



McGrathNicol

27 August 2018

McGrathNicol
Partnership

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To the creditor as addressed

Dear Sir / Madam

**PrimeSpace Property Investment Ltd (In Liquidation)
ACN 107 345 317 (PPIL or the Company)
and Trusts listed in Schedule A**

Liquidators' Annual Report to Creditors

I refer to my appointment with Tony McGrath as Voluntary Administrator of PPIL on 23 April 2015 and to our subsequent appointment as Liquidators on 28 May 2015. Pursuant to section 508(1)(b)(ii) of the *Corporations Act 2001*, I am required as Liquidator to provide an annual report to creditors giving an account of:

- my acts and dealings;
- the conduct of the winding up;
- a description of the acts and dealings that remain to be carried out in order to complete the winding up; and
- an estimate of when the winding up is likely to be completed.

Set out below is an update of the substantive issues dealt with in the liquidation over the past year.

1 PPIL

1.1 Update on Convertible Note Subscription Agreement

- As advised in my last annual report to creditors on 26 July 2017, PPIL had a claim against its former legal advisors arising from the drafting of the PAPF Convertible Note Subscription agreement.
- On 10 April 2017, the Supreme Court of New South Wales Ordered that the Liquidators would be justified in causing PPIL to pursue the claim, including by way of commencing proceedings against PPIL's former legal advisors.
- On June 6 2017, PPIL Committee of Inspection (**Committee**) members resolved to grant the Liquidators authorisation to enter into a confidential mediation agreement with PPIL's former legal advisors.
- Mediation occurred on 8 August 2017. The mediation concluded with a settlement, as per the key terms of settlement provided to the Committee on 17 August 2017.
- The Committee approved the terms of the settlement on 18 August 2017 and a settlement agreement with Meyer Vandenberg was finalised on 28 August 2017. We received \$6,451,599.12 and \$1,898,400.88 in relation to the settlement on 25 August 2017 and 18 September 2017, respectively.

D14-180824 -PRIMPRO02-2018 Annual report -RW

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- I anticipate being in a position to pay a dividend to creditors of PPIL during Q2 FY2019. Our current estimate of claims based on proofs of debt received are as follows:
 - Ordinary unsecured creditors totalling \$318,503.
 - PAPF Convertible note holders totalling \$27,308,135.49.
Please note, the Liquidators have not formally adjudicated on all Noteholder claims and this amount may materially change)

1.2 *Steps to wind up PPIL*

- The following steps are required for the purpose of winding up PPIL:
 - Finalise winding up of trusts;
 - Seeking clearances from the Australian Taxation Office to pay a dividend and finalise the liquidation;
 - Finalise and pay dividends; and
 - Apply for deregistration with ASIC.

2 **Primespace Northbourne Trust (PSNT)**

2.1 *Update on proceedings commenced by Canberra Finance Group (CFG)*

- The CFG Proceedings relate to a series of loans made by CFG to PS Retail Pty Ltd (**PS Retail**) (to which myself or Mr McGrath are not appointed), which were allegedly guaranteed by PPIL as trustee for the PSNT. PS Retail defaulted on the loans and subsequently CFG called on the guarantee given by PPIL. The guarantee was purportedly secured by an option over several units in the IQ Smart Apartment Development.
- Based on our investigations, it was not clear that the guarantee or option provided by PSNT was validly provided.
- We sought legal advice and advice from Senior Counsel to assist us in forming a view as to whether PPIL as trustee for PSNT should defend the CFG proceedings. That advice confirmed that there were material issues with CFG's claim.
- Our assessment of whether to defend the proceedings needed to weigh up the risk of engaging in the defence which would involve expensive and protracted litigation, with the impact on unit holders and creditors of PSNT.
- A settlement was negotiated between CFG, Geoffrey Bird (related party of CFG), IQIT Nominees Pty Ltd (**IQIT**), Marque Northbourne Limited and Worth Street Commercial. The terms of that settlement were provided to us for consideration on 7 June 2017. After weighing up our prospects, the costs of protracted litigation and impact on potential outcomes on stakeholders, we accepted the terms of the proposed settlement.
- In August 2017 Court directions allowing the Liquidators to enter into a settlement with IQIT, CFG, Marque Northbourne and Worth Street Commercial, in relation to the transaction with CFG, were sought.
- Having regard to the terms of the settlement and the potential litigation outcomes were the proceedings to continue, the Court approved the settlement and on 15 August 2017 the CFG Proceedings were settled and discontinued.



- Further details surrounding the settlement were included in my fourteenth Affidavit sworn on 14 August 2017, which can be found at <http://www.mcgrathnicol.com/> under the assignments tab.

2.2 *IQ Smart Apartment Development*

- The IQ Smart Apartment Joint Venture (**IQJV**) has now completed and all remaining apartments sold.
- Following the final sales, the Company, in its capacity as trustee for PSNT, has received all proceeds related to its interest in the IQJV. The final distribution from the JV manager was received by us on 22 June 2018. The table below details all distributions received from the IQJV.

