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Indigo Properties Australia Limited

ACN 108 019 263

(formerly Indigo Pacific Capital Limited)

Half-Year Financial Report

31 December 2009

Indigo Properties Australia Limited

ACN 108 019 263

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Indigo Properties Australia Limited

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Directors' Report

The directors present their report together with the consolidated interim financial report of Indigo Properties Australia Limited ("the company" or "Indigo Properties"), for the half-year ended 31 December 2009 and the review report thereon.

Directors

The Directors of the company at any time during or since the end of the half-year are:

<i>Name</i>	<i>Period of directorship</i>
Selwyn Snell <i>Chairman</i> <i>Independent Non-Executive Director</i>	Appointed 27 February 2006
Ian Gillespie <i>Independent Non-Executive Director</i>	Appointed 27 February 2006
Stephen Mackay <i>Managing Director, Chief Financial Officer and Company Secretary</i>	Appointed 17 February 2004

Principal activities

The principal activity of the group during the period was to act as an investment entity with investments in the following:

- Loans - the company generally holds charges over borrowing entities and registered mortgages over certain development properties; and
- Property development – through equity investments in property development entities.

Operating and financial review

The net loss after income tax of the group for the half-year was \$5,078,121 (2008: \$6,558,253). The result for the half-year is largely a result of the ongoing global financial crisis and its impacts on Australian property markets.

The Group was established primarily to take advantage of investment opportunities arising from development projects being undertaken by a group of entities associated with former directors, Mr L Truce and Mr M Neilsen ("Indigo Private Group" or "The Borrower"). The Group has an interest bearing loan to The Borrower which is secured by charges over borrowing entities, registered second or third mortgages over certain properties or other securities deemed acceptable by the directors.

During current and prior periods, certain entities associated with The Borrower were placed into voluntary administration and subsequently receivership, impacting the recoverability of the loan. The directors continue to work with The Borrower and the receiver to negotiate the best outcome for the Group and recover monies due from The Borrower.

In order to facilitate the recoverability of the loan, Indigo Properties and the Indigo Private Group entities entered into a Deed that entitles the company to receive loan repayments out of the proceeds of current and future development projects undertaken by the Indigo Private Group. Under the Deed the proceeds of these development projects will be distributed as follows:

- the first \$5 million paid to Indigo Properties;
- the next \$60 million paid as follows:
 - 50% to Indigo Properties;
 - 25% to Leybourne Assets Pty Ltd (a creditor of Indigo Private Group and an entity related to former director Lawrence Truce); and
 - 25% to Whynot Assets Pty Ltd (a creditor of Indigo Private Group and an entity related to former director Mitchell Nielsen).
- thereafter all proceeds are distributed to Indigo Properties.

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Directors' Report (cont)

Operating and financial review (cont)

Projects currently under negotiation comprise:

- development of 100 hectares of industrial land on the north side of Brisbane;
- development of up to 40 residences in Ashgrove, Brisbane;
- development of approximately 1,500 residential lots in the Scenic Rim area south west of Brisbane; and
- acquisition and/or development of a staged residential project west of Brisbane. This land is not currently included in the urban footprint of the South East Queensland Regional Plan.

Under the terms of the Deed, if Indigo Properties suffers an insolvency event then any other party may terminate the Deed by giving notice to all parties of their election to terminate. Under the terms of the Deed, an insolvency event includes any of the following events occurring in relation to Indigo Properties:

- appointment of a liquidator, receiver and manager, trustee or controlling trustee or an application or order is made for the liquidation of Indigo Properties, or
- Indigo Properties is, or becomes unable to pay its debts as and when they are due within the meaning of the Corporations Act 2001

On 7 December 2009, the Company changed its name from Indigo Pacific Capital Limited to Indigo Properties Australia Limited.

In November 2009, a formal demand was made on the Company for the payment of \$3.75 million in accordance with a bank guarantee of \$3.825 million provided by the company to the financier of a property development in New South Wales. At 31 December 2009 the Group has recorded a current liability of \$3.825 million in relation to this guarantee.

In December 2009, the company's largest shareholder, City Pacific Limited, sold its shareholding in two separate transactions. As a result the Company has two new significant shareholders, each holding 10,994,320 (13.28%) shares in the Company.

In response to the ongoing global financial crisis and its impacts on Australian property markets, Indigo Properties reviewed the carrying value of its assets in order to identify whether they may be impaired. As a result, the Group recognised net impairment losses in respect of its assets totalling \$1,620,108 (2009: \$11,000,000) (note 4).

