BLACKWALL PROPERTY FUNDS

11 February 2014

# ASX Release

## P-REIT (PXT)
## 31 December 2013 – Half Year Result

The financial statements for the half-year to 31 December 2013 are attached along with the appendix 4D. Commentary on the Trust and results is included in the Directors' Report which forms part of the financial statements. The key points are:

- **Earnings** – The profit for the half-year was 10.8 cents per unit ($22.5 million) or 1.4 cents per unit ($2.9 million) excluding litigation effects and asset revaluations.

- **Distributions** – a maiden distribution (under current management) of **0.75 cents** per unit has been declared and will be paid on **7 April 2014**.

- **Taxation** – the Trust has carried forward revenue losses of just under $14 million and capital losses of $14.2 million. As a consequence for a significant period distributions will be **100% tax deferred**.

- **Bank debt** – the Trust has $48.5 million of borrowings against $124.3 million of assets giving rise to a gearing ratio of 39%. Management has been in discussions with the bank in relation to an extension of the facility. It is expected that the trust will receive an extension of 2 years with pricing reduced to a 1.85% per annum margin (3.25% at 31 December 2012).

- **NTA** – the Trusts net tangible assets value is 35 cents per unit (23 cents at December 2012).

- **MPS Litigation** – the significant rise in NTA and earnings is due to the reversal of a $19.7 million impairment. This adjustment was made when the NSW Court of Appeal handed down a unanimous judgment in the Trust's favour.

For more information please contact:

**Stuart Brown**
**Chief Executive Officer**
**Phone: (02) 9033 8608**

**Tim Brown**
**Chief Financial Officer**
**Phone: (02) 9033 8618**

For personal use only

# APPENDIX 4D
## HALF-YEAR REPORT

**Name of entity: P-REIT**

### 1. Details of the reporting period

Current Period: 1 July 2013 – 31 December 2013
Previous Corresponding Period: 1 July 2012 – 31 December 2012

### 2. Results for announcement to the market

| | | | | $'000 | | $'000 |
|---|---|---|---|---|---|---|
| 2.1 Revenue from continuing operations (excluding unrealised gains and reversal of litigation provision) | Down | 0.60% | from | 6,322 | to | 6,284 |
| 2.2 Profit for the period | Up | 840.99% | from | 2,391 | to | 22,499 |
| 2.3 Net profit for the period attributable to unitholders | Up | 831.79% | from | 2,391 | to | 22,279 |

| 2.4 Distributions | Amount per unit | Franked amount per unit |
|---|---|---|
| Current Period: | | |
| Interim and final distribution | $0.075 | Not applicable |
| Previous Corresponding Period: | | |
| Interim and final distribution | $0 | Not applicable |

| 2.5 Record date for determining entitlements to distributions | 17 March 2014 |
|---|---|

2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood:

Refer to the attached ASX release and Financial Report for the half-year ended 31 December 2013 for further information.

For personal use only

For personal use only

### 3. Net asset backing per security

| | Current period (As at 31 December 2013) | Previous corresponding period (As at 31 December 2012) |
|---|---|---|
| Net tangible assets per unit * | $0.35 | $0.23 |

** Under the listing rules NTA Backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (i.e., all liabilities, preference shares, outside equity interests etc). The NTA reflect the fair value of P-REIT's portfolio of assets.*

### 4. Control gained or lost over entities during the period

| | |
|---|---|
| 4.1 Name of entity (or group of entities) over which control was gained | Bald Rock Fund |
| 4.2 Date control was gained | 29 November 2013 |
| 4.3 Consolidated profit (loss) from ordinary activities after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired | Profit $361,000 |
| 4.4 Name of entity (or group of entities) over which control was lost | None |
| 4.5 Date control was lost | Not applicable |
| 4.6 Consolidated profit (loss) from continuing activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control | Not applicable |
| 4.7 Profit (loss) from continuing activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the previous corresponding period | Not applicable |

### 5. Details of dividends/distributions

The Directors have declared an interim distribution ($0.75 cents per unit) to be paid on 7 April 2014.

### 6. Details of dividend/distribution reinvestment plan

There was no distribution reinvestment plan in operation during the period.

### 7. Details of associates and joint venture entities

Not applicable.

**8. Details of controlled entities**

| Name of subsidiary |
|---|
| The Yandina Sub-Trust<br>Bald Rock Fund |

**9. Accounting standards used by foreign entities**

| |
|---|
| Not applicable. |

**10. Audit / review of accounts upon which this report is based**

This report is based on accounts to which one of the following applies (*tick one*):

| | | | |
|---|---|---|---|
| | The accounts have been audited (refer attached financial report). | ✓ | The accounts have been subject to review (refer attached financial report). |
| | The accounts are in the process of being audited or subject to review. | | The accounts have not yet been audited or reviewed. |

**11. Qualification of audit / review**

Refer to the attached Financial Report for the review report.

**12. Attachments**

The Financial Report of P-REIT for the half-year ended 31 December 2013 is attached.

