
Perth, Western Australia

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Corporate Governance Statement

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### INTRODUCTION

The Board of Directors of Port Bouvard Limited has adopted the following corporate governance principles and is responsible for the adherence to these principles. These principles and practices are reviewed regularly and upgraded or changed to reflect changes in law and what is regarded as best practice if necessary. A description of the Company's main corporate governance principles and practices is set out below.

### ROLE OF THE BOARD

The Board has adopted the following statement of matters for which the Board will be responsible:

- Review and determine the Company's strategic direction and operational policies;
- Review and approve business plans, budgets and forecasts and set goals for management;
- Appoint and remunerate senior executives;
- Review performance of senior executives;
- Review financial performance against key performance indicators on a monthly basis;
- Approve selling prices and selling policies;
- Approve and monitor advertising and promotional budgets;
- Approve capital, development and other large expenditures;
- Approve development programmes;
- Review risk management, compliance and safety issues;
- Approve donations and sponsorships;
- Oversee the Company's control and accountability systems;
- Report to Shareholders; and
- Ensure compliance with environmental, taxation, corporations and other laws and regulations.

### BOARD INDEPENDENCE

The Board consists of six directors but up to 10 directors can serve on the Board. Currently the six directors are:

• Lee Verios	Independent Chairman	61 years	Director since 2009
• Ross J Neumann	Independent Director	63 years	Director since 1998
• Ian A Macliver	Independent Director	50 years	Director since 1994
• Stephen J Court	Independent Director	53 years	Director since 2009
• Peter R Brown	Director	44 years	Director since 2010
• Geoff E Grady	Director	51 years	Director since 2010

With the exception of Messrs Brown and Grady all directors on the Board are considered to be independent directors according to the definitions of the Australian Securities Exchange Corporate Governance Council ("Council"). Messrs Brown and Grady are both Board nominees of FKP Property Group, a substantial shareholder in the Company and therefore are not considered independent by the definition of the Council. Messrs Neumann and Macliver have been involved with the Company since the Company acquired the Port Bouvard Residential Resort Estate in 1998 and changed its business from mortgage origination to property development.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Corporate Governance Statement

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As such, the Company does comply with the Council's recommendation, Item 2.1, that the majority of the Company's directors should be independent directors. In respect of this the Board has adopted a series of safeguards to ensure that independent judgement is applied when considering the business of the Board:

- Directors are entitled to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required but this is not unreasonably withheld.
- Directors having a conflict of interest with an item for discussion by the Board must absent themselves from a board meeting where such item is being discussed before commencement of discussion on such topic.
- Independent directors confer on a "needs" basis with each other outside of the executive directors' participation and also involve the chairman with such discussion if warranted and considered necessary by the independent directors.
- The Board considers non-executive directors to be independent even if they have minor dealings with the Company provided they are not a substantial shareholder. Transactions with a value in excess of 1% of the Company's annual turnover are considered material. A director will not be considered independent if he has transactions in excess of this materiality threshold.

### EXECUTIVE DIRECTOR

A restructuring of the Board occurred on 15 December 2009 with the Company appointing an Executive Director to oversee the Company's capital management strategy and significant "transformational" activities of the Group. The Executive Director, Mr SJ Court, was appointed due to his strong financial background and extensive experience in the property industry. He previously held the office of Non-Executive Director of the Company from 30 March 2009.

Mr Court was appointed pursuant to a letter of engagement which was effective 15 December 2009.

### INDEPENDENT CHAIRMAN

The Chairman's role is separated from the role of other Directors.

The Chairman's role includes:

- Providing effective leadership on formulating the Board's strategy;
- Representing the views of the Board to the public;
- Ensuring that the Board meets at regular intervals throughout the year and that minutes of meetings accurately record decisions taken and where appropriate the views of individual Directors;
- Guiding the agenda, information flow and conduct of all board meetings;
- Reviewing the performance of the Board; and
- Liaising with and guiding the Chief Executive Officer.

### TENURE OF THE BOARD

The Directors are expected to review their membership of the Board from time to time taking into account the length of service on the Board, age, qualification and experience in light of the needs of the Company and direction of the Company together with such other criteria considered desirable for composition of a balanced board and the overall interests of the Company.

A Director is expected to resign if the remaining Directors recommend that a Director should not continue in office but is not obliged to do so.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Corporate Governance Statement

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### COMMITTEES

Due to the small size of the Company and the number of Board members, the Board does not have a formal nomination committee structure or any other committees except for the Audit Committee. Any new Directors will be selected according to the needs of the Company at that particular time, the composition and balance of experience on the Board and the strategic direction of the Company.

Should the need arise to consider a new Board member the Non-Executive directors would form the committee to consider the selection and appointment of a new Director.

In accordance with the Company's constitution at each Annual General Meeting the following directors retire:

- One third of Directors;
- Directors appointed by the Board to fill casual vacancies or otherwise; and
- Directors who have held office for more than three years since the last general meeting at which they were elected.

### DETAILS ON CURRENT DIRECTORS

Reference should be made to the Company's Directors' Report regarding the details of the current directors including their skills and experience.

### ETHICAL AND RESPONSIBLE DECISION MAKING

In making decisions, the directors of the Company, its officers and employees take into account the needs of all stakeholders including:

- Shareholders;
- Employees;
- Community;
- Creditors;
- Customers;
- Contractors; and
- Government (Federal, State and Local).

The directors, officers and employees of the Company are expected to:

- Comply with the laws and regulations both by the letter and in spirit;
- Act with honesty and integrity;
- Avoid conflicts of interest by not placing themselves in situations which result in divided loyalties;
- Use the Company's assets responsibly and in the interests of the Company, not take advantage of property, information or position for personal gain or to compete with the Company;
- Keep non-public information confidential except where disclosure is authorised or legally mandated; and
- Be responsible and accountable for their actions and report any unethical behaviour.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Corporate Governance Statement

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### TRADING IN COMPANY SECURITIES

The directors, officers and employees of the Company must not acquire or dispose of securities in the Company whilst in possession of price sensitive information not yet released to the market. Subject to this condition and the trading prohibition applying to periods prior to major announcements, including announcements of half-year and full year results, dividends and the holding of a general meeting, trading can occur at any time.

Directors must advise the Company, which in turn advises the Australian Securities Exchange, of any transactions conducted by them in the Company's securities within five business days after the transaction occurs.

### INTEGRITY OF FINANCIAL REPORTING

The Company's Chief Executive Officer, Mr JVM Wroth, and Company Secretary, Mr P Coppini, report in writing to the Board:

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

### AUDIT COMMITTEE

The Company has an Audit Committee consisting of two independent directors, Mr IA Macliver and Mr SJ Court. Mr Macliver is the Non-Executive Chairman of the Audit Committee and is a Chartered Accountant. Mr Court is a fellow of the Institute of Chartered Accountants. Due to the size of the Company and the number of Board members, the Committee consists of only two independent directors, not three as recommended by the Council.

The principle functions of the Audit Committee are to:

- Assist the Board in the discharge of its responsibilities in respect of the Group's financial statements and the Group's internal financial controls;
- Recommend to the Board nominees for appointment as external auditors;
- Review the scope of the audit, the level of the audit fees and the performance of the external auditors;
- Provide a line of communication between the Board and the external auditors; and
- Review and discuss the report prepared by the external auditors.

### TIMELY AND BALANCED DISCLOSURE TO AUSTRALIAN SECURITIES EXCHANGE

The Company has procedures in place to identify matters that are likely to have a material effect on the price of the Company's securities and ensure the Australian Securities Exchange is notified of those matters in accordance with listing rule requirements.

Information to the market and media is handled by the Chairman, the Executive Director, the Chief Executive Officer or the Company Secretary. In particular, the Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange. This role includes responsibility for compliance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules and overseeing and coordinating information disclosures to the Australian Securities Exchange. The Chief Executive Officer is responsible for co-ordinating the same information to analysts, brokers, Shareholders, the media and the public.

All disclosures to the Australian Securities Exchange are posted on the Company's website soon after clearance has been received from the Australian Securities Exchange.

The Chairman, Executive Director, Chief Executive Officer and Company Secretary continually monitor information in the marketplace to ensure that a false market does not emerge in the Company's securities.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Corporate Governance Statement

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### COMMUNICATION WITH SHAREHOLDERS

It is the Company's communication policy to communicate with Shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

The information is communicated to the Shareholders through:

- Continuous disclosure announcements made to the Australian Securities Exchange;
- Distribution of the annual report to Shareholders together with a notice of meeting;
- Posting of half-year and full year financial reports and all other Australian Securities Exchange announcements on the Company's website;
- Posting of all media announcements on the Company's website; and
- Calling of general meetings and other meetings of Shareholders to obtain approval for Board action when appropriate.

On the Company's website, information about the Company's development projects is shown.

The Company has always invited its auditors to attend the Annual General Meeting and will continue to do so and allow sufficient time for Shareholders to ask questions of the Company's auditor relating to the audit of the Company.

At Annual General Meetings and other general meetings of Shareholders, Shareholders are encouraged to ask questions of the Board of Directors relating to the operation of the Company.

### RISK MANAGEMENT

Due to its size of operation and Board, there is no formal board committee to identify, assess, monitor and manage risk, except for the Audit Committee as mentioned previously. Responsibility for day-to-day control and risk management lies with the Chief Executive Officer and Company Secretary (financial risk) with reporting responsibility to the Board. The Board participates and monitors risks including but not limited to compliance with development and environmental approvals, tendering, contracting and development, pricing of products, quality, safety, strategic issues, financial risk, joint venture, accounting and insurance. Any changes to the risk profile of the Company are communicated to its stakeholders via an announcement to the Australian Securities Exchange.

### PERFORMANCE

The Board has adopted a self-evaluation process to measure its own performance. The Chairman evaluates the performance of each Director and the Board evaluates the performance of the Chairman. Performance of the Chief Executive Officer is evaluated by the Board. All performance evaluations are measured against budget, goals and objectives.

All Directors of the Board have access to the Company Secretary who is appointed by the Board. The Company Secretary reports to the Chairman, in particular to matters relating to corporate governance.

Once a month, an information package on the Company's performance is presented to the Board for its review and to assist in decision making.

All Board members have access to professional independent advice at the Company's expense provided they first have obtained the Chairman's approval which will not be unreasonably withheld.

### REMUNERATION

#### Chairman

The Chairman guides and leads the Company on major issues such as strategy and risk management. Accordingly, the Chairman is paid a fee for his services taking into account time spent and the complexity of issues with which he is required to deal. His fee is decided by the other directors.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Corporate Governance Statement

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The Chairman has no retirement or termination benefits other than compulsory superannuation. Payments to the Chairman are set out in the Remuneration Report within the Directors' Report.

### Non-Executive Directors

Shareholders of the Company determine the total amount that can be paid to Non-Executive Directors. This amount was set at a maximum of \$400,000 at an annual general meeting of Shareholders held on 25 November 2005.

The Board determines between themselves how it should be remunerated having regard to non-executive directors for similar companies, the time spent on the Company's matters and the performance of the Company. Additional remuneration (at arm's length rates) may be paid for specific additional services from time to time as determined by the Board.

The Board has no retirement or termination benefits other than compulsory superannuation.

The payments to Non-Executive Directors are set out in the Remuneration Report within the Directors' Report.

### Executive Director

The remuneration of the Executive Director is governed by a letter of engagement. The terms of the engagement does not have provision for leave entitlements nor provide for specific retirement or termination benefits except for compulsory superannuation. The payment of remuneration to the Executive Director is as per the letter of engagement after having regard to the Company's performance, goals achieved and remuneration paid in the market place for a similar position.

The remuneration of the Executive Director is set out in the Remuneration Report within the Directors' Report.

### General

Due to the staff size and the close involvement of the Board in the operations of the Company, the Company does not operate a formal remuneration committee. All remuneration paid to the Chairman, Non-Executive Directors, Executive Director and key management personnel is reviewed and discussed by the Board.

In July 2007, the Company established an employee option plan. Details of the plan were mentioned in the Remuneration Report within the Directors' Report.

## INTERESTS OF STAKEHOLDERS

It is the Company's objective to create wealth for Shareholders, to provide a safe and challenging environment for employees and for the Company to be a valuable member of the community as a whole.

The Company's ethical and responsible behaviour is set out under the heading "*Ethical and Responsible Decision Making*".

The Company aims to participate in the community by offering sponsorships to students and supporting charities, sports and arts associations and similar organisations.

The Company's core values are summarised as follows:

- Provide above average return to Shareholders;
- Act with integrity and fairness;
- Create a safe and challenging workplace;
- Be participative and recognise the needs of the community;
- Protect the environment;
- Be commercially competitive; and
- Strive for high quality performance and development.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Statement of Comprehensive Income  
For the Year Ended 30 June 2010**

	Note	Consolidated		Parent Entity	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Continuing operations</b>					
Sale of land		20,195	25,144	-	-
Rendering of services		9	15	6,022	4,917
Rental revenue		154	179	147	162
Forfeited deposits		387	-	81	-
Finance revenue		30	9	26	9
<b>Revenue</b>	4	<b>20,775</b>	<b>25,347</b>	<b>6,276</b>	<b>5,088</b>
Other income	4	14	21	14	21
Cost of sales	4	(16,182)	(16,680)	-	-
Commissions and discounts		(2,291)	(2,209)	-	-
Advertising and marketing		(404)	(222)	(316)	(213)
Repairs and maintenance		(528)	(380)	(18)	(370)
Rates and taxes		(235)	(328)	(142)	(328)
Employee benefits expense	4	(2,019)	(2,558)	(2,019)	(2,497)
Share based payments expense		(84)	(569)	(84)	(569)
Rental expenses		(231)	(300)	(231)	(300)
Consultants fees		(298)	(425)	(194)	(327)
Legal fees		(395)	(268)	(343)	(252)
Depreciation and amortisation	4	(45)	(137)	(45)	(137)
Finance costs		(83)	(419)	(83)	(2,089)
Other expenses		(16,161)	(1,611)	(3,788)	(1,581)
Net realisable value write down of inventory		(19,206)	(40,865)	(8,109)	(27,504)
Share of net profit from joint venture		612	-	-	-
<b>Loss before income tax</b>		<b>(36,761)</b>	<b>(41,603)</b>	<b>(9,082)</b>	<b>(31,058)</b>
Income tax benefit	5	10,996	11,422	2,692	8,093
<b>Loss after tax from continuing operations attributable to members of Port Bouvard Limited for the year</b>		<b>(25,765)</b>	<b>(30,181)</b>	<b>(6,390)</b>	<b>(22,965)</b>
Profit from discontinued operation after tax	30	-	1,263	-	3,995
Total comprehensive loss for the period, net of income tax		<b>(25,765)</b>	<b>(28,918)</b>	<b>(6,390)</b>	<b>(18,970)</b>
<b>Comprehensive loss attributable to members of Port Bouvard Limited for the year</b>		<b>(25,765)</b>	<b>(28,918)</b>	<b>(6,390)</b>	<b>(18,970)</b>

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Statement of Comprehensive Income (Continued) For the Year Ended 30 June 2010

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	Note	Consolidated	
		2010 Cents	2009 Cents
<b>Loss per share *</b>	20		
- basic (loss) from continuing operations attributable to ordinary equity holders of the Company		(19.39)	(22.13)
- Basic profit from discontinued operation attributable to ordinary equity holders of the Company		n/a	0.38
- Basic total comprehensive loss attributable to ordinary equity holders of the Company		(19.39)	(21.75)

\* Where loss per share is non-dilutive, it is not disclosed.

