# Pelorus Private Equity Limited

## & Controlled Entities

**ABN 45 091 209 639**


PELORUS
PRIVATE EQUITY


# Consolidated Annual Financial Statements

Year Ended 30 June 2013

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## Financial Statements


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# Directors' Report

The Directors of Pelorus Private Equity Limited ("Pelorus" or "the Company") and its controlled entities ("the Group") present their report for the year ended 30 June 2013.

**Principal Activities and Review of Operations**

Pelorus is a property investment company invested in two properties directly and a number of property security positions. The Company's investments are managed by BlackWall Property Funds Limited (ASX Code: BWF) (BlackWall). BlackWall is a vertically integrated property funds management business formed when Pelorus' operating businesses were restructured in 2011.

Investors will see from this report that in many cases the Directors are of the view that the current holding value of our assets does not reflect their long-term value. The realisation of this value in some cases relies on favourable "property outcomes" but also is contingent on more normalised sentiment with respect to bulky good or specialised retail properties.

To put this in perspective if a more optimistic picture of the Company's assets and balance sheet is adopted our NTA per share increases from 6.9 cents per share (as shown in these financial statements) to 9.6 cents per share. Investors should read this report in detail to understand the risks associated with the Company's assets and consider that this outcome is dependant on a number of uncertain outcomes and timing.

**Direct Property**

*120 Mulgoa Road, Penrith*

Tenants of this bulky goods retail centre include Toys R Us, Boating Camping Fishing and Barbeques Galore. Recently, lease agreements were completed with a childcare operator (20 year term) and a restaurant (10 year term). The restaurant is refurbishing the premises with a view to commencing operations in the coming weeks and we are progressing the town planning consent for the childcare centre.

The property is held at the last independent valuation of $16.5 million and is funded by traditional bank debt (to CBA) of $10.725 million, as well as a mezzanine equity structure (known as the BlackWall Penrith Fund No. 2, arranged and managed by BlackWall Property Funds Limited). As such this asset is carried with nil value in the Group's balance sheet.

The Penrith property's valuation does not reflect the childcare or restaurant leasing transactions. In addition the value, in the Directors' opinion, displays the prevailing overly pessimistic sentiment regarding bulky goods real estate. Whilst it appears this asset does not accrue any value to Pelorus shareholders the Directors believe, in time, with the successful completion of the childcare centre and a more rational valuation approach, the property should increase net assets by over $1 million.

*The Woods Action Centre, Villawood*

For similar reasons the carrying value of the Woods Action Centre does not reflect the Directors' long-term view of its value.

The property is an entertainment precinct located at Woodville Road, Villawood. Tenants include AMF Bowling, Sydney Indoor Climbing Gym and Chipmunks Play Centre. An agreement for lease has been entered into with a childcare operator (20 year term) and a town planning application has been lodged. In addition development approval has been granted for the addition of approximately 330 sqm of food and beverage premises for which we are canvassing tenants.

# Directors' Report (continued)

The Woods was independently valued for a debt renewal in October 2012. The valuer assessed the value at $10 million using a 12% cap rate. To arrive at this, the property was compared to bulky goods retail centres, some of which have been sold in distressed circumstances. In our view this is not appropriate and ignores The Woods' unique tenancy mix however, it does reflect the negative sentiment of valuers and bankers to property in general and bulky goods in particular. Like 120 Mulgoa Road, we feel there is significant value to be generated from this asset despite the value at which it is held today.

The Woods is owned by an entity known as the WRV Unit Trust. It is a single wholesale property investment syndicate with $7.2 million of senior (to NAB) and a subordinated loan of $6.2 million to Pelorus. The Trust's ordinary equity is held by Pelorus (as to 68%) and small number of sophisticated investors. Pelorus has agreed that capital and income distributions are to be paid pro rata to its subordinated debt and ordinary equity. In addition Pelorus has agreed that its debt is to be subordinated to the issue price of ordinary equity in the event of a wind up.

**Property Securities**

*P-REIT (ASX: PXT)*

The Group holds a substantial investment in the ASX listed property investment trust, P-REIT. At 30 June 2013 P-REIT had gross assets of $120.7 million with net assets (including litigation provisions) of $50 million (24 cents per unit). To 30 June 2013 P-REIT generated a normalised net profit of $4.6 million, that is, excluding "one–off" litigation costs, unrealised movements in asset values, and non-cash accounting entries such as depreciation, straight lined lease income and interest rate hedges mark to market.

Since 30 June 2012 bank debt has reduced by just over $7 million including the most recent repayment of $1 million in early August 2013. This brings bank debt to $48.5 million. The Trust's facility is now within covenant and it no longer pays default interest rates.

Subsequent to the release of P-REIT's 30 June 2013 financial statements the Trust received a favourable decision in relation to litigation commenced by Macarthurcook Property Securities Fund (MPS), eliminating the $19.7 million litigation provision carried by the Trust at 30 June 2013. This resulted in an immediate uplift in P-REIT's NTA to 34 cents per unit and a higher ASX market price (closing at 20 cents per unit on 26 September 2013, compared to 15.5 cents at 30 June 2013). This judgment will enable the Trust to recommence investing in real estate and move to restarting distributions.

At 30 June 2012 the Group held 18,025,000 units in MPS and 11,615,594 units in PXT. We have progressively sold down our investment and used the capital generated to acquire PXT units such that today the Group has no investment in MPS and its PXT holding has grown to 28,695,000 units.

For more information on P-REIT and its results please refer to its annual report which was released to the ASX on 20 August 2013.

**TPIF**

TPIF (formerly known as the Tankstream Property Investments Fund) is a distressed property securities fund which has been managed by BlackWall's businesses since late 2009. At the time management changed, this Fund was struggling to pay the interest on its $5 million of borrowings. Since then we have restructured its investments and debt has reduced to $2.4 million.

Below is a summary of the Fund's investments. The positions shown as "Others" are fractional investments in structures not controlled by BlackWall. In the main these are investments are winding up and we expect them to be returned to cash over the coming 24 months.

# Directors' Report (continued)

| TPIF's Investment | Holding | Carrying Value | Yield |
|---|---|---|---|
| PXT | 19,238,234 units | $3,848,000 | 0%* |
| Penrith No. 2 | 4,765,000 units | $4,765,000 | 8.75% |
| Other | Minority holdings | $1,000,000 | 8% |

**PXT is expected to recommence distributions.*

BlackWall's aim is to repay all debt as soon as possible and then restructure the Fund into an active property investment vehicle. This may entail merging the Fund with PXT.

The audited financial statements for TPIF for the year ended 30 June 2013 are available on BlackWall's website.

**Pelathon Pub Group**

The Group holds a substantial investment in the Pelathon Pub Group (formerly named the BlackWall Pub Group) representing a holding of around 36% of total securities on issue. BlackWall took over management of the Pub Group along with TPIF in late 2009. Since that time, BlackWall negotiated with the Pub Group's bankers, completed a merger with another pub fund and sold a number of smaller assets to reduce debt. In addition, BlackWall appointed Pelathon Management Group (a specialist pub manager, in which BlackWall has 10% ownership) to manage the day-to-day pub operations.