Primespace Northbourne Trust - IQJV distributions	
Date	Distribution amount (\$)
27 August 2015	4,911,555
15 September 2015	968,519
26 October 2015	968,519
18 October 2016	1,925,517
24 April 2017	1,878,567
23 October 2017	629,496
3 January 2018	1,600,000
22 June 2018	1,237,942
Total	14,120,115

2.3 *PAPF's claim against PSNT*

- I refer to my 15th affidavit sworn on 4 May 2018 that was distributed to all creditors and is available for view on our website (<http://www.mcgrathnicol.com/creditors/primespace-property-investment-limited-administrators-appointed/>).
- The purpose of the Affidavit was to obtain a Court ruling in relation to a potential right of set off in the amount of \$1.7 million.
- The set-off involved a loan owing to PAPF from PSNT in the amount of \$1.7 million and the claim that PSNT was entitled to a right of contribution from PAPF in relation to the CFG settlement.
- On 20 June 2018, Justice Black in the Supreme Court of New South Wales delivered a judgement ordering that:
 - the liquidators were justified in setting off the \$1.7 million claim; and
 - the costs of the application be paid out of the assets of PSNT.

2.4 *Income Tax Returns*

- We have now lodged the PSNT income tax returns in respect of the years ended 30 June 2014 – 2018, inclusive.
- The income tax returns were prepared and lodged with the assistance of our tax agents, Fordham Business Advisors. Fordham was required to review historical records to prepare the earlier returns.



- PSNT had no net taxable income available for distribution.

2.5 *Dividend to creditors*

- As PSNT has now realised all proceeds from its share of the IQJV, finalised its tax position and resolved the \$1.7 million claim that PAPF has against PSNT, on 18 July 2018 I issued a notice of my intention to declare a first and final dividend to creditors of PSNT.
- The deadline for creditors to submit proofs of debt against PSNT was 14 August 2018.
- We have not received any further proofs of debt.
- A dividend of 100 cents in the dollar was paid to general unsecured creditors of PSNT on 24 August 2018.
- Interim distributions totalling \$5.3 million have been paid to IQIT, the subordinated unitholder in PSNT.

2.6 *Steps to wind up PSNT*

- The following steps are required to finalise the winding up PSNT:
 - Terminate contracts to which PPIL is a party in its capacity as trustee of PSNT;
 - Payment of a first and final dividend to ordinary unsecured creditors at 100 cents in the dollar;
 - Payment of a dividend to the subordinated unsecured creditor, IQIT.
 - Finalise the accounts for PSNT, seek consent from the relevant parties and apply to Court to waive the requirement for an audit. I do not hold sufficient records to enable an audit of PSNT's accounts prior to my appointment and consider this would be of limited benefit to creditors. IQIT, which will receive the benefit of any residual funds in PSNT, has indicated that it has no objections to a waiver of the audit requirement being sought; and
 - Apply to Court for Orders:
 - that the Liquidators are justified in drawing an amount of remuneration approved by the Committee for the life of the matter from PSNT; and
 - the PSNT terminates on a specific date.



3 Prime Access Property Fund (PAPF)

3.1 Assets of PAPF

- The only assets identified in PAPF were:
 - a loan receivable in the amount of \$1.7 million owing from PSNT. As a result of the set-off claim from PSNT (described in section 2.3 above) there is no amount recoverable from this loan; and
 - units in the Prime Office Property Fund (**POPF**). The only asset of POPF are units in PSNT. On the basis that creditors of PSNT will not receive payment in full, the units in PSNT held by POPF have no value.
- As a result, no assets will be realised for PAPF and there will be no distribution to creditors or unit holders of PAPF.

3.2 Steps to wind up PAPF

- The following steps are required to finalise the winding up PAPF:
 - Withdraw unit holdings in POPF and Prime Retail Property Fund (**PRPF**). Although POPF and PRPF unit holdings are of nil value, PPII as trustee for PAPF is required to withdraw those units so as to realise their (nil) value.
 - Finalise the accounts of PAPF and obtain consent from PAPF unit holders to waive the requirement for an independent audit as required in the PAPF Constitution. This approach is appropriate on the basis that there are no funds to meet audit costs and there have been no transactions in PAPF from the date of the appointment of the Liquidators and as there will be no distributions to other creditors or unitholders.
 - Apply to Court seeking directions (and/or seek unitholder consent) on the procedure for winding up and terminating PAPF.

4 Primespace Property Trust No.3 (PSPT3)

4.1 'The Hub Development', Burpengary

- Creditors may recall that in December 2015 the commercial units for sale at The Hub Shopping Centre, Burpengary (i.e. shops 16 and 17) (**the Units**), passed in at auction with limited market interest.
- In August 2017, the Liquidators engaged Ray White – Commercial North Coast Central in an attempt to re-market and sell the Units in a refreshed campaign.
- In December 2017, the Units were passed in at auction again with limited market interest. The marketing agents continued to list the units for sale following the auction.
- On 2 January 2018, the Liquidators received an offer to purchase the Units (in-one-line) for \$150,000 (excl. GST). Given the vast difference between the offer received and the valuation, on 24 January 2018 we wrote to investors to provide them an opportunity to object to the offer received and propose an alternative strategy to realise the Units.
- The Liquidators subsequently received four offers from interested parties, all of which were higher than the offer received on 2 January 2018.
- On 7 February 2018, the Liquidators agreed to sell the Units individually as this would generate the greatest return to investors.