For personal use only

**P-REIT**

Managed by BLACKWALL PROPERTY FUNDS

For personal use only

# Condensed Interim Consolidated Financial Report

Half-year Ended 31 December 2013

**P-REIT**
**ARSN 109 684 773**
**Responsible Entity: TFML Limited**
**ABN 39 079 608 825**
Level 1, 50 Yeo Street, Neutral Bay NSW 2089
PO Box 612, Neutral Bay NSW 2089
**Phone:** (02) 9033 8611
**Fax:** (02) 9033 8600
**Web:** www.blackwallfunds.com.au

**P-REIT**

Managed by BLACKWALL PROPERTY FUNDS

For personal use only

## CONTENTS

## Financial Report


| | |
|---|---|
| Directors' Report | Page 3 |
| Auditor's Independence Declaration | Page 6 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | Page 7 |
| Consolidated Statement of Financial Position | Page 8 |
| Consolidated Statement of Changes in Net Assets Attributable to Unitholders | Page 9 |
| Consolidated Statement of Cash Flows | Page 10 |
| Notes to the Financial Statements | Page 11 |
| Directors' Declaration | Page 21 |
| Independent Auditor's Review Report | Page 22 |

For personal use only

## Directors' Report

P-REIT (Trust) is an ASX listed unit trust (ASX Code: PXT). TFML Limited (Responsible Entity or TFML) is the Trust's responsible entity. TFML is a wholly owned subsidiary of BlackWall Property Funds Limited and the Trust's assets are managed by BlackWall's property/asset management businesses.

BlackWall is a vertically integrated real estate company engaged in funds management and principal investment in deep value property or special situations. BlackWall is listed on the ASX under the stock code BWF. BlackWall's board (Directors) is TFML's board (Directors). BlackWall holds 24.3 million of the 207.5 million issued units in the Trust (11.7%).

The Directors present P-REIT's condensed interim consolidated financial report (financial statements) for the half-year ended 31 December 2013.

**Distributions**

The Directors have resolved to pay a maiden distribution (under current management) of 0.75 cents per unit to be paid on 7 April 2014. There were no distributions paid or declared in the 6 months ended 31 December 2013 (2012: $nil). The Trust has carried forward revenue losses of $13.97 million and capital losses of $14.23 million. As a consequence for a significant period all distributions will be 100% tax deferred.

**Principal Activities and Significant Changes in Affairs**

P-REIT aims to generate:

- recurring and growing distributions; and
- NTA growth through the acquisition, development and improvement of income producing real estate.

When BlackWall took control of the Trust (in 2009) it was under significant financial pressure. As a consequence over the past four years its activities have been limited to rebuilding the balance sheet and aggressively reducing bank debt. In addition, BlackWall has been defending a significant legal claim relating to contracts entered into in 2007. With these issues largely resolved in the Trust's favour management is now focussed on the objectives outlined above. In this regard the reinstatement of distributions is a significant milestone.

*Bank Debt*

The Trust has a senior debt facility with National Australia Bank drawn to $48.5 million. BlackWall has been in discussions with the bank in relation to an extension of the facility. It is expected that the trust will receive an extension of 2 years with a pricing reduction to a 1.85% per annum margin (3.25% at 31 December 2012).

The Trust has two interest rate swap contracts for $10 million each, fixed at 5.26% and 5.22% per annum and expiring in June 2014. A further swap for $9 million swap is fixed at 4.22 % per annum and expires in November 2014. Assuming prevailing interest rates the combined effect of the margin reduction and swaps expiring is to reduce the Trust's interest cost by around $900,000 per annum.

For personal use only

*MPS Litigation*

The details, facts and history of the MPS's claim are set out in a BlackWall investor update dated October 2013 which can be downloaded at BlackWall's website (www.blackwallfunds.com.au) or can be viewed in a BlackWall ASX announcement entitled AGM Presentation and released on 23 October 2013.

In short the dispute relates to a claim by MPS that it had a right to withdraw a $15 million investment in the Trust in priority to other P-REIT unitholders. The claim stems from contracts entered into with MPS by P-REIT's previous management. BlackWall has always refuted this claim, however, MPS management chose to aggressively pursue it. On 3 September 2013 the NSW Supreme Court handed down a unanimous judgment declaring that MPS had no right to withdraw in priority to other unitholders and awarded costs in P-REIT's favour.

MPS has lodged an application to have elements of the Court of Appeal's judgment reviewed by the High Court of Australia. A hearing to determine if the matter is suitable for the High Court is set down for 14 February 2014. The Trust's lawyers have made submissions setting out the reasons why the matter is not suitable for the High Court and will present oral arguments at the hearing. In the event that MPS's application is rejected we expect the matter to be at an end. If the case is set down for a High Court hearing P-REIT will defend those proceedings.