Recently a meeting of Pub Group investors approved a series of transactions including:

1. Pelathon purchasing management rights to the Pub Group from BlackWall for consideration of $530,000 with BlackWall maintaining an overseeing role as responsible entity;
2. The sale of one of the Pub Group's smaller assets (which is leased to a third party pub operator) to a new syndicate (capitalised by Pub Group investors) managed by BlackWall; and
3. A rights issue to be partially underwritten by Pelathon.

The first of these components has now completed, the second is due to settle in the coming weeks and the third is expected to complete in the next two months. As a major investor, Pelorus intends to participate in the new syndicate (point 2, above) and the upcoming rights issue (point 3, above).

The Directors consider the Pub Group investment and participation in these transactions present valuable opportunities to realise capital uplift in the pub sector over the long term.

More information on the Pub Group is available on BlackWall's website.

**Significant Changes in Affairs**

Other than as disclosed above no significant changes to the state of affairs of the Group occurred during the financial period.

**Dividends**

There were no dividends paid or declared for the year ended 30 June 2013 (2012: $nil).

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

Subsequent to 30 June 2013, the Group repaid a further $350,000 for The Woods' borrowings.

# Directors' Report (continued)

As described earlier in the Directors' Report, the Group holds a substantial investment in P-REIT. On 3 September 2013, the NSW Court of Appeal announced its judgment in relation to proceedings commenced by Macarthurcook Property Securities Fund (MPS) in favour of P-REIT, eliminating the $19.7 million litigation provision carried by the Trust at 30 June 2013. Furthermore, MPS is also liable to pay costs relating to P-REIT's defence. This resulted in an immediate uplift in P-REIT's NTA to 34 cents per unit. This equates to a $1.2 million uplift in the Group's investment in P-REIT since 30 June to 26 September 2013.

To the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the year that have materially affected or may materially affect the Group's operations, the results of those operations or the Group's state of affairs in future financial years.

**Going Concern**

The Group has a current asset deficiency as at 30 June 2013 due to the borrowings of $18,075,000 being classified as a current liability that is due within the next 12 months. The Directors are confident that the borrowings will be renewed when due.

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.

**Information on Directors**

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

| Name and Position | Special Experience |
|---|---|
| Joseph (Seph) Glew<br>Executive Chairman | Seph has worked in the commercial property industry in New Zealand, the USA and Australia. Seph has driven large-scale property development and financial structuring for real estate for over 30 years. In addition, since the early 1990s Seph has run many "turn-around" processes in relation to distressed properties and property structures for both private and institutional property owners.<br><br>While working for the Housing Corporation of New Zealand and then AMP, Seph qualified as a registered valuer and holds a Bachelor of Commerce. In the 1980s he served as an Executive Director with New Zealand based property group Chase Corporation and as a Non-Executive Director with a number of other listed companies in New Zealand and Australia. Seph was Chairman of formerly ASX listed Pelorus Property Group Limited and is a Director of ASX listed BlackWall Property Funds Limited. |

# Directors' Report (continued)

**Information on Directors (continued)**

| | |
|---|---|
| Robin Tedder<br>Non-Executive Director | Robin has 37 years' experience in investment and financial markets. He has been an investor in BlackWall's projects since 1997. Robin is the Chairman of Vintage Capital Pty Ltd an investment company with interests in property, wealth management, logistics and healthcare. He is a former member of the ASX and has served on the boards of several investment banks in Australia and overseas. He is a Director of Probiotec Ltd (a pharmaceutical manufacturing company listed on the ASX) and a Director of the retailer, Italtile Australia Pty Ltd. Robin is also a Fellow of the Financial Services Institute of Australasia. Previously, Robin was a Director of formerly ASX listed Pelorus Property Group Limited. Robin is also a Non-Executive Director of the ASX listed BlackWall Property Funds Limited. |
| Stuart Brown<br>Non-Executive Director | Stuart has been involved in property investment for over 15 years across funds management, property services and finance. In 2006 he was appointed Chief Operating Officer and Chief Financial Officer of the then ASX listed Pelorus Property Group and later Managing Director. Stuart has run debt and equity raising in relation to listed and unlisted real estate structures with assets valued at over a half a billion dollars. In his earlier career, Stuart practised as a solicitor in the areas of real estate, mergers and acquisitions and corporate advisory with Mallesons and Gilbert + Tobin. Stuart is also a Director of ASX listed company, BlackWall Property Funds Limited, and an independent Director of Coogee Boys' Preparatory School. |

Don Bayly is the Company Secretary and he has over 20 years' compliance management experience.

**Meeting Attendances**

| Director | Board Meetings |
|---|---|
| Meetings Held | 5 |
| Seph Glew | 5 |
| Robin Tedder | 5 |
| Stuart Brown | 5 |

**Environmental Regulation and Performance**

The Group's operations are not regulated by any environmental regulation under a law of the Commonwealth or of a State or a Territory other than those that pertain to the ownership and development of real estate.

**Indemnities of Officers**

During the financial period the Group has paid premiums to insure each of the Directors named in this report along with officers of that Group against all liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Group, other than conduct involving a willful breach of duty.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an auditor to the Group.

**Non-audit Services**

Amounts paid to the auditor for non-audit services during the year are detailed at Note 17 of the financial statements. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

# Directors' Report (continued)

**Auditor's Independence Declaration**

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.

**Rounding of Amounts**

The Group 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.

**Auditor**

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

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

Seph Glew
Chairman
Sydney, 18 October 2013

ESV

**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 year ended 30 June 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 audit; and

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

Dated at Sydney the 17th day of October 2013.

ESV

**ESV**

**Chris Kirkwood**
**Partner**

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## Group Details

The Group's details are as follows:

| | |
|---|---|
| Registered Office | Level 1, 50 Yeo Street<br>Neutral Bay NSW 2089 |
| Principal Place of Business | Level 1, 50 Yeo Street<br>Neutral Bay NSW 2089 |
| Telephone | 02 9033 8611 |
| Fax | 02 9033 8600 |
| Website | www.pelorus.com.au |

## Statement of Profit or Loss and Other Comprehensive Income

## For the Year Ended 30 June 2013

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| | Note | $'000 | $'000 | $'000 | $'000 |
| Fund and asset management income | | 16 | - | 736 | 428 |
| Property rental income | | 3,291 | 3,502 | - | - |
| Investment income | | 180 | 109 | 118 | 25 |
| Unrealised gain on revaluation | | 2,868 | - | 1,569 | - |
| Gain on disposal of assets | | 45 | - | 158 | - |
| **Total Revenue** | 3 | **6,400** | **3,611** | **2,581** | **453** |
| Business operating expenses | 4(a) | (967) | (835) | (705) | (434) |
| Depreciation expenses | 4(a) | (477) | (607) | - | - |
| Property outgoings | | (748) | (680) | - | - |
| Finance costs | 4(a) | (1,579) | (1,812) | (1) | (1) |
| Loss on disposal of assets | 4(a) | - | (217) | - | (769) |
| Other expenses | | (2) | (81) | - | - |
| Unrealised loss on revaluation | 4(a) | - | (3,811) | - | (2,229) |
| Impairment | 4(a) | (140) | (2,638) | (205) | (1,813) |
| Foreign exchange gain / (loss) | | (6) | (20) | - | 5 |
| **Profit / (Loss) Before Tax** | | **2,481** | **(7,090)** | **1,670** | **(4,788)** |
| Income tax expense | 5 | - | (303) | - | (230) |
| **Profit / (Loss) After Tax** | | **2,481** | **(7,393)** | **1,670** | **(5,018)** |
| **Other Comprehensive Income / (Loss)** | | | | | |
| *Items that will be reclassified to profit or loss* | | | | | |
| Unrealised gain/(loss) on revaluation of assets | 4(b) | 195 | - | (939) | - |
| **Total Comprehensive Income / (Loss) For the Year** | | **2,676** | **(7,393)** | **731** | **(5,018)** |
| **Profit / (Loss) Attributable To:** | | | | | |
| Owners of the Group | | 1,994 | (6,410) | 1,670 | (5,018) |
| Non-controlling interest | | 487 | (983) | - | - |
| | | 2,481 | (7,393) | 1,670 | (5,018) |
| **Total Comprehensive Income /(Loss) Attributable To:** | | | | | |
| Owners of the Group | | 2,189 | (6,410) | 731 | (5,018) |
| Non-controlling interest | | 487 | (983) | - | - |
| | | 2,676 | (7,393) | 731 | (5,018) |