The Group holds a 50% equity investment in Elevation Developer Pty Ltd. The Company was established for the purpose of completing a residential land subdivision in Lennox Head, New South Wales.

The Group also holds a 50% equity investment in Indigo (Warrill View) Partnership. The partnership was established for the purpose of completing a residential land subdivision in Warrill View, Queensland.

Basis of preparation of financial statements – liquidation (orderly wind down) basis

During the half-year, the Group recorded losses of \$5,078,121, and at 31 December 2009 had net liabilities of \$628,918, a deficiency in net current assets of \$628,918 and current liabilities of \$6,581,576.

These conditions cast significant doubt upon the Group's ability to continue as a going concern and accordingly, the directors consider it appropriate to prepare the financial report for the half-year ended 31 December 2009 on a liquidation basis, which would be based on an orderly wind down of operations. The comparative disclosures were prepared on a going concern basis.

While the financial report has been prepared on a liquidation (orderly wind down) basis, the directors do not, at the date of this report, currently intend to place the Group into administration or liquidation or to commence an orderly winding down.

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Directors' Report (cont)

Operating and financial review (cont)

Basis of preparation of financial statements – liquidation (orderly wind down) basis (cont)

The reason why the entity is not regarded as a going concern has been set out in note 2(a) of the financial statements and above. In determining the appropriate accounting policies to adopt on a liquidation (orderly wind down) basis, the directors have assumed that the Group will continue to operate with sufficient cash for the next 3 months from the date of this report, but may need to undertake an orderly wind down shortly thereafter in the absence of the Company raising additional funding from shareholders or other parties and/or or the Borrower repaying outstanding debt obligations in accordance with the Deed entered into in October 2009. The directors have assumed that, if required, the most likely wind down scenario would involve the orderly realisation of the Group's assets rather than immediate liquidation.

Given the uncertainties in valuing assets and liabilities on a liquidation basis, it is likely that the valuation of assets and liabilities included in these financial statements may differ from actual results.

Subsequent events

On 17 September 2010, the Company entered into a deed restructuring debts due from an entity associated with the Indigo Private Group and releasing certain security properties from charges and mortgages held by Indigo Properties. The Company received non-cash consideration of \$1.1 million in the form of a new loan receivable from Trinity Green Developments Pty Ltd, an entity associated with Indigo Private Group.

In October 2010, the Company received a letter of demand from a bank calling for payment of \$2.5 million under a guarantee that had been provided by the Company in 2006 to financiers of property developments of the Borrower based in Brisbane. The Company is currently negotiating an alternative payment proposal with the financier to enable it to meet the guarantee payment within a time acceptable to the bank however the outcome of these negotiations is uncertain.

In November 2010, the Company received a conditional off-market takeover bid for all of the issued shares in the Company at a price of \$0.005 per share. The Company and the bidder, DK Northern Investments Pty Ltd, a company related to a significant shareholder, have entered into an Implementation Agreement in relation to the offer.

Other than the items outlined above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in the future financial years.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half-year ended 31 December 2009.

Dated at Bundall this 26th day of November 2010.

Signed in accordance with a resolution of the directors:



S Mackay
Managing Director



LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF INDIGO PROPERTIES AUSTRALIA LIMITED

I declare that, to the best of my knowledge and belief, in relation to the review for the financial period ended 31 December 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A blue ink signature of a KPMG representative, written in a cursive style.

KPMG

A blue ink signature of P G Steer, written in a cursive style.

P G Steer
Partner

26 November 2010

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Consolidated Interim Statement of Comprehensive Income For the 6 months ended 31 December 2009

