Report to Shareholders

The year to 30 June 2012

The 2012 financial year saw practical completion of the works on the south side of the building, with new paving and access ramp, altered and repaired plumbing in the same area, installation of a new lift and a range of initiatives to improve the safety and amenity of the building's interior.

Specifically, priorities for the interior improvements were: (1) to reduce hazards relating to asbestos, (2) letting a contract for power supply upgrade, (3) improving electrical safety in apartments with installation of RCDs, (4) addressing fire safety issues in the roof void, through remedial measures associated with unprotected light fittings (5) supply of new washing machines and driers in the laundry and (6) new architraves around lift doors and painting of adjoining walls.

FY12 financial outcomes compared with Budget

The auditor's report for the year ended 30 June 2012 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 FY12 as estimated in last year's report, with variations as noted below.

Total revenues were $420,000 compared with $416,000 the previous year and 5% above a budget of $400,000. The Board expects revenues in FY13 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 FY12, excluding income tax, were $427,000, 3.9% above average costs of the past two years ($411,000), or broadly flat in inflation-adjusted terms.

The detailed Profit and Loss Statement shows $227,000 for repairs and maintenance. As this represents over half total expenditure, some detail is appropriate. First, the $227,000 cost includes $17,000 for fire protection and monitoring compared with a separate budget estimate for this item of $15,000. The additional $2,000 related to remedial works carried out as a result of periodic inspections.

The largest single expense within the remaining $210,000 for repairs and maintenance was final payment to Schindler for the new lift, amounting to almost $93,000 (against an estimate of $90,000). The additional cost reflected sub-contractor expenses for the interior fit out of the lift. Next largest in the repairs and maintenance category was payment to Dapcor for the new ramp and south side paving, accounting for an additional $71,000. The remaining $46,000 was spent on various interior repairs and works as noted above, with plumbing works as the major cost component.

Most administrative expense items were in line with the budget set out in last year's report, but with some additional unforeseen costs incurred, as follows:

- Consultancies cost $42,754 (budget was $40,000 with extra costs on power upgrade preparatory work and engaging an architect for western façade works)
- Legal and accounting $14,428 (budget was $12,000, with some additional legal costs associated with the south side works and cost recoveries relating to overdue levies)
- Utilities $64,414 (budget was $65,000)
- Management fees $17,959 (budget was $15,000, while the additional $3,000 was largely one-off costs associated with share registry changes)
- Cleaning $19, 345 (budget was $19,500)
- Insurance including net claims costs $22,940 (budget was $22,400) and

- Other of $4,541 (better than expected, against budget of $8,200).

The net effect of these variations was a pre-tax operating loss of $6,636 compared with a budget profit projection of $2,900. Given the increased activity in the company's building maintenance and repair program, the additional outlays were accepted by Directors as largely unavoidable and consistent with the longer-term plans to improve the building condition and amenity.

Following some expressions of concern about Twenty's levies at last year's AGM, the company held an additional General Meeting of shareholders on 31 January 2012 to review the progress with the capital works program in greater detail and to provide shareholders with an opportunity to revise the company's 10 year plan. At the conclusion of that meeting, shareholders voted strongly in favour of maintaining the existing program and levies. Directors remain committed to full implementation of the program, but with some minor changes to the sequence of works, as detailed further below.

The company's cash balance at 30 June 2012 was approximately $145,000 compared with $160,000 a year earlier. The main factor in the reduction is a significant increase in receivables, up from $4,265 at 30 June 2011 to $13,832 at 30 June 2012. Shareholders are respectfully reminded of the need to pay levies on time in order to avoid interest charges. During the year, it was unfortunately necessary to engage lawyers in recovery of some overdue levies.

<u>Ground floor refurbishment and the western façade works</u>

At last year's AGM a survey relating to preferences for ground floor refurbishment was distributed. There was a good response from shareholders and residents on that side of the building. Directors took account of the reasonably consistent views expressed, around the nature of improvements sought and the main areas for attention.

A consultancy was let for some design concepts to be developed, consistent with those views and an informal Information Evening was held on 28 June 2012 to provide shareholders with a progress report and to review these design ideas. The meeting was well attended and shareholders expressed approval of the work to date. This included a clear view that the company give priority to the ground floor refurbishment, ahead of the 2013 focus on western façade works.

At its Board meeting held immediately after the Information Evening, the Directors adopted a revised capital works program to 2020, to reflect the changed priorities, reproduced below.

