

# WESTRALIA PROPERTY MANAGEMENT LIMITED

## GENERAL MEETING OF

## WESTRALIA PROPERTY TRUST

14 NOVEMBER 2006

### [CHAIRMAN'S ADDRESS]

Ladies and Gentlemen, when I refer to the Trust, I am referring to the consolidated entity which includes the Westralia Property Trust and all of its majority owned vehicles.

Before we discuss the properties individually, I would like to present a short analysis of the financial performance of the Trust beginning with the result for the year to 30 June 2006.

Westralia Property Management Limited

#### Westralia Property Trust

##### *Profit and Loss Analysis*

\$ 000's	FY 06	FY 05
Rent and other property income	8,189	7,838
Property related expenses	(2,383)	(2,078)
Property & investment adjs	(2,716)	(4,313)
Borrowing costs	(4,601)	(4,266)
Other	(1,538)	(959)
Result before OEI	(3,049)	(3,778)
OEI	1,959	2,710
Result	(1,090)	(1,068)

The overall reported loss attributable to unitholders of the Trust after minority interests is \$1.1m. Included in the result is a net property adjustment comprising an accretion in the value of the retail/commercial property at 166 Murray Street Perth CBD of \$3.1m to \$67.3m, offset by a \$6.2m (after minority interests \$4.3m) reduction in the carrying value of tourism assets and investments.

## Westralia Property Trust

Key Business Segment Analysis  
FY06

\$ 000's	Commercial /Retail	Tourism	Other	Total
Rent and other property income	6,589	1,600	-	8,189
Fair value increment*	3,111	(6,216)	-	(3,105)
Expenses	(2,726)	(510)	(296)	(3,532)
EBIT	6,974	(5,126)	(296)	1,552
			Interest	(4,601)
			Result before OEI	(3,049)

\* Fair value increment is net of related Responsible Entity fees of \$389,000

The commercial / retail sector performed well, with an EBIT of \$7m. This included the previously mentioned accretion in the value of the retail / commercial property at 166 Murray Street of \$3.1m.

The tourism sector results were less encouraging, with a segment loss of \$5.1m after a \$6.2 million reduction in the carrying values of tourism assets and investments located in regional Western Australia.

The Directors believe the reductions to the carrying value of the tourism assets is the most prudent course of action given the current performance levels of the properties, the land zoning of the properties and the complexities of the respective property ownership structures. The impacts of some of these factors are largely beyond the control of the management of the Trust.

## Westralia Property Trust

<i>Balance Sheet</i>		
\$ 000's	FY 06	FY 05
Other assets	1,944	4,253
Investments	103,736	105,441
Total assets	105,680	109,694
Payables	(1,468)	(972)
Interest bearing liabilities	(60,643)	(62,436)
Total liabilities	(62,111)	(63,408)
Net assets	43,569	46,286
Gearing ratio	57%	57%
NTA	\$0.58	\$0.60

Turning now to the Balance Sheet, at 30 June 2006, the Trust had total assets of \$105.7 million and total liabilities of \$62.1 million leaving a net asset position of \$43.6 million. The net debt of the Trust has been reduced by \$2.2m to \$59.7m primarily through a combination of active debt collection and the ongoing suspension of distributions. The gearing ratio (which is calculated as interest bearing liabilities divided by total tangible assets) has remain unchanged at 57% despite the reduction in the net debt due to the overall decrement in the value of investments and investment properties.

The Directors intend to reduce the debt levels of the Trust further with a targeted gearing range of 40% to 45%. The net tangible assets at 30 June 2006 stand at \$0.58 per unit.

## Westralia Property Trust

<i>Cash Flow Analysis</i>		
\$ 000's	FY 06	FY 05
Operating	1,022	(25)
Investing	1,757	(544)
Financing	(2,463)	(262)
Net change in cash held	316	(831)
Opening cash balance	422	1,253
Closing cash balance	738	422

The cash flow shows that the Trust had a positive cash flow for the year of almost \$316,000 after making debt reductions of \$2.4m. Net operating cash flow was a positive \$1m, compared to a \$25,000 outflow in the prior year. The positive cash flow was generated through increased rent collections and savings in property expenses. Over this year under review distributions have remained suspended due to the ongoing focus on debt reduction.

