

Report to Shareholders

The year to 30 June 2013 was eventful at 20 Macleay Street. Your company has continued to implement an ambitious 10 year program of improvements, with major milestones over the past 12 months being the upgrade of the building power supply and ground floor refurbishment.

Significant savings were made as the newly enlarged board of directors operated via 4 sub-committees to tackle a wide range of issues, with greatly reduced reliance on outside consultants.

The new Committee structure at Twenty comprises 4 committees with complementary roles and responsibilities. The Committees are the Legal and Audit Committee, the House Management Committee, Building Maintenance Committee and Strategic Planning Group. This year's Report to Shareholders features reports from the chairs of each of these Committees.

Legal and Audit Committee

The members of this committee are Brett Gebers, Jon Owens, Malcolm Richardson and Mark McDonnell (chair). This Committee is primarily involved in preparation of budgets, execution of contracts and overseeing all financial and legal aspects of the company's operations.

As the attached Financial Report shows, Twenty ended FY13 with a net profit of \$99,685 compared with a loss of \$8,088 in the prior year. This profit was a major contributor to the increase of a little over \$100,000 in the company's cash balance, which at 30 June was \$245,864 compared with \$144,890 a year earlier.

This outcome was considerably better than the budget forecast provided in last year's Report. The total outlays were significantly lower than the \$395,000 provided in our budget. Total expenses were \$80,450 less than the budgeted amount.

These savings were mainly due to:

- A saving of \$22,619 on consultancies due to a reduced need for external consultants as directors took a far more active hands-on role in day to day activities of the company;
- A saving of \$19,959 in utility costs as expected increases such as the introduction of the carbon tax had less impact than expected;
- Savings of \$2,728 in legal and accounting charges and \$2,852 in other administrative expenses associated with generally tight cost control measures applied in the conduct of the company's affairs.

The main areas where these savings were offset by additional expenses incurred or cost over-runs related to:

- \$26,500 in additional building maintenance and repair jobs, above budgeted outlays. The single largest contributor to an increase in expenses in this category was the replacement of the intercom system from the front door to each apartment, which was outside the scope of the original budget but undertaken due to the faulty operation of the old intercom. Another example was the improvements made to the lower ground floor, following completion of the electrical upgrade work and establishing a new mains switch room;

- \$5,995 in insurance costs, above our \$24,000 budget (offset by \$3,300 in insurance claims received);
- \$1,465 in higher cleaning costs (associated in large part with the extra cleaning linked to construction work inside the building);
- \$1,006 in management fees above the \$15,000 budget.

The higher cash balance was also due to the deferral of \$49,349 on the ground floor refurbishment cost (relative to the budget), due to unexpected delays in completion;

As a result of the strong financial management over the past year, the company is well placed to meet expected costs in the current (FY14) financial year, including in particular the western façade remediation works. These works were deferred from 2013 to 2014, following consultation with shareholders, as higher priority was afforded the ground floor refurbishment.

An important part of the Legal and Audit Committee’s work in the past year was the appointment of a new managing agent and company secretary. Muriel Barasso retired towards the end of FY13 having administered Twenty’s activities for the past ten years through her company, Sydney Company Title Management (SCTM). This firm continues as the managing agents for Twenty under its new owners, Prudential Investment Company of Australia (PICA). Glenn Clement from SCTM has replaced Muriel Barasso as company secretary.

The selection of PICA (operating as SCTM) as managing agents was based on the Board’s review of three comprehensive proposals received from SCTM, Dynamic Property Services and Strata Sense. SCTM under its new owners was selected as offering the best value for money service from this group of tenderers.