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

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Statement of Financial Position  
As At 30 June 2010**

	Note	Consolidated		Parent Entity	
		2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
<b>Current Assets</b>					
Cash and cash equivalents	6	47,490	2,562	22,823	2,491
Trade and other receivables	7	4,470	3,830	221,461	176,138
Inventories	8	65,799	51,900	12	17
Other assets	13	1,260	1,808	422	352
<b>Current Assets</b>		<b>119,019</b>	<b>60,100</b>	<b>244,718</b>	<b>178,998</b>
Non-current assets classified as held for sale	30	19,064	13,975	-	-
<b>Total Current Assets</b>		<b>138,083</b>	<b>74,075</b>	<b>244,718</b>	<b>178,998</b>
<b>Non-Current Assets</b>					
Inventories	8	143,166	147,756	-	-
Other financial assets	10	-	-	2,213	2,213
Property, plant and equipment	11	96	138	96	138
Investment properties	12	-	-	-	-
Other assets	13	-	160	-	-
Deferred tax assets	5	29,922	15,205	19,843	11,652
<b>Total Non-Current Assets</b>		<b>173,184</b>	<b>163,259</b>	<b>22,152</b>	<b>14,003</b>
<b>TOTAL ASSETS</b>		<b>311,267</b>	<b>237,334</b>	<b>266,870</b>	<b>193,001</b>
<b>Current Liabilities</b>					
Trade and other payables	14	20,078	12,953	6,828	8,462
Borrowings	15	105,000	51,906	85,000	7,423
Provisions	16	93	85	93	85
<b>Total Current Liabilities</b>		<b>125,171</b>	<b>64,944</b>	<b>91,921</b>	<b>15,970</b>
<b>Non-Current Liabilities</b>					
Other payables	14	3,872	-	-	-
Borrowings	15	33,836	47,531	5,277	47,531
Provisions	16	18	50	18	50
Deferred tax liabilities	5	8,870	6,137	82	82
<b>Total Non-Current Liabilities</b>		<b>46,596</b>	<b>53,718</b>	<b>5,377</b>	<b>47,663</b>
<b>TOTAL LIABILITIES</b>		<b>171,767</b>	<b>118,662</b>	<b>97,298</b>	<b>63,633</b>
<b>NET ASSETS</b>		<b>139,500</b>	<b>118,672</b>	<b>169,572</b>	<b>129,368</b>
<b>EQUITY</b>					
Contributed equity	17	188,483	141,974	188,483	141,974
Reserves	18	556	619	556	619
(Accumulated losses)		(49,539)	(23,921)	(19,467)	(13,225)
<b>TOTAL EQUITY</b>	31	<b>139,500</b>	<b>118,672</b>	<b>169,572</b>	<b>129,368</b>

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

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Statement of Changes in Equity  
For the Year Ended 30 June 2010**

Group	Note	Attributable to owners of Port Bouvard Limited			Total \$'000
		Contributed equity \$'000	Share based payment reserve \$'000	Retained earnings / accumulated losses \$'000	
<b>Balance at 1 July 2009</b>		141,974	619	(23,921)	118,672
Loss for the year		-	-	(25,765)	(25,765)
<b>Total comprehensive income for the year</b>		-	-	<b>(25,765)</b>	<b>(25,765)</b>
Transactions with owners in their capacity as owners:					
Contributions of equity net of transaction costs		46,509	-	-	46,509
Share based payment transactions		-	(63)	147	84
<b>Balance at 30 June 2010</b>		<b>188,483</b>	<b>556</b>	<b>(49,539)</b>	<b>139,500</b>
<b>Balance at 1 July 2008</b>		141,935	472	4,575	146,982
Loss for the year		-	-	(28,918)	(28,918)
<b>Total comprehensive income for the year</b>		-	-	<b>(28,918)</b>	<b>(28,918)</b>
Transactions with owners in their capacity as owners:					
Contributions of equity net of transaction costs		39	-	-	39
Share based payment transactions		-	147	422	569
<b>Balance at 30 June 2009</b>		<b>141,974</b>	<b>619</b>	<b>(23,921)</b>	<b>118,672</b>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Statement of Changes in Equity  
For the Year Ended 30 June 2010**

Parent Entity	Note	Attributable to owners of Port Bouvard Limited			Total
		Contributed equity	Share based payment reserve	Retained earnings / accumulated losses	
		\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2009</b>		141,974	619	(13,225)	129,368
Loss for the year		-	-	(6,390)	(6,390)
<b>Total comprehensive income for the year</b>		-	-	<b>(6,390)</b>	<b>(6,390)</b>
Transactions with owners in their capacity as owners:					
Contributions of equity net of transaction costs		46,509	-	-	46,509
Share based payment transactions		-	(63)	147	84
<b>Balance at 30 June 2010</b>		<b>188,483</b>	<b>556</b>	<b>(19,467)</b>	<b>169,572</b>
<b>Balance at 1 July 2008</b>		141,935	472	5,323	147,730
Loss for the year		-	-	(18,970)	(18,970)
<b>Total comprehensive income for the year</b>		-	-	<b>(18,970)</b>	<b>(18,970)</b>
Transactions with owners in their capacity as owners:					
Contributions of equity net of transaction costs		39	-	-	39
Share based payment transactions		-	147	422	569
<b>Balance at 30 June 2009</b>		<b>141,974</b>	<b>619</b>	<b>(13,225)</b>	<b>129,368</b>

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

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Statement of Cash Flows  
For the Year Ended 30 June 2010**

	Note	Consolidated		Parent Entity	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		25,487	31,576	4,317	5,466
Payments to suppliers and employees		(56,762)	(68,102)	(11,855)	(9,939)
Interest received		30	28	26	28
Interest and other costs paid		(10,119)	(7,063)	(5,994)	(2,673)
Income tax received / (paid)		158	2,440	158	2,730
<b>Net cash flows from / (used in) operating activities</b>	27	<b>(41,206)</b>	<b>(41,121)</b>	<b>(13,348)</b>	<b>(4,388)</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(26)	(264)	-	(26)
Proceeds on disposal of property, plant and equipment		-	15	(26)	15
Proceeds on disposal of PP&E as part of sale of business		-	3,118	-	3,118
Proceeds on disposal of investment in subsidiary		-	1,632	-	1,632
Loans to related parties		-	-	(48,363)	(33,309)
Repayment of loan by joint venture		556	1,397	541	1,397
<b>Net cash flows from / (used in) investing activities</b>		<b>530</b>	<b>5,898</b>	<b>(47,848)</b>	<b>(27,173)</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		65,131	79,018	61,055	75,502
Repayment of borrowings		(25,733)	(43,061)	(25,733)	(43,265)
Proceeds from issue of shares		49,184	39	49,184	39
Transaction costs on issue of shares		(2,978)	-	(2,978)	-
<b>Net cash flows from / (used in) financing activities</b>		<b>85,604</b>	<b>35,996</b>	<b>81,528</b>	<b>32,276</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>44,928</b>	<b>773</b>	<b>20,332</b>	<b>715</b>
Cash and cash equivalents at beginning of the financial year		2,562	1,789	2,491	1,776
<b>Cash and cash equivalents at the end of the financial year</b>	6	<b>47,490</b>	<b>2,562</b>	<b>22,823</b>	<b>2,491</b>

The above statements of cash flows should be read in conjunction with the accompanying notes.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

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# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

These financial statements are general-purpose financial statements which have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and Australian Accounting Interpretations. The financial report has been prepared on an historical cost basis, except for investment properties which have been measured at fair value. Note 30 details non-current assets classified as held-for-sale and the measurement basis used.

The financial statements are presented in Australian dollars, which is the functional and presentation currency of Port Bouvard Limited, and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which this class order applies.

The financial statements disclose information with respect to the Parent Entity of the Group. This is contrary to the requirements of the Corporations Amendment Bill 2010, which was passed by Parliament on 24 June 2010 and received Royal Assent on 28 June 2010. In order to do this, the Company has applied ASIC Class Order 10/654. The Class Order allows companies, registered schemes and disclosing entities that present consolidated financial statements to include parent entity financial statements as part of their financial statements under Chapter 2M of the Corporations Act 2001. The Company is an entity to which this class order applies.

#### *Financial statement presentation*

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

#### (b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS) and with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Australian Accounting Standards and Interpretations that have recently been issued or amended that are not yet mandatory for 30 June 2010 reporting periods have not been adopted by the Group. The Accounting Standards and Interpretations that are clearly applicable to the Group are outlined in the table below.

Title and topic	Financial statement impact	Issued / Applicable date	Application date for Group
AASB 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process - Non-current Assets Held for Sale and Discontinued Operations</i> [AASB 5]  Clarifies that disclosures required for non-current assets (or disposal groups) classified as held for sale or discontinued operations are limited to those required by AASB 5 unless: <ul style="list-style-type: none"><li>• Disclosures are specifically required for these assets by other AASBs; or</li><li>• Assets and liabilities of a disposal group are not within the measurement requirements of AASB 5 and disclosures are required by other Australian Accounting Standards Board Standards.</li></ul>	There will be no impact to the financial statements as these requirements are only required to be applied prospectively to disclosures for non-current assets classified as held-for-sale or discontinued operations.	May 2009 / January 2010	July 2010

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Statement of compliance (continued)**

Title and topic	Financial statement impact	Issued / Applicable date	Application date for Group
<p>AASB 2009-8 <i>Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions</i></p> <p>Clarifies the scope and accounting for group cash-settled share-based payment transactions in the individual financial statements of an entity receiving the goods/services when that entity has no obligation to settle the share-based payment transaction.</p> <p>Supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions.</p>	<p>There will be no impact as there are no share-based payment transactions where the Group receives goods or services with no corresponding obligation to settle the share-based payment transaction.</p>	<p>July 2009 / January 2010</p>	<p>July 2010</p>
<p>AASB 9 <i>Financial Instruments</i></p> <p>Amends the requirements for classification and measurement of financial assets.</p>	<p>Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the Group has not yet made an assessment of the impact of these amendments.</p>	<p>December 2009 / January 2013</p>	<p>July 2013</p>
<p>AASB Interpretation 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i></p> <p>Equity instruments issued to a creditor to extinguish all or part of a financial liability are 'consideration paid' to be recognised at the fair value of the equity instruments issued, unless their fair value cannot be measured reliably, in which case they are measured at the fair value of the debt extinguished. Any difference between the carrying amount of the financial liability extinguished and the 'consideration paid' is recognised in profit or loss.</p>	<p>There will be no impact to the financial statements as the Group has not undertaken any debt for equity swaps.</p>	<p>December 2009 / July 2010</p>	<p>July 2010</p>
<p>AASB 101 <i>Presentation of Financial Statements</i></p> <p>Clarifies that terms of a liability that could, at the option of the counterparty, result in the liability being settled by the issue of equity instruments, do not affect its classification. This means that unless the terms of such liabilities require a transfer of cash or other assets within 12 months, they do not necessarily have to be classified as current liabilities.</p>	<p>Initial adoption of this amendment will have no impact as the entity does not have any current liabilities where the counterparty has the option to have the liabilities settled by the issue of equity instruments.</p>	<p>December 2009 / January 2010</p>	<p>July 2010</p>
<p>AASB 107 <i>Statement of Cash Flows</i></p> <p>Clarifies that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as cash flows from investing activities.</p>	<p>Initial adoption of this amendment will have no impact as the entity only recognises cash flows from investing activities for expenditures that result in a recognised asset in the statement of financial position.</p>	<p>December 2009 / January 2010</p>	<p>July 2010</p>

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Statement of compliance (continued)

Title and topic	Financial statement impact	Issued / Applicable date	Application date for Group
AASB 117 <i>Leases</i>  Land can be classified as a finance lease for very long leases where the significant risks and rewards are effectively transferred, despite there being no transfer of title.	Initial adoption of this amendment will have no impact as the entity has no leases for land.	December 2009 / January 2010	July 2010
AASB 136 <i>Impairment of Assets</i>  Clarifies that cash-generating units to which goodwill is allocated cannot be larger than an operating segment as defined in AASB 8 <i>Operating Segments</i> before aggregation.	There will be no impact as these requirements are only required to be applied prospectively to goodwill impairment calculations for periods commencing on or after 1 July 2010.	December 2009 / January 2010	July 2010

No other accounting standards that have been issued but not yet effective will affect the Group.

#### (c) Principles of consolidation

The Group's financial statements comprise the financial statements of Port Bouvard Limited (the Company) and its subsidiaries (the Group) as at 30 June each year.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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

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

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

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of Port Bouvard Limited.

#### (d) Segment reporting

The Group operates one business segment of property development in Australia. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker of the Group. Further segment information is reported in note 26.

##### *Change in accounting policy*

The Group has adopted AASB 8 *Operating Segments* from July 2009. AASB 8 replaced AASB 114 *Segment Reporting*. AASB 8 requires a "management approach", under which segments information is presented on the same basis as that used for internal reporting purposes. This has resulted in a decrease in the number of segments reported. The segments are reported in a manner which aligns to the internal reports provided to the chief operating decision maker. Comparatives for the 2009 financial year have been restated.

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity 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 statement of cash flows, 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 statement of financial position.