**Review of Operations**

The NSW Court of Appeal's decision has lead to the Trust reversing a $19.7 million litigation impairment which is reflected in the following statement. In addition the Trust has taken up a contingent asset in the range of $500k and $1 million to reflect the cost order. The Trust's financial result for the six months to December 2013 is summarised in the table below.

| | **6 months to December 2013 $'000** | **6 months to December 2012 $'000** |
|---|---|---|
| Revenue | 6,284 | 6,205 |
| Expenses | (3,405) | (3,798) |
| **Normalised Profit** | **2,879** | **2,407** |
| | | |
| Reversal of prior years' litigation provision | 19,700 | - |
| Litigation expenses | (17) | (1,085) |
| | 19,683 | (1,085) |
| Unrealised gain on revaluation | 1,201 | 1,716 |
| Realised gain / (loss) on sale of investments | (137) | 117 |
| Depreciation expenses | (1,127) | (1,201) |
| **Total Comprehensive Income For the Period** | **22,499** | **1,954** |

In November 2013 the Trust made an investment in the Bald Rock Fund. This trust holds an investment in a freehold hotel located in Rozelle, Sydney known as the Bald Rock Hotel. The trust was capitalised by P-REIT and a small number of wholesale investors (including BlackWall CEO Stuart Brown, Chairman Richard Hill and Non-executive Director Seph Glew). The trust is forecast to generate a cash distribution in excess of 9% per annum. P-REIT's equity in the trust gives it constructive control and, as a consequence, the property has been consolidated onto the Trust's balance sheet. The transaction,

For personal use only

although small, is illustrative of BlackWall's intention to grow P-REIT's asset base through acquisitions and where appropriate controlling positions in pooled property investments.

**Events Subsequent to Reporting Date and Likely Developments**

Other than the matters referred to in these financial statements, to the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the period that have materially affected or may materially affect the Trust's operations in future financial years, the results of those operations or the Trust's state of affairs.

**Office Holders of the Responsible Entity**

The names of the Office Holders of the Responsible Entity in office at any time during or since the end of the period are set out below. Unless otherwise stated, Office Holders have been in office since the beginning of the financial year to the date of these financial statements.

Richard Hill (Non-executive Director and Independent Chairman)
Joseph (Seph) Glew (Non-executive Director)
Robin Tedder (Non-executive Director)
Stuart Brown (Executive Director and Chief Executive Officer)
Don Bayly (Company Secretary)

**Auditor**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out in these financial statements.

ESV continues in office in accordance with section 327 of the Corporations Act 2001.

**Rounding of Amounts**

The Trust is a group of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the Board of Directors.

**Stuart Brown**
Director
Sydney, 11 February 2014

ESV

For personal use only

**Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001**

I declare that to the best of my knowledge and belief, during the half-year ended 31 December 2013, there have been:

(i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

Dated at Sydney the 11th day of February 2014

**ESV Accounting and Business Advisors**

**Chris Kirkwood**
**Partner**

LEVEL 18, CITY CENTRE
55 MARKET STREET
SYDNEY NSW 2000
ESVGROUP.COM.AU

TELEPHONE. +61 2 9283 1666
FACSIMILE. +61 2 9283 1866
ADMIN@ESVGROUP.COM.AU



A member of TIAG® (The International Accounting Group), a worldwide alliance of independent accounting firms.
Liability limited by a scheme approved under Professional Standards Legislation.

# P-REIT

**ARSN 109 684 773**

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

**For the Half-year Ended 31 December 2013**

For personal use only

| | Note | December 2013 $'000 | December 2012 $'000 |
|---|---|---|---|
| **Revenue From Continuing Operations** | | | |
| Rental income | | 5,289 | 5,157 |
| Dividends and distributions | | 992 | 1,041 |
| Interest income | | 3 | 7 |
| Gain on sale of investments | | - | 117 |
| Net unrealised gain on revaluation | 4 | 1,201 | 2,153 |
| **Other Income** | | | |
| Reversal of prior years' litigation provision | 10 | 19,700 | - |
| **Total Revenue** | | **27,185** | **8,475** |
| | | | |
| Property outgoings | | (1,197) | (1,160) |
| Depreciation expenses | | (1,127) | (1,201) |
| Administration expenses | | (556) | (549) |
| Finance costs | | (1,624) | (2,041) |
| Loss on sale of investments | | (137) | - |
| Other operating expenses | | (28) | (48) |
| Litigation expenses | | (17) | (1,085) |
| **Profit For the Period** | | **22,499** | **2,391** |
| | | | |
| **Other Comprehensive Loss** | | | |
| *Items that will be reclassified to profit or loss* | | | |
| Net unrealised loss on revaluation of financial assets | 4 | - | (437) |
| **Other Comprehensive Loss For the Period** | | **-** | **(437)** |
| **Total Comprehensive Income For the Period** | | **22,499** | **1,954** |
| | | | |
| **Profit Attributable To:** | | | |
| Owners of the Trust | | 22,279 | 2,391 |
| Non-controlling Interests | | 220 | - |
| | | **22,499** | **2,391** |
| | | | |
| **Total Comprehensive Income Attributable To:** | | | |
| Owners of the Trust | | 22,279 | 1,954 |
| Non-controlling Interests | | 220 | - |
| | | **22,499** | **1,954** |
| | | | |
| **Earnings Per Unit** | | | |
| Basic and diluted earnings per unit | 5 | $0.11 | $ 0.01 |

The accompanying notes form part of these financial statements.

