

Report to Shareholders

The year to 30 June 2011

The 2011 financial year saw a continuation of the works on the south side of the building, including finalisation of design and Development Application approval for a new ramp and bin storage area.

The year also saw detailed planning for and selection of a new lift, following careful scrutiny of four written proposals, leading to the selection of the proposal from Schindler Lifts. Schindler's proposal was strong both technically and commercially, with a final price substantially below the quoted prices from the other suppliers.

The new lift is to be installed before Christmas and will include custom made finishes to match the décor of Twenty such as softer lighting and interior Queensland maple timber panels. These variations reflected shareholder resolutions at last year's AGM.

FY11 financial outcomes compared with Budget

The auditor's report for the year ended 30 June 2011 is enclosed and provides the usual detail relating to the company's revenues and expenses in the last year. The outcomes for the year were mostly consistent with the Budget for FY11 as estimated in last year's report, with variations as noted below.

Total revenues were \$416,000 compared with \$425,000 the previous year and 4% above a budget of \$400,000. The Board expects revenues in FY12 to be similar, as we do not plan to increase levies. In this we are maintaining the commitments previously given to shareholders in relation to the management of both the company's administrative costs and our capital works program.

Total expenses in FY11, excluding income tax, were \$309,384, significantly below costs in FY10 (\$513,002).

Most expense items closely matched the budget set out in last year's report, as follows:

- Legal and accounting \$7,855 (budget was \$7,820)
- Utilities \$61,843 (budget was \$61,100)
- Management fees \$14,948 (budget was \$16,000)
- Cleaning \$19,462 (budget was \$19,220) and
- Insurance \$23,618 (budget was \$22,000).

These five expense categories accounted for \$127,726 or 41% of total FY11 costs. These costs were about 1% above the budget estimate of \$126,140.

There were 2 additional specific expense accounts totalling \$72,900 as shown in last year's Budget:

- Building repairs (excl lift) \$59,900
- Fire protection/monitor \$13,000.

The detailed Profit and Loss Statement prepared by the auditor does not show fire protection and monitoring separately, as this is included with the Repairs and Maintenance account of \$140,145. The additional \$67,245 in expenses relative to the Budget for these 2 items mainly comprises the

first instalment for the new lift, which was not included in last year's Budget. This payment amounted to \$59,918.

The other notable exclusion from last year's Budget was consultancy costs. Given that these costs cover a range of professional advisory services, charged at hourly rates, the Board did not set out a precise forecast for these costs last year. The actual expense was \$32,433 – a substantial increase on the \$15,632 incurred in the previous year. The amount reflected a considerable amount of time devoted to preparations for major works as well as their management and supervision when underway. This year we have set out a specific allowance for consultancy costs as detailed in the next section.

The final variation to the Budget presented last year was the "other" category, where the estimate of \$4,500 proved to be inadequate: the combined cost of various small expense items was more than double at \$10,080. The main reason for this over-run was the unexpectedly large increase in TV reception costs, which were \$4,002 higher than in FY10.

Despite these additional costs, Twenty saw out the financial year with a net profit of \$104,332 compared with a loss of \$89,161 in the previous year. This was a solid result consistent with the strategy of building sufficient funds to complete major building renewal projects. The company's cash balance at 30 June 2011 was above \$160,000.

FY12 Budget: Levies and Expenses

The Board has maintained its commitment to undertaking on-going improvements to the building and its facilities without any further increases to levies over a ten year period. The administrative fund levy and the sinking fund levy will both remain unchanged in the year ahead and there will be no change to special levies. We expect that the company's revenues in FY12 will be approximately \$400,000.

While a substantial payment was made towards the new lift in FY11, a major expense item in the FY12 budget is the remaining balance payable to Schindler of \$90,000. The Board has also allowed \$40,000 in various consultancy costs, to be paid to independent contractors engaged by the company for a range of specialist services (discussed further below). As a result of these consultancies, the Board is able to assess various options for on-going remedial programs at Twenty.

