



BlueCHP Limited
Developing the Future of Affordable Housing



2013
**ANNUAL
REPORT**

MAKING A DIFFERENCE TO PEOPLE'S LIVES

Our tenants



Northmead



Worrigee under construction

" PUTTING QUALITY
AND AFFORDABILITY
IN THE COMMUNITY "



Playground and park facility - Ropes Crossing



CONTENTS

Chairperson's message	4
CEO report	6
Asset development and management	14
Board of Directors	16
Senior Executive	18
Administration team	20
Property team	21
Corporate governance statement	22
Directors' report	25
Statement of profit and loss	34
Statement of financial position	35
Statement of changes in equity	36
Summary statement of cash flow	37
Discussion and analysis	38
Directors' declaration	41
Independent auditor's report	42

Our members

Argyle Community Housing Ltd (Argyle)
Hume Community Housing Association Company Ltd (Hume)
Southern Cross Community Housing Ltd (Southern Cross)
Wentworth Community Housing Ltd
Women's Housing Company Ltd (Women's)

CHAIRMAN'S MESSAGE

The past year has been one of consolidation and reassessment for the future. The rapid growth in the property portfolio has now slowed with the completion of the Nation Building program.



Property numbers under ownership and management have grown to 642 in last five years.

Since BlueCHP's commencement five years ago, property numbers under ownership and management have grown to 642. This is a positive achievement in a challenging economic environment for business and government alike.

However, whilst growth has been significant, the demand for affordable housing shows no signs of diminishing within the foreseeable future and will require financial resources, innovation and ongoing commitment for a successful solution.

Financial results

This year's financial performance reflects BlueCHP's development as it emerges from the financial pressures of rapid growth to a more mature and financially sustainable business with a stronger balance sheet and increased surplus. The key financial results for the year are Surplus before fair value adjustments of \$2,075,187 (2012: \$1,058,323), Net Profit before Tax (including revaluation

adjustments) of \$4,973,088 (2012: \$1,068,001), Cash of \$6,696,826 and Total Assets of \$133,157,884.

Governance

The success of the organisation is dependent upon its Board, staff and governance processes.

During the year the Members took the decision to refresh the composition of the Board with the appointment of four new directors. I would like to acknowledge the contribution of the previous Board in guiding BlueCHP to its current position.

There was also a change of CEO during the year with Brian Murnane resigning to assume the role of CEO at St Vincent de Paul Housing. Our new CEO Charles Northcote brings to BlueCHP over 25 years' senior international leadership experience across a broad range of industries including not-for-profit and community housing organisations. As the Chief Financial Officer (CFO) at Mission Australia Housing, Charles

was a member of a team that grew the property portfolio to nearly 2,000 homes in three years. He also assisted the Registrar, NSW Housing, to establish the compliance framework for community housing provider registration.

Despite the many challenges over the last year, both internally and externally, the BlueCHP staff have continued to show dedication to the business and its objectives for which I thank them.

In conjunction with the Board renewal process, Members have undertaken a review of BlueCHP's performance to date and its future role in light of the significant changes that have occurred within both the sector generally and Members respective organisations since BlueCHP's establishment five years ago. The Members have reaffirmed their commitment to BlueCHP and identified opportunities to enhance their relationship and communications, as well as increase operational effectiveness and cost efficiency between BlueCHP

and Members. The Board looks forward to working co-operatively with Members to achieve the best outcome for the membership group in its collective pursuit of delivering more affordable housing.

The Board is committed to maintaining the highest level of corporate governance standards and is undertaking a systematic review of policies and procedures to meet the new regulatory guidelines as part of entering the National Regulatory System.

The way ahead

The short-term development focus is the progression of existing projects at Worrigee and St Marys and delivery of contractual obligations for additional properties as a result of the NSW Government's vesting of properties under the Nation Building programme.

A financially strong and sustainable balance sheet is essential for the delivery of contractual commitments and ongoing management of the

property portfolio. Accordingly the Board and executive will continue to concentrate on building the financial strength of the business on a risk-managed basis.

BlueCHP is fortunate to have a range of skills and experience which are of value to other community housing providers that can be provided on a fee for service basis, strengthening the financial position of BlueCHP and maximising the use of our existing resources for the benefit of the sector as a whole. We intend to offer this capability to a range of community housing providers in the future.

With the sector's regulatory, operating and financing environment undergoing considerable change, BlueCHP will continue to seek to partner with Members to provide more affordable housing for mutual benefit as and when opportunity presents.

Terry Downing
Chairperson



CEO REPORT

Firstly I want to thank my predecessor, Brian Murnane for his past two years of service as CEO of BlueCHP. I'd personally like to thank him for his stewardship of the company through this rapid growth period.

The success of an organisation is very much predicated on everyone having a common vision and belief that is aligned with the company. In the ten months that I have been at BlueCHP, I have seen the commitment, hard work, and the ability of staff to work under enormous pressure. It is because of these qualities that BlueCHP continues to be successful.

It goes without saying that my transition would not have been easy had it not have been for the efforts of all who contribute to BlueCHP.

As CEO, I see my role as continuing to ensure the company is a leader in the provision of affordable housing with innovative and sustainable property development solutions.

2013- The past year

The past year has achieved the completion of Nation Building deliveries and commencement of new projects. The final 16 Nation Building properties were delivered in March 2013 - these

had been delayed as a result of the financial collapse of St Hilliers property group.

The Worrigeer project will be completed before the end of the 2013 calendar year; consisting of 26 affordable homes. This is now a successful project in light of the considerable hurdles it has faced. A highlight is the design flexibility incorporated into a number of the houses where they can be easily converted from two bedroom into three bedroom homes.

2012/13 was also a year in which we began construction of the 90 dwellings at Ropes Crossing. We have now completed and delivered 22 of these dwellings and have the next stage of 17 for completion in 2014.

In late 2012 we secured a five year \$55,000,000 bank facility with bankmecu on very favourable terms. The facility is a testament to the strength of the organisation and gives BlueCHP the capability to finance further development on its balance sheet.

It was a year where we relocated to our new office space in Leumeah, part of the greater City of Campbelltown. Our new office will adequately accommodate our business needs as a result of our continued growth.

Vesting of the balance of Nation Building properties has been problematic with the NSW Government

delaying the process. The impact has been to delay the commencement of any leverage obligations. It is expected that the vesting process will be completed by end of 2013.

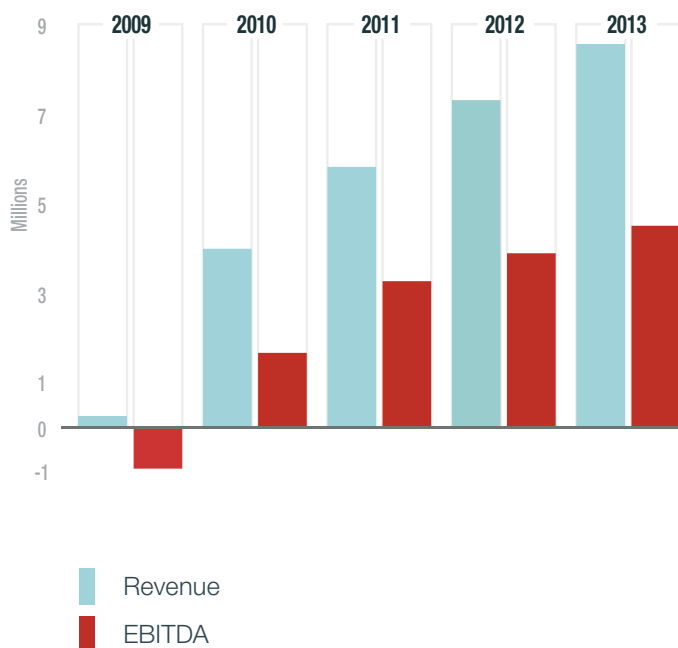
The following charts illustrate BlueCHP's progress since its inception to become a sustainable operation.