# P-REIT

**ARSN 109 684 773**

**Consolidated Statement of Financial Position**

**As at 31 December 2013**

| | Note | December 2013 $'000 | June 2013 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | 175 | 39 |
| Trade and other receivables | | 808 | 612 |
| Other assets | | 177 | 405 |
| **Total Current Assets** | | 1,160 | 1,056 |
| **Non-current Assets** | | | |
| Financial assets | 6 | 38,729 | 38,323 |
| Investment properties | 7 | 84,450 | 81,350 |
| **Total Non-current Assets** | | 123,179 | 119,673 |
| **TOTAL ASSETS** | | **124,339** | **120,729** |
| | | | |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | | 533 | 801 |
| Other liabilities | | 164 | 60 |
| Borrowings | 8 | 48,500 | 49,500 |
| Derivatives | 9 | 381 | 693 |
| Provision | 10 | - | 19,700 |
| **Total Current Liabilities** | | 49,578 | 70,754 |
| **Non-current Liabilities** | | | |
| Borrowings | 8 | 1,706 | - |
| **Total Non-current Liabilities** | | 1,706 | - |
| **TOTAL LIABILITIES (EXCLUDING NET ASSETS)** | | **51,284** | **70,754** |
| | | | |
| **NET ASSETS** | | | |
| Attributable to owners of the parent | | 72,243 | 49,975 |
| Non-controlling interests | | 812 | - |
| **TOTAL NET ASSETS** | | **73,055** | **49,975** |
| | | | |
| **TOTAL LIABILITIES (INCLUDING NET ASSETS)** | | **124,339** | **120,729** |

For personal use only

# P-REIT

**ARSN 109 684 773**

**Consolidated Statement of Changes in Net Assets Attributable to Unitholders**

**For the Half-year Ended 31 December 2013**

| | Units on Issue No.'000 | Issued Units $'000 | Retained Earnings / (Accumulated Losses) $'000 | Available-for-sale Assets Reserve (*) $'000 | Attributable to Owners of the Parent $'000 | Non-controlling Interests $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2013** | **207,524** | **105,958** | **(55,983)** | **-** | **49,975** | **-** | **49,975** |
| Profit for the period | - | - | 22,279 | - | 22,279 | 220 | 22,499 |
| Issue of units | - | - | - | - | - | 610 | 610 |
| Transaction costs | - | (11) | - | - | (11) | (18) | (29) |
| **Balance at 31 December 2013** | **207,524** | **105,947** | **(33,704)** | **-** | **72,243** | **812** | **73,055** |
| | | | | | | | |
| **Balance at 1 July 2012** | **207,524** | **105,958** | **(60,133)** | **(249)** | **45,576** | **-** | **45,576** |
| Profit for the period | - | - | 2,391 | - | 2,391 | - | 2,391 |
| Other comprehensive loss | - | - | - | (437) | (437) | - | (437) |
| **Balance at 31 December 2012** | **207,524** | **105,958** | **(57,742)** | **(686)** | **47,530** | **-** | **47,530** |

* Transfer from available-for-sale assets revaluation reserve to restate accumulated losses as a result of early adoption of AASB 9 effective from 1 January 2013.

For personal use only

# P-REIT

**ARSN 109 684 773**

**Consolidated Statement of Cash Flows**

**For the Half-year Ended 31 December 2013**

For personal use only

| | December 2013 $'000 | December 2012 $'000 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Receipt from customers | 5,495 | 5,661 |
| Payments to suppliers | (2,378) | (2,329) |
| Litigation expenses | (17) | (555) |
| Distribution received | 980 | 626 |
| Interest received | 3 | 7 |
| Interest paid | (1,581) | (1,797) |
| **Net Cash Flows From Operating Activities** | **2,502** | **1,613** |
| | | |
| **Cash Flows From Investing Activities** | | |
| Payments for purchase of financial assets | (1,152) | - |
| Payments for purchase of investment properties | (2,965) | (13) |
| Proceeds from disposal and redemption of financial assets | 234 | 312 |
| Proceeds from disposal of investment properties | 230 | - |
| **Net Cash Flows From / (Used in) Investing Activities** | **(3,653)** | **299** |
| | | |
| **Cash Flows From Financing Activities** | | |
| Repayment of borrowings | (1,000) | (2,580) |
| Proceeds from borrowings | 1,706 | - |
| Proceeds from issue of units to non-controlling interests | 610 | - |
| Transaction costs for issue of units | (29) | - |
| **Net Cash Flows From / (Used in) Financing Activities** | **1,287** | **(2,580)** |
| | | |
| **Net Increase / (Decrease) in Cash Held** | **136** | **(668)** |
| Cash and cash equivalents at the beginning of the year | 39 | 1,306 |
| **Cash and Cash Equivalents at End of the Period** | **175** | **638** |

For personal use only

# P-REIT

**ARSN 109 684 773**

**Notes to the Financial Statements**

**For the Half-year Ended 31 December 2013**

## 1. Statement of Significant Accounting Policies

The financial statements cover P-REIT and its controlled entities, the Yandina Sub-trust and Bald Rock Fund. P-REIT is a managed investment scheme registered in Australia. The Yandina Sub-trust is a discretionary trust established and domiciled in Australia. Bald Rock Fund was registered on 17 September 2013.

The Trust Company Limited is the Custodian of the Trust. The relationship of Responsible Entity and the custodian with the Trust is governed by the terms and conditions specified in the Constitution.