	Note	31 Dec 2009 \$	31 Dec 2008 \$
Interest income – loans		487,361	4,624,993
Other income		5,458	20,888
Total income		<u>492,819</u>	<u>4,645,881</u>
Advertising and promotion		-	(7,802)
Professional fees		(190,403)	(85,087)
Employee expenses		(28,750)	-
Impairment losses	3	(1,620,108)	(11,000,000)
Financial guarantee expense		(3,309,580)	-
Management and accounting fees		(40,546)	-
Shareholder expenses		(22,710)	(33,932)
Interest expense		-	(1,361)
Other operating expenses		<u>(358,843)</u>	<u>(155,825)</u>
Profit/(loss) from operating activities		<u>(5,078,121)</u>	<u>(6,638,126)</u>
Share of profit/(loss) of equity accounted associates		-	(873)
Profit/(loss) before income tax		<u>(5,078,121)</u>	<u>(6,638,999)</u>
Income tax (expense)/benefit		-	80,746
Profit/(loss) for the period	9	<u>(5,078,121)</u>	<u>(6,558,253)</u>
Other comprehensive income		-	-
Total comprehensive loss for the period		<u>(5,078,121)</u>	<u>(6,558,253)</u>
Basic earnings/(loss) per share attributable to ordinary equity holders		<u>(6.13) cents</u>	<u>(7.92) cents</u>
Diluted earnings/(loss) per share attributable to ordinary equity holders		<u>(6.13) cents</u>	<u>(7.92) cents</u>

The consolidated interim statement of comprehensive income is to be read in conjunction with the condensed notes to the consolidated interim financial statements.

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Consolidated Interim Statement of Changes in Equity For the 6 months ended 31 December 2009

	Share capital	Accumulated losses	Total equity
	\$	\$	\$
2009			
Balance at 1 July 2009	44,516,361	(40,067,158)	4,449,203
Total comprehensive income/(loss) for the period			
Profit/(loss)	-	(5,078,121)	(5,078,121)
Other comprehensive income	-	-	-
Total comprehensive income/(loss) for the period	-	(5,078,121)	(5,078,121)
Transactions with owners recorded directly in equity	-	-	-
Balance at 31 December 2009	44,516,361	(45,145,279)	(628,918)
2008			
Balance at 1 July 2008	44,516,361	(8,420,603)	36,095,758
Total comprehensive income/(loss) for the period			
Profit/(loss)	-	(6,558,253)	(6,558,253)
Other comprehensive income	-	-	-
Total comprehensive income/(loss) for the period	-	(6,558,253)	(6,558,253)
Transactions with owners recorded directly in equity	-	-	-
Balance at 31 December 2008	44,516,361	(14,978,856)	29,537,505

The consolidated interim statement of changes in equity is to be read in conjunction with the condensed notes to the consolidated interim financial statements.

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Consolidated Interim Balance Sheet as at 31 December 2009

	Note	31 December 2009 \$	30 June 2009 \$
Current assets			
Cash and cash equivalents		664,177	879,742
Other assets	4	532,498	-
Loan	5	4,747,391	-
Investments		4,000	4,000
Current tax assets		4,592	803,235
Total current assets		<u>5,952,658</u>	<u>1,686,977</u>
Non-current assets			
Loan	5	-	5,880,138
Total non-current assets		<u>-</u>	<u>5,880,138</u>
Total assets		<u>5,952,658</u>	<u>7,567,115</u>
Current liabilities			
Trade and other payables	6	4,081,576	117,912
Provisions	7	2,500,000	3,000,000
Total current liabilities		<u>6,581,576</u>	<u>3,117,912</u>
Total liabilities		<u>6,581,576</u>	<u>3,117,912</u>
Net assets/(liabilities)		<u>(628,918)</u>	<u>4,449,203</u>
Equity			
Share capital	8	44,516,361	44,516,361
Accumulated losses	9	(45,145,279)	(40,067,158)
Total equity/(deficiency)		<u>(628,918)</u>	<u>4,449,203</u>

The consolidated interim balance sheet is to be read in conjunction with the condensed notes to the consolidated interim financial statements.

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Consolidated Interim Statement of Cash Flows For the 6 months ended 31 December 2009

	31 December 2009 \$	31 December 2008 \$
Cash flows from operating activities		
Interest received – loans	-	4,405,962
Cash paid in the course of operations	(494,666)	(297,544)
Cash generated from/(used in) operations	(494,666)	4,108,418
Interest and distributions received	5,458	20,888
Interest paid	-	(1,361)
Income tax (paid)/refunded	798,643	(1,085,128)
Net cash from/(used in) operating activities	309,435	3,042,817
Cash flows from investing activities		
Payments for deposits	(525,000)	-
Loans to related parties	-	(2,300,000)
Net cash from/(used in) investing activities	(525,000)	(2,300,000)
Net increase/(decrease) in cash held	(215,565)	742,817
Cash and cash equivalents at 1 July	879,742	3,084
Cash and cash equivalents at 31 December	664,177	745,901

The consolidated interim statement of cash flows is to be read in conjunction with the condensed notes to the consolidated interim financial statements.