The Budget for the financial year ended 30 June 2014 is as follows:

Opening cash	245864
Levies	400000
Other income	15000
Total cash resources	660864
Western façade works	330000
Consultancies	18000
Other building maintenance	60000
Fire protection/ monitor	18000
Legal and accounting	7000
Utilities	64000
Management fees	16000
Cleaning	21000
Insurance	30000
Other admin costs	4000
Total outlays	568000
Estimated closing cash	92864

The Budget for western façade and consultancies is consistent with the company’s 10 year capital works program. The FY13 and remaining years of that plan are as follows:

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

This plan was devised on a calendar year basis so that the opening cash balance in 2013 of \$165,000 refers to the planned position at 1 January 2013. The company did manage its finances so as to achieve that milestone. Note 6 of the Financial Statements shows that \$165,000 has been placed in a term deposit to secure better interest on the company's funds.

The FY13 balance sheet outcome – where the cash balance at 30 June 2013 was \$245,864 – is marginally above the required cash position at 31 December this year. This advance of 6 months on our original plan has been achieved, in part, due to the deferral of about \$50,000 of the ground floor refurbishment expense, as already noted.

In summary, the FY14 Budget assumes that these deferred costs can be paid while the other elements of the 10 year plan designated for 2014 will also be fully paid, so as to arrive at 30 June 2014 with \$92,000 as the continuing cash balance. By achieving this Budget outcome, Twenty will be 6 months ahead of its 10 year plan without any deferred expense items.

As 2014 marks the mid-way point of the 10 year program, a six month advance would be consistent with a completion date up to one year ahead of schedule. While the directors have not formally committed to such an outcome at this stage, Budget discipline in FY14 will be critical in realising the goal of early completion and the directors will use their best endeavours to achieve that result.

As the possibility of removing special levies a year earlier than currently expected will bring considerable relief to shareholders funding the planned capital works projects, the company intends to maintain very tight cost control in the year ahead.

Finally, the commitment to keep levies at the same level for the duration of the program remains. The strong financial performance of the past year makes that commitment somewhat easier to maintain in the years ahead.

House Management Committee

Twenty Macleay Street's House Management Committee [HMC] in 2013 has four Directors as its members: Judith Barbour (Chair), Kate Messenger, Mark McDonnell, and Malcolm Richardson. The Committee deals with the company's House Rules and policies concerning rentals, changes in shareholders and complaints. Judith Barbour reports:

We hold our meetings at agreed dates midway between Board Meetings. As the Chair I distribute an informal Agenda by email in advance, and after the meeting I compile a brief activity report which is handed on to the Company Secretary (Glenn Clement) at the Board Meeting next following.

The role of the HMC is designed to complement the activities and responsibilities of other subcommittees of the Board of Twenty Macleay Street. We have undertaken the following tasks in 2013:

Tenant Interviews

One or other of the HMC Directors hold interviews with incoming Tenants, who have submitted online to Managing Agents SCTM the Twenty Macleay Street Application Form for Tenants, together with a signed copy of the Twenty Macleay Street House Rules. In 2013 all shareholders and tenants who presented for interview with the required documentation were approved.

Shareholder Interviews

It is desirable that two Directors be present at an interview with new shareholders. The matters discussed include the whether or not shareholder intends to undertake major renovations to the unit. If the shareholder is an investor the terms and conditions set out in the Rental Policy and Guidelines require full discussion. This latter document was most recently reviewed and confirmed at the House Management Subcommittee meeting on 4 December 2012 and signed by the four Directors on the HMC.

To maintain oversight of the Tenant Register and Shareholder Register and update both registers progressively.

These registers are lodged centrally with the Managing Agents SCTM. At the Board Meeting after the Directors have approved a new Shareholder or Tenant the signed papers of interview are handed to the Managing Agent and the details on the Register/s updated on their master copy. In May 2013 Mark McDonnell, Chairman of the Board, and Glenn Clement, our Company Secretary, undertook an intensive survey of Investor Shareholders. This resulted in an overhaul of both the Shareholder and Tenant Registers. The HMC has also assisted in this effort to regularise and confirm the details of unit occupation on both Registers.

To respond as they arise to residents' complaints, and if possible work out an acceptable resolution.

These complaints often turn out on discussion to be requests for fuller information. If this informal approach does not address the problem, shareholders' complaints should be referred in writing to the Managing Agents for further consideration by the Directors.