**The accompanying notes form part of these consolidated financial statements.**

## Consolidated Statement of Financial Position

## As at 30 June 2013

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent 2013 $'000 | Parent 2012 $'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 6 | 703 | 729 | 533 | 340 |
| Trade and other receivables | 7 | 49 | 77 | 19 | 22 |
| Other financial assets | 8(a) | 8,324 | 7,283 | 7,697 | 3,291 |
| Current tax receivable | 9(a) | - | - | - | 7 |
| **Total Current Assets** | | 9,076 | 8,089 | 8,249 | 3,660 |
| **Non-current Assets** | | | | | |
| Other financial assets | 8(b) | 104 | 104 | 10,546 | 11,680 |
| Investment properties | 10 | 30,500 | 30,000 | - | - |
| Intangible assets | 11 | - | 10 | - | - |
| **Total Non-current Assets** | | 30,604 | 30,114 | 10,546 | 11,680 |
| **TOTAL ASSETS** | | **39,680** | **38,203** | **18,795** | **15,340** |
| **LIABILITIES** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and other payables | 12 | 557 | 688 | 125 | 233 |
| Current tax payable | 9(b) | 56 | 49 | - | - |
| Other financial liabilities | 13(a) | - | 115 | 2,957 | - |
| Borrowings | 14 | 18,075 | 8,000 | - | - |
| **Total Current Liabilities** | | 18,688 | 8,852 | 3,082 | 233 |
| **Non-current Liabilities** | | | | | |
| Borrowings | 14 | - | 10,725 | - | - |
| Other financial liabilities | 13(b) | 6,000 | 6,169 | - | - |
| **Total Non-current Liabilities** | | 6,000 | 16,894 | - | - |
| **TOTAL LIABILITIES** | | **24,688** | **25,746** | **3,082** | **233** |
| **NET ASSETS** | | **14,992** | **12,457** | **15,713** | **15,107** |
| **EQUITY** | | | | | |
| Share capital | 15 | 15,276 | 15,401 | 15,276 | 15,401 |
| Retained earnings/(accumulated losses) | | (654) | (2,648) | 1,376 | (294) |
| Reserves | | 195 | - | (939) | - |
| **Parent Interest** | | 14,817 | 12,753 | 15,713 | 15,107 |
| Non-controlling interest | | 175 | (296) | - | - |
| **TOTAL EQUITY** | | **14,992** | **12,457** | **15,713** | **15,107** |

**The accompanying notes form part of these consolidated financial statements.**

## Consolidated Statement of Changes in Equity

## For the Year Ended 30 June 2013

| Consolidated | Ordinary Shares $'000 | Retained Earnings/ (Accumulated Losses) $'000 | Asset Revaluation Reserves $'000 | Attributable to Owners of the Parent $'000 | Non-controlling Interest $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2012** | **15,401** | **(2,648)** | **-** | **12,753** | **(296)** | **12,457** |
| Profit for the year | - | 1,994 | - | 1,994 | 487 | 2,481 |
| Other comprehensive income | - | - | 195 | 195 | - | 195 |
| Cancellation of shares | (125) | - | - | (125) | - | (125) |
| Transactions with non-controlling interest | - | - | - | - | (16) | (16) |
| **Balance at 30 June 2013** | **15,276** | **(654)** | **195** | **14,817** | **175** | **14,992** |
| | | | | | | |
| **Balance at 1 July 2011** | **23,124** | **3,757** | **-** | **26,881** | **736** | **27,617** |
| Loss for the year | - | (6,410) | - | (6,410) | (983) | (7,393) |
| Cancellation of shares | (7,723) | - | - | (7,723) | - | (7,723) |
| Transactions with non-controlling interest | - | 5 | - | 5 | (49) | (44) |
| **Balance at 30 June 2012** | **15,401** | **(2,648)** | **-** | **12,753** | **(296)** | **12,457** |

| Parent | Ordinary Shares $'000 | Retained Earnings/ (Accumulated Losses) $'000 | Asset Revaluation Reserves $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2012** | **15,401** | **(294)** | **-** | **15,107** |
| Profit for the year | - | 1,670 | - | 1,670 |
| Other comprehensive income | - | - | (939) | (939) |
| Cancellation of shares | (125) | - | - | (125) |
| **Balance at 30 June 2013** | **15,276** | **1,376** | **(939)** | **15,713** |
| | | | | |
| **Balance at 1 July 2011** | **23,124** | **4,724** | **-** | **27,848** |
| Loss for the year | - | (5,018) | - | (5,018) |
| Cancellation of shares | (7,723) | - | - | (7,723) |
| **Balance at 30 June 2012** | **15,401** | **(294)** | **-** | **15,107** |

**The accompanying notes form part of these consolidated financial statements.**

## Consolidated Statement of Cash Flows

## For the Year Ended 30 June 2013

| | Note | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| | | $'000 | $'000 | $'000 | $'000 |
| **Cash Flows From Operating Activities** | | | | | |
| Receipts from customers | | 3,730 | 3,292 | 65 | 93 |
| Payments to suppliers and employees | | (2,287) | (1,459) | (853) | (593) |
| Dividends and distributions received | | 14 | 19 | 4 | - |
| Interest paid | | (1,521) | (1,807) | (1) | (1) |
| Interest received | | 46 | 43 | 26 | 25 |
| Income tax refunded | | 7 | 104 | - | 104 |
| **Net Cash Flows From / (Used in) Operating Activities** | 19 | **(11)** | **192** | **(759)** | **(372)** |
| **Cash Flows From Investing Activities** | | | | | |
| Proceeds from sale of investments | | 1,224 | 683 | 1,243 | 400 |
| Acquisition of other investments | | (1,786) | (888) | (1,941) | (853) |
| Payment for development of investment properties | | (120) | (79) | - | - |
| Disposal of subsidiary, net cash disposed of | | - | (3) | - | - |
| Loans to related parties | | - | (516) | - | (259) |
| Loan repayments received from related parties | | 1,442 | 1,038 | 1,775 | 1,498 |
| **Net Cash Flows From Investing Activities** | | **760** | **235** | **1,077** | **786** |
| **Cash Flows From Financing Activities** | | | | | |
| Proceeds from borrowings | | - | 225 | - | - |
| Repayment of borrowings | | (650) | - | - | - |
| Share buy backs | | (125) | - | (125) | - |
| **Net Cash Flows From / (Used in) Financing Activities** | | **(775)** | **225** | **(125)** | **-** |
| **Net Increase / (Decrease) in Cash Held** | | **(26)** | **652** | **193** | **414** |
| Cash and cash equivalents at the beginning of the year | | 729 | 77 | 340 | (74) |
| **Cash and Cash Equivalents at End of the Year** | 6 | **703** | **729** | **533** | **340** |

**The accompanying notes form part of these consolidated financial statements.**

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 1. Statement of Significant Accounting Policies

The financial statements cover the economic entity of Pelorus Private Equity Ltd and Controlled Entities. Pelorus Private Equity Ltd is a public company, incorporated and domiciled in Australia. The financial statements for the Group for the year ended 30 June 2013 were authorised for issue in accordance with the resolution of the directors on the date they were issued.