- On 22 March 2018 and 13 July 2018, the liquidators settled on each Unit for \$105,000 and \$180,000 respectively (both excluding GST).

4.2 *Dividend to investors*

- Following the above sales, a dividend to unitholders of PSPT3 will be available.
- The quantum of a dividend to investors of PSPT3 will be determined after the liquidators have finalised the accounts of PPIL.
- As PSPT3 did not have sufficient funds until after settlement of the first Unit, a number of costs, including liquidators' remuneration and legal fees, were paid by PPIL on behalf of PSPT3. Accordingly, PSPT3 will now be required to reimburse PPIL for any costs it has incurred.
- Following reimbursement from PSPT3 of these costs, we will notify unitholders and prepare a distribution.

4.3 *Steps to wind up PSPT3*

- The following steps are required to wind up PSPT3:
 - Finalise accounts of PSPT3;
 - Finalise income tax returns for PSPT3; and
 - Apply to Court for Orders:
 - with respect to outstanding liquidators' remuneration payable from the trust;
 - with respect to the winding up of the trust (and/or seek unitholder consent);
 - seeking consent to reimburse PPIL for costs paid by PPIL on behalf of PSPT3, from trust assets; and
 - Pay a distribution to unitholders.

Timing to complete

Having regard to the above, I currently estimate the winding up is likely to be completed in the next 6 months.

Should you have any queries in relation to this matter, please contact Richard Woolf of my staff on (02) 9248 9924 or rwoolf@mcgrathnicol.com.

Yours faithfully

Primespace Property Investment Limited (In Liquidation)

Shaun Fraser

Joint and Several Liquidator

Enclosures:

Appendix A – Summaries of receipts and payments for the period 28 May 2015 to 31 July 2018.



Schedule A

List of Trusts

PPIL in its capacity as trustee for Primespace Northbourne Trust (PSNT)

PPIL in its capacity as trustee for Primespace Property Trust No.3 (PSPT3)

PPIL in its capacity as trustee for IQ Investment Trust (IQIT)

PPIL as responsible entity for Prime Access Property Fund (PAPF)



Primespace Property Investment Limited (In Liquidation) (PPIL)

Receipts and Payments for the period 28 May 2015 to 31 July 2018

Account	GST	Total
Receipts		
Recoveries	-	8,350,000
Opening cash balance	-	581
Interest Income	-	43,954
GST Control: GST Paid/Received	-	57,263
Total receipts	-	8,451,798
Payments		
Advertising	(282)	(3,099)
Bank charges	-	(1)
Legal fees	(40,622)	(436,649)
Legal disbursements	(6,088)	(73,280)
Total payments	(46,992)	(513,029)
Net receipts and payments		7,938,769

Primespace Property Investment Limited atf Primespace Northbourne Trust (In Liquidation) (PSNT)

Receipts and payments summary for the period 28 May 2015 to 31 July 2018

Account	GST	Total
Receipts		
Appointee Fees - Refund	17,847	196,315
GST Control: GST Paid/Received	-	252,235
Interest Income	-	225,927
Interests In Land	-	14,120,117
Other income	1	9
Total receipts	17,848	14,794,603
Payments		
Insurance	(1,940)	(21,836)
Bank Charges	-	(23)
CFG settlement	-	(4,950,000)
Tax advisory	(600)	(6,600)
Appointee Fees	(79,669)	(876,357)
Appointee Disbursements	(29)	(324)
Legal fees	(184,668)	(2,031,367)
Legal disbursements	(25,135)	(283,861)
Other costs	(81)	(1,675)
Total payments	(292,122)	(8,172,042)
Net Receipts (Payments)	(274,275)	6,622,561



Primespace Property Investment Limited atf Primespace Property Trust No.3 (In Liquidation) (PSPT3)

Receipts and payments summary for the period 28 May 2015 to 31 July 2018

<u>Account</u>	<u>GST</u>	<u>Total</u>
Receipts		
Interests In Land	10,500.00	298,504.24
Sale Deposit	12,060.00	22,560.00
Rates Adjustments	86.79	954.73
Interest Income	-	1,460.79
Opening cash balance	1,398.97	104,849.97
GST Control: GST Paid/Received	-	13,212.00
Total receipts	24,046	441,542
Payments		
Rent & Rates	(512)	(10,565)
Repairs & Maintenance	(14)	(150)
Utilities	-	(8,467)
Advertising	(2,798)	(30,777)
Agent's Fees	(974)	(10,717)
Bank Charges	-	(10)
Council Rates	-	(8,084)
GST Control: GST Paid/Received	-	(9,115)
Insurance	(366)	(4,031)
Insurance (Stamp Duty)	-	(126)
Legal Fees	(1,183)	(13,015)
Sale Deposit	-	(10,500)
Strata Levies	(2,631)	(27,654)
Valuation fee	(300)	(3,300)
Total payments	(8,778)	(136,509)
Net Receipts (Payments)	15,268	305,032