**(f) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

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 and recorded in a separate account when there is objective evidence that the group will not be able to collect the debt. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments for a prolonged period are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

**(g) Inventories**

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

*Land under development and apartment construction*

Both land under development and apartment projects under construction, are measured at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, materials, borrowing costs and holding costs incurred during development and construction. Once development and construction is completed, borrowing costs and holding costs are expensed as incurred.

All land under development (including land undergoing the approvals process) and apartment construction projects are regarded as inventory and are classified as such in the statement of financial position. Land and apartments are classified as current only when sales are expected to occur within the next twelve months.

Borrowing costs included in the cost of any land under development and apartment construction projects are those costs that would have been avoided if the expenditure on the acquisition and development of the land, and building of the apartment project, had not been made. Borrowing costs incurred while active development and construction is interrupted for extended periods are recognised as an expense.

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition.

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*Loans and receivables*

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

**(i) Impairment of financial assets**

The Group assesses at each balance date whether a financial asset or group of financial assets is impaired.

The Group first assesses whether objective evidence exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

**(j) Share based payments**

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors, will ultimately vest.

This opinion is formed based on the best available information at the reporting date. No expense is recognised for awards that do not ultimately vest. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Refer to note 29 for more information on shared based payments.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Investment in joint venture**

The Group's investment in a joint venture entity is accounted for using the equity method of accounting in the Group's financial statements.

Under the equity method, the investment in the joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the joint venture.

The Group's share of the joint venture post-acquisition profits or losses are recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in the joint venture equals or exceeds its interest in the joint venture, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

The reporting dates of the joint venture and the Group are identical and the joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

**(l) Property, plant and equipment**

Plant and equipment is stated at cost less any accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Buildings are measured at cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis or by diminishing value over the estimated useful life of the assets as follows:

Buildings and fixtures – over 20 years  
Paintings and artwork – over 83 years  
Plant and equipment – over 3 to 15 years  
Land – is not depreciated

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

*Disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of comprehensive income in the year the asset is derecognised.

**(m) Investment properties**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at balance date. Gains or losses arising from changes in the fair values of investment properties are recognised in the statements of comprehensive income in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statements of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, land is held for a currently undetermined future use or there is a change in use evidenced by ending of owner-occupation or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Investment properties (continued)**

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statements of comprehensive income. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statements of comprehensive income.

**(n) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Group as lessee*

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

*Group as lessor*

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Indirect costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income. Lease income is recognised on a straight line basis over the term of the lease.

**(o) Impairment of non-financial assets**

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 that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

**(p) Trade and other payables**

Trade payables and other payables are recognised initially at fair value and subsequently carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of those goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

**(q) Interest bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(r) Employee leave benefits**

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

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

**(s) Contributed equity**

Ordinary shares 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.

**(t) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

*Land development and apartment sales*

Revenue is recognised when the risks and rewards of ownership have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer when a sales contract settles.

Revenue arising from the sale of developed land and completed apartments are recognised when a valid sales contract settles whereby title passes to the purchaser.

*Rendering of services*

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

*Interest revenue*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Rental income*

Rental income is accounted for on a straight line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

*Dividends*

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

**(u) Borrowing costs**

Borrowing costs are recognised as an expense when incurred, except where they are incurred as part of the construction of qualifying assets, where they are then capitalised as part of the cost of that asset.

**(v) Income tax**

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

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

Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income tax (continued)

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

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

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

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

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

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

*Tax consolidation legislation*

Port Bouvard Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The head entity, Port Bouvard Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Port Bouvard Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in note 5.

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.

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (w) Other taxes

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

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

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

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

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

GST is calculated on revenue arising from the sale of real property under the margin scheme, when able.

#### (x) Earnings per share

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

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

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

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(y) Going concern**

Under ongoing facilities with its lender, the Group is required to reduce its Oceanique Apartment construction facility in three repayment tranches: by \$75m on or before 31 December 2010; by a further \$10m on or before 30 June 2011; and the balance is to be repaid on or before 31 October 2011. The ability of the Group to reduce its facility by these values is dependent on it successfully settling contracts of Oceanique Apartments.

The Group had pre-sold 40 of the 66 apartments in a previous sales campaign. Disclosure to Shareholders (and the market) dated 8 September 2010 stated that the Group had successfully settled \$33.4m in gross sales of apartments as at that date and that settlement of remaining pre-sold apartments are continuing. There remains a risk that some purchasers of pre-sold apartments may not complete. The Group will also commence a sales and marketing campaign to sell unsold apartments, which is expected to commence in mid-October 2010.

There is a risk that the first of the three repayment tranches may not be met. To mitigate the impact of this risk, the Group is currently undertaking negotiations with its lender to vary the facility's terms. In the event that the Group isn't able to vary the facility's terms, it may have to fund a possible shortfall from alternative sources, which may impact carrying amounts of the Group's assets.

After considering all current relevant and reliable information, the Directors are of the view that there are reasonable grounds the Group will be able to pay its debts as and when they fall due. On this basis, the Group's financial statements have been prepared on a going concern basis.

The Directors have formed this view after considering the following factors:

- Current market conditions, potential asset sales and value of sales;
- The Group's net assets of \$139.5m;
- Its long-term relationship with its lender and the progressed stage of negotiations to vary facility terms; and
- The assumptions used to form the Group's financial forecasts.

**(z) Non-current assets held-for-sale**

Non-current assets are classified as held-for-sale if their carrying amount will be recovered through a highly probable sale transaction rather than through development and sale. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of sale.

Non-current assets held-for-sale are not depreciated or amortised. Interest and other expenses attributable to the liabilities of a these assets classified as held-for-sale continue to be recognised.

Non-current assets held-for-sale are presented separately from other assets in the statements of financial position and liabilities with respect to non-current assets held-for-sale are presented separately from other liabilities in the statements of financial position.

*Discontinued operation*

A discontinued operation is a component of the Group that has been disposed of or is classified as held-for-sale. It may represent a separate material line of business or geographical area of operations, is part of a co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statements of comprehensive income.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

#### 2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financing of the Group's operations is balanced by both equity and debt financing.

The Group's principal financial instruments comprise bank loans, cash and short-term deposits. All the Group's financial instruments are with lender, St George Bank Limited. The Parent Entity also includes receivables from its subsidiaries. The Group and Parent Entity hold the following financial instruments:

	Consolidated		Parent Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Financial assets</b>				
Cash and cash equivalents	47,490	2,562	22,823	2,491
Trade and other receivables	693	3,830	220,812	176,138
	<b>48,183</b>	<b>6,392</b>	<b>243,635</b>	<b>178,629</b>
<b>Financial liabilities</b>				
Trade and other payables	23,433	12,953	6,817	8,462
Borrowings	138,836	99,437	90,277	54,954
	<b>162,269</b>	<b>112,390</b>	<b>97,094</b>	<b>63,416</b>

The Group has various financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main purpose of borrowings is to provide finance for the Group's operations.

Financial risk management is overseen principally by the Executive Director and Chief Executive Officer, with assistance from the Financial Controller, under the direction of the Board. It is currently, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks as summarised below. With respect to financial instruments, the Group is not exposed other types of risk such as foreign exchange risk and price risk.

#### *Cash and cash equivalents*

At the end of the financial year the Group was part way through its capital raising process and on 29 June 2010 it had received a part of the capital raising proceeds. These proceeds increased the level of cash and cash equivalents at 30 June 2010, compared to the cash held at the end of the previous reporting period.

The balance of cash and cash equivalents at the end of the financial year was therefore not representative of the balance held for most of the year. Hence the balance at the end of the financial year for cash and cash equivalents was not representative of the risk during the year. The types of risk mentioned above, were therefore only applicable to cash and cash equivalents to a limited extent.

Further details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

#### **Market Risk**

##### *Cash flow interest rate risk*

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's borrowings issued at fixed rates limit the exposure to this interest rate risk. At the end of the financial year however, all of the Group's borrowings were at variable interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's financing is generally split into two categories:

- short term project finance; and
- long term borrowings used for the acquisition of broad acre land.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

#### 2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

##### Market Risk (continued)

Project finance provides the funds necessary for construction and development projects and the bank facilities for these involve both fixed and variable interest rates. The funds available may only be used to fund the specific project for which the facility was granted.

Longer term borrowings used to finance the acquisition of broad acre land are also managed by borrowing at both fixed and variable interest rates. Please refer to note 15 for Group and Company maximum exposure to interest rate risk.

##### *Interest rate risk Group sensitivity*

At 30 June 2010 if interest rates had changed by +/- 100 basis points (the maximum potential change in management's view from the year-end rates with all other variables held constant), post tax profit for the year would have been \$28,000 lower/higher (2009: \$5,000 lower/higher), mainly as a result of higher/lower interest expense from borrowings.

At 30 June 2010 none (2009: 77%) of the Group's borrowings were at fixed interest rates.

##### *Interest Rate Risk Parent Entity Sensitivity*

The Parent entity's main interest rate risk arises from interest expense. At 30 June 2010 if interest rates had changed by +/- 100 basis point from the year end rates with all other variables held constant, post-tax profit would have been \$23,000 lower/higher (2009: change of 100bps: \$13,000) as a result of lower interest expense from these financial liabilities.

##### Credit Risk

Credit risk is the risk that the counter-party will default on its contractual obligations, resulting in a financial loss to the Group. Any inherent credit risk of elements of the Group's financial statements is mitigated by use of the settlement (completed contract) method of revenue recognition.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances if any, are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

The Group's operation focuses on developing and selling lots of land and built-form product. At 30 June 2010 the Group had unconditional contracts of sale shown in the table below in its portfolio awaiting settlement which under the accounting policy referred to in note 1 (b) is not recognised as revenue until settlement, but which will provide cash inflows to the Group upon settlement.

Group	Settlement past due but not impaired	Less than 6 months	6-12 months	Between 1-2 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Land	6,850	6,850	-	-	6,850
Built-form	-	-	-	-	-
Total unconditional contracts awaiting settlement	6,850	6,850	-	-	6,850

Credit risk is managed on a group basis. The maximum exposure to credit risk in respect of the above at 30 June 2010 is the carrying value of financial assets recorded in the financial statements, net of any allowances for losses.

##### Liquidity risk

Liquidity risk reflects the likelihood of cash generating assets providing insufficient cash flow to fund the Group's operation. The Group's objective is therefore to maintain a balance between continuity of funding and flexibility through the use of bank loans and bank overdrafts, if required. The Group ensures it has in place sufficient committed credit facilities with various counterparties and continuously monitors actual and forecasted cash flows and matches maturity profiles of financial assets and liabilities, such as receivables and loan facilities.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

*Financing arrangements*

The Group and the parent entity had access to the following borrowing facilities at the reporting date:

	Consolidated		Parent Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Floating rate</b>				
- Expiring within one year (bank overdraft and bill facility)	105,000	36,785	85,000	36,785
- Expiring beyond one year (bank overdraft and bill facility)	33,836	-	33,836	-
	<b>138,836</b>	<b>36,785</b>	<b>118,836</b>	<b>36,785</b>
<b>Fixed rate</b>				
- Expiring within one year (bank overdraft and bill facility)	-	50,000	-	-
- Expiring beyond one year (bank overdraft and bill facility)	-	101,000	-	101,000
	<b>-</b>	<b>151,000</b>	<b>-</b>	<b>101,000</b>
	<b>138,836</b>	<b>187,785</b>	<b>118,836</b>	<b>137,785</b>

*Maturities of Financial Liabilities*

The tables below analyses the Group's and parent entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Refer to note 15 for more detail on used and unused borrowing facilities and carrying value of assets pledged as security. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities
– At 30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Development facilities	95,000	10,000	45,952	-	-	150,952	138,307
General (multi-option) facility – loan	-	-	4,362	-	-	4,362	529
General (multi-option) facility – guarantees	-	-	1,124	-	-	1,124	1,124
Trade and other payables	16,561	3,000	-	3,872	-	23,433	23,433
<b>Total facilities</b>	<b>111,561</b>	<b>13,000</b>	<b>51,438</b>	<b>3,872</b>	<b>-</b>	<b>179,871</b>	<b>163,393</b>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

<b>Group</b>	<b>Less than 6 months</b>	<b>6 – 12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total contractual cash flows</b>	<b>Carrying amount (assets) / liabilities</b>
<b>– At 30 June 2009</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Development facilities	19,043	102,236	46,632	-	-	167,911	97,696
General (multi-option) facility – loan	9,708	-	-	-	-	9,708	1,741
General (multi-option) facility – guarantees	1,224	-	-	-	-	1,224	1,224
Trade and other payables	12,953	-	-	-	-	12,953	12,953
<b>Total facilities</b>	<b>42,928</b>	<b>102,236</b>	<b>46,632</b>	<b>-</b>	<b>-</b>	<b>191,796</b>	<b>113,614</b>

<b>Parent Entity</b>	<b>Less than 6 months</b>	<b>6 – 12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total contractual cash flows</b>	<b>Carrying amount (assets) / liabilities</b>
<b>– At 30 June 2010</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Development facilities	75,000	10,000	15,952	-	-	100,952	89,748
General (multi-option) facility – loan	-	-	4,362	-	-	4,362	529
General (multi-option) facility – guarantees	-	-	999	-	-	999	999
Trade and other payables	6,817	-	-	-	-	6,817	6,817
Cross guarantees	8,644	-	-	-	-	8,644	8,644
<b>Total facilities</b>	<b>90,461</b>	<b>10,000</b>	<b>21,313</b>	<b>-</b>	<b>-</b>	<b>121,774</b>	<b>106,737</b>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

Parent Entity – At 30 June 2009	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets) / liabilities \$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Development facilities	16,962	100,185	-	-	-	117,147	53,214
General (multi-option) facility – loan	9,708	-	-	-	-	9,708	1,741
General (multi-option) facility – guarantees	1,099	-	-	-	-	1,099	1,099
Trade and other payables	8,462	-	-	-	-	8,462	8,462
Cross guarantees	13,015	-	-	-	-	13,015	-
<b>Total facilities</b>	<b>49,246</b>	<b>100,185</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>149,431</b>	<b>64,516</b>

**Fair value estimation**

The carrying value of current financial assets and liabilities represent their fair value at balance date. The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-tem nature.

Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010

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**3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

**Significant accounting judgments**

*Recovery of deferred tax assets*

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

*Recovery of inter-company loans*

The Parent Entity has loans owing from all of its subsidiaries. At each reporting date the recoverability of the outstanding loans is assessed. At 30 June 2010 an impairment adjustment of \$8,108,861 (2009: \$27,504,000) was made in the Parent Entity due to net asset deficiency of its subsidiaries. If at future balance dates the net asset position of a subsidiary isn't deficient, a reversal of impairment losses will result.

**Significant accounting estimates and assumptions**

*Net realisable value write-down of non-financial assets*

The Group assesses net realisable value of all non-financial assets at each reporting date. The assessment considers conditions specific to the Group and in particular to the non-financial assets concerned. The results of the assessment may give rise to write-downs of non-financial assets. The Group considers net realisable value to be the net amount it will realise from sale of the fully developed or constructed asset, less the costs of development or construction, and less the estimated costs necessary to make the sale, in the ordinary course of business. The Group reports in its financial statements the lower of carrying cost and net realisable value.

In determining net realisable value the Group uses the most reliable information available at the time the assessment is made. The Group uses value in use measurement techniques, that is, calculation of the present value of future cash flows expected to be derived from the asset. The Group's value in use calculations to support the estimated net realisable value at 30 June 2010 incorporated a number of key estimates and assumptions:

- A pre-tax discount rate of 25% (2009: 25%).
- Sales prices and construction costs are estimated at levels current at the date of calculation, then indexed / escalated at rates estimated by management to be reflective of future economic conditions. Estimates of escalation rates at 30 June 2010 for sales and costs was 4% and 3% respectively (2009: 6% for both sales and costs).
- Assumptions in respect of the timing of approvals from government agencies at all levels, in order for projects to proceed.

At 30 June 2010 an analysis of net realisable value of the Group's assets required that asset values be written down and this amounted to \$19,205,862 (2009: \$32,960,288).

*Fair value write-down of non-financial assets*

The Group assesses fair value of all non-financial assets that it expects to dispose of outside the ordinary course of business at each reporting date. Fair value reflects the amount which could be exchanged between the Group and knowledgeable willing buyers in the marketplace. In order to determine fair value, the Group engages independent professional valuation firms specialising in the property industry.

At 30 June 2010 an analysis of fair value of the Group's non-core assets held-for-sale required that asset values be written down and this amounted to nil (2009: \$7,904,558).

*Non-current assets held-for-sale*

In the 2009 financial year the Group announced its asset realisation strategy which has the objective of non-core asset disposals. As a result, since the 2009 financial year, the Group has disclosed its non-core assets as held-for-sale. The Group has assumed these non-core assets will be sold during the next 12 months.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>4. REVENUE AND EXPENSES from continuing operations</b>				
<b>Revenue</b>				
Sale of goods – land	20,195	25,144	-	-
Rendering of services	9	15	6,022	4,917
Rental revenue – buildings	154	179	147	162
Finance revenue	30	9	26	9
Forfeited deposits revenue	387	-	81	-
	<u>20,775</u>	<u>25,347</u>	<u>6,276</u>	<u>5,088</u>
<i>Breakdown of finance revenue:</i>				
Bank interest receivable	30	9	26	9
	<u>30</u>	<u>9</u>	<u>26</u>	<u>9</u>
<i>Breakdown of services revenue:</i>				
Inter-company management fees	-	-	6,013	4,910
Project management fees from joint venture	-	-	-	-
Other commission received	-	8	-	-
Management fees	-	2	-	2
Other	9	5	9	5
	<u>9</u>	<u>15</u>	<u>6,022</u>	<u>4,917</u>
<b>Other income</b>				
Other income	14	21	14	21
	<u>14</u>	<u>21</u>	<u>14</u>	<u>21</u>
<b>Cost of sales</b>				
Cost of sales	16,182	16,680	-	-
	<u>16,182</u>	<u>16,680</u>	<u>-</u>	<u>-</u>
<b>Finance costs</b>				
Bank accounts and loans paid	9,875	5,262	6,313	2,089
Less - amount capitalised to work in progress (note (a))	(9,792)	(5,157)	-	-
- amount allocated to subsidiary	-	314	(6,230)	-
	<u>83</u>	<u>419</u>	<u>83</u>	<u>2,089</u>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>4. REVENUE AND EXPENSES (CONTINUED)</b>				
<b>Employee benefits expense</b>				
Wages and salaries	2,402	3,175	2,402	3,123
Superannuation expense	288	368	288	364
Payroll tax	125	177	125	172
Other employee benefits expense	29	(128)	29	(128)
Employee expense transferred to cost of sales	(825)	(1,034)	(825)	(1,034)
	<u>2,019</u>	<u>2,558</u>	<u>2,019</u>	<u>2,497</u>
<b>Depreciation and amortisation</b>				
Leasehold improvements	2	71	2	71
Plant and equipment	43	66	43	66
	<u>45</u>	<u>137</u>	<u>45</u>	<u>137</u>

**(a) Capitalised borrowing costs**

During the year the Group incurred borrowing costs of \$9,875,000 (2009: \$7,246,000). Of these costs \$9,792,000 or 99% was capitalised during the year (2009: \$6,827,000 or 94%). The capitalisation rate of borrowing costs was 7.02% during the year (2009: 7.30%).

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>5. INCOME TAX</b>				
<b>Income tax expense</b>				
The major components of income tax expense are:				
<i>Current income tax</i>				
Current income tax charge	-	-	-	-
Adjustments in respect of current income tax of previous years	-	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(10,996)	(11,645)	(2,692)	(8,093)
Income tax (credit) / expense reported in statement of comprehensive income	<u>(10,996)</u>	<u>(11,645)</u>	<u>(2,692)</u>	<u>(8,093)</u>
<b>Amounts charged or credited directly to equity</b>				
<i>Deferred income tax related to items charged or credited directly to equity</i>				
Capital raising transaction costs	1,146	-	1,146	-
	<u>1,146</u>	<u>-</u>	<u>1,146</u>	<u>-</u>
<b>Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate</b>				
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting (loss) / profit before tax from continuing operations	(36,761)	(41,603)	(9,082)	(31,058)
Profit / (loss) before tax from discontinued operations	<u>-</u>	<u>1,040</u>	<u>-</u>	<u>3,995</u>
Total accounting (loss) / profit before income tax	<u>(36,761)</u>	<u>(40,563)</u>	<u>(9,082)</u>	<u>(27,063)</u>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>5. INCOME TAX (CONTINUED)</b>				
At the Group's statutory rate of 30% (2009: 30%)	(11,028)	(12,168)	(2,724)	(8,119)
Adjustments in respect of current income tax of previous years	-	-	-	-
Expenditure not allowable for income tax purposes	32	498	32	(476)
Dividends not assessable	-	-	-	-
Income not assessable for income tax purposes	-	-	-	-
Tax losses not previously recognised	-	-	-	-
Adjustments relating to subsidiaries	-	23	-	23
Sundry items	-	2	-	479
	<u>(10,996)</u>	<u>(11,645)</u>	<u>(2,692)</u>	<u>(8,093)</u>
Income tax benefit reported in consolidated statement of comprehensive income	(10,996)	(11,422)	(2,692)	(8,093)
Income tax attributable to discontinued operations	-	(223)	-	-
	<u>(10,996)</u>	<u>(11,645)</u>	<u>(2,692)</u>	<u>(8,093)</u>
Effective tax rate	30%	28%	30%	30%

	Balances		Movements	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>Recognised deferred tax assets and liabilities</b>				
<b>CONSOLIDATED</b>				
<i>Deferred tax liabilities</i>				
Other income not assessable until realised – fair value profit on revaluation	(940)	(940)	-	409
Expenditure deductible for taxation purposes and not accounting purposes	(287)	(291)	(4)	(170)
Accelerated depreciation for tax purposes	-	-	-	261
Deductible expenses capitalised into land value	-	-	-	43
Development costs immediately deductible	<u>(7,643)</u>	<u>(4,906)</u>	2,737	(1,607)
	<u>(8,870)</u>	<u>(6,137)</u>		

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Balances		Movements	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>5. INCOME TAX (CONTINUED)</b>				
<b>CONSOLIDATED</b>				
<i>Deferred tax assets</i>				
Tax losses carried forward	6,799	2,190	4,609	1,852
Expenses not deductible until paid	172	187	(15)	(337)
Share transaction costs	1,242	649	593	(324)
Other	3,257	136	3,121	90
Loan impairment	947	300	647	-
Fair value loss on net realisable value write down	17,505	11,743	5,762	11,743
Adjustment in respect of prior year tax losses	-	-	158	-
Rounding differences	-	-	-	(2)
	<u>29,922</u>	<u>15,205</u>		
			<u>12,142</u>	<u>11,958</u>
Deferred tax income / (expense)				
Deferred tax income / (expense) attributable to continuing operations			12,142	11,958
Deferred tax income / (expense) attributable to discontinued operations			-	(313)
			<u>12,142</u>	<u>11,645</u>
<b>PARENT ENTITY</b>				
<i>Deferred tax liabilities</i>				
Income not assessable until settlement	<u>(82)</u>	<u>(82)</u>	-	(81)
	<u>(82)</u>	<u>(82)</u>		
<i>Deferred tax assets</i>				
Deferred tax losses	6,799	2,190	4,609	1,852
Expenses not deductible until settlement	-	-	-	-
Expenses not deductible until paid	172	187	(15)	(333)
Share transaction costs	1,242	649	593	(324)
Other	-	75	(75)	75
Loan provision	11,631	8,551	3,080	8,251
Losses transferred for value within consolidated tax group	-	-	(4,510)	(1,346)
Adjustment in respect of prior year tax losses	-	-	158	-
Rounding differences	(1)	-	(2)	(1)
Deferred tax income / (expense)	<u>19,843</u>	<u>11,652</u>	<u>3,838</u>	<u>8,093</u>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**5. INCOME TAX (CONTINUED)**

**Deferred tax assets not brought to account**

There are no deductible temporary differences, unused tax losses or unused tax credits that have not been recognised as deferred tax assets in the statement of financial position.

At 30 June 2010 an assessment was made of the Group's ability to earn sufficient taxable profit against which the deductible temporary differences and unused tax losses can be utilised. The assessment suggested that probable future tax profit will be available for this purpose.

**Tax consolidation**

*Tax consolidation contributions / (distributions)<sup>(i)</sup>*

Port Bouvard Limited has recognised the following amounts as tax consolidation contribution adjustments:

	<b>Parent Entity</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Total increase / (reduction) in tax expense of Port Bouvard Limited	4,510	433
Total (reduction) / increase to inter-company assets of Port Bouvard Limited	<u>(4,386)</u>	<u>(907)</u>
Total increase / (reduction) to inter-company liabilities of Port Bouvard Limited	<u>124</u>	<u>(474)</u>

(i) For further information with respect to tax consolidation of the Group please refer to note 1 (v).

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>6. CASH AND CASH EQUIVALENTS</b>				
Cash at bank and on hand	<u>47,490</u>	<u>2,562</u>	<u>22,823</u>	<u>2,491</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates and the balance in the account. The carrying amount of cash and cash equivalents represents fair value.

**Reconciliation to statements of cash flows**

For the purposes of the statements of cash flows, cash and cash equivalents comprise the following at 30 June:

Cash at bank and on hand	<u>47,490</u>	<u>2,562</u>	<u>22,823</u>	<u>2,491</u>
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**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>7. TRADE AND OTHER RECEIVABLES</b>				
<b>Current</b>				
Trade receivables	253	9	253	9
Other receivables (note (a))	3,868	760	740	711
Tax receivables from controlled entities	-	-	20,741	25,128
Loans to controlled entities	-	-	234,990	174,732
Loan to joint venture (note (b))	3,505	4,061	3,505	4,061
Allowance for impairment loss (note (b))	(3,156)	(1,000)	(38,768)	(28,503)
	<u>4,470</u>	<u>3,830</u>	<u>221,461</u>	<u>176,138</u>

Trade receivables are all non-interest bearing and are generally on 30-90 day terms. There is no evidence of impairment for any trade receivable therefore no allowance has been recognised.

For terms and conditions relating to related party receivables refer to note 22.

Details regarding the effective interest rate and credit risk of current and non-current receivables are disclosed in note 2.

**(a) Other receivables – current**

Other receivables comprise an amount owing from the Western Australian Office of State Revenue being \$3,064,000 which is the expected refund of stamp duty previously paid pursuant to Option agreements over land at the Group's former Gidgegannup development; \$713,000 in Business Activity Statement refunds due from the Australian Taxation Office; and the balance of \$55,000 is made up of sundry debtors. In the previous financial year \$760,000 was owed from the Australian Taxation Office for Business Activity Statement refunds and \$46,000 from sundry debtors, which have all been settled during the 2010 financial year.

**(b) Movement in allowance for impairment loss**

Balance at the beginning of the year	1,000	1,000	28,504	1,000
Movement	2,155	-	10,264	27,504
Balance at the end of the year	<u>3,155</u>	<u>1,000</u>	<u>38,768</u>	<u>28,504</u>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>7. TRADE AND OTHER RECEIVABLES (CONTINUED)</b>				

**(b) Movement in allowance for impairment loss (continued)**

The movement in allowance for impairment loss of \$10,264,000 (2009: \$27,504,000) relates to impairment of inter-company loans between the Parent Entity and certain subsidiaries due to a deficiency in net assets of the relevant subsidiary. This adjustment follows from the reduction in asset values in certain subsidiaries resulting from impairment of assets.

Included in the \$10,264,000 is an movement of \$2,155,000 (2009: no change) in the current period to the allowance for impairment loss relating to the Stirling Lakes Joint Venture. The loan to the joint venture represents funds advanced to the Stirling Lakes Joint Venture for the development of Princeton Private Estate in Stirling. All lots at Princeton Private Estate have now been settled and small matters are being concluded with the local authority. The loan is considered to be impaired and an allowance has been made of \$3,155,000 (2009: \$1,000,000). The amount of the allowance has been measured as the difference between the carrying amount of the loan and the estimated future cash flows expected to be received from the joint venture.

**8. INVENTORIES**

**Current**

The Links Stay & Play consumable stock	12	17	12	17
Land held for development and resale				
At cost of acquisition	1,751	1,944	-	-
Capitalised development costs	58,188	45,957	-	-
Other costs	5,848	3,982	-	-
	<u>65,799</u>	<u>51,900</u>	<u>12</u>	<u>17</u>

**Non-current**

Land held for development and resale				
At cost of acquisition	105,404	113,667	-	-
Capitalised development costs	34,582	24,648	-	-
Other costs	3,180	9,441	-	-
	<u>143,166</u>	<u>147,756</u>	<u>-</u>	<u>-</u>

Details regarding the carrying amount of inventories pledged as security for borrowings are disclosed in note 15.