### Basis of Preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001, except for the following standards:

*AASB 9 Financial Instruments* (Disclosures)
*AASB 101 Presentation of Financial Statements* (Disclosures)
*AASB 139 Financial Instruments Recognition and Measurement* (Interest rate swaps not recognised)

The Directors considered it more appropriate not to adopt the above Standards to give a more commercial and true results to the users of these financial statements.

The financial statements have been prepared on an accruals 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.

The Group 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 following is a summary of the material accounting policies adopted by the Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

### New and amended standards adopted by the Company

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to *AASB 101 Presentation of Financial Statements* effective 1 July 2012 now require the statement of profit or loss and other comprehensive income ("profit or loss") to show the items of comprehensive income grouped in those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

### Going concern

The Group has a current asset deficiency as at June 2013 due to the borrowings of $18,075,000 being classified as a current liability that is due within the next 12 months. The Directors are confident that the borrowings will be renewed when due.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 1. Statement of Significant Accounting Policies (continued)

These financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business.

### Presentation of financial statements

### Presentation currency

Both the functional and presentation currency of Pelorus Private Equity Ltd and its Australian subsidiaries is Australian dollars. The New Zealand subsidiary's functional currency is New Zealand Dollars, which is translated to presentation currency (refer to Foreign Currency Translation note below).

### Principles of Consolidation

### Controlled entities

The consolidated financial statements comprise the financial statements of Pelorus Private Equity Ltd and its subsidiaries as at 30 June. A list of controlled entities is contained in Note 22 to the financial statements. All controlled entities have a June financial year end and use consistent accounting policies. Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where controlled entities have entered or left the economic entity during the year, its operating results have been included from the date control was obtained or until the date control ceased.

A controlled entity is an entity Pelorus Private Equity Ltd has the power to control the financial and operating policies of so as to obtain benefits from its activities.

### Intercompany balances

All intercompany balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

### Non-controlling interests

Non-controlling interests not held by the Group are allocated their share of net profit and comprehensive income after tax in the profit or loss. They are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity. Comprehensive income after tax in the profit or loss are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 1. Statement of Significant Accounting Policies (continued)

### Foreign Currency Translation

### Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed of.

Translation of foreign operations outside the group are transferred directly to the Group's outside equity interests on the balance sheet.

### Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in the profit or loss in the year in which they arise. Included in the value measurement are adjustments for straight-line basis in accordance with AASB 117.

### Impairment of assets

At each reporting date, the Group reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired.

If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, either the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or the income of the asset is capitalised at its relevant capitalisation rate.

An impairment loss is recognised if the carrying value of an asset exceeds its recoverable amount. Impairment losses are expensed to the profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

**1. Statement of Significant Accounting Policies (continued)**

**Financial Instruments**

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition and construction of a qualifying asset are capitalised as part of the cost of the asset.

**Derivative Instruments**

The Group uses derivative financial instruments (interest rate swaps) to hedge its risks associated with interest rate fluctuations. The interest rate swaps are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured to fair value.

Interest rate swaps are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of interest rate swaps are taken directly to the profit or loss for the year.

**Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

**Recognition**

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flow from the financial assets expire or if the Group transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

**Loans and receivables**

Loans and receivables including loans to related entities and to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

**1. Statement of Significant Accounting Policies (continued)**

**Financial Instruments (continued)**

**Financial Assets**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Unrealised gains and losses arising from changes in the fair value of these assets are included in the reserves in the period in which they arise, unless they relate to reversal of previous unrealised loss, which were then recognised in profit or loss.

**Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**Fair value**

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance date. For investments in related party unlisted unit trusts, fair values are determined by reference to published unit prices of these investments which are based on the net tangible assets of each of the investments.

**Impairment**

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. A financial instrument is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of available for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

An impairment loss in respect of a financial instrument measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value.

Individually significant financial instruments are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Impairment losses are recognised in the profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial instruments measured at amortised cost, the reversal is recognised in profit and loss.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 1. Statement of Significant Accounting Policies (continued)

### Comparative Figures

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

### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

### Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor and default payments are considered objective evidence of impairment. Bad debts are written off when identified as uncollectible.

### Trade and Other Payables

Liabilities for trade creditors are carried at cost which is the fair value of the consideration to be paid in the future for goods or services received, whether or not billed to the Group at balance date. The amounts are unsecured and are usually paid within 30 days of recognition.

### Interest Bearing Borrowings

Interest bearing borrowings are initially recognised at fair value less any related transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost.

### Revenue

Income from management fees in relation to managed investment schemes is recognised when it becomes legally due and payable to the Group.

Revenue from property services contracts is recognised monthly in arrears.

### Investment income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate.

Dividend revenue is recognised when the right to receive a dividend has been established, which in the case of quoted securities is the ex dividend date.

Trust distributions are recognised when they are declared by the Trustee or responsible entity.

Foreign currency gains or losses are reported on a net basis.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

**1. Statement of Significant Accounting Policies (continued)**

**Income Tax**

**Current income tax expense**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

**Accounting for deferred tax**

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

**Deferred tax calculation**

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**Deferred income tax assets**

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

**Benefit brought to account**

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

**Tax consolidation**

Pelorus Private Equity Limited has elected to form a tax consolidated group with its wholly owned entities for income tax purposes under the tax consolidation regime with effect from 1 July 2005. As a consequence, all members of the tax consolidated group are taxed as a single entity from that date. The head entity within the tax consolidated group is Pelorus Private Equity Limited.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 1. Statement of Significant Accounting Policies (continued)

### Income Tax (continued)

In addition to its own current and deferred tax amounts, Pelorus Private Equity Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group in conjunction with any tax funding arrangement amounts.

The Group recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which is disclosed as operating cash flows.

### New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

*(i) AASB 9 Financial Instruments, AASB 2009 -11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2015)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The impact to the Group shall not be material. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

**1. Statement of Significant Accounting Policies (continued)**

**New Accounting Standards and Interpretations (continued)**

The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt AASB 9.

*(ii) 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 and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)*

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. 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 core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, 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. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather 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.

The Group's investment in the joint venture partnership will be classified as a joint venture under the new rules. As the Group already applies the equity method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in these financial statements.

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 Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 1. Statement of Significant Accounting Policies (continued)

### New Accounting Standards and Interpretations (continued)

The Group is still assessing the impact of these amendments. The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

*(iii) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 2. Critical Accounting Estimates and Judgments

The Directors 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 Group.