I will return to the matter of distributions from the Trust after briefly touching upon each of the properties in turn and the impact they have had on the results of the Trust.

[Westralia Property Management Limited](#)



The City Central property at 166 Murray Street Mall, Perth is a mixed retail office complex situated in the heart of the Perth CBD.

The property was acquired in June 2004 for \$56.2million and has increased in value since that time by 19.8% to \$67.3m. The significant gain is due to the ongoing firming of valuation capitalisation rates for this asset class supported by the sustained economic growth of this State.

Rental income for the property has increased 10.1% in 2006. This property remains fully tenanted and the tenancy profile enhanced with the replacement of several tenants with a Government Department and a national retailer. The property manager has also been changed to Burgess Rawson during the year.

I would now like to turn to our tourism properties, dealing with the Dunsborough Hotel Property Syndicate first. The Trust is the majority owner of the Dunsborough Hotel Property Syndicate which owns the 88 room Broadwater Resort and Spa located on Caves Road, Dunsborough, Western Australia.

The Resort is leased to Broadwater Hospitality Management Pty Ltd.

The carrying value of this Resort has reduced from \$13.2 m to \$11.9 m at 30 June 2006 in accordance with a directors independent valuation. The change in value can be attributed to a number of outside influences including the challenges of seasonality to the underlying performance of the Resort, stagnant visitor numbers to the region and an increasing supply of accommodation. You may know from your own experiences that accommodation can be difficult to obtain at peak periods. Occupancy rates in the area are below 50% which means that the occupancy in the off peak periods and mid week is very low.

The Dunsborough Hotel Property Syndicate is trading at a loss for the current financial year. The lessee is claiming rent abatement due to the disruption to their business the demolition and associated works has caused and a reduction in rent due to the reduction

in the number of rooms. A claim for abatement is a standard lease term which is within the terms of the lease. The lessee has appointed an independent party to quantify its claim and is awaiting a report from that party.

The Board of the Responsible Entity has been exploring a number of options to rationalise this property for the benefit of trust members. The Board believes that sale by strata titling of the resort is the option which is most able to recover investor value from its current position. The Responsible Entity has appointed Harley Consulting Group to proceed with an application to the Western Australian Planning Commission (WAPC) to amend the existing strata title of the asset to allow individual lots/rooms to be sold. This will involve discussion and liaison with the Shire of Busselton and the WAPC regarding strata lot configurations, and the preparation and submission of the strata application. This process is expected to take between 4 and 6 months and the Responsible Entity had agreed to initially meet the costs for this process, and claim reimbursement upon conclusion of the process.

However these plans are on hold because on 8 November 2006 members of the Dunsborough Hotel Property Syndicate voted to remove Westralia Property Management Limited as Responsible Entity of Dunsborough Hotel Property Syndicate, and replace them with TEYS Property Funds Limited, after the Chairman of the meeting disallowed the votes of Westralia Property Trust as the majority owner.

The Board of Westralia Property Management Limited do not believe the appointment of TEYS Property Funds Limited is in the best interest of members of the Trust and have called another Dunsborough Hotel Property Syndicate meeting of members at which time

we intend to pass a resolution to remove TEYS Property Funds Ltd and re-appoint Westralia Property Management Limited as the Responsible Entity.

I now turn to the Kalgoorlie property. The Trust wholly owns the Broadwater Resort Hotel, Kalgoorlie.

The Hotel is leased to, and operated by, Broadwater Hospitality Management Pty Ltd.

The Hotel comprises 92 deluxe rooms and apartments which was opened in August 2003. Since opening it has established itself as the premier short stay accommodation in the region. The Hotel has experienced strong growth in the last year in both the corporate and leisure markets and it is anticipated that a sustained performance will enable the Hotel achieve its full potential.