Whilst many projects have made

substantial progress, the NSW Government withdrew the Public Private Partnership for Airds Bradbury redevelopment. Argyle Community Housing and Hume Community Housing partnered with BlueCHP and Australand to submit an expression of interest for the project that was being managed by the Department of Family and Community Services.

BlueCHP's Progress

5-YEAR REVENUE AND EBITDA



GROSS ASSETS MANAGED AND OWNED



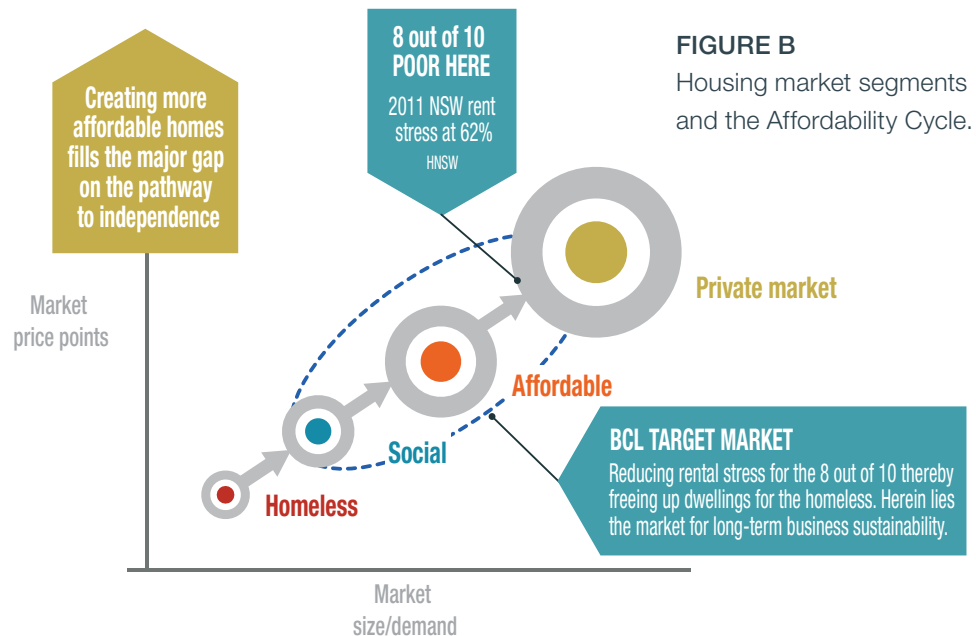
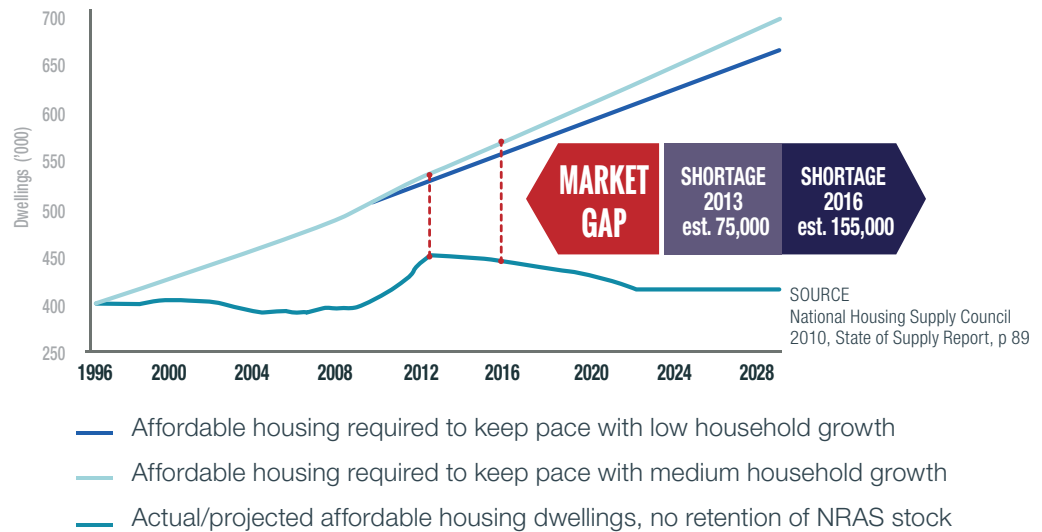
Affordable housing pressure continues

Post the Nation Building injection the statistics do not appear to be improving for social and subsidised housing, with the National Housing Supply Council stating in their 2012 report that demand is set to increase. There will be a shortage of 75,000 dwellings in 2013, rising to approximately 115,000 in 2016.

The Department of Human Services - Victoria also stated that rental stress is now affecting 8 out of 10 low-income workers who do not live in social housing, leaving a significant gap for the availability in affordable housing.

In NSW 62% of low to moderate income workers are under rental stress (paying more than 30% of income on rent).

FIGURE A Dwelling shortage from 2013 - 2016



The NSW Auditor-General's performance audit report with respect to Housing NSW and the Land and Housing Corporation (LAHC) further highlights the issues that are faced in NSW.