*Key estimates – impairment*
The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Refer to provisions for impairment recognised under Note 8.

*Key estimates – financial assets*
Investments in listed and unlisted securities have been classified as financial assets and movements in fair value are recognised directly in the reserves, unless if they relate to reversal of unrealised loss in prior periods, which were then recognised to profit or loss in the current year. 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.

*Key estimates - fair values of investment properties*
The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. At the end of each reporting period, the Directors review and update their assessment of the fair value of each property, taking into account the most recent independent valuations.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 3. Revenue

| | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent 2013 $'000 | Parent 2012 $'000 |
|---|---|---|---|---|---|
| Revenue from continuing operation: | | | | | |
| Fund and asset management income | | 16 | - | 736 | 428 |
| Property rental income | | 3,291 | 3,502 | - | - |
| Investment income: | | | | | |
| - Dividends and distributions | | 14 | 90 | 4 | - |
| - Finance income | | 166 | 19 | 114 | 25 |
| Unrealised gain on revaluation | 4(a) | 2,868 | - | 1,569 | - |
| Gain on disposal of assets | | 45 | - | 158 | - |
| **Total revenue** | | **6,400** | **3,611** | **2,581** | **453** |

## 4. Expenses

| **(a) Expenses** | Note | Consolidated 2013 $'000 | Consolidated 2012 $'000 | Parent 2013 $'000 | Parent 2012 $'000 |
|---|---|---|---|---|---|
| Business operating expenses: | | | | | |
| Director & consultants fees | | 331 | 400 | 290 | 205 |
| Administration expenses | | 636 | 435 | 415 | 229 |
| | | 967 | 835 | 705 | 434 |
| Depreciation expenses - buildings | 10 | 477 | 607 | - | - |
| Finance costs | | 1,579 | 1,812 | 1 | 1 |
| Loss on disposal of assets | | - | 217 | - | 769 |
| Unrealised (gain)/loss on revaluation: | | | | | |
| - Financial assets | 8 | (1,726) | 587 | (1,569) | 429 |
| - Investment in controlled entities | 8 | - | - | - | 1,800 |
| - Investment properties | 10 | (858) | 3,000 | - | - |
| - Interest rate swaps | 13 | (284) | 224 | - | - |
| | | (2,868) | 3,811 | (1,569) | 2,229 |
| Impairment: | | | | | |
| - Financial assets | 8 | - | 1,418 | - | 1,418 |
| - Loans and receivables | 8 | 140 | 1,220 | 205 | 395 |
| | | 140 | 2,638 | 205 | 1,813 |

**(b) Unrealised (gain)/loss on revaluation of financial assets / investment in controlled entities**

| | | | | |
|---|---|---|---|---|
| Unrealised (gain)/loss recognised in profit or loss | (1,726) | 587 | (1,569) | 2,229 |
| Impairment of P-REIT recognised in profit or loss | - | 1,418 | - | 1,418 |
| Unrealised (gain) /loss recognised in other comprehensive income | (195) | - | 939 | - |
| | (1,921) | 2,005 | (630) | 3,647 |

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 5. Income Tax Expense

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Current tax | - | 3 | - | 1 |
| Deferred tax | - | - | - | - |
| Underprovision of prior year tax | - | 300 | - | 229 |
| **Total income tax expense** | **-** | **303** | **-** | **230** |

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2012: 30%) | 744 | (2,127) | 501 | (1,436) |
| Add / (less) tax effect of: | | | | |
| - Gain on sale of assets | (47) | - | (47) | - |
| - Revaluation and impairments | (818) | 2,003 | (409) | 1,213 |
| - Tax losses recouped | - | - | (45) | - |
| - Current year tax losses not brought into account | 121 | 127 | - | 224 |
| - Underprovision of prior year tax | - | 300 | - | 229 |
| Total income tax expense | **-** | **303** | **-** | **230** |
| Unused tax losses for which no deferred tax asset has been recognised @ 30% (includes all losses incurred by entities that are not part of the tax consolidated group) | 1,510 | 1,068 | - | - |

## 6. Current Assets - Cash and Cash Equivalents

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Cash at bank | 703 | 729 | 533 | 340 |
| **Total cash and cash equivalents** | **703** | **729** | **533** | **340** |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 7. Current Assets - Trade and Other Receivables

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Trade receivables: | | | | |
| - Related parties | 18 | 20 | 18 | 20 |
| - Other parties | 30 | 45 | - | 2 |
| Total trade receivables | 48 | 65 | 18 | 22 |
| Other receivables | 1 | 12 | 1 | - |
| **Total trade and other receivables** | **49** | **77** | **19** | **22** |

Further information relating to trade receivables to related parties is set out in Note 23. None of the receivables were impaired as at 30 June 2013 (2012: $nil).

## 8. Current and Non-current Assets - Financial Assets

| | | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | Note | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **(a) Current Financial Assets** | | | | | |
| Financial assets | 8(c) | 7,444 | 2,997 | 7,444 | 2,893 |
| Loans and receivables | 8(d) | 880 | 4,286 | 253 | 398 |
| **Total current financial assets** | | **8,324** | **7,283** | **7,697** | **3,291** |
| **(b) Non-current Financial Assets** | | | | | |
| Other financial assets | | 104 | 104 | 104 | 104 |
| Investment in controlled entities, net of impairment | | - | - | 10,442 | 11,576 |
| **Total non-current financial assets** | | **104** | **104** | **10,546** | **11,680** |
| **(c) Financial assets** | | | | | |
| Listed securities - non-related parties | | 122 | 901 | 122 | 901 |
| Listed securities - P-REIT | | 3,993 | 1,161 | 3,993 | 1,161 |
| Listed securities - BlackWall Property Funds | | 358 | 175 | 358 | 71 |
| Unlisted - Tankstream Property Investments Fund | | 1,102 | 760 | 1,102 | 760 |
| Unlisted – BlackWall Pub Group | | 1,869 | - | 1,869 | - |
| **Total financial assets** | | **7,444** | **2,997** | **7,444** | **2,893** |
| **(d) Loans and Receivables** | | | | | |
| Loans - related parties | | 2,336 | 5,540 | 853 | 793 |
| Provision for impairment | | (1,456) | (1,254) | (600) | (395) |
| **Total loans and receivables** | | **880** | **4,286** | **253** | **398** |

Further information relating to loans and receivables to related parties is set out in Note 23.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 8. Current and Non-current Assets - Financial Assets (continued)

The Group holds a substantial an investment in P-REIT (ASX code: PXT). At 30 June 2013, P-REIT's ASX closing price was 15.5 cents per unit. Subsequent to 30 June 2013, P-REIT received a favourable outcome in relation to litigation commenced by Macarthurcook Property Securities Fund (MPS), eliminating the $19.7 million litigation provision carried by the Trust at 30 June 2013. This resulted in an immediate uplift in P-REIT's NTA to 34 cents per unit and a higher ASX market price (closing at 20 cents per unit on 26 September 2013. This equates to a $1.2 million uplift in the Group's investment in P-REIT since 30 June to 26 September 2013. If P-REIT were held at its NTA of 34 cents per unit, NTA of the Group would increase by 2.8 cents per share (from 6.9 cents to 9.6 cents).