In January 2013 the Twenty Macleay Street House Rules were updated with an additional clause on Fire Safety: *FIRE: No smoking is permitted in the common areas, including on the front steps.* The HMC advised that a number of complaints had been received from residents, and this led the Board to insert this important health and safety warning.

To facilitate communications between the Company and the residents at all times, and especially when major projects inside the building call for access to home units and cooperation among all residents.

In 2013 the HMC facilitated three in-house projects in cooperation with residents of Twenty:

10th-12th April. Installation of Replacement Intercom System: Bell's Access Control Services.

The HMC publicised these works with Notices in the glass case on Floor-1 and on the pinboard on the side wall of the Fire Exit corridor. We arranged with Daniel Vardanega of Bell's Access Services that residents unable to be present to give access to their units would hand their keys to a member of the HMC. At the end of each day the keys were returned to their owners without mishap.

31 May 2013. Entrance Lobby Refurbishment. To all Owners and Residents at 20 Macleay Street Ltd.

Managing Agents SCTM/PICA sent this Advance Notice of Intermain's commencement of work on the entrance lobby and ground floor. It was placed by hand in all unit letter boxes. It was also prominently displayed in glass case and pinboard on Floor-1. Intermain Project Manager Chris Cullimore used large laminated signs showing his mobile phone number to inform residents about the work in progress. The refurbishment has been completed and the HMC have not been made aware of any problems of communication with residents.

25 June to 9 July 2013. D.E.M. Maintenance Pty Ltd. Access Required to Carry Out the Annual Fire Safety Inspection.

Managing Agents SCTM/PICA posted this Advance Notice in good time to all Residents for this annual test of fire safety equipment, which is mandatory on the Company under the requirements of the Environmental Planning and Assessment Regulation 2000. They provided a phone number for residents to contact if special circumstances prevented them from giving access to their unit. They specifically addressed: 'Non-Resident Owners' to make arrangements with their tenants or property managers, real estate agents etc. The HMC displayed copies of the D.E.M. 25 June notice in the glass case by the laundry on Floor-1 and on the pinboard on the side wall of the Fire Exit corridor for a fortnight leading up to 9 June. Despite this concerted effort, a number of units remained inaccessible; and in order to fulfill the Board's legal obligations it must address the need for authorised agents of the Company to gain access to apartments.

In summary, the HMC in its first year of operation has actively monitored the responses of shareholders and residents over the construction of three in-house projects at Twenty Macleay Street. We have worked with the Board and the Managing Agents to initiate better ways of notifying

residents and non-resident shareholders of forthcoming projects. We aim to improve communications with residents and to foster good community relations at Twenty Macleay Street.

Building Maintenance Committee

The Building Maintenance Committee is responsible for undertaking detailed oversight of the company's capital works program as well as more routine repairs and maintenance. The Committee's members are Keith Cottier (Chair), Daniel Boddam-Whetham, Richard Hambly and Mark McDonnell. Keith Cottier reports:

Ground floor refurbishment

Firstly, a thanks to all for your patience – this project has been a long, long saga. We went down many dead-ends before we found the right route, and the right people. But we think we finally achieved a good result, and good value for money, and, judging from the feedback we have received, that is a common view. I would particularly like to thank Jon Gemenis, who put in a lot of time in the early design stages, and Daniel Boddam Whetham, who in a lot of time in the latter stages.

Electrical

Following the winter blackouts that were experienced in 2012, the building's electrical installation was assessed in detail, and found to be wanting in several key areas – most importantly, the incoming supply was insufficient, and did not conform to current fire safety standards, and there was an unacceptable imbalance between the phases throughout the building. We were able to negotiate a 20% increased new supply from Ausgrid, and have installed a new main switch board on Level 1, which now complies with all current standards. Phase balancing was then carried out throughout the building, by simply splitting the apartments across the three phases – and we thought we'd solved the blackout problems, until a cold and wet June Sunday this year. Subsequent investigations revealed that there are an unusually large number of high rating appliances on the top floor apartments. With this in mind the phases have been rebalanced again, and to date we have had no further problems, although the weather has been kind. It is important to note that, until the electricity supply is upgraded throughout Macleay Street, there is no possibility of any increase in incoming power to Twenty. Therefore, if you are contemplating installing any new appliances, please consider gas! We are about to change over the power supply to the washing machines to gas, in order to minimize electrical demand.