Inventories recognised as expense within cost of sales during the year ended 30 June 2010 amounted to \$16,182,000 (2009: \$16,680,000).

Write-down of inventory to recoverable amount recognised as an expense during the year ended 30 June 2010 amounted to \$19,206,000 (2009: \$32,960,000). The expense has been included in the net realisable value write-down amount in the statements of comprehensive income.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD</b>				
<b>Investment details</b>				
Stirling Lakes Joint Venture	1,438	1,115	-	-
Allowance for impairment	(1,438)	(1,115)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Midland Court Mortgage Finance (NSW) Pty Ltd, a 100% controlled entity of Port Bouvard Limited, has a 50% interest in the following four companies: M.M.M. Developments Pty Ltd, D.D. Developments Pty Ltd, Lighthouse Investments Pty Ltd and Goodrock Corporation Pty Ltd. These four companies are party to a joint venture agreement which has undertaken the development of the Princeton Private Estate in Stirling.

The interest in the Stirling Lakes Joint Venture is accounted for in the Group's financial statements using the equity method of accounting.

The Group's share of accumulated losses in the joint venture at year end totalled \$1,562,000 (2009: \$2,174,000).

**Share of joint venture assets and liabilities**

Current assets	<u>220</u>	<u>1,535</u>	<u>-</u>	<u>-</u>
Total assets	220	1,535	-	-
Current liabilities	(21)	(107)	-	-
Non-current liabilities *	<u>(1,753)</u>	<u>(3,594)</u>	<u>-</u>	<u>-</u>
Total liabilities	(1,774)	(3,701)	-	-
<b>Net liabilities</b>	<u>(1,554)</u>	<u>(2,166)</u>	<u>-</u>	<u>-</u>

\* Non-current liabilities include amounts owed to the Company (refer note 7).

**Share of joint venture revenue, expenses and results**

Revenues	1,325	175	-	-
Expenses	<u>(712)</u>	<u>(248)</u>	<u>-</u>	<u>-</u>
Profit / (Loss) before tax	<u>613</u>	<u>(73)</u>	<u>-</u>	<u>-</u>

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

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	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)</b>				

#### Contingent liabilities relating to the joint venture

The joint venture has provided bank guarantees in respect of certain undertakings of the Princeton development in favour of the City of Stirling. These bank guarantees totalled \$661,000 at year end (2009: \$1,765,000).

Note: The balance at year end for 2009 also included bank guarantees to Water Corporation and Western Power in addition to the City of Stirling.

The Group has provided a mortgage over their shares in the joint venture entities and a fixed and floating charge over present and future rights, property and undertakings of the entities to St George Bank.

Further information relating to Port Bouvard Limited's loan to the joint venture and its recoverability is set out in note 7.

#### 10. OTHER FINANCIAL ASSETS

Investments in controlled entities (note 22) – at cost	<u>-</u>	<u>-</u>	<u>2,213</u>	<u>2,213</u>
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**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated			Parent Entity		
	Leasehold buildings \$'000	Plant and equipment \$'000	Total \$'000	Leasehold buildings \$'000	Plant and equipment \$'000	Total \$'000
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>						
<b>Year ended 30 June 2010</b>						
At 1 July 2009, net of accumulated depreciation	4	134	138	4	134	138
Additions	0	26	26	-	26	26
Disposals	-	(23)	(23)	-	(23)	(23)
Depreciation *	(2)	(43)	(45)	(2)	(43)	(45)
	<u>2</u>	<u>94</u>	<u>96</u>	<u>2</u>	<u>94</u>	<u>96</u>
<b>At 30 June 2010</b>						
Cost	4	347	351	4	347	351
Accumulated depreciation	(2)	(253)	(255)	(2)	(253)	(255)
Net carrying amount	<u>2</u>	<u>94</u>	<u>96</u>	<u>2</u>	<u>94</u>	<u>96</u>
<b>Year ended 30 June 2009</b>						
At 1 July 2008, net of accumulated depreciation	4,181	208	4,389	159	200	359
Additions	242	24	266	4	23	27
Disposals	(4,292)	(26)	(4,318)	(92)	(17)	(109)
Depreciation *	(127)	(72)	(199)	(67)	(72)	(139)
Net carrying amount	<u>4</u>	<u>134</u>	<u>138</u>	<u>4</u>	<u>134</u>	<u>138</u>
<b>At 30 June 2009</b>						
Cost	5	378	383	5	378	383
Accumulated depreciation	(1)	(244)	(245)	(1)	(244)	(245)
Net carrying amount	<u>4</u>	<u>134</u>	<u>138</u>	<u>4</u>	<u>134</u>	<u>138</u>

\* Includes depreciation charge on discontinued operation.

Leasehold buildings consist of the developed cost of Port Bouvard Marina disposed of by the Group during the 2009 financial year.

Balances of property, plant or equipment included in the table above contain no impairment at balance dates and all items are recorded at cost less depreciation.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>12. INVESTMENT PROPERTIES</b>				
Opening balance at 1 July	-	5,000	-	-
Transfer to non-current assets held-for-sale	-	(5,000)	-	-
Closing balance at 30 June	-	-	-	-

Properties classified as investment properties are those lots having a use currently undetermined. At 30 June 2010 (2009: nil) neither the Group nor Parent Entity held property meeting this definition.

Investment properties are carried at fair value which has been determined based on valuations performed by an industry specialist in valuing these types of properties.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation, in accordance with Australian Valuation Standards. In determining fair value, the expected net cash flows applicable to the property have been discounted to their present value using a market determined, risk adjusted, discount rate applicable to the asset.

**13. OTHER ASSETS**

**Current**

Prepaid expenses	1,260	1,734	422	352
General security deposits	-	74	-	-
	<u>1,260</u>	<u>1,808</u>	<u>422</u>	<u>352</u>

**Non-current**

Development costs (under development agreement with land-owner)	-	160	-	-
Prepaid expenses	-	-	-	-
	<u>-</u>	<u>160</u>	<u>-</u>	<u>-</u>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>14. TRADE AND OTHER PAYABLES</b>				
<b>Current</b>				
<i>Unsecured</i>				
Trade creditors	5,050	6,781	4,655	6,303
Other creditors and accruals <sup>(i)</sup>	14,935	5,827	948	1,057
Retentions	93	345	-	-
Advanced income	-	-	-	-
Advanced interest – other entities	-	-	-	-
Tax payables to controlled entities	-	-	1,225	1,102
	<u>20,078</u>	<u>12,953</u>	<u>6,828</u>	<u>8,462</u>
<b>Non-current</b>				
<i>Unsecured</i>				
Other payables	<u>3,872</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>3,872</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

For terms and conditions relating to related party receivables refer to note 22.

Details regarding the effective interest rate and credit risk of current payables are disclosed in note 2.

Included in the total of other creditors and accruals is \$103,000 (2009: \$154,000) in relation to accrued employee benefits (being annual leave). The entire amount is presented as *current*, since the Group does not have an unconditional right to defer settlement for these obligations. However, based on experience, the Group does not expect the full amount to be taken within the subsequent financial year. The Group expect that \$195,401 (2009: \$346,158) will be taken or paid in the next 12 months.

(i) Included in the amount of other creditors and accruals are outstanding amounts payable pursuant to the Gidgegannup Cancellation Agreement.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>15. BORROWINGS</b>				
<b>Current</b>				
Secured bank loan	105,000	51,906	85,000	7,423
	<u>105,000</u>	<u>51,906</u>	<u>85,000</u>	<u>7,423</u>
<b>Non-current</b>				
Secured bank loan	33,836	47,531	5,277	47,531
	<u>33,836</u>	<u>47,531</u>	<u>5,277</u>	<u>47,531</u>

*Secured bank loan*

*2010*

Current: The Group's \$105,000,000 (2009: \$51,906,000) is made up of three project specific facilities: with variable rates of 9.05% (2009: 7.55%), 8.35% (2009: 4.30%) and 5.75% (2009: Fixed 4.3%).

Non-current: The Group's \$33,835,000 (2009: 47,531,000) is made up of three loans from St George Bank. The interest rate at 30 June 2010 on the variable multi-option facility was 10.5% p.a. (2009: 4.83%). Project specific loans were at variable rates of 5.75%, (2009: Fixed 8.07%) and 8.35% (2009: 4.30%).

All facilities during the financial year were secured by registered first mortgages and debenture charges over various englobo land titles of the Group.

*2009*

Current: The Group's \$51,906,000 (2008: \$6,848,000) is made up of six facilities from St George Bank. The interest rate at 30 June 2009 on the variable multi-option facility was 4.83% p.a. (2008: 9.70%). Three project specific facilities had variable rates of 8.55% (2008: facility not in use), 5.48% (2008: facility not in use) and 5.40% (2008: facility not in use). Two project specific facilities had fixed rates of 8.21% (2008: 8.21%) and 8.70% (2008: 8.70%).

Non-current: The Group's \$47,531,000 (2008: \$56,837,000) is made up of four loans from St George Bank. One loan is at a fixed rates of 8.07%, (2008: 8.41%) and three loans are at variable rates of: 7.55% (2008: 10.25%), 4.30% (2008: facility not in use) and 4.30% (2008: facility not in use).

All facilities during the financial year were secured by registered first mortgages and debenture charges over various englobo land titles of the Group.

*Risk exposure*

Details of the Group's exposure to risk arising from current and non-current borrowings are set out in note 2.

*Fair value*

There is no difference between the carrying value and the fair value of the Group's borrowings.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>15. BORROWINGS (CONTINUED)</b>				
<b>Assets pledged as security</b>				
The bank loan, overdraft and guarantees are secured by first mortgages over some of the Group's land which is included in the accounts within inventory (land held for development and sale) (see below).				
The carrying amount of assets pledged as security for current and non-current borrowings are:				
<b>Current</b>				
<i>First mortgage</i>				
Inventories	65,799	51,900	-	-
<i>Floating charge</i>				
Cash and cash equivalents	47,490	2,562	22,823	2,491
Receivables	4,470	3,490	221,461	177,797
Inventories	65,799	51,900	12	17
<b>Total current assets pledged as security</b>	<b>117,759</b>	<b>57,952</b>	<b>244,296</b>	<b>180,305</b>
<b>Non-current</b>				
<i>First mortgage</i>				
Inventories	143,166	136,137	-	-
Property, plant and equipment	96	-	96	1,380
	143,262	136,137	96	1,380
<i>Floating charge</i>				
Property, plant and equipment	96	138	96	138
Inventories	143,166	136,137	-	-
Other financial assets	-	-	2,213	413
<b>Total non-current assets pledged as security</b>	<b>143,262</b>	<b>136,275</b>	<b>2,309</b>	<b>551</b>
<b>Total assets pledged as security</b>	<b>261,021</b>	<b>194,227</b>	<b>246,605</b>	<b>180,856</b>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>16. PROVISIONS</b>				
Employee benefit current	93	85	93	85
Employee benefit non-current	18	50	18	50
	<u>111</u>	<u>135</u>	<u>111</u>	<u>135</u>

The total of employee benefits solely relates to long service leave, pursuant to service agreements of the Group's employees.

**17. CONTRIBUTED EQUITY**

Ordinary shares	<u>188,483</u>	<u>141,974</u>	<u>188,483</u>	<u>141,974</u>
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Fully paid ordinary shares carry one vote per share and carry the right to receive dividends.

**(a) Movement in ordinary share capital**

During the financial year the Parent Entity issued 378,340,824 (2009: nil) new shares of a total 463,076,923 new shares that were issued as part of a capital raising. Total ordinary shares on issue by the Parent Entity at completion of the capital raising, which finalised subsequent to the end of the financial year is 593,868,295 ordinary shares.

Date	Details	Number of shares		Value of shares	
		Movement	Balance	Movement \$'000	Balance \$'000
1 July 2008	Opening balance		130,641,372		141,935
20 May 2009	Exercise of employee share options	150,000	<u>130,791,372</u>	39	<u>141,974</u>
<b>Balance at 30 June 2009</b>			<u>130,791,372</u>		<u>141,974</u>
28 June 2010	Share placement to FKP Property Group	175,000,000	305,791,372	22,750	164,724
28 June 2010	Share placement to institutional and sophisticated investors	157,285,551	463,076,923	20,447	185,171
28 June 2010	Rights issued to institutional investors	46,055,273	509,132,196	5,987	191,158
30 June 2010	Transaction costs	-	509,132,196	(3,821)	187,337
30 June 2010	Adjustment to income tax expense to 30 June 2010	-	<u>509,132,196</u>	1,146	<u>188,483</u>
<b>Balance at 30 June 2010</b>			<u>509,132,196</u>		<u>188,483</u>

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>17. CONTRIBUTED EQUITY (CONTINUED)</b>				

#### (b) Capital risk management

The Group and Parent Entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for Shareholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group considers capital to be sources of funding which will enable it to execute its business model.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or sell assets to reduce debt. During the period the Parent Entity issued new shares, as part of a capital raising which was concluded subsequent to financial year end. With respect to selling assets to reduce debt, a current strategy of the Group aligned with other capital management initiatives is to dispose of remaining non-core assets.

Due to the nature of the property development industry significant amounts of capital is required before cash inflows are received from sale of finished products. In order to provide for its capital requirements, the Company will use debt and/or equity strategies appropriate at the time. The Company manages its capital requirement on an ongoing basis and has good working relationships with its bank and internal and external financial advisers.

#### 18. RESERVES

Share based payments reserve:

Balance at 1 July	619	472	619	472
Share based payments expense	84	569	84	569
Transfer to accumulated losses	<u>(147)</u>	<u>(422)</u>	<u>(147)</u>	<u>(422)</u>
Balance at 30 June	<u>556</u>	<u>619</u>	<u>556</u>	<u>619</u>

The purpose of the share-based payments reserve is to recognise the fair value of the options issued to employees under the Employee Option Plan.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>19. DIVIDENDS</b>				
Declared and paid or payable during the year:				
Dividends on ordinary shares:				
Interim franked dividend: nil (2009: nil)	-	-	-	-
Final franked dividend: nil (2009: nil)	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Franking credit balance**

The amount of franking credits available for the subsequent financial year are:

franking account balance as at the end of the financial year at 30% (2009: 30%)			1,157	1,264
franking credits that will arise from the payment of income tax payable as at the end of the financial year			-	-
franking debits that will arise from the payment of dividends as at the end of the financial year			-	-
franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date			-	-
franking credits that the entity may be prevented from distributing in the subsequent financial year			-	-
			<u>1,157</u>	<u>1,264</u>
The amount of franking credits available for future reporting periods:				
impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period				-
			<u>1,157</u>	<u>1,264</u>

The tax rate at which dividends have been franked is 30% (2009: 30%).

