



Garden Square

Joint Investment

2000 annual report

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GARDEN SQUARE JOINT INVESTMENT MANAGER'S REPORT



I am pleased to present the Annual Report of The Garden Square Joint Investment (the Fund) for the year ended June 30, 2000.

Review of Operations

Property Funds Australia Limited (PFA, the Manager) is pleased with the ongoing operation of Garden Square (the Property) and reports to investors on current operational issues as follows:

Capital Expenditure Program

The major components of the capital works program including the installation of the covered pedestrian walkway, car park reconfiguration and landscaping is scheduled to be completed by the end of September. The upgrade to lift foyers and interiors in Block C and D have been completed. The only elements of the upgrade program that will be outstanding at the end of September is the installation of the new Garden Square Office Park logo and building signage.

Tenancy Issues

After several months of negotiation it was determined by an independent expert valuer that effective from 3 December, 1999, the Coles Myer reviewed net rent be set at \$1,510,000 per annum (exclusive of GST which is not expected to apply until the next market review). This is an increase of 8.52% and is above the prospectus forecast.

Trend West Pacific, an international sales, marketing and resort company, has leased an 880m² suite on the ground level of Block D, previously leased to The Department of Regional Health. Fund rental income is below prospectus forecasts. This is partly due to the loss of rental that occurred between the departure of Regional Health and Trend West Pacific taking occupation. This deficiency in net rental income has been compensated for by the lower interest rate the Fund pays on its borrowings compared with that forecast in the prospectus.

Plans are currently in place to reconfigure the ground floor of Block C. This reconfiguration will increase the lettable area to provide office accommodation for smaller corporate tenancies and increase future lettable area. The reconfiguration may involve the relocation within the building of some existing tenants on the ground floor.

Excellent opportunities have also been identified for the property to receive income from leasing rooftop space for the erection of mobile phone antenna and base stations.

Property Valuation

Garden Square has recently been valued by FPD Savills at \$22 million as at 30 June 2000. The original purchase price of the core property was \$20.4 million. The increased valuation represents an increase of approximately 8% since acquisition which is greater than the rate of inflation during the period between acquisition and the date of the valuation.

Financial Results

After accounting depreciation of \$1,049,813 and Division 10(D) deductions of \$168,056 the Syndicate recorded an accounting loss of \$111,871 and a tax loss of \$16,598 for the year. A tax advantaged portion of distributed income of 99% has been achieved compared to the prospectus forecast of 73% due to higher than expected depreciation figures.

The Trust had an accounting profit of \$32,832 and a tax profit of \$1,470 was recorded for the period.

Distributions – for the year ended 30 June, 2000

Distributions for the year equated to a yield of 10.85% per annum on the capital subscribed by owners in the Syndicate and unitholders in the Trust. Distributions are made from the Joint Investment's surplus cashflows (ie: net profit after adding back depreciation for plant, equipment and buildings and amortisation of intangibles and other non-cash items).



Distribution Policy – for the year ending June 30, 2001

The board of PFA has determined that distributions will increase in line with prospectus forecasts to a rate of 11.3% per annum for the Syndicate and 11.2% for the Trust for the year ending June 30, 2001. The PFA board will continue to monitor the ongoing appropriateness of this distribution rate throughout the year taking into consideration such factors as reviewed rental rates, lettings and tenancy expiries.

Investment and Borrowing Policies of the Joint Investment

There have been no changes to the investment and borrowing policies outlined in the prospectus. At settlement of the acquisition, a revolving line of credit was established with a limit of \$1.75million. As at 30 June, 2000 \$183,265 of this facility was being utilised principally as a consequence of the capital expenditure program.

GST

The Manager has reviewed the impact of the introduction of GST on the Fund. We are pleased to advise that based on current legislation, no material affect on distributions is expected to result from the introduction of this tax. Considerable effort has been expended in assessing the Fund's existing leases and operating expenses with a view to ensuring the Fund's compliance with GST legislation and minimising any unforeseen consequences of the introduction of the tax.

Tax Reform Proposals

Since the last annual report of the Fund the Federal Government has released The Ralph Committee report on business taxation reform. Certain aspects of the Ralph Committee Report and the Government response (such as those aspects relating to capital gains tax and accelerated depreciation changes) has been given effect to by the passing of legislation. The accelerated depreciation changes do not affect original investors in the Garden Square Joint Investment due to the timing of the acquisition of their interest. Other aspects such as entity tax reform and wasted assets regime proposals are still outstanding and have not been tabled in Federal Parliament. The controversial and important definition of "Collective Investment Vehicle" is currently being discussed between representatives of the managed funds industry and government.

Principal Activities

The principal activity of the Syndicate is to invest in the Garden Square office complex. The principal activity of the Trust is to invest via the Syndicate into the same property. There has been no significant change in the nature of the activities of the Syndicate or the Trust during the year.

Environmental Regulation

Neither the Syndicate or the Trust are subject to any particular and significant environmental regulation under either Commonwealth or State legislation other than that which any real property located in the state of Queensland would be subject to.

Events Subsequent to Balance Date

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 (other than as disclosed in this report) of a material or unusual nature likely, in the opinion of the Manager, to significantly affect the operators of the Syndicate or the Trust, the results of those operations or the state of affairs of the Syndicate or the Trust, in future financial years.

Indemnification and Insurance of Officers and Auditors

No insurance premiums are paid out of the assets of the Syndicate or the Trust in regards to insurance cover provided to the Manager, the Trustee or the Auditors of the Syndicate or the Trust. As long as the officers of the Manager act in accordance with the Syndicate and/or Trust Deed and the law, the Manager remains indemnified out of the assets of the relevant Investment against losses incurred while acting on behalf of the Syndicate/Trust. The auditors are in no way indemnified out of the assets of the Syndicate/Trust.