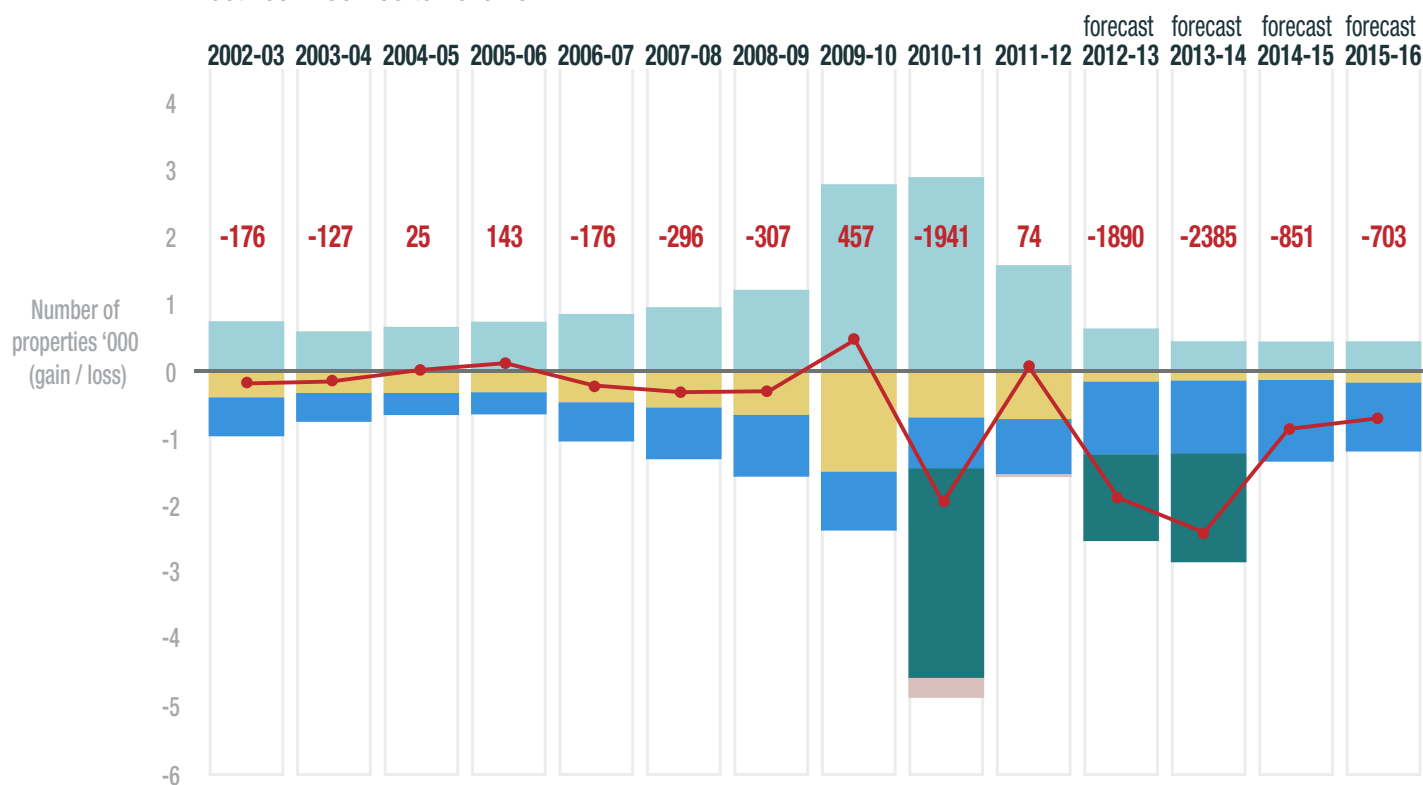
The key findings include

- 55,000 eligible households (representing 120,000 people) are on the waiting list
- Only 44% of eligible housing need is being met in NSW
- LAHC funding shortfall is \$490m for maintaining properties – LAHC is forced to sell properties to cover the short fall

- Housing stock not fit for purpose, 30 years old and there is a mismatch between need and the stock available
- Social housing rent increases are not matching operational costs increases

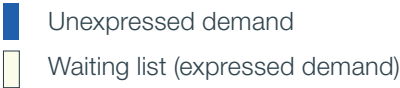
The following table indicates the impact on supply as LAHC has to sell properties to fund capital programs and operating costs.

LAHC owned housing stock movement (including properties managed by community housing providers) between 2002-03 to 2015-16

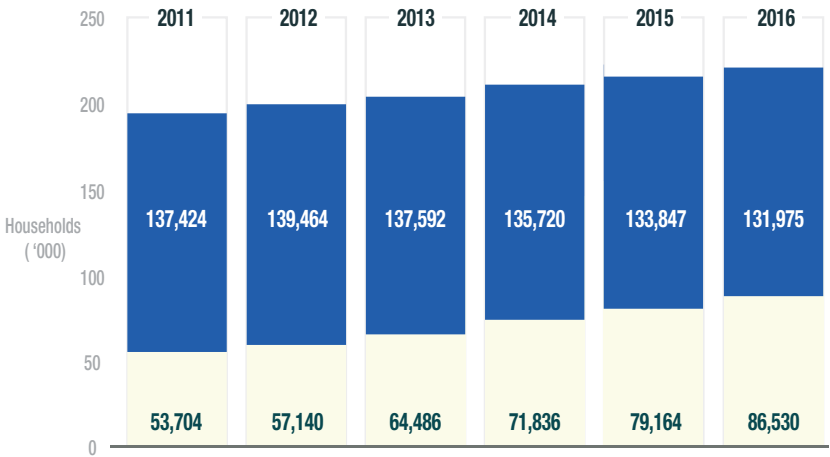


SOURCE
LAHC March 2013. Note: Excludes LAHC properties used for short-term 'crisis' accommodation.

As rental stress and housing affordability deepens, it is becoming more difficult for households to secure affordable housing in Australia which is affecting key workers and those on the brink of being homeless. The table below demonstrates the hidden demand which noted is earlier represented by 62% of low to moderate income households in rental stress in the private market.



SOCIAL HOUSING ELIGIBILITY
EXPRESSED AND UNEXPRESSED DEMAND, 2011 TO 2016



The future challenge

BlueCHP’s challenge over the past five years has been to develop a sustainable business. Our goal over the next three to five years is to continue to strengthen the business. As noted above, the demand for affordable housing outstrips supply. A summary of challenges facing BlueCHP are:

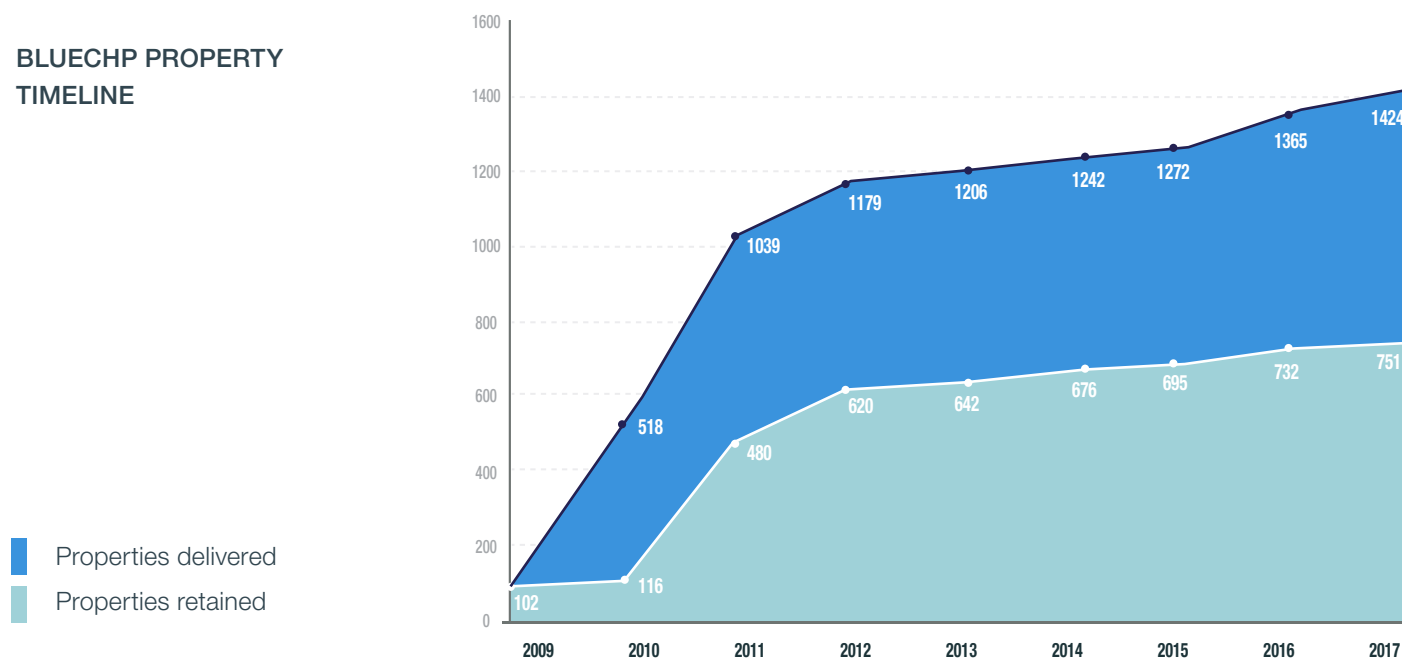
- Reduction of government funding
- Social Housing rent revenue is not keeping pace with operational cost increases
- Limited amount of finance availability for affordable housing
- New National Regulatory System