No dividends have been proposed since the end of the financial year.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**20. (LOSS) / EARNINGS PER SHARE**

Basic (loss) / earnings per share amounts are calculated by dividing net (loss) / profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted (loss) / earnings per share amounts are calculated by dividing the net (loss) / profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Net (loss) attributable to ordinary equity holders of the parent from continuing operations	<u>(25,765)</u>	<u>(30,181)</u>
Net (loss) attributable to ordinary equity holders of the parent from continuing operations	<u>(25,765)</u>	<u>(30,181)</u>
Total net comprehensive (loss) attributable to ordinary equity holders of the Company from continuing operations	<u>(25,765)</u>	<u>(28,918)</u>
Total net comprehensive (loss) attributable to ordinary equity holders of the Company	<u>(25,765)</u>	<u>(28,918)</u>
	<b>2010</b>	<b>2009</b>
Weighted average number of ordinary shares for basic (loss) / earnings per share	132,864,472	130,658,632
Effect of dilution <sup>(i)</sup>	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>132,864,472</u>	<u>130,658,632</u>
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share	<u>-</u>	<u>-</u>

(i) Diluted shares include options issued under the Employee Share Option Plan. There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

The Group's options do not exhibit dilutive qualities therefore there is no impact on earnings per share.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

#### 21. KEY MANAGEMENT PERSONNEL

##### Compensation of key management personnel

The key management personnel were identified in the Directors' Report. Details of compensation of the Group's key management personnel are as follows:

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short-term employee benefits	1,160,264	1,881,927	1,160,264	1,881,927
Post-employment benefits	79,157	167,012	79,157	167,012
Share-based payments	75,120	569,963	75,120	569,963
	<u>1,314,541</u>	<u>2,618,902</u>	<u>1,314,541</u>	<u>2,618,902</u>

##### Option holdings of key management personnel (consolidated)

Refer to note 28 for information regarding the establishment of the Port Bouvard Employee Option Plan and options issued during the year.

##### Shareholdings and Option holdings of key management personnel (consolidated)

The numbers of shares held in the Company during the financial year by key management personnel, including their personally related parties and options granted under the Employee Option Plan are set out below.

##### 30 June 2010 – ordinary shares

Name	Balance at the start of the year	Exercise of options	Other changes	Balance at the end of the year	Balance nominally held
<b>Directors</b>					
Mr L Verios	2,900	-	2,997,100	3,000,000	-
Mr RJ Neumann	14,761,499	-	35,829	14,797,328	265,393
Mr IA Macliver	800,000	-	1,700,000	2,500,000	-
Mr SJ Court	1,330,000	-	4,670,000	6,000,000	-
<b>Other key management personnel</b>					
Mr JVM Wroth	205,221	-	1,205,221	1,410,442	-
Mr P Coppini	114,625	-	674,625	789,250	-
Mr MJ Perrott – resigned 15 January 2010	177,000	-	(177,000)	-	-

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**21. KEY MANAGEMENT PERSONNEL (CONTINUED)**

**30 June 2009 – ordinary shares**

<b>Name</b>	<b>Balance at the start of the year</b>	<b>Exercise of options</b>	<b>Other changes</b>	<b>Balance at the end of the year</b>	<b>Balance nominally held</b>
<b>Directors</b>					
Mr L Verios – appointed 30 March 2009	2,900	-	-	2,900	-
Mr RJ Neumann	14,053,847	-	707,652	14,761,499	265,393
Mr IA Macliver	800,000	-	-	800,000	-
Mr SJ Court – appointed 30 March 2009	1,100,000	-	230,000	1,330,000	
<b>Other key management personnel</b>					
Mr JVM Wroth	147,221	-	58,000	205,221	-
Mr P Coppini	-	-	114,625	114,625	-
Mr MJ Perrott	11,700	-	165,300	177,000	-

**30 June 2010 – options**

<b>Name</b>	<b>Balance at the start of the year</b>	<b>Options granted</b>	<b>Other changes</b>	<b>Balance at the end of the year</b>	<b>Balance at the end of the year of options nominally held</b>
<b>Directors</b>					
Mr L Verios	-	-	-	-	-
Mr RJ Neumann	666,667	-	(666,667)	-	-
Mr IA Macliver	-	-	-	-	-
Mr SJ Court	-	-	-	-	-
<b>Other key management personnel</b>					
Mr JVM Wroth	1,900,000	-	-	1,900,000	-
Mr P Coppini	-	-	-	-	-
Mr MJ Perrott – resigned 15 January 2010	1,750,000	-	(416,667)	1,333,333	-

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**21. KEY MANAGEMENT PERSONNEL (CONTINUED)**

**30 June 2009 – options**

<b>Name</b>	<b>Balance at the start of the year</b>	<b>Options granted</b>	<b>Other changes</b>	<b>Balance at the end of the year</b>	<b>Balance at the end of the year of options nominally held</b>
<b>Directors</b>					
Mr L Verios – appointed 30 March 2009	-	-	-	-	-
Mr MD Perrott AM – resigned 23 April 2009	-	-	-	-	-
Mr RJ Neumann	2,000,000	-	(1,333,333)	666,667	-
Mr IA Macliver	-	-	-	-	-
Mr RW Crabb	-	-	-	-	-
Mr SJ Court – appointed 30 March 2009	-	-	-	-	-
<b>Other key management personnel</b>					
Mr NJ Kroyer	-	-	-	-	-
Mr JVM Wroth	650,000	1,250,000	-	1,900,000	-
Mr MJ Perrott	500,000	1,250,000	-	1,750,000	-
Mr AD Graham – to 30 March 2009	350,000	750,000	(150,000)	950,000	-

**Loans to key management personnel**

There were no loans made to key management personnel or their personally related entities during the financial year.

**Other transactions and balances with key management personnel and their related parties**

*Property lease – Mr RJ Neumann*

Mr RJ Neumann, is a director of Bridgeway Enterprises Pty Ltd (Bridgeway) (ABN: 22 113 846 417) that during the financial year owned the building from which the Company's registered office operated. A lease agreement between Bridgeway Enterprises Pty Ltd and the Parent Entity was entered into and is based on normal commercial terms and conditions. The five-year lease commenced 1 April 2005. An extension and variation agreement was executed by the Parent Entity dated 30 March 2010 for a renewed term of five years, expiring on 31 March 2015. Subsequent to the end of the financial year, in August 2010, Bridgeway sold the building and assigned the lease to another party.

*Consultancy services – Mr RJ Neumann*

Mr RJ Neumann provided the Parent Entity with consultancy services during the financial year. These services were provided pursuant to an agreement which commenced 1 July 2009 and expired on 30 June 2010, and were on normal commercial terms and conditions.

*Contract for purchase of built form product – Mr RJ Neumann*

Mr RJ Neumann has a beneficial interest in a contract to purchase a built form product from a subsidiary of the Group. The contract was on normal commercial terms and conditions.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

#### 21. KEY MANAGEMENT PERSONNEL (CONTINUED)

##### Other transactions and balances with key management personnel and their related parties (continued)

###### *Corporate advisory services – Mr IA Macliver*

Mr IA Macliver is Executive Chairman of Max Capital Pty Ltd (Max Capital) which acted as corporate advisor to the Parent Entity for the capital raising during the financial year. This included a role in the due diligence committee. A letter of engagement was executed between Max Capital and the Parent Entity under normal commercial terms and conditions. The engagement expired on 31 July 2010.

During the financial year Max Capital also received a success fee with respect to the capital raising for the FKP investment, institutional and sophisticated investor placement and entitlement offer. A further success fee was paid to Max Capital Pty Ltd for their role in the retail entitlement offer which completed in July 2010.

###### *Legal fees – Mr L Verios*

Mr L Verios was a partner of Norton Rose during the financial year, an international law firm that provides legal services to the Group. These services included being the Parent Entity's legal adviser to the capital raising (including the role of chair of the due diligence committee). Services are provided on normal commercial terms and conditions.

###### *Contract for purchase of land – Mr L Verios*

Mr L Verios had a beneficial interest in a contract to purchase a developed lot from a subsidiary of the Group. The contract was on normal commercial terms and conditions.

	2010 \$'000	2009 \$'000
Aggregate amounts of each of the above types of transactions with key management personnel:		
<i>Amounts recognised as revenue</i>		
Sale of land (Mr L Verios)	238	-
	<u>238</u>	<u>-</u>
<i>Amounts recognised as expense</i>		
Property rental (Bridgeway / Mr RJ Neumann)	180	208
Consulting services (Mr RJ Neumann)	225	-
Corporate advisory (Max Capital / Mr IA Macliver)	72	-
Legal fees (Norton Rose / Mr L Verios)	233	126
	<u>710</u>	<u>334</u>
<i>Amounts recognised as contributed equity (transaction costs)</i>		
Corporate advisory (Max Capital / Mr IA Macliver)	92	-
Success fee (Max Capital / Mr IA Macliver)	252	-
Legal fees (Norton Rose / Mr L Verios)	461	-
	<u>805</u>	<u>-</u>

###### *Amounts payable to key management personnel*

At the end of the financial year, the following was payable to Max Capital \$287,013 (2009: nil) and Norton Rose \$474,095 (2009: nil).

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

#### 21. KEY MANAGEMENT PERSONNEL (CONTINUED)

##### Other transactions and balances with key management personnel and their related parties (continued)

###### *Amounts receivable from key management personnel*

At the end of the financial year, there weren't any amounts receivable from key management personnel at balance date relating to the above types of other transactions (2009: nil).

#### 22. RELATED PARTY DISCLOSURE

##### Subsidiaries

The consolidated financial statements include the financial statements of Port Bouvard Limited and the subsidiaries listed in the following table.

Name of Entity	Country of Registration	Equity Interest		Investment	
		2010 %	2009 %	2010 \$'000	2009 \$'000
CP Development Pty Ltd <sup>1</sup>	Australia	100	100	2,162	2,162
Midland Court Mortgage Finance (NSW) Pty Ltd <sup>1,2</sup>	Australia	100	100	-	-
Wannunup Development Nominees Pty Ltd <sup>1,2</sup>	Australia	100	100	-	-
Esperance Development Company Pty Ltd <sup>1,3</sup>	Australia	100	100	-	-
Furnissdale Development Company Pty Ltd <sup>1,3</sup>	Australia	100	100	-	-
Melros Beach Development Pty Ltd <sup>1,3</sup>	Australia	100	100	-	-
Point Grey Development Company Pty Ltd <sup>1,3</sup>	Australia	100	100	-	-
PBD Estate No 1 Pty Ltd <sup>1,3</sup>	Australia	100	100	-	-
PBD Estate No 2 Pty Ltd <sup>1,3</sup>	Australia	100	100	-	-
PBD Realty Pty Ltd <sup>1,3</sup>	Australia	100	100	-	-
Port Bouvard Funds Management Limited	Australia	100	100	51	51
				<u>2,213</u>	<u>2,213</u>

1 These controlled entities are not required to prepare audited financial statements.

2 These entities have a cost of investment of \$2, which due to rounding is shown as nil in the above table.

3 These entities have a cost of investment of \$1, which due to rounding is shown as nil in the above table.

##### Ultimate parent

Port Bouvard Limited is the ultimate parent company of the wholly-owned group.

##### Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 21.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**22. RELATED PARTY DISCLOSURE (CONTINUED)**

**Transactions with related parties**

The following transactions occurred with related parties, all being within the wholly owned group.

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Revenue</i>		
Management fee	6,012	4,910
<i>Tax consolidation legislation</i>		
Current tax (receivable) / payable assumed from wholly owned tax consolidated entities	(4,387)	(907)
Tax losses assumed from wholly owned tax consolidated entities	123	530

**Outstanding balances receivable from or payable to related parties**

The following balances are outstanding at the reporting date in relation to transactions with related parties.

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Current receivables (tax funding agreement)</i>				
Wholly-owned tax consolidated entities	-	-	20,741	25,127
<i>Current payables (tax funding agreement)</i>				
Wholly-owned tax consolidated entities	-	-	1,225	1,101

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>22. RELATED PARTY DISCLOSURE (CONTINUED)</b>				
<b>Loans to / from related parties</b>				
<i>Loans to / from subsidiaries</i>				
Beginning of the year	-	-	147,229	136,778
Loans advanced	-	-	97,489	65,584
Loan repayments received	-	-	(42,874)	(26,002)
Provisions and loans written down	-	-	(11,709)	(27,877)
Interest charged	-	-	5,638	731
Interest write back	-	-	-	(1,985)
End of year	<u>-</u>	<u>-</u>	<u>195,773</u>	<u>147,229</u>
<i>Loans to joint venture entities</i>				
Beginning of the year, net of impairment <sup>1</sup>	3,061	4,458	3,061	4,458
Loan repayments received	(556)	(1,397)	(556)	(1,397)
Provision written back	(2,156)	-	(2,156)	-
Interest written back	-	-	-	-
Interest charged	-	-	-	-
Interest received	-	-	-	-
End of year, net of impairment <sup>1</sup>	<u>349</u>	<u>3,061</u>	<u>349</u>	<u>3,061</u>

<sup>1</sup> See note 7(b) for information on impairment.

**Terms and conditions**

The terms and conditions of the tax funding agreement are set out in note 5.

All transactions are made on normal commercial terms and conditions and at market rates.

**Terms and conditions – loan facilities**

The Parent Entity has separate loan facility arrangements with each related party. The nature of the facility differs depending upon the relationship of the related party to the Parent Entity.

*Related Parties with 100% interest*

All related parties 100% owned by the Parent Entity have established loan facilities with the Parent Entity that are unsecured and repayable in cash. All loans are interest bearing and repayable at the discretion of the Parent Entity. Each facility is repayable within 28 days of receipt by the relevant borrower of a demand for repayment from the Parent Entity.