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Condensed notes to the consolidated interim financial statements

1. Basis of preparation

Indigo Properties Australia Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The annual financial report of the company as at and for the year ended 30 June 2009 is available upon request from the Company's registered office at McCullough Robertson, Level 11, Central Plaza Two, 66 Eagle Street, Brisbane.

(a) Liquidation (orderly wind down) basis of preparation of the Consolidated Interim Financial Statements

The Group has a loan to the Indigo Private Group ("Borrower"), secured by mortgages on certain development properties behind existing first and second mortgages and fixed and floating charges over various entities within the Borrower. The loan is due for repayment on 29 November 2010, currently bears interest at 18% per annum and is payable in arrears on 31 December and 30 June each year. Interest receivable was fully impaired during the period. In the current and prior periods, certain entities within The Borrower were placed into voluntary administration and subsequently receivership.

In order to facilitate the recoverability of the loan, Indigo Properties and the Indigo Private Group entities entered into a Deed that entitles the company to receive loan repayments out of the proceeds of current and future development projects undertaken by the Indigo Private Group. Under the Deed the proceeds of these development projects will be distributed as follows:

- the first \$5 million paid to Indigo Properties;
- the next \$60 million paid as follows:
 - 50% to Indigo Properties;
 - 25% to Leybourne Assets Pty Ltd (a creditor of Indigo Private Group and an entity related to former director Lawrence Truce); and
 - 25% to Whynot Assets Pty Ltd (a creditor of Indigo Private Group and an entity related to former director Mitchell Nielsen).
- thereafter all proceeds are distributed to Indigo Properties.

Under the terms of the Deed, if Indigo Properties suffers an insolvency event then any other party may terminate the Deed by giving notice to all parties of their election to terminate. Under the terms of the Deed, an insolvency event includes any of the following events occurring in relation to Indigo Properties:

- appointment of a liquidator, receiver and manager, trustee or controlling trustee or an application or order is made for the liquidation of Indigo Properties, or
- Indigo Properties is, or becomes unable to pay its debts as and when they are due within the meaning of the Corporations Act 2001

At half-year end:

- The Borrower was in default of certain loan covenants in relation to certain finance facilities provided by first and second mortgagees on development properties which form part of the security for the Group's loan;
- Certain entities within the Borrower were placed in voluntary administration and subsequently receivers were appointed by existing first and second mortgagees over certain entities within the Borrower;
- Interest receivable of \$487,361 due from the Borrower at 30 June 2010 in relation to the above loan was fully impaired in the financial statements (note 3);

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Condensed notes to the consolidated interim financial statements

1. Basis of preparation (cont)

(a) Liquidation (orderly wind down) basis of preparation of the Consolidated Interim Financial Statements (cont)

- In November 2009, a formal demand was made on the Company for payment of \$3.75 million in accordance with a bank guarantee of \$3.825 million provided by the company to the financier of a property development in New South Wales (note 12);
- Provisions of \$2,500,000 were recorded at 31 December 2009 in relation to financial guarantees provided by the Company to existing financiers of property developments located in Brisbane associated with the Borrower (note 10). Subsequent to half-year end, the Company received a letter of demand from the above financier requiring payment of \$2.5 million under the guarantee.

During the half-year, the Group recorded losses of \$5,078,121, and at 31 December 2009 had net liabilities of \$628,918, a deficiency in net current assets of \$628,918 and current liabilities of \$6,581,576.

These conditions cast significant doubt upon the Group's ability to continue as a going concern and accordingly, the directors consider it appropriate to prepare the financial report for the half-year ended 31 December 2009 on a liquidation basis, which would be based on an orderly wind down of operations. The comparative disclosures were prepared on a going concern basis.

While the financial report has been prepared on a liquidation (orderly wind down) basis, the directors do not, at the date of this report, currently intend place the Group into administration or liquidation or to commence an orderly winding down.

The directors have applied the requirements of paragraph 23 of AASB 101 *Presentation of Financial Statements* which states that "when the financial report is not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern".

The reason why the entity is not regarded as a going concern has been set out in note 2(a) above. In determining the appropriate accounting policies to adopt on a liquidation (orderly wind down) basis, the directors have assumed that the Group will continue to operate with sufficient cash for the next 3 months from the date of this report, but may need to undertake an orderly wind down shortly thereafter in the absence of the Company raising additional funding from shareholders or other parties and/or the Borrower repaying outstanding debt obligations in accordance with the Deed entered into in October 2009. The directors have assumed that, if required, the most likely wind down scenario would involve the orderly realisation of the Group's assets rather than immediate liquidation.