The financial statements for the Trust for the half-year ended 31 December 2013 were authorised for issue in accordance with the resolution of the Directors of the Responsible Entity on the date they were issued.

### Statement of Compliance

The financial statements are general purpose financial reports which have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations and other authoritative pronouncements of the International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The financial statements do not include notes of the type normally included in annual financial statements. It is recommended that the financial statements be read in conjunction with the annual financial statements for the year ended 30 June 2013 and any public announcements made by the Trust during the half-year in accordance with the continuous disclosure obligations of the ASX listing rules.

### Basis of Preparation

The financial statements have been prepared on an accrual basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period. Any change of presentation has been made in order to make the financial statements more relevant and useful to the user.

The Trust is a group of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year ended 30 June 2013 except as described below.

*(i) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures*

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships.

For personal use only

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the Trust will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Trust's investments.

The Trust has adopted these standards and there are no material changes to the Trust's financial statements.

*(ii) AASB 13 Fair Value Measurement*

The measurement and disclosure requirements are applicable for the December 2013 half-year end. The Trust has included the disclosures in the financial statements.

**Early adoption of standards**

The Trust has early adopted *AASB 9 Financial Instruments*, with effect 1 January 2013, as the Directors believe the revised accounting policy for fair value adjustments to the Trust's investments more reliably presents the financial information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transition provisions in AASB 2012-6, comparative figures have not been restated. See Unrealised Gain / (Loss) note below for further details on the impact of the change in accounting policy.

**Going concern**

These financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. Notwithstanding the deficiency in current assets over current liabilities the Directors believe the bank facilities of $48.5 million, classified as a current liability for reasons set out in the Borrowings note, will be renewed and extended after May 2014.

**Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period. Any change of presentation has been made in order to make the financial statements more relevant and useful to the user.

## 2. Critical Accounting Estimates and Judgments

The Directors of the Responsible Entity evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Trust.

For personal use only

*Key estimates – impairment*

The Trust assesses impairment at each reporting date by evaluating conditions specific to the Trust that may lead to impairment of assets. The Directors believed it appropriate to raise no impairment provisions for the half-year ended 31 December 2013.

*Key estimates – financial assets*

Financial asset provisions have been raised with reference to the prevailing prices at 31 December 2013 of financial assets at FVTPL with gains and losses recognised in profit or loss. The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities. The fair value of the listed securities is based on the closing price from the Australian Securities Exchange as at the reporting date. The fair value of the Bakehouse Bonds is measured by its face value adjusted for annual CPI movements and is subject to impairment assessment.

*Key estimates – fair values of investment properties*

The Trust carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations every three to five years. At the end of each reporting period, the Directors of the Responsible Entity update their assessment of the fair value of each property, taking into account the most recent independent valuations. The key assumptions used in this determination are set out in the Investment Properties note. If there are any material changes in the key assumptions due to changes in economic conditions, the fair value of the investment properties may differ and may need to be re-estimated.

## 3. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Trust that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Trust's primary format for segment reporting is based on business segments. The business segments are determined based on the Trust management and internal reporting structure. There is only one geographical segment being Australia.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Trust has adopted three reporting segments, Direct Property, Other Investments and Unallocated. The Direct Property segment includes the ownership and leasing out of commercial, industrial and retail properties in Australian Capital Territory, New South Wales and Queensland. Income is derived from rent and property revaluations. The Other Investments segment includes interests in debt instruments and property related securities such as units in unlisted unit trusts. It generates income from dividends, distributions, and interest. The Unallocated segment covers general functions.

The segment information for the half-year ended 31 December is as follows:

For personal use only

| | Direct Property $'000 | Other Investments $'000 | Unallocated $'000 | Consolidated Total $'000 |
|---|---|---|---|---|
| **31 December 2013** | | | | |
| Sales to external customers | 5,289 | 995 | - | 6,284 |
| Reversal of prior years' litigation provision | - | - | 19,700 | 19,700 |
| Net unrealised gain/(loss) on revaluation | 1,576 | (375) | - | 1,201 |
| Total segment revenue | 6,865 | 620 | 19,700 | 27,185 |
| Segment operating profit | 4,051 | 389 | 19,700 | 24,140 |
| Finance costs | (1,624) | - | - | (1,624) |
| Litigation expenses | - | - | (17) | (17) |
| **Total comprehensive income** | **2,427** | **389** | **19,683** | **22,499** |
| | | | | |
| **31 December 2012** | | | | |
| Sales to external customers | 5,164 | 1,158 | - | 6,322 |
| Unrealised gain on revaluation | 1,125 | 1,028 | - | 2,153 |
| Total segment revenue | 6,289 | 2,186 | - | 8,475 |
| Segment operating profit | 3,453 | 2,064 | - | 5,517 |
| Finance costs | (2,041) | - | - | (2,041) |
| Litigation expenses | - | - | (1,085) | (1,085) |
| Other comprehensive loss | - | (437) | - | (437) |
| **Total comprehensive income/(loss)** | **1,412** | **1,627** | **(1,085)** | **1,954** |
| | | | | |
| **31 December 2013** | | | | |
| Segment assets | 85,067 | 39,272 | - | 124,339 |
| Segment liabilities | (51,284) | - | - | (51,284) |
| | | | | |
| **30 June 2013** | | | | |
| Segment assets | 81,945 | 38,784 | - | 120,729 |
| Segment liabilities | (50,946) | (108) | (19,700) | (70,754) |

## 4. Unrealised Gain / (Loss)

Up until 31 December 2012 the Trust's investments are classified as available-for-sale financial assets. Subsequent to initial recognition, they were measured at fair value. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity, with the exception of impairment losses, distribution and interest income, which were recognised in profit or loss. Where the investment was disposed of or was determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve was reclassified to profit or loss.