Key points are as follows:

- No increase in levies
- The opening forecast cash position of $165,000 at 1 January 2013 is unchanged from the original plan
- Twenty is three years into an original 10 year program to 2020, with a total budget of $2,000,000. As a result, the remaining funding commitment from the start of 2013 is $1,400,000 and is unchanged from earlier estimates
- The main short term change to the original works schedule is that western façade works are deferred to 2014 to make way for the ground floor refurbishment, brought forward in accordance with shareholder wishes.

While the western façade work is delayed under the new works schedule, your Directors continue with preparatory work. As mentioned, this included a completed survey on the condition of the western façade windows with input from all residents at the front of the building. In addition, Mr Ian Burl, architect, has been appointed to assist with on-going investigations around the final scope of works.

The budget estimates for the revised capital works program, from 1 January 2013 to 31 December 2019 are:

Year	Sources	$'000	Uses	$'000	Balance
2013	Opening cash	165	Ground floor refurb	115	
	Capital levy	200	Management	10	
	Total	365	Total	125	240
2014	Opening cash	240	Western façade	330	
	Capital levy	200	Management	18	
	Total	440	Total	348	92
2015	Opening cash	92	Interior	75	
	Capital levy	200	Management	15	
	Total	292	Total	90	202
2016	Opening cash	202	Eastern façade	355	
	Capital levy	200	Management	20	
	Total	402	Total	375	27
2017	Opening cash	27	Interior	70	
	Capital levy	200	Management	20	
	Total	227	Total	90	137
2018	Opening cash	137	Interior	80	
	Capital levy	200	Management	20	
	Total	337	Total	100	237
2019	Opening cash	237	Northern façade	410	
	Capital levy	200	Management	20	
	Total	437	Total	430	7
	Total levies	***1400***	***Total outlays***	***1558***	***-158***
2020	***Opening cash***	***7***			

Revised House Rules and Rental Policy

As a result of the new lift being commissioned, some changes to the House Rules were needed, to bring them up to date. Some other minor changes were made by Directors as part of this review. A copy of the revised, current House Rules is enclosed for information.

Additionally, the company sought legal advice on the actions to be taken when shareholders renting apartments, or their real estate agents, ignore the company's Rental Policy and allow tenants to move into Twenty without express company approval. Based on that advice, the Rental Policy has been strengthened. A copy of the revised policy is also enclosed.

FY13 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 to 2020. 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 FY13 will be approximately $420,000, of which $400,000 will be sourced from levies.

To 30 June 2013, the main remedial works will be completion of the power supply upgrade and the ground floor refurbishment works. In addition, the FY13 budget takes into account substantial rises in electricity costs, with 40% of the administrative levies now being allocated to utility costs.

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

Ground floor refurbishment	$115,000
Consultancies	30,000
Other building maintenance	80,000
Fire protection/ monitor	18,000
Legal and accounting	8,000
Utilities	80,000
Management fees	15,000
Cleaning	20,000
Insurance	24,000
Other admin costs	5,000
Total	$395,000

If this budget is realised, the company should have a pre-tax profit of about $25,000 in FY13. Assuming no further deterioration in the company's working capital position, this will translate to a closing cash balance of circa $170,000, consistent with the objective of having $240,000 in cash at 1 January 2014, as projected in the capital works plan cited above. The additional $70,000 would be sourced from capital levies in the period from 1July to 31 December 2013.

<u>New shareholders</u>

Since the last AGM we have welcomed several new shareholders: Daniel Boddam-Whetham and Kelly Geddes (U2), R Floyd and O Da Silva (U49), Brett and Claire Gebers (U33).

<u>David Whitfield and changes to Twenty's Board</u>

At this year's AGM Mr David Whitfield plans to retire as a Director of the company. David was the last Chairman, until a year working in Melbourne prompted him to step down from that role. Since returning to Sydney, David has been an energetic, thoughtful and constructive contributor to the Board's activities. On behalf of the Board and shareholders I'd like to thank David for his outstanding contribution to the company during a difficult transition period.

During the year, Mrs Judith Barbour, a long standing shareholder and resident, accepted an invitation to join the Board to strengthen its membership and contribute to our work. In accordance with the Constitution, Mrs Barbour will be seeking formal election to the Board at the forthcoming AGM. In addition, I'm delighted to say that several other shareholders have also accepted nomination to the Board. If elected, there will be a significant renewal in the Board's membership and a more representative cross-section of shareholders serving as Directors of the company.

<u>Contact details</u>

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