Given the uncertainties in valuing assets and liabilities on a liquidation basis, it is likely that the valuation of assets and liabilities included in these financial statements may differ significantly from actual results.

In adopting the liquidation basis the directors have continued to apply the requirements of Australian Accounting Standards. Accordingly, as non-current assets do not meet the requirements for held for sale or discontinued operations under AASB 5, they continue to be recognised as non-current assets at cost. They have been subject to impairment testing under AASB 136. Details of impairments are set out in note 3. Additional provisions and/or liabilities have been recognised as a result of a possible orderly wind down scenario as the directors have not incurred any additional legal or contractual obligations.

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Condensed notes to the consolidated interim financial statements

1. Basis of preparation (cont)

(b) Statement of compliance

The consolidated interim financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the most recent annual financial report.

The interim financial report was approved by the directors on 26 November 2010.

(c) Significant accounting policies

The accounting policies applied by the Group in this interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2009, except as noted below.

Change in accounting policy

(i) Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 14 *Segment Reporting*. The new accounting policy in respect of operating segment disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

There is no change to operating segment disclosures as a result of this change in accounting policy.

(ii) Presentation of financial statements

The Group applies revised AASB 1 *Presentation of Financial Statements* (2007), which became effective as of 1 July 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these consolidated interim financial statements as of and for the six months ended 31 December 2009.

Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy impacts presentation aspects, there is no impact on earnings per share.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the interim financial statements are described in the following notes:

- notes 3, 4 and 5 – impairment
- notes 7 and 10 – financial guarantees
- note 11 – credit risk exposure

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Condensed notes to the consolidated interim financial statements

2. Operating segments

The Group primarily comprises only one segment being investment activities wholly within Australia.

3. Impairment losses

		31 December 2009	30 June 2009
	Note	\$	\$
Interest receivable	5	487,361	4,624,993
Loan	6	1,132,747	6,375,007
		<u>1,620,108</u>	<u>11,000,000</u>

4. Other assets

Current

Interest receivable	-	-
Deposits	525,000	-
Prepayments	7,498	-
	<u>532,498</u>	<u>-</u>

Deposits are at call and currently bear variable interest at 4.25% per annum.

Impairment loss

At 31 December 2009, in response to the ongoing global financial crisis and its impacts on Australian property markets, the Group reviewed the carrying value of its assets in order to identify whether any assets may be impaired.

In testing for impairment, the recoverable amount of receivables is calculated as the present value of the estimated future cash flows, discounted using the original effective interest rate related to the receivable.

As a result of a reduction in the present value of the estimated future cash flows expected to be received from interest receivable, an impairment loss of \$487,361 was recognised by the Group during the half-year (2008: \$4,624,993).

Interest receivable is disclosed net of the impairment losses.

These impairment losses represent estimated losses that may be incurred based on a number of assumptions. Actual results may differ from these estimates.

5. Loan

Current

Loan to related parties – secured	<u>4,747,391</u>	<u>-</u>
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Non-current

Loan to related parties – secured	<u>-</u>	<u>5,880,138</u>
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The Group has a loan to the Indigo Private Group (“The Borrower”). This loan is due for repayment on 29 November 2010 and currently bears variable interest at 18% per annum, payable in arrears on 31 December and 30 June each year. The balance of the loan as at 31 December 2009 is \$4,747,391 after total impairment losses of \$44,195,032.

Security for the loan consists of mortgages over certain development properties behind existing first and second mortgages. In addition the Group has fixed and floating charges over various entities in The Borrower and a Deed dated October 2009. All entities in The Borrower are related parties of former Directors, Mitchell Neilsen and Lawrence Truce, both of whom resigned on 5 June 2009. Note 1(a) outlines other matters relating to the loan to the Borrower, including the Deed dated 30 October 2009 which also includes the ability to terminate the Deed dated 30 October 2009 under an insolvency event of the Company.

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Condensed notes to the consolidated interim financial statements

5. Loan (cont)

Impairment losses

At 31 December 2009, the Group reviewed the carrying value of its assets in order to identify whether any assets may be impaired. As a result of this review, the Group recorded additional impairment losses of \$1,132,747 (2008: \$6,375,007) in respect of its loan, as outlined below.