*Joint Venture 50% interest*

The loan to the Stirling Lakes Joint Venture accrues interest calculated on the difference between the joint venture partner loans. The rate of interest is based on a margin above the bank overdraft rate as specified in the joint venture agreement. The interest rate charged during the year ended 30 June 2010 was nil (2009: nil). The loan balance is expected to be repaid upon wind up of the joint venture.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>23. REMUNERATION OF AUDITORS</b>				
Amounts received or due and receivable by BDO for:				
- an audit and review of the financial report of the entity and any other entity in the Group by BDO Audit (WA) Pty Ltd	110,885	88,500	110,885	88,500
- other services (including due diligence) in relation to the entity and any other entity in the Group by BDO Corporate Finance (WA) Pty Ltd	17,711	-	17,711	-
• tax compliance and advice by BDO Corporate Tax (WA) Pty Ltd	49,934	52,692	49,934	52,692
	<u>178,530</u>	<u>141,192</u>	<u>178,530</u>	<u>141,192</u>

**24. EXPENDITURE COMMITMENTS**

**Operating lease commitments**

The Group leases several commercial properties under operating leases expiring from one to 5 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Future minimum rentals payable under non-cancellable operating leases at 30 June are:

Within one year	316	721	316	721
After one year but not more than five years	807	105	807	105
More than five years	-	-	-	-
	<u>1,123</u>	<u>826</u>	<u>1,123</u>	<u>826</u>

**Capital commitments**

The Group has no capital commitments at 30 June 2010 (2009: nil).

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>25. CONTINGENCIES</b>				
<b>Contingent liabilities</b>				
The Company and Group had contingent liabilities at 30 June 2010 in respect of:				
<i>Guarantees</i>				
The Group has provided guarantees in respect of certain undertakings of the Port Bouvard Project, in favour of:				
The City of Mandurah	1,074	1,074	949	949
Water Corporation	-	-	-	-
Department of Planning and Infrastructure	50	150	50	150
Western Power	-	-	-	-
	<u>1,124</u>	<u>1,224</u>	<u>999</u>	<u>1,099</u>

For expected maturities of these bank guarantees, please refer to note 2.

#### *Joint ventures*

For contingent liabilities relating to the joint venture refer to note 9.

#### *Other*

A subsidiary has entered into various agreements in relation to the acquisition of land at Gidgegannup. Two of these agreements contain put options giving the current land owner the opportunity to have the subsidiary acquire the relevant land. The first option is for \$30,000,000 and expires on 15 July 2010 and the second is for an amount in the range of \$15,000,000 to \$24,000,000 and expires on 15 July 2011.

However, the Parent Entity announced it and certain subsidiaries had entered into a cancellation agreement with the vendor of the Gidgegannup land dated 20 May 2010, whereby the option agreements were cancelled and the relevant subsidiary's rights and obligations under the Option Agreements were released (Gidgegannup Cancellation Agreement). The Gidgegannup Cancellation Agreement was completed subsequent to the end of the financial year (in July 2010).

#### **Contingent assets**

A subsidiary has entered into various agreements in relation to the acquisition of land at Gidgegannup. Two of these agreements contain call options giving the subsidiary an option to acquire the relevant land. The first option is for \$30,000,000 and expires on 15 July 2010 and the second is for an amount in the range of \$15,000,000 to \$24,000,000 and expires on 15 July 2011.

However, the Parent Entity announced it and certain subsidiaries had entered into a cancellation agreement with the vendor of the Gidgegannup land dated 20 May 2010, whereby the option agreements were cancelled and the relevant subsidiary's rights and obligations under the Option Agreements were released (Gidgegannup Cancellation Agreement). The Gidgegannup Cancellation Agreement was completed subsequent to the end of the financial year (in July 2010).

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

### 26. SEGMENT INFORMATION

#### (a) General information

In accordance AASB 8 *Operating Segments*, the Group has assessed for the financial year ended 30 June 2010 what information is necessary to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Based upon this assessment, the Audit Committee of the Group determined that it operated one business segment of property development in Australia. Operating results of the property development business segment are regularly reviewed by the Chief Operating Decision Maker, identified as the Board of Directors, to make decisions about resource allocation to that business and assess its performance.

Please refer to note 1 (d) with respect to changes in accounting policy between this reporting period and prior corresponding period for segment information.

#### (b) Segment information provided to the Board of Directors

	<b>Property Development</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Total segment revenue from external customers <sup>(i)</sup>	20,195	25,144
<b>Revenue from external customers</b>	<u>20,195</u>	<u>25,144</u>
<b>Net loss after income tax</b> <sup>(ii)</sup>	<u>(25,765)</u>	<u>(28,918)</u>
The following items are included in the net loss after income tax, which is reviewed by the Group's chief operating decision maker:		
Depreciation and amortisation	(45)	(137)
Net realisable value write down	(19,206)	(40,865)
Finance costs	(83)	(419)
Share of net profit from joint venture	612	-
Income tax benefit	10,996	11,422
<b>Total segment assets</b>	<u>311,267</u>	<u>237,334</u>
Total assets includes:		
Investments in associates and joint venture partnership	1,438	1,115
Provision for diminution of investments in associates and joint venture partnership	(1,438)	(1,115)
Reduction to non-current assets (other than financial assets and deferred tax)	(4,632)	(49,475)
<b>Total segment liabilities</b>	<u>171,767</u>	<u>118,662</u>

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

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	Property Development	
	2010	2009
	\$'000	\$'000
<b>26. SEGMENT INFORMATION (CONTINUED)</b>		
<b>(c) Other segment information</b>		
(i) Revenue		
The revenue from external customers reported to the Board of Directors is consistent with what has been reported in the statements of comprehensive income.		
Revenue from external customers is derived from the sale of land or built-form product when a valid sales contract settles whereby title passes to the purchaser.		
Segment revenue reconciles to total revenue from continuing operations as follows:		
Total segment revenue	20,195	25,144
Rendering of services	9	15
Rental revenue	154	179
Forfeited deposits	387	-
Finance revenue	30	9
<b>Total revenue from continuing operations (note 4)</b>	<b>20,775</b>	<b>25,347</b>

(ii) Net profit (loss) after tax

The Chief Operating Decision Maker assesses the performance of the operating segment based on net profit (loss) after income tax. The Group no longer assesses segment information based on EBIT as previously done so at 31 December 2009.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>27. NOTES TO CASH FLOW STATEMENT</b>				
<b>Reconciliation of net profit after tax to net cash flows from operations</b>				
Net profit / (loss)	(25,765)	(28,918)	(6,390)	(18,970)
<b>Adjustments for:</b>				
Depreciation and amortisation	45	198	45	137
Loss on sale of property, plant and equipment	23	94	23	94
Write down of inventory	19,206	40,865	-	-
Write down of inter-company loans		-	8,109	27,504
Gain on disposal of subsidiary		(746)	-	(4,345)
Share of net loss from joint venture	(612)	-	-	-
Write down of investment in joint venture	612		-	
Write down of loan to joint venture	2,156	-	2,156	-
Share based payments expense	84	570	84	570
Other write downs	-	-	15	-
Inter-company transactions		-	(6,012)	(4,560)
<b>Changes in assets and liabilities</b>				
(Increase) / decrease in trade and other receivables	(3,352)	(9)	(1,767)	189
(Increase) / decrease in inventories	(33,604)	(48,323)	5	(17)
(Increase) / decrease in other assets	708	(653)	(70)	(299)
(Increase) / decrease in deferred tax assets	(14,717)	(13,023)	(8,191)	(9,521)
Increase / (decrease) in trade and other payables	11,303	5,160	(1,329)	2,149
Increase / (decrease) in provisions	(26)	(154)	(25)	(153)
Increase / (decrease) in deferred tax liabilities	2,733	1,064	(1)	80
Increase / (decrease) in current tax liability	-	2,754	-	2,754
Net cash from / (used in) operating activities	<b>(41,206)</b>	<b>(41,121)</b>	<b>(13,348)</b>	<b>(4,388)</b>

**Disclosure of financing facilities**

Refer to note 15.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

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#### 28. SHARE BASED PAYMENTS – EMPLOYEE OPTION PLAN

The establishment of the Port Bouvard Limited Employee Option Plan was approved by Shareholders at the 2007 annual general meeting. Participants are invited to apply for options after receiving formal invitation from the Board. Participants are selected at the Board's discretion as recognition of continuing commitment to the Company. No individual has a contractual right to participate in the Plan or to receive any guaranteed benefits. The Employee Option Plan is designed to provide long-term incentives for key management personnel (including executive directors) to deliver long-term shareholder returns.

Options granted under the Plan carry no dividend or voting rights.

During the year all options issued had similar exercise conditions as follows:

- 1/3<sup>rd</sup> of the options will vest on the date of the grant;
- 1/3<sup>rd</sup> of the options will vest on the first anniversary of the date of grant; and
- 1/3<sup>rd</sup> of the options will vest on the second anniversary of the date of grant.

The Exercise Period commences on the date of grant and ends on the day before the fifth anniversary of the date of grant. Any Option which has not been exercised before the end of the Exercise Period will lapse.

The Exercise Price is determined in accordance with the following formula:

Exercise Price = 120% x CMP

where CMP is the Current Market Price on the date of grant.

Once exercised, Shares delivered under the Plan will rank equally in all respects with all other Shares from the date of delivery, including:

- voting rights; and
- entitlements to participate in distributions and dividends and future rights issues and bonus issues.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

**28. SHARE BASED PAYMENTS – EMPLOYEE OPTION PLAN (CONTINUED)**

Set out below are summaries of options granted under the Plan:

Grant date	Expiry date	Exercise price	Balance at start of the year (number)	Granted during the year (number)	Exercised during the year (number)	Forfeited during the year (number)	Balance at end of the year (number)	Vested and exercisable at end of the year (number)
<b>Consolidated and parent entity – 2010</b>								
22 August 2007	21 August 2012	\$2.05	1,500,000	-	-	(350,000)	1,150,000	1,150,000
	28 27	\$2.40	666,667	-	-	(666,667)	-	-
November 2007	November 2012							
9	8	\$0.19	3,100,000	-	-	(1,016,667)	2,083,333	1,666,666
December 2008	December 2013							
		<b>Total</b>	<b>5,266,667</b>	<b>-</b>	<b>-</b>	<b>(2,033,334)</b>	<b>3,233,333</b>	<b>2,816,666</b>

Weighted average exercise price - - \$1.28 \$0.92 \$1.02

Grant date	Expiry date	Exercise price	Balance at start of the year (number)	Granted during the year (number)	Exercised during the year (number)	Forfeited during the year (number)	Balance at end of the year (number)	Vested and exercisable at end of the year (number)
<b>Consolidated and parent entity – 2009</b>								
22 August 2007	21 August 2012	\$2.12	1,500,000	-	-	-	1,500,000	1,000,000
	28 27	\$2.40	2,000,000	-	-	(1,333,333)	666,667	-
November 2007	November 2012							
9	8	\$0.26	-	3,250,000	(150,000)	-	3,100,000	933,333
December 2008	December 2013							
		<b>Total</b>	<b>3,500,000</b>	<b>3,250,000</b>	<b>(150,000)</b>	<b>(1,333,333)</b>	<b>5,266,667</b>	<b>1,933,333</b>

Weighted average exercise price \$0.26 \$0.26 \$2.40 \$1.06 \$1.22

No options expired during the periods covered by the above tables. However, during the period 700,001 (2009: 1,333,333) vested options lapsed and 1,333,000 (2009: nil) unvested option lapsed due to resignation of employees.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.98 years (2009: 3.94).

**Fair value of options granted**

The assessed average fair value at grant date of options granted during the year ended 30 June 2010 was nil, as there were no Options granted (2009: 6 cents). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010

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28. SHARE BASED PAYMENTS – EMPLOYEE OPTION PLAN (CONTINUED)

**Re-valuation of Options granted**

On 23 June 2010, Shareholders of the Parent Entity approved the issue of new Shares pursuant to a capital raising. As a result of the capital raising, Options granted on 22 August 2007 and 9 December 2008 have been re-valued on 23 June 2010 in accordance with AASB 2 *Share Based Payments* and the rules of the Company's Employee Option Plan.

As a result of the re-valuation fair value of Options were modified. The increment to fair value for vested Options was \$16,667 and this was recorded as an expense during the year. The increment to fair value for unvested Options was \$4,167 and this is expensed over the remaining vesting period for each Option. This resulted in \$173 being expensed during the year.

The model inputs for the re-valued Options are provided below.

*Re-valuation of Options granted 22 August 2007*

- Options are granted for no consideration and vest as mentioned previously in this Note. Vested options are exercisable until the day before the fifth anniversary of the date of grant.
- balance of options re-valued: 1,150,000
- exercise price: \$2.05
- expiry date: 21 August 2012
- share price at re-valuation date: \$0.25
- expected price volatility of the Company's shares: 100%
- expected dividend yield: 0%
- risk free interest rate: 4.57%

*Re-valuation of Options granted 9 December 2008*

- Options are granted for no consideration and vest as mentioned previously in this Note. Vested options are exercisable until the day before the fifth anniversary of the date of grant.
- balance of options re-valued: 2,083,333
- exercise price: \$0.19
- expiry date: 8 December 2013
- share price at re-valuation date: \$0.25
- expected price volatility of the Company's shares: 100%
- expected dividend yield: 0%
- risk free interest rate: 4.71%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

The total Employee Share Option Plan expense recognised in the statements of comprehensive income during the year was \$84,000 (2009: \$570,000).

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

#### 29. DEED OF CROSS GUARANTEE

At 30 June 2010 the following entities within the Group were parties to a deed of cross guarantee:

- Port Bouvard Limited
- CP Development Pty Ltd
- Wannunup Development Nominees Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

As the entities that are parties to the deed of cross guarantee are also represented in the Group there is no separate 'Closed Group' for the purposes of the Class Order.

During the financial year, the following entities ceased to be a party to the deed of cross guarantee pursuant to a revocation deed lodged with ASIC on 4 September 2009:

- Midland Court Mortgage Finance (NSW) Pty Ltd
- Esperance Development Company Pty Ltd
- Furnissdale Development Company Pty Ltd
- Melros Beach Development Pty Ltd
- Point Grey Development Company Pty Ltd
- PBD Estate No 1 Pty Ltd
- PBD Estate No 2 Pty Ltd
- PBD Realty Pty Ltd

Set out below in (a) is a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2010 and 2009 for entities that are parties to the deed of cross guarantee at these dates. Set out below in (b) is a consolidated statement of financial position as at 30 June 2010 and 2009 for the entities that were parties to the deed of cross guarantee at these dates.