More information on P-REIT is available in the Directors' Report accompanying these Financial Statements.

## 9. Current Assets and Current Liabilities - Current Tax

### (a) Current Tax Receivable

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | $'000 | $'000 | $'000 | $'000 |
| Current tax receivable | - | - | - | 7 |
| **Total current tax receivable** | **-** | **-** | **-** | **7** |

### (b) Current Tax Payable

| | | | | |
|---|---|---|---|---|
| Current tax payable | 56 | 49 | - | - |
| **Total current tax payable** | **56** | **49** | **-** | **-** |

## 10. Non-current Assets - Investment Properties

| Consolidated | Penrith | The Woods | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **30 June 2013** | | | |
| Balance at the beginning of year | **16,500** | **13,500** | **30,000** |
| Capital improvements | - | 73 | 73 |
| Borrowing costs | 47 | - | 47 |
| Revaluations | 142 | 715 | 857 |
| Depreciation | (189) | (288) | (477) |
| **Balance at the end of year** | **16,500** | **14,000** | **30,500** |
| **30 June 2012** | | | |
| Balance at the beginning of year | 16,527 | 17,000 | 33,527 |
| Capital improvements | 24 | 56 | 80 |
| Revaluations | 257 | (3,257) | (3,000) |
| Depreciation | (308) | (299) | (607) |
| **Balance at the end of year** | **16,500** | **13,500** | **30,000** |

Refer to Note 14 for details of borrowings secured against the properties.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 10. Non-current Assets - Investment Properties (continued)

The Penrith property is a bulky goods retail centre located at 120 Mulgoa Road, Penrith, Sydney. The property was independently valued at 30 June 2011 at $16.5 million reflecting an initial yield of 9.1%. This valuation continues to be adopted by Directors. Tenants of this bulky goods retail centre include Toys R Us, Boating Camping Fishing and Barbeques Galore. Recently, lease agreements were completed with a childcare operator (20 year term) and a restaurant (10 year term). The restaurant is refurbishing the premises with a view to commencing operations in the coming weeks and we are progressing the town planning consent for the childcare centre.

The Woods was a failed bulky goods retail centre that has been repositioned into an entertainment precinct. It is fully leased to tenants including AMF Bowling, Sydney Indoor Climbing Gym and Chipmunks Play Centre. An agreement for lease has been entered into with a childcare operator for a 20 year term and a town planning application for this transaction has been lodged. In addition the property has the benefit of a development approval for the construction of a food/cafe outlet/s of approximately 330 sqm. The property was independently valued at $10 million in October 2012 reflecting an initial yield of 12%. The Directors have adopted a yield of 10% which equates to a value of $14 million. It is the Directors' opinion that this value more accurately reflects the nature of the asset.

The Woods was independently valued for a debt renewal in October 2012. The valuer assessed the value at $10 million using a 12% cap rate. To arrive at this, the property was compared to bulky goods retail centres, some of which have been sold in distressed circumstances. In our view this is not appropriate and ignores The Woods' unique tenancy mix however, it does reflect the negative sentiment of valuers and bankers to property in general and bulky goods in particular. Like 120 Mulgoa Road, we feel there is significant value to be generated from this asset despite the value at which it is held today.

## 11. Non-current Assets - Intangible Assets

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Capitalised borrowing cost | - | 10 | - | - |
| **Total intangible assets** | **-** | **10** | **-** | **-** |

## 12. Current Liabilities - Trade and Other Payables

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Trade payables: | | | | |
| - Related parties | 203 | 252 | 118 | 28 |
| - Other parties | 262 | 328 | 7 | 175 |
| | 465 | 580 | 125 | 203 |
| Sundry payables and accrued expenses | 30 | 94 | - | 30 |
| Rental income in advance | 62 | 14 | - | - |
| **Total trade and other payables** | **557** | **688** | **125** | **233** |

Further information relating to trade payables from related parties is set out in Note 23.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 13. Current and Non-current Liabilities – Other Financial Liabilities

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **(a) Current** | $'000 | $'000 | $'000 | $'000 |
| Interest rate swaps | - | 115 | - | - |
| Loans - related parties | - | - | 2,957 | - |
| **Total current financial liabilities** | **-** | **115** | **2,957** | **-** |
| | | | | |
| **(b) Non-current** | | | | |
| Interest rate swaps | - | 169 | - | - |
| BlackWall Penrith Fund No 2 | 6,000 | 6,000 | - | - |
| **Total non-current financial liabilities** | **6,000** | **6,169** | **-** | **-** |

The Group has interest rate swaps in place with respect to property debt held over the Penrith and The Woods properties. The terms of the hedges are:

- $8 million swapped at 4.11% to November 2013 (classified as current liabilities).
- $5.725 million swapped at 4.53% to August 2014 (classified as non-current liabilities).

The Directors no longer consider it appropriate to hold these liabilities on the balance sheet given the ability to hold these to maturity and their inclusion in interest expense going forward.

The BlackWall Penrith Fund No 2 ("BPF2") liabilities refer to the interests in the property of the BPF2. BPF2 has a hybrid property investment vehicle with a $6,000,000 interest in the Penrith property secured by a registered second mortgage.

Further information relating to loans from related parties is set out in Note 23.

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

| | Consolidated | | |
|---|---|---|---|
| | Penrith | The Woods | Total |
| | $'000 | $'000 | $'000 |
| **30 June 2013** | | | |
| Current – Borrowings | (10,725) | (7,350) | (18,075) |
| **Balance at the end of year** | **(10,725)** | **(7,350)** | **(18,075)** |
| | | | |
| **30 June 2012** | | | |
| Current – Borrowings | - | (8,000) | (8,000) |
| Non-current - Borrowings | (10,725) | - | (10,725) |
| **Balance at the end of year** | **(10,725)** | **(8,000)** | **(18,725)** |

The Penrith property's borrowings are classified as current liabilities as they were due for renewal on 31 July 2013. The facility has since been renewed by the Group's financiers extending the debt until 31 July 2015 under the same term.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 14. Current and Non-current Liabilities – Borrowings (continued)

The renewal of the debt facility secured by The Woods was completed in January 2013 and a new 1 year facility has been executed. To the date of this report, $1 million has been repaid bringing the outstanding balance to $7 million ($7.35 million at June 2013). The facility is subject to quarterly principal repayments.

A total of $13.725 million of the borrowings are hedged at fixed interest rates. Refer to Note 13 for further details. The average interest rate on the facilities was 5.34% per annum (2012: 5.77%).

## 15. Share Capital

### (a) Summary Table

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| 218,051,256 (2012: 222,385,025) Ordinary | 15,276 | 15,401 | 15,276 | 15,401 |
| **Total issued capital** | **15,276** | **15,401** | **15,276** | **15,401** |

### (b) Movement in shares on issue

| | **2013** | **2012** | **2013** | **2012** |
|---|---|---|---|---|
| | **No.** | **No.** | **No.** | **No.** |
| At the beginning of the year | 222,385,025 | 339,330,395 | 222,385,025 | 339,330,395 |
| Cancellation of shares | (4,333,769) | (116,945,370) | (4,333,769) | (116,945,370) |
| **At the end of the year** | **218,051,256** | **222,385,025** | **218,051,256** | **222,385,025** |

During the period, the Company purchased 4,333,769 ordinary shares. The shares were acquired at 2.88 cents per share. The total cost of $125,000 was deducted from ordinary shareholder equity.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. All shares are fully paid and have no par value.