From 1 January 2013 the Trust classifies its financial assets as financial assets at fair value through profit or loss (FVTPL). Changes in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss as applicable.

For personal use only

| | December 2013 $'000 | December 2012 $'000 |
|---|---|---|
| Unrealised gain/(loss) recognised in profit and loss | (375) | 1,029 |
| Unrealised loss recognised in other comprehensive loss | - | (437) |
| Total unrealised gain/(loss) on financial assets | (375) | 592 |
| Unrealised gain on investment properties | 1,263 | 1,023 |
| Unrealised gain on interest rate swaps | 313 | 101 |
| **Net unrealised gain** | **1,201** | **1,716** |
| *Reconciled to profit and loss as follows:* | | |
| Net unrealised gain in profit and loss | 1,201 | 2,153 |
| Net unrealised loss in other comprehensive loss | - | (437) |
| | **1,201** | **1,716** |

## 5. Earnings Per Unit

| | December 2013 | December 2012 |
|---|---|---|
| Basic and diluted earnings per unit | $0.11 | $0.01 |
| Calculated as follows: | | |
| Profit attributable to the owners of the Trust | 22,279,000 | $2,391,000 |
| Weighted average number of units for earnings per unit | 207,524,039 | 207,524,039 |

## 6. Non-current Assets - Financial Assets

| | December 2013 $'000 | June 2013 $'000 |
|---|---|---|
| Bakehouse Bonds | 31,089 | 31,089 |
| Investment in unlisted related entities | 5,152 | 4,424 |
| Investment in unlisted other entities | 2,488 | 2,810 |
| **Total** | **38,729** | **38,323** |

The Bakehouse Bonds are CPI linked debt instruments secured against a large scale mixed use property known as the Bakehouse Quarter in North Strathfield, Sydney. The Bonds' face value of $30 million is indexed to CPI annually (subject to impairment assessment) and the current value is $31.09 million. The Bonds will mature on 30 June 2020. In addition, a coupon of 5.5% per annum is paid quarterly in arrears. All other assets are investments in various managed investment schemes.

The Trust acquired 13,333,333 Pelathon Pub Group Preferred units during the period. The acquisition is payable in two instalments (total 6 cents per unit). The second instalment of 3.6 cents per unit is payable within two years after the close of the offer. The amount payable is included in the value above.

For personal use only

## 7. Non-current Assets - Investment Properties

| | December 2013 $'000 | June 2013 $'000 |
|---|---|---|
| Chancellor Homemaker Centre | 20,400 | 20,400 |
| Silver @ The Exchange | 18,250 | 18,250 |
| APN Yandina | 24,100 | 24,100 |
| BlueScope Coolum | 4,700 | 4,700 |
| Canberra Eye Hospital | 7,900 | 7,900 |
| APN Toowoomba | 6,000 | 6,000 |
| Bald Rock Hotel | 3,100 | - |
| **Total** | **84,450** | **81,350** |
| | | |
| Movements in investment properties: | | |
| Balance at the beginning of financial year | 81,350 | 81,350 |
| Purchase of Bald Rock Hotel | 2,965 | - |
| Sale of Bald Rock Hotel pokies entitlements | (230) | - |
| Additions (subsequent expenditures) | 1 | 27 |
| Straight-line rental income | 228 | 503 |
| Depreciation | (1,127) | (2,403) |
| Revaluation | 1,263 | 1,873 |
| **Balance at the end of financial period** | **84,450** | **81,350** |

The Trust obtained independent valuations for its investment properties Silver @ The Exchange, APN Yandina and Canberra Eye Hospital in February 2012 and June 2010 for Chancellor Homemaker Centre, BlueScope Coolum and APN Toowoomba. The valuations were performed by registered independent valuers under the instructions from the Trust's bank by reference to recent market sales of similar properties and common valuation methodologies including capitalisation of income projections and discounted cash flow projections.

In November 2013, the Trust acquired a controlling interest in the Bald Rock Fund which acquired the Bald Rock Hotel in Rozelle, Sydney. The fund was capitalised by P-REIT and a small number of wholesale investors (including BlackWall CEO Stuart Brown, Chairman Richard Hill and Non-executive Director Seph Glew). The fund is forecast to generate a cash distribution in excess of 9% per annum. P-REIT's equity in the trust gives it constructive control and, as a consequence, the property has been consolidated onto the Trust's balance sheet. The transaction, although small, is illustrative of BlackWall's intention to grow P-REIT's asset base through acquisitions and where appropriate controlling positions in pooled property investments.