- Long term maintenance commitments
- Expiry of NRAS incentives
- Supporting Member objectives for more housing supply

BlueCHP’s focus is meeting its current commitments for which it has adequate financial capability over the next four years. This will consolidate the rapid growth over the past five years. Ad-hoc opportunities of further government grants will be sought where appropriate in collaboration with our Members and other Community Housing Providers. The table below is our committed property development

pipeline, with an expected 1,400 properties delivered by 2017 of which BlueCHP will retain over 750 properties. Operational challenges of cost containment will be enhanced by implementation of new IT systems to remove inefficient processes, enhancing information to improve repairs and maintenance management. The provisioning of life cycle maintenance for owned properties is required by Registration guidelines and BlueCHP will be building its provision (sinking fund) to ensure the long- term quality of our assets. In six years’ time the first NRAS

BLUECHP PROPERTY TIMELINE



incentives will start to expire, and the expectation is current rent growth will over time, match the loss of incentives. As part of the long-term plan, BlueCHP will develop strategies to grow the revenue base through fee-for-service opportunities and portfolio management. BlueCHP will seek to address the impact of declining social revenue growth by changing the current ratio of affordable to social houses.

The Community Housing Provider sector is changing with the entry of the faith based organisations. Over the past few years Mission Australia, Salvation Army, St Vincent de Paul Society, and Church of Christ in Queensland have


entered the community housing sector. These organisations will change the competitive dynamics of the sector with national coverage, financial strength, infrastructure leverage capability, political access and ability to provide support services. Community Housing Providers will need to re-configure their offerings to meet this challenge.

Opportunities and competitive advantage

The property development, financial, and asset management skills we have will provide BlueCHP the ability to meet the current demands of our property portfolio and to support other

participants in the sector.

The size of the challenge means that no one Community Housing Provider has the resources to tackle the sectors' needs; it will necessitate the formation of consortiums, and joint ventures utilising the skills and expertise of participants to manage risk. We have been approached by other Community Housing Provider's for development assistance and have also been invited to provide submissions for major social and affordable housing projects such as Questus Limited (NRAS 5 NSW 1014 dwelling proposal) and Logan Urban Renewal Initiative (QLD) with Compass Housing Co. Limited.



**" BEING AN ASSET OWNER
AND DEVELOPER, BLUECHIP
UNDERSTANDS THE NEED TO
ADDRESS LONG-TERM LIFE-
CYCLE COSTS OF PROPERTY
OWNERSHIP "**

BlueCHP has also been approached by private developers including Stockland and Lend Lease (Ropes Crossing) to be their delivery partner for affordable housing.

BlueCHP's competitive advantage is its development, financial, and long-term asset management expertise. BlueCHP also maintains affiliations and strong relations with key industry bodies.

Development expertise

Our senior leadership team comprises of skilled property staff with an enviable depth of experience in the complete life-cycle of property development. We deliver sustainable, socially responsible affordable housing development with a focus on quality and construction using innovations in urban and dwelling design. We develop projects partnering with a range of private

and public stakeholders to develop opportunities for new developments and accommodation options.

Long-term asset management expertise

Being an asset owner and developer, BlueCHP understands the need to address long-term life-cycle costs of property ownership. Our assets support BlueCHP's core business activities and they provide us with feedback on the performance of materials and products so that we can improve our future housing stock. Furthermore, we proactively review asset performance for best use, sustainability and disposal to achieve greater value for money through evaluation options.

Sector financial expertise

BlueCHP taps the sophisticated financial markets for funding and

interest rate products, together with accessing State and Federal Government programs.

Shared service capability

BlueCHP is a collaborative market player that aims to share its expertise, and lift the profile of the community housing sector by strengthening our customer relationships with key industry bodies and Members.

The year ahead

Our approach for the provision of affordable housing is targeted with a long-term focus on enhancing cash flow and debt capacity management. There will be opportunities for strengthening BlueCHP, and I am confident BlueCHP will continue to deliver quality affordable housing solutions.

Charles Northcote
Chief Executive Officer



ASSET DEVELOPMENT AND MANAGEMENT

It has been another year of success for BlueCHP with continual growth within the business. This growth has been contributed by the receipt of the final dwellings awarded under the National Building and Economic Stimulus Plan, the National Rental Affordability Scheme and the Affordable Housing Fund, which have provided additional housing stock into BlueCHP's portfolio.

Our team handled the receipt of the Nation Building Economic Stimulus Properties and the delivery of these to our members for tenancy. This was a great effort with the properties coming over with strict criteria and tight deadlines. The geographic spread of our portfolio also adds additional challenges to resourcing and I would like to thank the members of my team who were instrumental in ensuring the smooth handover of these properties. It is intended that the income from these dwellings will be used as leverage to acquire more new dwellings. Planning for this leveraging will continue as we move toward our target to deliver a development pipeline over the next 10 years.


The property services team also manages the acquisition and development of new stock. Over the past year we completed the acquisition of 32 dwellings under the National Building and Economic Stimulus Plan. We commenced construction of 26 dwellings under Social Housing Growth Fund 2, and completed the

first 21 dwellings in Ropes Crossing/Jordan Spring under the Housing Affordability Fund.

This activity is made possible by funding opportunities from the Federal and State Governments and with the continuing guidance of support from the Centre for Affordable Housing, who we would like to thank for their assistance.

In October 2012, BlueCHP's project at Macarthur Gardens obtained development approval from the Joint Regional Planning Panel and Campbelltown City Council. With successfully receiving 56 NRAS incentives as part of Round 4 and a delivery date of June 2016, this \$25m development forms part of BlueCHP's pipeline for future growth and delivery of our vesting commitments.

BlueCHP was invited to tender on the urban renewal and re-development of Logan City, Queensland. This is an exciting opportunity that would see BlueCHP generate income on a fee-for-service (FFS) arrangement for the next 20 years.



" THE NATION BUILDING ECONOMIC STIMULUS PLAN (NBESP) PROVIDED THE RESOURCES TO BUILD THIS MUCH NEEDED PROJECT "

BlueCHP is seeking to increase their FFS to their members. For example, BlueCHP is engaged by Wentworth Community Housing (WCH) to deliver a 28 apartment development in Rouse Hill and a ADHIC funded Group Home in Springwood.

WCH asked BlueCHP to review WCH's portfolio and successfully won funding from HNSW for the re-development on specific sites in their portfolio.

Throughout the year, BlueCHP's Asset division has been successful in offering our members the much needed support and advice to manage our assets consistently, which is also within the best interest of their tenants. The critical task has been to ensure each of the properties remained of high habitable

standards with a particular focus on the management of any defect issues.

With the relocation to our new premises in Leumeah, the year has also settled staff recruitment with the addition of a Property Manager and a Development Manager to the department. Networking and further educating our members has been an ongoing task with good success ensuring our assets are being effectively managed whilst maintaining existing relationships amongst all those involved in the BlueCHP consortium.