## 16. Dividends

There were no dividends paid or declared for the year ended 30 June 2013 (2012: $nil).

| | Parent | |
|---|---|---|
| | **2013** | **2012** |
| | **$'000** | **$'000** |
| Franking credits available for the subsequent reporting periods based on a tax rate of 30% (2012: 30%) | **481** | **481** |

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax,

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 17. Auditor's Remuneration

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Remuneration of the auditor of the parent entity for: | | | | |
| -Auditing or reviewing the financial statements of the Group | 52 | 58 | 52 | 58 |
| -Taxation and compliance services | 14 | 35 | 12 | 31 |
| -Other services | - | 5 | - | - |
| **Total auditor's remuneration** | **66** | **98** | **64** | **89** |

## 18. Commitments

No operating or capital lease commitments were in existence as at 30 June 2013 (2012: Nil).

## 19. Reconciliation of Profit / (Loss) After Income Tax to Operating Cash Flows

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| Profit / (loss) for the year | 2,481 | (7,393) | 1,670 | (5,018) |
| Non-cash flows included in profit / (loss): | | | | |
| Finance income | (120) | - | (88) | - |
| Non-cash income | - | - | (720) | (436) |
| Depreciation | 477 | 607 | - | - |
| Net (gain) / loss on disposal of investments | (45) | 217 | (158) | 769 |
| Unrealised (gain) / loss on revaluation | (2,868) | 3,811 | (1,569) | 2,229 |
| Impairment | 140 | 2,638 | 205 | 1,813 |
| Foreign exchange (gain) / loss | 6 | 20 | - | (5) |
| Changes in assets and liabilities: | | | | |
| (Increase)/decrease in trade and other receivables | 28 | (509) | 4 | 75 |
| Decrease in other assets | 10 | 5 | - | - |
| Increase/(decrease) in trade payables and accruals | (127) | 518 | (103) | (182) |
| Increase in income taxes payable | 7 | 266 | - | 374 |
| Increase in deferred tax balances | - | 12 | - | 9 |
| Net cash flows from / (used in) operating activities | (11) | 192 | (759) | (372) |

## 20. Contingent Liabilities and Contingent Assets

On 3 August 2012, the Company commenced proceedings in the Supreme Court of New South Wales against the Responsible Entity for the MacarthurCook Property Securities Fund ("MPS") in respect of alleged breaches of the MPS Constitution and Corporations Act 2001 (Cth) with respect to a deeply discounted rights issue undertaken in May 2011. This transaction was also subject to Takeovers Panel proceedings instituted by the Company. The Company is seeking declaratory relief and damages. The Company's evidence has been filed and MPS is in the process of lodging its evidence in reply. The matter is expected to be set down for hearing in early 2014.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 21. Subsequent Events

Subsequent to 30 June 2013, the Group repaid a further $350,000 for The Woods' borrowings.

To the best knowledge of the Directors, there have been no other matters or circumstances that have arisen since the end of the year that have materially affected or may materially affect the Group's operations in future financial years, the results of those operations or the Group's state of affairs in future financial years.

## 22. Controlled Entities

| Name | Country of incorporation | Percentage Owned 2013 % | 2012 % |
|---|---|---|---|
| **Parent Entity:** | | | |
| Pelorus Private Equity Ltd | Australia | | |
| **Subsidiaries of parent entity:** | | | |
| Planloc Pty Ltd | Australia | 100 | 100 |
| RASP Investments Pty Ltd | Australia | 100 | 100 |
| Pelorus Pipes 5 Trust | Australia | 100 | 100 |
| WRV Unit Trust | Australia | 68 | 68 |

## 23. Related Party Transactions

### (a) Related Entities, Associates and Joint Venture Entities, Managed Funds

The Directors and their related entities are related parties of the Group. The Group provides a wide range of corporate services to its related entities, associates, joint venture entities and managed funds.

*Fees and Transactions*

Management fees are charged to entities predominately for property and fund management services. The management fees are paid under a management agreement and the fees charged are determined with reference to arm's length commercial rates.

These services principally relate to:

- Asset management: provision of property management services, property portfolio advisory services, maintenance and insurances, strategic advice and management supervision services, administration, marketing and risk management services.

The Group recharges its related entities and managed funds, for administration services, and those expenses that are incurred by members of the Group on behalf of the related entities and managed funds.

All transactions with related parties were made on normal commercial terms and conditions and at market rates, and were approved by the Board where applicable.

The following represents the transactions that occurred during the financial year and the balances outstanding at year end between the Group and its related entities.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 23. Related Party Transactions (continued)

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Revenue:** | | | | |
| - Asset management fees and recharges | 16 | 162 | 736 | 42 |
| - Interest received | 105 | 25 | 88 | - |
| - Dividends and distributions received | 14 | 25 | 4 | - |
| **Expenses:** | | | | |
| - Fees paid | 365 | 449 | 50 | 52 |
| - Director's fees | 240 | 360 | 240 | 180 |
| - Interest paid | 4 | 525 | - | - |
| **Outstanding balances:** | | | | |
| - Trade receivables - current | 18 | 20 | 18 | 20 |
| - Loan receivables (net of impairment) – non-current | 880 | 4,286 | 253 | 398 |
| - Trade and loan payables - current | (203) | (252) | (3,075) | (28) |
| - Loan payables - non-current | (6,000) | (6,000) | - | - |

### (b) Other related party transactions

Related party transactions that occurred during the year other than those described in (a) above are as follows:

| Date of Transaction | Purchaser/Seller | Financial Assets | Shares or Units Purchased / (Sold) No. | Consideration Paid/(Received) $'000 |
|---|---|---|---|---|
| 1 July 2012 | Pelorus /Zhaofeng Funds Management Limited | BlackWall Pub Fund | 24,143,530 | 1,931 |
| 9 November 2012 | Pelorus / BlackWall Management Services | BlackWall Property Funds Ltd | (51,720) | (5) |
| 19 March 2013 | Pelorus/ Zhaofeng Funds Management Limited | BlackWall Property Funds Ltd | 8,000 | 1 |
| 19 March 2013 | Pelorus/Kirela Development Unit Trust | BlackWall Property Funds Ltd | 8,000 | 1 |

## 24. Directors and Key Management Personnel Disclosures

### (a) Directors' and key management personnel relevant interests

Key management personnel include Directors (refer Directors' Report).

The Directors and key management personnel have relevant interests in shares of the Company as set out in the following table:

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 24. Directors and Key Management Personnel Disclosures (continued)

| | Balance at 30 June 2012 No. '000 | Net change * No. '000 | Balance at 30 June 2013 No. '000 |
|---|---|---|---|
| Joseph (Seph) Glew | 36,713 | 18,065 | 54,778 |
| Robin Tedder | - | 20,000 | 20,000 |
| Stuart Brown | 5,302 | 25 | 5,327 |
| **Total shareholding** | **42,015** | **38,090** | **80,105** |

* Net change refers to changes in relevant interests in shares during the financial year.