For the half-year ended 31 December 2013, the Directors have updated their assessment of the fair value of all properties. The key assumptions of the Directors' valuations have been taken from the last independent valuation reports with adjustments for changes in net income. The holding values generate the following capitalisation rates:

| | |
|---|---|
| Chancellor Homemaker | 9.6% |
| Silver @ The Exchange | 10.7% |
| APN Yandina | 9.9% |
| BlueScope Coolum | 8.4% |
| Canberra Eye Hospital | 8.4% |
| APN Toowoomba | 9.5% |
| Bald Rock Hotel | 7.6% |

For personal use only

## 8. Current and Non-current Liabilities - Borrowings

| | Note | December 2013 $'000 | June 2013 $'000 |
|---|---|---|---|
| **Current** | | | |
| NAB bill facility | 8(a) | 48,500 | 49,500 |
| | | **48,500** | **49,500** |
| **Non-current** | | | |
| Bald Rock facility | 8(b) | 1,256 | - |
| Loan from Blackwall Property Funds | | 450 | - |
| | | **1,706** | **-** |
| **Total borrowings** | | **50,206** | |

The Trust has two bank borrowings with NAB and CBA as follows:

**(a) Current – NAB bill facility**

The bill facilities are secured by registered first mortgages over the freehold land and buildings (refer to Investment Properties note excluding the Bald Rock Hotel). During the period $1 million of debt has been repaid to the Trust's lenders.

The borrowings of $48,500,000 will mature in May 2014 and therefore are classified as a current liability. Subject to documentation, BlackWall has negotiated for the bank margin to be repriced from 3.25% (at 31 December 2012) down to 1.85%. In addition, the bank has agreed to allow the Trust to draw down further debt to fund development or acquisitions subject to standard covenants. $29 million of borrowings are hedged under interest rate swap contracts. Refer to Derivatives note below for further details. The average interest rate on the facility for the half-year was 4.93% (June 2013: 6.56%).

**(b) Non-current – Bald Rock facility**

The CBA facility of $1,256,000 is secured over the Bald Rock Hotel. It will mature in November 2015 and the margin is 2.67%. The loan from Blackwall Property Funds is also in relation to the Bald Rock Hotel and interest is payable on the same terms as the CBA facility.

## 9. Current Liabilities - Derivatives

| | December 2013 $'000 | June 2013 $'000 |
|---|---|---|
| Interest rate swaps | 381 | 693 |
| **Total** | **381** | **693** |

The Trust is party to interest rate swaps in the normal course of business in order to hedge exposure to fluctuations in interest rate through $29 million of interest rate swap contracts. The gain or loss from remeasuring the interest rate swaps at fair value is recognised in profit or loss. The terms of the interest rate swaps are:

- $10 million swapped at 5.26% to 1 June 2014.
- $10 million swapped at 5.22% to 9 June 2014.
- $9 million swapped at 4.22% to 10 November 2014.

For personal use only

## 10. Current Liabilities - Provision

| | December 2013 $'000 | June 2013 $'000 |
|---|---|---|
| Provision for litigation claim | - | 19,700 |
| **Total** | **-** | **19,700** |

The provision for litigation claim relates to court proceeding instituted by the MacartherCook Property Securities Fund (now call the Aims Property Security Fund ASX Code: APW). The details, facts and history of the MPS's claim are set out in a BlackWall investor update dated October 2013 which can be downloaded at BlackWall's website (www.blackwallfunds.com.au) or can be viewed in BlackWall's ASX announcement entitled AGM Presentation released on 23 October 2013.

In summary the dispute relates to a claim by MPS that it had a right to redeem/withdraw a $15 million investment in the Trust in priority to other P-REIT unitholders. The claim stems from contracts entered with MPS by P-REIT's previous management. BlackWall has always refuted this claim, however, MPS management choose to aggressively pursue it. On 10 August 2012 MPS was awarded damages and costs of $19.7 million by Justice Hammerschlag in the Supreme Court of NSW. The Trust lodged an appeal to this decision and in September 2013 the NSW Supreme Court handed down a unanimous judgment declaring that MPS had no right to withdraw in priority to other unitholders and awarding costs in the P-REIT's favour. On the basis of this decision the provision for litigation was reversed and a contingent asset for the costs award (of between $500,000 and $1 million) is carried.

MPS has lodged an application to have elements of the Court of Appeal's judgment reviewed by the High Court of Australia. A hearing to determine if the matter is suitable for the High Court is set down for 14 February 2014. The Trust's lawyers have made submissions setting out the reasons why the matter is not suitable for the High Court and will present oral arguments at the hearing. In the event that MPS's application is rejected we expect that the matter to be at an end. If the case is set down for a High Court hearing P-REIT will defend those proceedings.

## 11. Contingent Assets and Contingent Liabilities

Apart from the Provision note above in relation to contingent assets and contingent liabilities, there are no other contingencies as at 31 December 2013.

## 12. Subsequent Events

Other than the matters referred to in these financial statements, to the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the period that have materially affected or may materially affect the Trust's operations in future financial years, the results of those operations or the Trust's state of affairs in future financial years.

## 13. Fair Value Measurement of Financial Instruments

### (a) Fair value hierarchy

*AASB 13 Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (as prices) or indirectly (derived from prices), and

For personal use only

- Level 3 - inputs for the asset that are not based on observable market data (unobservable inputs).