BlueCHP is developing long-term asset management and strategic plans. The major component of the plan will be the forecast for planned maintenance and cost-effective solutions for day-to-day responsive maintenance. BlueCHP

have capitalised on every opportunity to improve service by creating a clearly defined path for our members and a streamlined approach to maintenance management. The current processes have proven to be holistically reliable amongst all our members, while at the same time providing much needed flexibility as each member has their own point of difference which needs to be recognised. Our aim is to continue to work with our members as a team, and would like to thank each member for their efforts in managing BlueCHP's assets and we look forward to continuing a long and productive business relationship.

Marcelo Steimbeisser
Head of Property Services

BOARD OF DIRECTORS

as at June 2013



Terry Downing
Chairman

B Comm; M Mgmt; CPA; FAICD;
FCSA; ANZIIF (Fellow)

Terry has extensive experience as a non-executive director with current and prior roles in the public, private and not-for-profit sectors. Terry has over 35 years' experience in the financial services sector in Australia and Asia as a director, senior executive and consultant. Terry has been a Director of Argyle Community Housing Ltd since April 2012.

Special responsibilities

Member of the Audit, Risk and Governance committee and the Remuneration Committee.



Tony Conides
Vice Chairman

JP AREI

As a fully licensed and accredited strata and property manager, Tony has been running his own Real Estate and Strata Management Company since 1976. Tony is the President of the Board of Hume Community Housing and has been a Director since December 2006. He joined the BlueCHP Board in November 2010.

Special responsibilities

Member of the Development & Asset Management Committee and the Remuneration Committee.



Peter Beer
Director

Peter is a qualified Building Surveyor, Town Planner and Health Surveyor, is a Councillor with Snowy River Shire Council and Director at Southern Cross Community Housing. Peter was formerly the Chairperson of the Monaro Tenancy Scheme and is the former Director of Environmental Services of four Councils. Peter is also the Chairman of the Uniting Church Committee, Cooma.

Special responsibilities

Chairman of the Development & Asset Management Committee.



Keith Bryant
Director

Keith is the principal in a management consultancy that works with philanthropists and Director at Wentworth Community Housing. He has had extensive senior management experience in both for-profit and non-profit organisations. He was an investment banker for 18 years', working in London, Johannesburg, Milan, South East Asia and Australia, including 10 years' as a Director at Deutsche Bank Australia.

Since 1999 he has worked in the non-profit sector, including 10 years' at the Benevolent Society in Sydney. Keith brings expertise to the Board in the following areas: social impact measurement, social finance, community development, social enterprise, venture philanthropy, NGO governance and fund raising.

Special responsibilities

Chairman of the Audit, Risk & Governance Committee.



Leanne Hillman
Director

Leanne has over 25 years' experience in State Government and has extensive management and operational experience at a senior and executive level in the NSW Department of Community Services. Leanne offers a high level of business and strategic planning, financial management, change management and project management skills.

Leanne has been a Director of the Women's Housing Company since March 2009 and has served on the board of the Victims & Witness of Crime Court Support since 2010. Leanne has an Executive Masters in Public Administration and a Bachelor of Social Studies.

Special responsibilities

Member of the Audit, Risk & Governance Committee.

SENIOR EXECUTIVE

Charles Northcote Chief Executive Officer

Charles brings over 25 years' of senior leadership experience across a broad range of industries and countries including growing two organisations into global companies with sales exceeding a billion dollars. As the Chief Financial Officer at Mission Australia Housing, Charles was part of a team that grew the property portfolio to nearly 2,000 homes in three years. Other achievements include developing proactive corporate partnerships and building strong business systems necessary to support an organisation that was growing rapidly. Additionally Charles worked directly with the Registrar, NSW Housing, to establish the compliance framework for community housing provider registration. Charles is a graduate of the Australian Institute of Company Directors and the Association of Corporate Treasurers UK, with a Bachelor of Commerce and a MBA from Warwick University.

Marcelo Steimbeisser Head of Property Services

Marcelo has been involved with property development for over 15 years. His career began as a Project Engineer and Project Manager with Lean and Hayward before moving to various consultancies in Sydney. As Project Manager with Norwest Limited, Marcelo assisted with the development of the Norwest Business Park. At the NSW Government Agency – Landcom, he structured joint ventures within the private sector. At Anglican Retirement Villages, Marcelo was involved with land acquisition and master-planning of retirement villages. He later joined Stockland as a Development Manager before coming to BlueCHP in 2011. Since then Marcelo has been involved with the delivery of the Ropes Crossing project, Worrigee and obtained development approval for BlueCHP's Macarthur Garden development.

Felicity Johnson Development Manager

Felicity joins BlueCHP as Development Manager with a decade of property development experience both in Australia and the Middle East. Commencing her career with Australand Holdings, Felicity spent five years' within the Residential Projects division, contributing to various land and housing projects in North and South-Western Sydney. Felicity then moved abroad to the Middle East where she worked as Associate Development Manager, driving the third party developer process on a multibillion dollar project for the Dubai Government. Felicity joined the not-for-profit sector in 2011, firstly playing an active role in the success of several retirement and aged-care projects with the Anglican Retirement Villages and most recently developing housing programs for indigenous communities in regional Western Australia.

A photograph of two men in construction attire. The man on the left wears a yellow hard hat and a high-visibility yellow vest over a dark blue shirt. The man on the right wears a white hard hat and a high-visibility yellow vest over a light blue striped shirt. They are both looking down at a large set of blueprints held by the man on the right. The background is a blurred construction site.

**" THE SUCCESS OF
AN ORGANISATION
IS VERY MUCH
PREDICATED ON
EVERYONE HAVING
A COMMON VISION
AND BELIEF "**

ADMINISTRATION TEAM

Lyn White
Property Administration

Esther Schaeffer
Revenue and Compliance Officer

Carolyn McLean
Accounts Payable

Shobna Lal
Accountant



PROPERTY TEAM

Diem Leong
Property Manager



Marcelo Steimbeisser
Head of Property Services



Felicity Johnson
Development Manager



Josef Sirec
Asset Manager



CORPORATE GOVERNANCE STATEMENT

The BlueCHP board is committed to maintaining high governance standards. A description of BlueCHP's main corporate governance practices is set out in this corporate governance statement.

Board responsibilities

The Board is responsible for the corporate governance of BlueCHP. The principal role of the Board is to ensure the long-term prosperity of BlueCHP by setting broad strategies and policies and ensuring that they are effectively implemented by management. The Board carries out this role primarily by:

- setting the strategic direction of BlueCHP and providing strategic advice to management;
- overseeing BlueCHP senior management and operations;
- providing input into and approving, the corporate strategy and performance objectives developed by management;
- reviewing and ratifying systems of governance, risk management and internal compliance and control as well as codes of conduct and legal compliance to ensure appropriate compliance frameworks and controls are in place;
- approving budgets and monitoring

progress against those budgets, and establishing and reporting on financial and non-financial key performance indicators; and

- ensuring executive remuneration is appropriate and consistent with guidance provided by the Board's Remuneration Committee.

The Board has delegated to senior management responsibility for a number of matters, including:

- managing BlueCHP's day to day operations in accordance with Board approved authorisations, policies and procedures;
- developing BlueCHP's annual budget, recommending it to the Board for approval and managing BlueCHP's day to day operations within that budget; and
- implementing corporate strategy and making recommendations on significant corporate strategic initiatives.