In testing for impairment, the recoverable amount of the loan was calculated as the present value of the estimated future cash flows, discounted using the original effective interest rate related to the loan. In addition, current market value assessments of assets securing the loan and the ability to, if needed, realise the underlying securities in the short term were considered by management in preparing the discounted cashflow. In addition, an independent valuation was obtained subsequent to half-year end which supports the value of an asset securing the loan.

As a result of a decrease in the present value of the estimated future cashflows expected to be received from the loan, impairment losses of \$1,132,747 were recognised during the half-year (2008: \$6,375,007).

Loans are disclosed net of the impairment losses.

These impairment losses represent estimated losses that may be incurred based on a number of assumptions. Actual results may differ significantly from these estimates.

6. Trade and other payables

	31 December 2009	30 June 2009
	\$	\$
Trade creditors	16,582	17,912
Other creditors and accruals	4,064,994	100,000
	<u>4,081,576</u>	<u>117,912</u>

The Group has provided guarantees in relation to borrowings by related entities of Mr Mitchell Nielsen and Mr Lawrence Truce, both of whom resigned as directors on 5 June 2009. In November 2009, a formal demand was made on the Company for the payment of \$3.75 million in accordance with a bank guarantee of \$3.825 million provided by the company to the financier of a property development in New South Wales. The Group has recorded a current liability of \$3.825 million in relation to this guarantee.

7. Provisions

Provision for financial guarantees	<u>2,500,000</u>	<u>3,000,000</u>
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The Group has provided guarantees in relation to borrowings by related entities of Mr Mitchell Nielsen and Mr Lawrence Truce, both of whom resigned as directors on 5 June 2009. Based on an independent valuation of one of the security properties, a provision for financial guarantee of \$2.5 million has been recorded at 31 December 2009. In addition, a performance guarantee has been provided to a land owner of a property development. The Group has recorded a provision of \$500,000 at 30 June 2009 in relation to costs associated with this guarantee. A formal demand was made on the Company in November 2009 in relation to this development and as a result a current liability has been recorded at 31 December 2009 (note 6).

The provisions are based on estimates of the liabilities which may arise in respect of the guarantees.

Subsequent to year end, the Company received a letter of demand from a bank calling for payment of \$2.5 million under the guarantee (note 12).

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Condensed notes to the consolidated interim financial statements

8.	Issued capital	31 December 2009 \$	30 June 2009 \$
	Share capital		
	82,816,902 (30 June 2009: 82,816,902) ordinary shares, fully paid	44,516,361	44,516,361

No shares were issued by the company during the current or prior period.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Dividends

No dividends were recognised by the company during the current or prior period.

9.	Accumulated losses	31 December 2009 \$	31 December 2008 \$
	Accumulated losses at the beginning of the half-year	(40,067,158)	(8,420,603)
	Net loss	(5,078,121)	(6,558,253)
	Accumulated losses at the end of the half-year	(45,145,279)	(14,978,856)

10.	Contingent liabilities	31 December 2009 \$	30 June 2009 \$
	Guarantees	(2,500,000)	(6,325,000)

The Company has provided guarantees in relation to borrowings made by related parties of former directors Mr Mitchell Nielsen and Mr Lawrence Truce, both of whom resigned as directors on 5 June 2009.

The above guarantees were provided to financiers of property developments located in Brisbane and New South Wales. The directors are currently negotiating the termination of certain guarantees.

The Company has recorded a provision at 31 December 2010 for estimated costs of \$2,500,000 (2009: \$3,000,000) associated with the guarantees at year end (note 7). Subsequent to half-year end, a letter of demand was received for \$2.5 million in relation to this guarantee.

During the period the Company received a letter of demand in relation to a \$3.825 million guarantee relating to a property development in New South Wales. A liability of \$3.825 million has been recorded at 31 December 2009 in relation to this guarantee (note 6). In addition, a performance guarantee has been provided to a landowner of this property development. The directors are currently negotiating the termination of these guarantees.

Indigo Properties Australia Limited

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Condensed notes to the consolidated interim financial statements

11. Credit risk exposure

Impairment losses recorded in relation to the half-year ended 31 December 2009 are detailed in note 3.

As at 31 December 2009, the Group had a loan receivable of \$4,747,391 (after impairment losses) from the Indigo Private Group secured by mortgages on certain development properties behind existing first and second mortgages. In addition the Group has fixed and floating charges over various entities within the Indigo Private Group. All entities in the Indigo Private Group are related parties of former Directors, Mitchell Nielsen and Lawrence Truce. There is a concentration of credit risk in that the loan, representing 79.75% of total assets, is owing by entities in the Indigo Private Group.