The following table presents the Trust's financial assets and liabilities measured at fair value as at 31 December and 30 June.

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total balance $'000 |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| Financial assets at FVTPL | | | | |
| - Unquoted equities | - | - | 8,030 | 8,030 |
| - Debt instruments | - | - | 30,699 | 30,699 |
| | - | - | 38,729 | 38,729 |
| Interest rate swaps | - | (381) | - | (381) |
| **At 30 June 2013** | | | | |
| Financial assets at FVTPL | | | | |
| - Unquoted equities | - | - | 7,234 | 7,234 |
| - Debt instruments | - | - | 31,089 | 31,089 |
| | - | - | 38,323 | 38,323 |
| Interest rate swaps | - | (693) | - | (693) |

**(b) Valuation techniques used to derive Level 3 fair values**

The fair value of the unlisted securities is determined by reference to the net assets of the underlying entities. The fair value of the Bakehouse Bonds is measured by its face value adjusted for annual CPI movements, subject to recoverability assessment. All these instruments are included in Level 3.

**(c) Fair value measurements using significant observable inputs (Level 3)**

The following table is a reconciliation of the movements in financial assets classified as Level 3 as at 31 December and 30 June:

| | Financial assets at FVTPL $'000 | Level 3 Total $'000 |
|---|---|---|
| **At 31 December 2013** | | |
| Balance at the beginning of year | 38,323 | 38,323 |
| Purchases | 2,254 | 2,254 |
| Disposals/redemptions | (1,473) | (1,473) |
| Fair value movement | (375) | (375) |
| Balance at the end of period | **38,729** | **38,729** |
| **At 30 June 2013** | | |
| Balance at the beginning of year | 917 | 38,368 |
| Purchases | 185 | 1,658 |
| Disposals/redemptions | (774) | (2,628) |
| Fair value movement | 1,362 | 925 |
| Reclassification (*) | 36,633 | - |
| Balance at the end of year | **38,323** | **38,323** |

For personal use only

* As a result of early adoption of AASB 9 from 1 January 2013, all available-for-sale financial assets have been reclassified to financial assets at FVTPL.

There were no transfers between Level 1, 2 and 3 financial instruments during the period. For all other financial assets and liabilities carrying value is an approximation of fair value.

## 14. Trust Details

**Principal place of business**
The management of the Trust is undertaken at:
Level 1, 50 Yeo Street
Neutral Bay NSW 2089

For personal use only

**Directors' Declaration**

In the opinion of the Directors of TFML Limited, the Responsible Entity of P-REIT:

(a) the financial statements and notes are in accordance with the Corporations Act 2001, including:
  (i) complying with Accounting Standards AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the Trust's financial position as at 31 December 2013 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Board of Directors of the Responsible Entity.

**Stuart Brown**
Director
Sydney, 11 February 2014

ESV

**Independent Review Report to the Investors of P-REIT ("the Trust")**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of P-REIT ("the Trust") which comprises the condensed consolidated statement of financial position as at 31 December 2013 and the condensed consolidated statement of comprehensive income, statement of net assets attributable to unitholders, condensed consolidated statement of cash flows for the half-year ended on that date, selected accompanying notes to the financial statements and the Director's declaration.

*Directors' Responsibility for the Financial Report*

The Directors of TFML Limited ("the Responsible Entity") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the Directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Trust's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB *134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of P-REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of RFML Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of P-REIT is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the financial position of the Trust as at 31 December 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

LEVEL 18, CITY CENTRE
55 MARKET STREET
SYDNEY NSW 2000
ESVGROUP.COM.AU

TELEPHONE. +61 2 9283 1666
FACSIMILE. +61 2 9283 1866
ADMIN@ESVGROUP.COM.AU



A member of TIAG® (The International Accounting Group), a worldwide alliance of independent accounting firms.
Liability limited by a scheme approved under Professional Standards Legislation.

For personal use only

For personal use only

**Independent Audit Report to the Investors of P-REIT ("the Trust")**

**Emphasis of matter**

Without qualification to our conclusion, we draw attention to Note 10 which discloses the circumstances relating to the ongoing litigation with Aims Property Securities Fund (APW) (formerly known as Macarthurcook Property Securities Fund (MPS)).

Dated at Sydney the 11th day of February 2014

**ESV Accounting and Business Advisors**

**Chris Kirkwood**
**Partner**

# P-REIT

**ARSN 109 684 773**

## CONTENTS

## Notes to the Financial Statements


1. Statement of Significant Accounting Policies Page 11
2. Critical Accounting Estimates and Judgments Page 12
3. Segment Information Page 13
4. Unrealised Gain / (Loss) Page 14
5. Earnings Per Unit Page 15
6. Non-current Assets - Financial Assets Page 15
7. Non-current Assets - Investment Properties Page 16
8. Current and Non-current Liabilities - Borrowings Page 17
9. Current Liabilities - Derivatives Page 17
10. Current Liabilities - Provision Page 18
11. Contingent Assets and Contingent Liabilities Page 18
12. Subsequent Events Page 18
13. Fair Value Measurement of Financial Instruments Page 18
14. Trust Details Page 20


For personal use only