The Board has established the following



**" OUR AIM IS TO
CONTINUE TO
WORK WITH
OUR MEMBERS
AS A TEAM "**

committees that meet on a regular basis to provide compliance oversight of BlueCHP's operations:

- Audit, Risk & Governance Committee
- Finance and Audit Committee
- Asset Management and Development Committee
- Remuneration Committee

Board composition

BlueCHP's Constitution provides that the minimum number of directors is three and the maximum number of directors is nine. There are currently five Directors, one nominated by each of the five member organisations.

The Board has a broad range of necessary skills, knowledge and

experience to govern BlueCHP and understand the markets and challenges BlueCHP faces. As at the date of this Annual Report, the Board composition (with details of the professional background of each director) is outlined on pages 16 to 17 of this report.

**MAKING A
DIFFERENCE TO
PEOPLE'S LIVES**

DIRECTORS' REPORT AND CONCISE FINANCIAL STATEMENTS

FOR YEAR ENDED 30 JUNE 2013

The concise financial statements and other specific disclosures have been derived from BlueCHP Limited's (the Company's) full financial report for the financial year. Other information included in the concise financial statements is consistent with the Company's full financial report.

The concise financial statements do not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

A copy of the Company's 2013 Annual Financial Report, including the independent audit report, is available to all members upon request.

DIRECTORS' REPORT

FOR YEAR ENDED 30 JUNE 2013

Your Directors present this report on BlueCHP Limited for the year ended 30 June 2013.

Directors

The names of each person who has been a Director during the year and to the date of this report are:

Terence Downing

(appointed 20/12/2012)

Tony Conides

(appointed 25/11/2010)

Peter Beer

(appointed 19/3/2013)

Keith Bryant

(appointed 2/4/2013)

Leanne Hillman

(appointed 27/3/2013)

Rod Aistrophe

(resigned 20/12/2012)

John Penkaitis

(resigned 24/4/2013)

Gail Sadler

(resigned 2/4/2013)

Rae Weston

(resigned 2/5/2013)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company Secretary

The following person held the position of Company Secretary at the end of the financial year:

Mark Highfield

Chief Financial Officer

Qualifications

B.Ec, CA

Experience

Mark has over 13 years' experience in the not for profit sector and 4 years in the property sector including experience with a public company property developer.

DIRECTORS' REPORT

FOR YEAR ENDED 30 JUNE 2013

Objectives

The Company aims to assist its Members in the fulfilment of their goals to provide affordable housing opportunities for households on very low to moderate incomes experiencing housing stress; including key workers and those at risk of homelessness within our community. Such opportunities can be from BlueCHP providing its own property or providing development management services to the members to develop their own projects.

Strategy for achieving objectives

BlueCHP will seek development opportunities through joint ventures, public private partnerships, broad acre land development, urban renewal projects and work with Members to redevelop their existing assets.

Principal activities

The principal activity of the Company during the financial year was to purchase and/or construct dwellings that are then leased to its Member Organisations as social or affordable housing which is facilitated by securing of finance and/or government grants.

Operating results

The company achieved a profit before fair value adjustments of \$2,075,187 (2012: profit of \$1,058,323). After allowing for fair value adjustments, the profit of the Company amounted to \$4,973,088 (2012: profit of \$1,068,001).

Review of operations

A review of the operations of the Company during the financial year indicated that increase in rental revenue and increase in development management fee led to an increase in operating revenue of \$1,260,905. There was a gain on revaluation of investment property of \$2,981,511 (2012: \$922,155).

There was a loss on revaluation of derivative financial instruments of \$83,610 (2012: loss of \$912,517).

DIRECTORS' REPORT

FOR YEAR ENDED 30 JUNE 2013

Performance measurement and significant changes in state of affairs

Board and management have internal operational KPIs to assist in assessing performance. These are reassessed at least annually to maintain currency and relevance.

These KPIs include prompt handover of new properties to members, performance to budget, and timely development of new business.

During the financial year the Company achieved some significant milestones:

1. Entered into a banking facility with mecu Limited (trading as bankmecu) with a facility limit of \$55 million. This represents an increase of \$19 million over the facility with the previous bank and has been negotiated to refinance the existing facility and to fund the known development pipeline of 189 dwellings over the next 5 years.
2. Incurred costs of development for investment properties totalling \$5.8 million.

Significant after balance date events

Since the end of the financial year the company has entered into building contracts totalling \$1.9 million relating to the final stages of development for the Worrigee project due for completion prior to the end of 2013.

On 9 August, 2013 the company repaid to the NSW government funding of \$2.6 million (including interest) relating to the Blue Mountains PTP property upgrade program. This funding had been held on behalf of our member Wentworth Community Housing (Wentworth) and under agreement with the government all lease rights and obligations of BlueCHP under that upgrade program were extinguished. By separate agreement the government was to transfer these funds and the upgrade obligations under the leases to Wentworth.

Other than the foregoing no matters or circumstances have arisen since the end of the financial year which has significantly affected or may significantly affect the operations of the Company,

the results of those operations, or the state of affairs of the Company in future financial years.

Future developments - short and long-term objectives of the Company

The Company expects to receive title to 240 properties as part of the Nation Building Economic Stimulus Program (NBESP). The developmental process of taking advantage of leverage on these Nation Building properties (and the 135 properties received in 2010) has commenced.

Review of several project opportunities to deliver our NBESP leveraging commitments are underway. They include a three stage medium density mixed use site that will be designed, configured and built to become a mixed-tenure (affordable housing and for profit apartments) development which will be at the forefront of new affordable housing development in Australia.



DIRECTORS' REPORT

FOR YEAR ENDED 30 JUNE 2013

Information on Directors

Terence Downing Chairman

Qualifications

B Comm; M Mgmt; CPA;
FAICD; FCSA; ANZIIF (Fellow)

Experience

Extensive experience as a non-executive director with current and prior roles in the public, private and not-for-profit sectors. Over 35 years' experience in the financial services sector in Australia and Asia as a director, senior executive and consultant. Terry has been a Director of Argyle Community Housing Ltd since April 2012.

Special responsibilities

Terry is a member of the Audit, Risk & Governance Committee and Remuneration Committee.

Tony Conides Vice Chairman

Qualifications

JP, AREI.

Experience

A fully licensed and accredited Strata and Property Manager, Tony has been running his own Real Estate and Strata Management Company since 1976. Tony is the President of the Board of Hume Community Housing and has been a Director since December 2006. He joined the BlueCHP board in November 2010.

Special responsibilities

Tony is a member of the Development Committee and Remuneration Committee.

Peter Beer Director

Qualifications

Experience

Peter is a qualified Building Surveyor, Town Planner, Health Surveyor and is a Councillor with Snowy River Shire Council. Peter was formerly the Chairperson of the Monaro Tenancy Scheme and is the former Director of Environmental Services of four Councils. Peter is also Chairman of the Uniting Church Committee, Cooma.

Special responsibilities

Peter is the Chairman of the Development Committee.