### (b) Key management personnel compensation

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Consolidated** | | |
| Short term benefits | 240 | 360 |
| **Total key management personnel compensation** | **240** | **360** |

## 25. Financial Risk Management

### (a) Financial risk management

The main risks the Group are exposed to through its financial instruments are market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's principal financial instruments are financial assets and borrowings.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies, and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. They monitor the Group's risk exposure by regularly reviewing finance and property markets.

The Group holds the following major financial instruments:

| | Consolidated 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Financial Assets** | | |
| Financial assets | 8,428 | 7,387 |
| **Financial liabilities** | | |
| Other financial liabilities | 6,000 | 6,284 |
| Borrowings | 18,075 | 18,725 |

### (b) Market risk

#### (i) Foreign exchange risk

The Group had dealings with a company that operates in New Zealand, however the exposure to foreign exchange risk is not material.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 25. Financial Risk Management (continued)

### (ii) Interest rate risk

The Group has exposure to market risk for changes in interest rates on borrowings. This risk is managed by the Group by entering into hedging transactions with financial institutions as detailed in Note 13. The weighted average effective interest rate for cash and loans to related parties were 2.6% (2012: 3.5%) and 5.31% (2012: 5.77%) respectively.

The Group's exposure to interest rate risk, which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on borrowings is as follows:

| | June 2013 | | June 2012 | |
|---|---|---|---|---|
| | Interest rate % | Balance $'000 | Interest rate % | Balance $'000 |
| Borrowings – unhedged portion | 5.31 | 4,350 | 5.77 | 5,000 |
| Other financial liabilities | 8.75 | 6,000 | 8.75 | 6,000 |

The interest rate swaps represent hedges in place with respect to property debt held over the Penrith and The Woods properties. The terms of the hedges are:

- $8 million swapped at 4.11% to November 2013.
- $5.725 million swapped at 4.53% to August 2014.

**Sensitivity analysis**

At 30 June, if interest rates on borrowings had moved (after hedging effects), as illustrated in the table below, with all other variables held constant, profit would have been affected as follows:

| Consolidated | Net profit Higher / (Lower) | |
|---|---|---|
| | 2013 | 2012 |
| **Movement in interest rates** | **$'000** | **$'000** |
| + 1.0% | (104) | (110) |
| - 0.5% | 52 | 55 |

### (iii) Price risk

The major exposure is the Group's investments in P-REIT units. In relation to P-REIT, if the share price decreases by more than 10% this will result in an additional unrealised loss of $399,000.

### (c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The Group has credit risk exposures to related parties loan receivables and investments in related and unrelated property structures under financial instruments and contractual arrangements entered into by the Group. The Group limits its exposure to credit risk by obtaining equitable mortgage over real property for related / unrelated party loan receivables and investment in related and unrelated property structures.

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 25. Financial Risk Management (continued)

### (d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has borrowings of $8 million that are due for renewal within 12 months. Management is confident that the borrowings will be renewed.

| Consolidated | Maturing within 1 year $'000 | Maturing 1 – 5 years $'000 | Total $'000 |
|---|---|---|---|
| **At 30 June 2013** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 703 | - | 703 |
| Trade and other receivables | 49 | - | 49 |
| Financial assets | 8,324 | 104 | 8,428 |
| | **9,076** | **104** | **9,180** |
| **Financial liabilities** | | | |
| Trade and other payables | 557 | - | 557 |
| Other financial liabilities | - | 6,000 | 6,000 |
| Borrowings | 18,075 | - | 18,075 |
| | **18,632** | **6,000** | **24,632** |
| **At 30 June 2012** | | | |
| **Financial assets** | | | |
| Cash and cash equivalents | 729 | - | 729 |
| Trade and other receivables | 77 | - | 77 |
| Financial assets | 7,283 | 104 | 7,387 |
| | **8,089** | **104** | **8,193** |
| **Financial liabilities** | | | |
| Trade and other payables | 688 | - | 688 |
| Other financial liabilities | 115 | 6,169 | 6,284 |
| Borrowings | 8,000 | 10,725 | 18,725 |
| | **8,803** | **16,894** | **25,697** |

### (e) Fair value measurements

*AASB 7 Financial Instruments: Disclosures* require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1),
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2), and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

**Notes to the Consolidated Financial Statements**

**For the Year Ended 30 June 2013**

## 25. Financial Risk Management (continued)

The following table presents the Group's financial assets and liabilities measured at fair value as at 30 June:

| Consolidated | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total balance $'000 |
|---|---|---|---|---|
| **At 30 June 2013** | | | | |
| Financial assets | 4,473 | 2,971 | - | 7,444 |
| **At 30 June 2012** | | | | |
| Financial assets | 2,237 | 760 | - | 2,997 |
| Interest rate hedges | - | (284) | - | (284) |

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

For all other financial assets and liabilities, the carrying value is an approximation of fair value.

## 26. Lease Commitments Receivable

The Group leases out its investment properties held under operating leases. The future minimum lease payments receivable are disclosed as follows:

| Consolidated | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Receivable within 1 year | 2,910 | 2,932 |
| Receivable within 1-5 years | 7,531 | 9,421 |
| Receivable more than 5 years | 168 | 1,209 |
| **Total lease receivable** | **10,609** | **13,562** |

**Directors' Declaration**

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001, including:
  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date, and

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

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

**Seph Glew**
Chairman
Sydney, 18 October 2013

ESV

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PELORUS PRIVATE EQUITY LIMITED AND CONTROLLED ENTITIES

## Report on the Financial Report

We have audited the accompanying financial report of Pelorus Private Equity Limited and Controlled Entities ("the Group"), which comprises the statement of financial position as at 30 June 2013, the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entities.

## Director's Responsibility for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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

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

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

## Independence

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

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**Basis for Qualified Opinion**

The Group has departed from Australian Accounting Standards in respect of its recognition of changes in fair values of two investments designated as held for trading financial assets, namely its investments in Tankstream Property Investment Fund ("TPIF") and Pelathon Pub Group ("PPG").

For the year ended 30 June 2013 the Group recognised the following movements in the fair value of financial assets designated as held for trading financial assets through Other Comprehensive Income:

| | | |
|---|---|---|
| Investment in TPIF | increase in fair value | $306,457 |
| Investment in PPG | decrease in fair value | $111,077 |

*AASB 139 Financial Instruments: Recognition and Measurement* mandates that the changes in the fair value of held for trading financial assets be recognised through the profit or loss, and *AASB 9 Financial Instruments* stipulates that the initial election by management to designate the financial assets at fair value through profit or loss is irrevocable. Furthermore *AASB 101 Presentation of Financial Statements* mandates that the entity included in its financial statements a summary of the departures from the Accounting Standards, including the financial effect of the departures for each period presented.

The net effect of the above departures is an understatement of Profit or Loss by $195,380 and an overstatement of Other Comprehensive Income by $195,380.

The departure has not impacted the fair value of these investments as presented in the Statement of Financial Position at the reporting date.

**Qualified Audit Opinion**

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial report of Pelorus Private Equity Limited and its Controlled Entities is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2013 and of their performance for the year ended on that date; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Dated at Sydney the 21st day of October 2013

ESV

ESV Accounting and Business Advisors

Chris Kirkwood
Partner

PELORUS
PRIVATE EQUITY

# Pelorus Private Equity Limited
## & Controlled Entities

### Consolidated Annual Financial Statements
Year Ended 30 June 2013

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