The recoverability of this loan is supported by independent and internal valuations of the security property on an orderly realisation basis.

The Group recorded additional impairment losses of \$1,620,108 in respect of the loan and interest receivable owing from Indigo Private Group in relation to the half-year ended 31 December 2009 (2008: \$11,000,000), as outlined in notes 4 and 5. These impairment losses represent estimates of losses that may be incurred based on a number of assumptions including amounts that will be received upon repayment or sale of the security property, the amount that would be required to settle pre-ranking debt funding and the period until funds are returned. In the current economic conditions there is uncertainty as to the amount that could be realised on the sale of security properties, and the time it may take to achieve a sale. Accordingly, actual impairment losses incurred may differ significantly from these estimates.

In addition, The Borrower, was in default of certain loan covenants in relation to certain finance facilities provided by first and second mortgagees on development properties which form part of the security for the Group's loan.

During current and prior periods, certain entities associated with The Borrower were placed into voluntary administration and subsequently receivers were appointed by existing mortgagees. A Deed dated October 2009 was entered into between the company and certain Indigo Private Group entities to facilitate the recoverability of the loan. A summary of the terms of the Deed are included in note 1(a).

12. Subsequent events

On 17 September 2010, the Company entered into a deed restructuring debts due from an entity associated with the Indigo Private Group and releasing certain security properties from charges and mortgages held by Indigo Properties. The Company received non-cash consideration of \$1.1 million in the form of a new loan receivable from Trinity Green Developments Pty Ltd, an entity associated with Indigo Private Group.

In October 2010, the Company received a letter of demand from a bank calling for payment of \$2.5 million under a guarantee that had been provided by the Company in 2006 to financiers of property developments of the Borrower based in Brisbane. The Company is currently negotiating an alternative payment proposal with the financier to enable it to meet the guarantee payment within a time acceptable to the bank however the outcome of these negotiations is uncertain.

In November 2010, the Company received a conditional off-market takeover bid for all of the issued shares in the Company at a price of \$0.005 per share. The Company and the bidder, DK Northern Investments Pty Ltd, a company related to a significant shareholder, have entered into an Implementation Agreement in relation to the offer.

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Directors' declaration

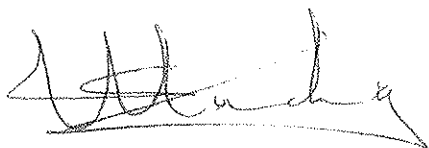
In the opinion of the directors of Indigo Properties Australia Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 6 to 16, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) for the next 3 months, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable. Thereafter, the directors are unable, based on the information available as the present time and the significant uncertainty outlined in note 1(a), to conclude whether the Group will be able to pay its debts as and when they become due and payable and therefore the directors have prepared these financial statements on a liquidation (orderly wind down) basis.

Without qualifying the above statements, the directors draw attention to Note 1 "Basis of Preparation" of the financial statements.

Dated at Bundall this 26th day of November 2010.

Signed in accordance with a resolution of the directors:



S Mackay
Managing Director



Independent auditor's review report to the members of Indigo Properties Australia Limited (formerly Indigo Pacific Capital Limited)

We have reviewed the accompanying half-year financial report of Indigo Properties Australia Limited, which comprises the consolidated interim balance sheet as at 31 December 2009, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration set out on pages 6 to 17 of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Indigo Properties Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Independent auditor's review report to the members of Indigo Properties Australia Limited

Basis of preparation and significant uncertainty regarding valuation of assets and liabilities

Without qualifying our conclusion, we draw your attention to Note 1(a) of the financial report which sets out the basis on which they have been prepared. The Directors have concluded that the going concern basis of preparation is not appropriate and accordingly have prepared the financial report for the half-year ended 31 December 2009 on a liquidation basis based upon a possible scenario that an orderly wind-down may occur sometime in the future. As outlined in Note 1(a) "Liquidation (orderly wind down) basis of preparation", Note 1(e) "Use of estimates and judgements" and Note 5 "Loan" there are matters relating to the valuation of assets and liabilities included in these financial statements that make it likely the recorded values may differ significantly from actual results.

KPMG

KPMG

P G Steer

P G Steer
Partner

26 November 2010