DIRECTORS' REPORT

FOR YEAR ENDED 30 JUNE 2013

Information on Directors (continued)

Keith Bryant

Director

Qualifications

B Ec. Lib MBA GAICD

Experience

Keith is the principal in a management consultancy that works with philanthropists. He has extensive senior management experience in both for-profit and not-for-profit organisations. He was an investment banker for 18 years', working in London, Johannesburg, Milan, South East Asia and Australia, including 10 years' as Director at Deutsche Bank Australia. Since 1999 he has worked in the not-for-profit sector, including 10 years' at the Benevolent Society in Sydney. Keith brings expertise to the Board in the following areas: social impact measurement, social finance, community development, social enterprise, venture philanthropy, NGO governance and fund raising.

Special responsibilities

Keith is the Chairman of the Audit, Risk & Governance Committee.

Leanne Hillman

Director

Qualifications

B Social Studies; Graduate Diploma TESOL; Executive Masters in Public Administration

Experience

Leanne has over 25 years' experience in State Government and has extensive management and operational experience at senior and executive levels in the NSW Department of Community Services. Leanne offers high level business and strategic planning, financial management, change management and project management skills. Leanne has been a member of Women's Housing Company since March 2009.

Special responsibilities

Leanne is a member of the Audit, Risk & Governance Committee.

Gail Sadler

Former Chairperson (non-executive).

Qualifications

BBus. MAICD.

Experience

Extensive experience in the areas of business development and financial management serving as a senior executive in large private sector international companies specialising in mergers and acquisitions and corporate restructures. Member of Wentworth Board since 2007.

Special responsibilities

Gail was a member of the Corporate Governance Committee and Remuneration Committee.

DIRECTORS' REPORT

FOR YEAR ENDED 30 JUNE 2013

Information on Directors (continued)

Dr Rae Weston

Former Director (non-executive) and Deputy Chairperson.

Qualifications

B.Com (Hons), B.Juris., LLB., PhD. (Monash).

Experience

Professor of Banking New Zealand 1983-1990, Professor of Management MGSM 1990-2007, Director of Housing Corporation of New Zealand, member of Women's Housing Company board since 2008.

Special responsibilities

Rae was the Chair of the Finance & Audit Committee and a member of the Corporate Governance Committee and the Remuneration Committee.

Rod Aistrophe

Former Director (non-executive).

Qualifications

CP.Eng., B.Tech, FIE Aust., GAICD.

Experience

A Consulting Civil Engineer with significant experience in contract and project management and building construction, Rod has served on the Argyle Community Housing Board since 2005.

Special responsibilities

Rod was the Chairman of the Asset Management & Development Committee and was BlueCHP's Chairman for its initial 18 months.

John Penkaitis

Former Director (non-executive).

Qualifications

B.Ec, CA, DipFS.

Experience

John was a Chartered Accountant, Registered Company Auditor and Financial Planner. He was in Public Practice as a Chartered accountant for over 35 years. Board member of Southern Cross Community Housing since 2002 and Treasurer since 2007.

Special responsibilities

John was a member of the Corporate Governance Committee and the Finance & Audit Committee.

DIRECTORS' REPORT

FOR YEAR ENDED 30 JUNE 2013

Meetings of Directors

During the financial year, 36 meetings of Directors (including committees of Directors) were held. Attendances by each Director were as follows:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Gail Sadler	18	17	6	6
Dr Rae Weston	21	17	6	6
Rod Aistrophe	13	12	1	1
John Penkaitis	21	13	5	4
Tony Conides	24	24	3	3
Terence Downing	11	11	5	5
Keith Bryant	6	6	3	3
Peter Beer	6	5	0	0
Leanne Hillman	6	5	3	3

Committee meetings include Audit, Risk & Governance, Asset Management & Development and Remuneration.

Members' guarantee

The Company is incorporated under the *Corporations Act 2001* and is a company limited by guarantee. If the entity is wound up, the constitution states that each Member is required to contribute a maximum of \$10 towards meeting any outstanding and obligations of the Company. At 30 June 2013 the number of Members was 5.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.



Keith Bryant
Director



Terence Downing
Director

Sydney, 25 October 2013

SUMMARY STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR YEAR ENDED 30 JUNE 2013

	2013	2012
	\$	\$
Revenue	8,577,020	7,316,115
Expenses		
Employee benefits expense	(1,057,130)	(983,593)
Depreciation and amortisation expense	(112,373)	(21,053)
Finance costs	(2,458,470)	(2,842,875)
Property operating expense	(1,986,609)	(1,524,248)
Property consultants expense	(90,368)	(225,613)
Administration expense	(796,883)	(660,410)
Surplus before fair value adjustments and income tax	2,075,187	1,058,323
Gain on revaluation of investment property	2,981,511	922,195
Loss on revaluation of derivative financial instruments	(83,610)	(912,517)
Surplus before income tax	4,973,088	1,068,001
Income tax expense	-	-
Surplus after income tax expense for the year	4,973,088	1,068,001
Other comprehensive income for the year, net of tax	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,973,088	1,068,001

The above Summary Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the attached notes

SUMMARY STATEMENT OF FINANCIAL POSITION

FOR YEAR ENDED 30 JUNE 2013

	Note	2013 \$	2012 \$
Current assets			
Cash and cash equivalents	4	6,696,826	3,555,202
Trade and other receivables	5	1,565,762	1,605,609
Other current assets	6	108,424	416,763
Non-current assets classified as held for sale	7	-	650,000
Total current assets		8,371,012	6,227,574
Non-current assets			
Property, plant & equipment	8	281,839	108,819
Investment properties	9	124,505,033	115,707,278
Other non-current assets	6	-	9,483
Total non-current assets		124,786,872	115,825,580
TOTAL ASSETS		133,157,884	122,053,154
Current liabilities			
Trade and other payables	10	866,750	1,987,311
Short-term borrowings	11	-	30,418,187
Derivative financial instruments	12	-	1,108,121
Deferred grants	13	1,058,773	755,843
Other current liabilities	14	3,154,324	2,988,314
Short-term provisions	15	91,851	81,507
Total current liabilities		5,171,698	37,339,283
Non-current liabilities			
Long-term borrowings	11	43,872,954	6,720,670
Deferred grants	13	38,306,459	37,162,218
Long-term provisions	15	3,848	1,146
Total non-current liabilities		82,183,261	43,884,034
TOTAL LIABILITIES		87,354,959	81,223,317
NET ASSETS		45,802,925	40,829,837
Equity			
Retained surpluses		45,802,925	40,829,837
TOTAL EQUITY		45,802,925	40,829,837

The above Summary Statement of Financial Position should be read in conjunction with the attached notes

SUMMARY STATEMENT OF CHANGES IN EQUITY

FOR YEAR ENDED 30 JUNE 2013

	Retained surpluses	Total equity
	\$	\$
Balance at 1 July 2011	39,761,836	39,761,836
Surplus after income tax expense for the year	1,068,001	1,068,001
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	1,068,001	1,068,001
Balance as at 30 June 2012	40,829,837	40,829,837
Balance as at 1 July 2012	40,829,837	40,829,837
Surplus after income tax expense for the year	4,973,088	4,973,088
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	4,973,088	4,973,088
Balance as at 30 June 2013	45,802,925	45,802,925

The above Summary Statement of Changes in Equity should be read in conjunction with the attached notes