Whilst the Directors believe that the full potential of the Broadwater Resort Hotel can be reached in the near term, subject to conducive economic conditions, the Directors also believe that the current operating results and short term outlook required a reduction in its carrying value by \$1.6m to \$12.3m.

All rent arrears due from the lessee at 30 June 2005 have now been collected. The \$10m bank facilities were successfully re-negotiated and are now in place to May 2009.

The Trust is the majority owner of the Pagoda Hotel Property Syndicate which, in turn, is the majority owner of the Pagoda Fixed Term Property Syndicate.

The Pagoda Hotel Property Syndicate owns 36 of the 101 suites at the Broadwater Pagoda Hotel and Apartments in South Perth.

The Pagoda Fixed Term Property Syndicate owns the facilities lot of this Hotel which incorporates the bar, restaurant, kitchen and conference facilities of the Hotel. The carrying value of the facilities lot in the Pagoda Fixed Term Property Syndicate has been reduced from \$4.3m at 30 June 2005 to \$2.3m at 30 June 2006 based on forecast performance of the underlying operations which until April 2006 was operated by a separate food and beverage operator. Due to the financial demise of that food and beverage operator the food and beverage operations have now reverted to Broadwater Hospitality Pty Ltd.

The rooms department of the Hotel has performed strongly in the financial year. Increases in room rates and occupancy rates have been translated into record revenues and record profits. Net profit increased 20% to \$1.0m. The Hotel has commenced trading in the new financial year at or above expected levels. The Pagoda Hotel Property Syndicate receives 39% of the profits of the Hotel.

In October 2006, Westralia Property Management Limited were replaced as Responsible Entity of the Broadwater Busselton Property Syndicate by TEYS Property Funds Limited. At 30 June 2006 the Trust carried 15% of the investment in Broadwater Busselton Property Syndicate at 10 cents in the dollar, or \$187,000.



In prior years the Trust, through WPT Finance Pty Ltd made a loan to Bunbury Silos Pty Ltd. Bunbury Silos Pty Ltd is a company owned by the former Directors of the Responsible Entity. This debt of \$942,000 was repaid in full during the period.

I will now return to the topic of distributions from the Trust.

The decision to maintain the suspension of distributions is commercially prudent. The Directors believe that the focus of the Trust should be to reduce debt levels and stabilise the earnings. We have some way to go before that is achieved. Until this is achieved the Directors are not in a position to consider the re-commencement of distributions.

I will now finish by discussing what the Directors see to be the future prospects for the Trust.

As we have seen that the Trust's portfolio of tourism assets has provided mixed results, the strategy of the Responsible Entity has been to reduce exposure to the tourism sector. During the past year the restructuring of the Trust has progressed. The Responsible Entity has been able to sell the Bungalows property at Busselton, however due to the inherent complexities of the asset holding structures, the desired outcome of the disposal of the other Tourism assets has not yet occurred.

At this time the Trust has 2 options which can be pursued to rationalise its portfolio.

Option 1. The Responsible Entity can actively pursue market sales of the Tourism assets. Under this scenario there is a significant risk that additional losses on the value of the Tourism assets may be realised.

Option 2. The Responsible Entity pursue a potential sale of the Murray Street Mall building for a value greater than the \$67.3m carrying value at 30 June 2006. This course of action would create a significant balance of funds in the Trust which could be used to rationalise the structures of the remaining Tourism assets and to pursue new property acquisitions for the Trust. The rationalisation of the Tourism asset structures would put the Trust in a better position to refinance those syndicates and ultimately recover value.

The Responsible Entity believes that a sale of the Murray Street Mall building is the most positive course of action for the Trust. Given the current market conditions there is the opportunity to realise a significant gain over the assets original purchase price. The Directors believe that a significant price would be achieved by a sale. For these reasons the Responsible Entity has appointed an agent to market the property to potential buyers.

I would now like to open the floor to questions.