	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Statement of comprehensive income</b>		
Sale of goods	20,195	25,144
Rendering of services	9	15
Rental revenue	147	179
Finance revenue	26	9
Forfeited deposits	387	-
<b>Revenue</b>	<b>20,764</b>	<b>25,347</b>
Other income	14	21
Cost of sales	(16,182)	(16,680)
Employee benefits expense	(2,019)	(2,558)
Share based payments expense	(84)	(569)
Other expenses	(4,631)	(1,611)
Commissions and discounts	(2,294)	(2,209)
Advertising and marketing	(316)	(222)
Finance costs	(83)	(419)
Repairs and maintenance	(528)	(380)
Rental expenses	(231)	(300)
Consultants fees	(298)	(425)
Rates and taxes	(235)	(328)

PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010

	2010 \$'000	2009 \$'000
<b>29. DEED OF CROSS GUARANTEE (CONTINUED)</b>		
<b>(a) Statement of comprehensive income (continued)</b>		
Depreciation and amortisation	(45)	(137)
Legal fees	(372)	(268)
Net realisable value write down	<u>(8,109)</u>	<u>(40,865)</u>
<b>Loss before income tax</b>	<b>(14,649)</b>	<b>(41,603)</b>
Income tax benefit	<u>4,362</u>	<u>11,422</u>
<b>(Loss) / profit after tax from continuing operations</b>	<b>(10,287)</b>	<b>(30,181)</b>
Profit from discontinued operation after tax	<u>-</u>	<u>1,263</u>
<b>Comprehensive (loss)</b>	<b><u>(10,287)</u></b>	<b><u>(28,918)</u></b>
<b><i>Summary of movements in consolidated retained earnings</i></b>		
Retained earnings at the beginning of the year	(18,552)	4,575
Loss for the year	(10,287)	(28,918)
Share based payment transactions	<u>147</u>	<u>422</u>
<b>Retained earnings at the end of the financial year</b>	<b><u>(28,692)</u></b>	<b><u>(23,921)</u></b>

PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010

	2010 \$'000	2009 \$'000
<b>29. DEED OF CROSS GUARANTEE (CONTINUED)</b>		
<b>(b) Statement of financial position</b>		
<b>Current Assets</b>		
Cash and cash equivalents	22,825	2,507
Trade and other receivables	114,939	3,835
Inventories	65,799	51,900
Other assets	1,029	1,808
<b>Current Assets</b>	<u>204,592</u>	<u>60,050</u>
Non-current assets classified as held for sale	10,816	13,975
<b>Total Current Assets</b>	<u>215,408</u>	<u>74,025</u>
<b>Non-Current Assets</b>		
Inventories	33,320	147,756
Other financial assets	51	51
Property, plant and equipment	96	138
Other assets	-	160
Deferred tax assets	20,607	15,205
<b>Total Non-Current Assets</b>	<u>54,074</u>	<u>163,310</u>
<b>TOTAL ASSETS</b>	<u>269,482</u>	<u>237,335</u>
<b>Current Liabilities</b>		
Trade and other payables	12,859	12,954
Borrowings	85,000	51,906
Provisions	93	85
<b>Total Current Liabilities</b>	<u>97,952</u>	<u>64,945</u>
<b>Non-Current Liabilities</b>		
Borrowings	5,277	47,531
Provisions	18	50
Deferred tax liabilities	4,843	6,137
<b>Total Non-Current Liabilities</b>	<u>10,138</u>	<u>53,718</u>
<b>TOTAL LIABILITIES</b>	<u>108,090</u>	<u>118,663</u>
<b>NET ASSETS</b>	<u><b>161,392</b></u>	<u><b>118,672</b></u>
<b>EQUITY</b>		
Contributed equity	188,483	141,974
Reserves	1,601	619
(Accumulated losses)	(28,692)	(23,921)
<b>TOTAL EQUITY</b>	<u><b>161,392</b></u>	<u><b>118,672</b></u>

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION</b>				
<b>(a) Non-current assets classified as held-for-sale</b>				
Non-current assets held-for-sale	19,064	13,975	-	-
	<u>19,064</u>	<u>13,975</u>	<u>-</u>	<u>-</u>

On 29 May 2009 the Group announced its asset realisation strategy focusing on non-core asset disposals. Included in the fair value of the assets above are:

- Land transferrable to Riseley Investments Pty Ltd on 12 July 2010 pursuant to the Deed of Cancellation, Settlement and Release entered into by the Parent Entity and relevant subsidiaries, as announced by the Group on 20 May 2010;
- The Dawesville site under contract for \$4,950,000 (incl. GST), which settled on 2 July 2010;
- The Melros site under contract for \$4,000,000 (incl. GST), due to settle on or before 30 November 2010 for which the Group has received a \$400,000 non-refundable deposit; and
- Other sites which are being marketed both nationally and internationally.

**(b) Liabilities directly associated with non-current assets classified as held-for-sale**

There are no liabilities directly associated with the non-current assets held-for-sale shown above.

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)</b>				

**(c) Discontinued operation**

*(i) Description*

In the previous financial year the Group sold and settled the Port Bouvard Marina for \$4,750,000. In the statements of comprehensive income, Port Bouvard Marina is reported as a discontinued operation.

*(ii) Financial performance and cash flow information*

Revenue	-	728
Expenses	-	(472)
<b>Profit / (loss) before income tax</b>	-	<b>256</b>
Income tax credit	-	223
<b>Profit / (loss) after income tax of discontinued operation</b>	-	<b>479</b>

The sale of the marina was by virtue of the Parent Entity disposing of its 100% investment Port Bouvard Marina Pty Ltd. The resultant share sale agreement provided the following gain to both the Consolidated and Parent Entities at 30 June 2009:

	2009 \$'000	2009 \$'000
	Consol.	Parent Entity
Gain on sale of investment in Port Bouvard Marina Pty Ltd before income tax	784	4,345
Income tax expense	(235)	(1,304)
<b>Gain on sale of investment in Port Bouvard Marina Pty Ltd after income tax</b>	<b>549</b>	<b>3,041</b>
Net cash flows from / (used in) operating activities	746	(446)
Net cash (from) / used investing activities	(746)	446
Net cash inflow from financing activities	-	-
Net increase in cash generated by Port Bouvard Marina	-	-

**PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES**

**Explanatory Notes to the Financial Statements  
For the Year Ended 30 June 2010**

	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<b>30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)</b>				
<i>(iii) Details of the sale of the division</i>				
Consideration received	-	4,750		
Total disposal consideration	-	4,750		
Carrying amount of net assets sold	-	(3,613)		
Selling costs and other adjustments	-	(353)		
<b>Gain on sale before income tax</b>	<b>-</b>	<b>784</b>		
Income tax expense	-	(235)		
<b>Gain on sale after income tax</b>	<b>-</b>	<b>549</b>		

The carrying amount of assets and liabilities as at the date of settlement (27 February 2009) were:

	<b>27 February 2009 \$'000</b>
Property, plant and equipment	4,208
Trade receivables	231
Other current assets	52
<b>Total assets</b>	<b>4,491</b>
Trade creditors	565
Trade creditors	313
<b>Total liabilities</b>	<b>878</b>
<b>Net assets</b>	<b>3,613</b>

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Explanatory Notes to the Financial Statements For the Year Ended 30 June 2010

31. TOTAL EQUITY	Consolidated		Parent Entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
	<u>139,500</u>	<u>118,672</u>	<u>169,572</u>	<u>129,368</u>

Notwithstanding the deficiency of net assets (total equity) of the Group in comparison to the Parent Entity, the investment in a subsidiary was considered not to be impaired due to the likelihood of earnings in excess of the investment within the next 12 – 18 month period.

### 32. EVENTS OCCURRING AFTER THE REPORTING PERIOD

#### (a) Completion of Gidgegannup cancellation agreement

Certain entities of the Group had entered into various agreements in relation to the acquisition of land at Gidgegannup. The first agreement was completed in 2007 and a subsidiary acquired land at Gidgegannup at this time. Two of these agreements contained put and call options which gave a subsidiary an option to acquire further parcels of land at Gidgegannup (Gidgegannup Land). The first option expired on 15 July 2010 and the second option was to expire on 15 July 2011.

On 20 May 2010 the Parent Entity and certain subsidiaries entered into a cancellation agreement (Gidgegannup Cancellation Agreement) with the vendor of the Gidgegannup Land. The Gidgegannup Cancellation Agreement provided for the cancellation of the option agreements and the relevant subsidiary's rights and obligations under the option agreements were released.

Under the terms of the Gidgegannup Cancellation Agreement, the Gidgegannup land acquired in 2007 was transferred back to the vendor on 12 July 2010 and a fee paid to the vendor consisting of:

- (i) \$2m, which was paid on 12 July 2010; and
- (ii) \$3m, payable upon the earlier of 15 January 2011 or the receipt of the refund of stamp duty previously paid to the Office of State Revenue in 2007, which was paid on 24 September 2010.

The only remaining element of the Gidgegannup Cancellation Agreement is a deferred payment of \$4.9m, payable to the vendor on 2 January 2014. The deferred payment will be reflected in the Group's statement of financial position until it is paid.

#### (b) Completion of capital raising

Pursuant to resolutions passed at a General Meeting of Shareholders on 23 June 2010, the Parent Entity was given approval by Shareholders to raise \$60.2m in capital by issuing new shares to: FKP Property Group; to various institutions and sophisticated investors; and through an entitlement offer. At the end of the financial year the capital raising was partly completed (the retail entitlement offer (REO) was yet to be finalised). The REO was completed on 20 July 2010.

During the financial year, the Parent Entity issued 378,340,824 new shares, raising \$49,184,307 in capital. On 20 July 2010, the capital raising was successfully completed, and a further 84,736,099 new shares were issued, raising \$11,015,693 in capital. The total number of ordinary shares on issue, at the completion of the capital raising on 20 July 2010, was 593,868,295.

#### (c) Non-core asset disposal

Settlement occurred on 2 July 2010 for the Dawesville site which was sold during the 2009 financial year for \$4.95m (inclusive of GST) pursuant to the Group's non-core asset disposal strategy.

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### Directors' Declaration

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The directors of the Company declare that:

1. the financial statements comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and accompanying notes of the Company and Group are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - b. give a true and fair view of the financial position as at 30 June 2010 and of its performance for the year ended on that date of the Company and the Group;
2. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
3. the remuneration disclosures included in pages 10 to 19 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 30 June 2010, comply with section 300A of the *Corporations Act 2001*;
4. the board have been given the declarations by the executive director and company secretary/financial controller, required by section 295A of the *Corporations Act 2001*; and
5. The Group has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

The Group entities subject to a deed of cross guarantee identified in note 29 are parties to the deed of cross guarantee which each company guarantees the debts of the others at limits set by the deed. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a Group be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee as described in note 29.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**Lee Verios**  
Chairman  
30 September 2010  
Perth  
Western Australia

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PORT BOUVARD LIMITED

### Report on the Financial Report

We have audited the accompanying financial report of Port Bouvard Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.



## Auditor's Opinion

In our opinion:

- (a) the financial report of Port Bouvard Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(y) in the financial report which indicates that in order for the company to continue as a going concern the Group is required to reduce its Oceanique Apartment construction facility in three repayment tranches: by \$75 million on or before 31 December 2010; by a further \$10 million on or before 30 June 2011; and the balance is to be repaid on or before 31 October 2011. The ability of the Group to reduce its facility by these values is dependent on it successfully settling contracts for the sale of Oceanique Apartments or have the facility's terms varied. This condition, along with other matters set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial reports.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Auditor's Opinion

In our opinion, the Remuneration Report of Port Bouvard Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

Brad McVeigh  
Director

Perth, Western Australia  
Dated this 30<sup>th</sup> day of September 2010

## PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

### ASX Additional Information

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Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 14 September 2010.

#### Distribution of Equity Securities

Analysis of numbers of Shareholders by size of holding:

		<b>Ordinary Shares</b>
1	- 1,000	367
1,001	- 5,000	975
5,001	- 10,000	620
10,001	- 100,000	1,331
100,001	- and over	364
		<b><u>3,657</u></b>

There were nil holders of less than a marketable parcel of ordinary shares.

#### Twenty Largest Shareholders

The names of the twenty largest holders (ungrouped) of shares are listed below:

	<b>Name</b>	<b>Number of shares held</b>	<b>Percentage</b>
1	FKP Property Group	175,000,000	29.47
2	National Nominees Limited	39,050,152	6.58
3	Maniciti Pte Ltd	29,200,000	4.92
4	UBS Nominees Pty Ltd	27,324,526	4.60
5	ANZ Nominees Limited	15,660,573	2.64
6	JP Morgan Nominees Australia Limited	14,577,550	2.45
7	Australian Executor Trustees Limited	13,433,659	2.26
8	JP Morgan Nominees Australia Limited	10,037,306	1.69
9	Mr Ross James Neumann & Mrs Meredith Beverley Neumann	6,613,856	1.11
10	JB Investments Pty Ltd	6,009,288	1.01
11	Mr Lionel Cedric Julian Lees & Mrs Colleen Kerry Lees	5,400,000	0.91
12	Citicorp Nominees Pty Limited	5,346,688	0.90
13	Rivertree Pty Ltd	5,290,052	0.89
14	Pearlarm Pty Ltd	4,523,518	0.76
15	Mrs Tew Hua Cameron	4,200,000	0.71
16	Silverkey Corporation Pty Ltd	3,990,000	0.67
17	Topsfield Pty Ltd	3,946,154	0.66
18	Finico Pty Limited	3,846,154	0.65
19	Cogent Nominees Pty Limited	3,533,405	0.59
20	Growth Equities Accumulation Limited	3,309,047	0.56
		<b><u>380,291,928</u></b>	<b><u>64.03</u></b>

# PORT BOUVARD LIMITED AND ITS CONTROLLED ENTITIES

## ASX Additional Information

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### Substantial Shareholders

Substantial Shareholders in the Company are set out below:

	<b>Name</b>	<b>Number of shares held</b>	<b>Percentage</b>
1	FKP Property Group	175,000,000	29.47
2	National Nominees Limited	39,050,152	6.58

### Voting Rights

The shares carry the right to one vote for each share held.