In summary, the budgeted expenses (excluding GST) are broadly as follows:

Lift	\$90,000
Consultancies	40,000
Other building maintenance	110,000
Fire protection/ monitor	15,000
Legal and accounting	12,000
Utilities	65,000
Management fees	15,000
Cleaning	19,500
Insurance	22,400
Other admin costs	8,200
Total	\$397,100

The major part of the "other building maintenance" allowance of \$110,000 is for the new paving and underground pipes on the south side. That work has been contracted to Dapcor Building Services and is expected to be completed by the time the AGM is held.

Over the past 6 months, the Board has concentrated on priorities for internal improvements to the building. The first steps towards renovation of the ground floor entrance have been completed with a report from heritage consultants, Hericon, setting out detailed recommendations that would enhance the original design elements of the building. Copies of its report will be available at the AGM for shareholders to review. We have also prepared a short survey – on the next page – to gauge the views of shareholders on the priority, scope and nature of changes to the ground floor entrance. Please let us know your views by filling in the survey and sending it to the Board so that future decisions can be taken based on shareholder preferences.

The Board places a strong emphasis on managing risks at Twenty, particularly in relation to fire and electrical safety. This has led to two further consultancies being let. The first is to Holmes Fire to investigate and report on how best to manage fire risks in the roof void and a second consultancy has been awarded to Spectrum Engineering to investigate and report on electric power supply to the building, having regard to problems with overload and blackouts.

To improve safety and reliability the company has also begun a systematic program of installing residual current devices (RCDs) on all electric circuits to each apartment, beginning on the lower ground floor and progressively working through the building. We expect this program to continue throughout the year ahead.

Constitution

The 2011 AGM will be the first held under the company's new Constitution. During FY11 the company substantially completed its review of the new Constitution in readiness for a shareholder vote on its adoption. At the EGM held on 3 August 2011, the new Constitution was adopted. However, at the time, a couple of further, minor changes were discussed and it was agreed that Special Resolutions would be put at the forthcoming Annual General Meeting on these items, relating to interest payable on overdue levies and the company's procedures for approving borrowings. The amendments have been drafted by Makinson and d'Apice, lawyers, and are included in the Agenda for the meeting.

New shareholders

Since the last AGM we have welcomed several new shareholders: Pauline McDonnell (U42), Barbara and Malcolm Richardson (U43), Robert Brennan (U54), Jiahui Gao (U60) and Rohan Pratt (U61).

Contact details

The Board can be contacted by the following methods:

1. by post addressed to the Board of Directors, Twenty Macleay Street Limited, 27/20 Macleay St, Potts Points NSW 2011;
2. by telephone to Sydney Company Title Management on 02 9556 1505 or by post via PO Box 1107, Rockdale NSW 2216.

Mark McDonnell
Chairman
Twenty Macleay Street Limited

Ground floor entrance – Shareholder Survey

1. My opinion of the current ground floor of Twenty is best described as follows:

- a. I like it as it is – no change needed
- b. I like it as it is but some updating is needed
- c. I like the overall style and would like to see a more consistent use of heritage/original colours, fittings and fixtures
- d. I would prefer a different style or a mix of styles.

If your answer is (a), no further input is needed – thank you. Please return to address below.

If your answer to Q1 is b, c or d, please answer the additional questions below.

2. My preference is to see the following areas improved with priority (high, medium, low):

a. floor covering	HIGH	MEDIUM	LOW
b. timber panels	HIGH	MEDIUM	LOW
c. lights	HIGH	MEDIUM	LOW
d. mirror	HIGH	MEDIUM	LOW
e. seat	HIGH	MEDIUM	LOW
f. letterboxes	HIGH	MEDIUM	LOW
g. noticeboards	HIGH	MEDIUM	LOW
h. front doors	HIGH	MEDIUM	LOW
i. mat	HIGH	MEDIUM	LOW
j. front steps	HIGH	MEDIUM	LOW
k. colour scheme	HIGH	MEDIUM	LOW
l. ceiling	HIGH	MEDIUM	LOW

3. The main changes I'd like to see are as follows:

Name:

Unit:

Please return to Directors, Twenty Macleay Street Limited, 27/20 Macleay Street, Potts Point NSW 2011