SUMMARY STATEMENT OF CASH FLOWS

FOR YEAR ENDED 30 JUNE 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Receipt of grants - National Rental Affordability Scheme Incentives		2,070,516	1,951,793
Receipts from customers and GST on deferred grants		6,009,596	5,524,880
Payments to suppliers and employees		(3,644,127)	(3,596,275)
Interest received		68,463	70,038
Finance costs paid		(3,101,880)	(2,485,998)
Net cash from operating activities		1,402,568	1,464,438
Cash flows from investing activities			
Payment for property, plant and equipment		(247,143)	(75,864)
Proceeds from disposal of property, plant and equipment		650,000	-
Payment for investment property		(6,668,062)	(4,480,026)
Net cash used in investing activities		(6,265,205)	(4,555,890)
Cash flows from financing activities			
Proceeds from borrowings			
- Members		-	1,645,620
- Others		6,058,975	1,139,166
Repayment of borrowings			
Members		-	(750,000)
Others		-	(250,000)
Receipt of grants (Blue Mountains PTP upgrade funding)		-	1,003,499
Receipt of grants (income deferred)		1,945,285	374,545
Net cash flow from financing activities		8,004,260	3,162,830
Net increase in cash and cash equivalents		3,141,623	71,378
Cash and cash equivalents at beginning of the financial year		3,555,202	3,483,824
Cash and cash equivalents at the end of the financial year	4	6,696,825	3,555,202

DISCUSSION AND ANALYSIS

FOR YEAR ENDED 30 JUNE 2013

Summary statement of comprehensive income

The company's operating revenue has increased by \$1,260,905 since the prior year, fair value adjustments have increased by \$2,888,223 and expenses have increased by \$244,041.

The company achieved a profit before non-cash items such as fair value adjustments and recognition of deferred grant income of \$1,378,418 (2012: \$633,753). This profit line is equivalent to EBITDA less interest expense. After allowing for fair value adjustments and other non-cash items, the profit of the Company amounted to \$4,973,088 (2012: \$1,068,001).

Individual items that have significantly impacted the 2013 result include:

- Rental revenue increased by \$785,704
- Development management fees revenue increased by \$240,103

The above two items have arisen in part due to purchase and tenancing of 43 properties during the current year, the ongoing development of a further 26 properties as well as drawing down against government funding agreements secured in current and prior years. In the prior year the company secured funding agreements worth \$22.0m with the Department of Human Services - Housing NSW Division (Housing NSW) (the NSW Land & Housing Corporation).

- An increase in employee benefits expense of \$73,537
- An increase in depreciation and amortisation expense of \$91,320
- A decrease in property consultants of \$135,425
- An increase in administration expense of \$136,473

The above four items have arisen primarily due to the expansion in operations of the company in the current year.

- Finance costs of \$2,458,470 (2012 - \$2,842,875) resulting from the renegotiation of the debt facility.
- Property consultants expense of \$90,368 (2012 - \$225,613) resulting from lower tendering activity.
- Gain on revaluation of investment properties of \$2,981,511 compared to a gain of \$922,195 in prior year.
- Loss on revaluation of financial instruments of \$83,610 (2012 - \$912,157) resulting from the adjustment to the market value of interest rate swaps taken out in relation to the bank loans as part of the renegotiation of the debt facility.

DISCUSSION AND ANALYSIS

FOR YEAR ENDED 30 JUNE 2013

Summary statement of financial position

The company's net assets have increased by \$4,973,088 since the prior year which has resulted in the company being in a net asset position of \$45,802,925 at the year end. This has been achieved through an increase in total assets of \$11,104,730 and an increase in total liabilities of \$6,131,642.

The increase in total assets for the year is mainly attributed to acquisition of and subsequent expenditure on investment properties of \$5,816,244 combined with a subsequent upward revaluation on the properties of \$2,981,511 during the current year.

The increase in total liabilities is due to a net increase in bank loans of \$6,734,097 and increase in deferred grants of \$1,447,171 in relation to capital funding drawdowns from government loan facilities.

Summary statement of cash flows

Operating activities generate a net cash inflow of \$1,402,568, a decrease of \$61,870 when compared to the previous year.

Net cash used in investing activities was \$6,265,205 which relate mainly to the acquisition of properties, offset by a \$650,000 receipt from sale of properties held classified as held for sale.

Net cash inflow from financing activities of \$8,004,260 is due to inflows from new bank loans and facilities in the current year of \$6,058,975 and receipt of \$1,945,285 from grants, all in relation to the additional finance required to purchase the properties.

As a result of these cash flows, the net cash held during the year increased by \$3,141,623 compared to the previous year's increase of \$71,378.

Cash at the end of the financial year therefore amounted to \$6,696,825 compared to last year's balance of \$3,555,202 (increase of 88%). Since year end \$2,622,273 was used to repay Blue Mountains PTP grant funding to the NSW government (refer note 2).

NOTE 1

Basis of preparation of the concise financial statements

The concise financial statements are an extract from the full financial report for the year ended 30 June 2013.

Specific disclosures and other information included in the concise financial statements are derived from and are consistent with the full financial report of BlueCHP Limited. The concise financial statements cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investing activities of BlueCHP Limited as the full financial report.

The presentation currency used in these concise financial statements is Australian dollars.

DISCUSSION AND ANALYSIS

FOR YEAR ENDED 30 JUNE 2013

NOTE 2

Events after the reporting period

- a. Since the end of the financial year the company has entered into building contracts totalling \$1.9 million relating to the final stages of development for the Worrigeer project due for completion prior to the end of 2013.
- b. On 9 August, 2013 the company repaid to the NSW government funding of \$2.6 million (including interest) relating to the Blue Mountains PTP property upgrade program. This funding had been held on behalf of our member Wentworth Community Housing (Wentworth) and under agreement with the government all lease rights and obligations of BlueCHP under that upgrade program were extinguished. By separate agreement the government was to transfer these funds and the upgrade obligations under the leases to Wentworth.
- c. Other than the foregoing no matters or circumstances have arisen since the end of the financial year which has significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

FOR YEAR ENDED 30 JUNE 2013

The Directors of the Company declare that the accompanying concise financial statements of the Company for the financial year ended 30 June 2013:

- a. are an extract from the full financial report for the year ended 30 June 2013 and have been derived from and are consistent with the full financial report of the Company.

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



Keith Bryant
Director



Terence Downing
Director

Sydney, 25 October 2013



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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of BlueCHP Limited

Report on the Concise Financial Statements

The accompanying concise financial statements, which comprise the summary statement of financial position as at 30 June 2013, the summary statement of profit or loss and other comprehensive income, summary statement of changes in equity and summary statement of cash flows statement for the year then ended and related notes are derived from the audited financial report of BlueCHP Limited for the year ended 30 June 2013. We expressed an unmodified audit opinion on that financial report in our report dated 25 October 2013.

The concise financial statements do not contain all the disclosures required by Australian Accounting Standards - Reduced Disclosure Requirements. Reading the concise financial information, therefore, is not a substitute for reading the audited financial report of BlueCHP Limited.

Directors' Responsibility for the Concise Financial Statements

The Directors are responsible for the preparation and fair presentation of the concise financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial statements based on our procedures which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements.

Opinion

In our opinion, the concise financial statements derived from the audited financial report of BlueCHP Limited for the year ended 30 June 2013 are a fair summary of that audited financial report.

BDO East Coast Partnership

Arthur Milner
Partner

Sydney, 25 October 2013



BlueCHP Limited
Developing the Future of Affordable Housing



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