As many apartments still have original electrical wiring, which is approaching the end of its safe lifetime, we are installing RCDs on the supply from the distribution board on each floor to each apartment. These devices, Residual Current Devices, are like a sophisticated circuit breaker, and disconnect a circuit when they detect an imbalance of the electrical current. This provides a degree of safety to the apartment occupant, and also shields other apartments from power failure. Currently we have installed RCDs to approx 60% of the apartments. Please assist in facilitating access for Tom Crook, the electrician, to allow us to complete this important work.

Lift installation

Whilst the new lift has been installed for well over 12 months, it has occupied considerable time in the finalization of outstanding items. You will be aware that it took months before acceptable LED lights were installed. More recently, further work was done to achieve a complying mains power connection to the lift, to the satisfaction of our consultant. We are now in a position to enter into a longer term Maintenance Agreement with Schindler, who installed the lift.

Intercom

A new intercom system was installed in April, giving us much improved convenience and security.

On the horizon

We are currently assessing prices for the installation of 10 bicycle storage racks, under cover in the north passageway.

The next major work on the masterplan is the western façade, and it is expected that this work will commence in the first half of next year.

Strategic Planning Group

The committee is made up of Daniel Boddam-Whetham, Keith Cottier, Brett Gebers, Mark McDonnell and Kate Messenger (Chair). Malcolm Richardson has also helped enormously, with his leadership of the Perception Audit below. Kate Messenger reports:

Since its creation in November 2012, the committee has focused on three issues:

1. Perception Audit

In the first six months of this year, we conducted a survey of 18 real estate firms to understand their perceptions of our building. The purpose was to gather information that would help the Board to protect the building's value and look for ways to improve returns for shareholders. We received thirteen responses.

A summary of the survey is included as an Appendix to this Report. But in brief: overall Twenty rated highly for presentation, amenity, upkeep and management, and there was broad agreement on the value of its art deco, 1930s heritage and location. Nine of the responses rated Twenty as above average or better when compared with other company title buildings in the area.

Scope for improvement or problem issues as seen from a real estate perspective included: need for a foyer upgrade (which was about to start), suggestions for increased amenities, concerns about high levies, constraints of company title, and the requirement for interviews of new tenants.

2. Resolution re increasing value of our property

On 20th June 2013, the strategy committee put a resolution to the Board: *that the company begins tracking unit sale prices at Twenty and the surrounding area. Given the significant investment in our program of works, we should expect to see property values increase in our*

building at a rate that exceeds average growth in comparable Potts Point buildings. We propose to assess this at the mid-point of our program, July 2015, to ensure that investment decisions are delivering an increase in shareholder value.

This resolution was passed. First step for the committee will be to agree a simple approach for monitoring the value of property in our building, e.g. RP Data report.

3. Website

We're working to develop a website for our building, primarily as a marketing tool, but also as an administrative tool for shareholders, residents and agents. Costs will be minimal, as a resident has generously agreed to build the website for us.

In the Perception Study, most agents agreed on the benefit of establishing a website containing information about the building, house rules, contact numbers etc.

We've developed a web tree, based on the structure of the Macleay Regis site and we've begun drafting content. Photos will be taken of the façade and lobby, as soon as the work is complete, plus views from the front and back of building, and some neighbourhood shots.

Please contact me (Kate) if you're interested in helping!

On behalf of the Directors of Twenty Macleay Street Limited:

Mark McDonnell

Keith Cottier

Judith Barbour

Kate Messenger