Future Events

The likely developments in the operations of Garden Square and the expected results of those operations in future financial years are in line with disclosure in the prospectus.



Proceedings on behalf of the Company

No person has applied for leave of the court to bring proceedings on behalf of the Manager or intervene in any proceedings to which the Manager is a party for the purpose of taking responsibility on behalf of the Manager for all or any part of those proceedings.

The Manager was not a party to any such proceedings during the year.

Directors

The names of directors of the Manager who held office at any time during the period were R.M. Keown (Chairman), C.A. Morton (Managing Director), A.N. Douglas, C.D. Schultz and D.J. Conquest.

State of Affairs

In the opinion of the Manager, there were no significant changes in the state of affairs of the Investment.

Conclusion

The greatest challenges for the Fund over the forthcoming twelve months will be the planned positioning of the property for its sale in or about 2003 and any challenges which arise from the continually changing taxation environment in which managed investment schemes operate.

We trust that you are satisfied with the service you receive from our operatives. Our investor relations staff regularly receive positive feedback about the quality of our communications with investors.

On behalf of Property Funds Australia Limited, I would like to thank each of you for your ongoing support of the Garden Square Joint Investment.

Rodney M. Keown
Chairman



Garden Square

Property Trust

**financial accounts
for the financial year ended
June 30, 2000**

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GARDEN SQUARE PROPERTY TRUST
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2000



| | Note | 2000 \$ | 1999 \$ |
|---|------|------------|------------|
| Operating profit (loss) before income tax | 2 | 32,832 | (16,802) |
| Income tax expense attributable to operating profit | 3 | - | - |
| Operating profit (loss) after income tax | | 32,832 | (16,802) |
| Accumulated losses at the beginning of the financial year | | (175,380) | (158,578) |
| Profit distribution to unitholders | | (142,548) | - |
| Accumulated losses at the end of the financial year | | (142,548) | (175,380) |

To be read in conjunction with the attached notes

GARDEN SQUARE PROPERTY TRUST
BALANCE SHEET
AS AT JUNE 30, 2000



| | Note | 2000 \$ | 1999 \$ |
|----------------------------------|------|------------------|------------------|
| TRUST CAPITAL | | | |
| Unit Capital | | 3,855,000 | 3,855,000 |
| Distributions to Unit Holders | | (896,036) | (478,984) |
| Accumulated Losses | | (142,548) | (175,380) |
| | | <u>2,816,416</u> | <u>3,200,636</u> |
| CURRENT ASSETS | | | |
| Cash | 4 | - | 68 |
| Receivables | | - | 1,532 |
| TOTAL CURRENT ASSETS | | <u>-</u> | <u>1,600</u> |
| NON-CURRENT ASSETS | | | |
| Investments | 5 | 2,819,117 | 3,199,667 |
| Other Assets | 6 | 819 | 1,119 |
| TOTAL NON-CURRENT ASSETS | | <u>2,819,936</u> | <u>3,200,786</u> |
| TOTAL ASSETS | | <u>2,819,936</u> | <u>3,202,386</u> |
| CURRENT LIABILITIES | | | |
| Accounts Payable | 7 | 3,520 | 1,750 |
| TOTAL CURRENT LIABILITIES | | <u>3,520</u> | <u>1,750</u> |
| TOTAL LIABILITIES | | <u>3,520</u> | <u>1,750</u> |
| NET ASSETS/(DEFICIT) | | <u>2,816,416</u> | <u>3,200,636</u> |

To be read in conjunction with the attached notes

GARDEN SQUARE PROPERTY TRUST
STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2000



| | Note | 2000 \$ | 1999 \$ |
|--|----------|------------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Distributions Received & Sundry Income | | 417,731 | 411,990 |
| Payments to suppliers | | (4,048) | - |
| Net cash provided by operating activities | | <u>413,683</u> | <u>411,990</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Expenses paid by related entity | | 3,120 | 7,131 |
| Distributions to Unit holders | | (416,872) | 406,919 |
| Net cash provided by financing activities | | <u>(413,752)</u> | <u>414,050</u> |
| Net decrease in cash held | | <u>(69)</u> | <u>(2,060)</u> |
| Cash at beginning | | 69 | 2,129 |
| Cash at June 30 2000 | 8 | <u>-</u> | <u>69</u> |

To be read in conjunction with the attached notes

GARDEN SQUARE PROPERTY TRUST
NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2000



NOTE 1: STATEMENT OF ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material policies adopted by the trust in the preparation of the financial accounts.

(a) Income & Expenditure

Property and other income and expenditure are accounted for on an accrual basis.

(b) Investments

Investments are brought to account at cost or at trustee's valuation. The carrying amount of investments is reviewed annually by the trustees to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets in the Garden Square Syndicate.

(c) Income Tax

The trust adopts the liability method of tax effect accounting whereby the income tax expense shown in the profit and loss account is based on the operating profit before income tax adjusted for any permanent differences and distributions of taxable income to beneficiaries. No liability has been raised for provisional tax as it is unlikely that any taxable income will be retained by the trust in 2000.

(d) Cash

For the purposes of the Statement of Cash Flows, cash includes cash at bank.

| | 2000 \$ | 1999 \$ |
|---|---------------|-----------------|
| NOTE 2: OPERATING REVENUE | | |
| Share of Profit (Loss) from Garden Square Syndicate | <u>37,178</u> | <u>(12,393)</u> |

**GARDEN SQUARE PROPERTY TRUST
NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2000**



| | 2000 \$ | 1999 \$ |
|--|------------------|------------------|
| NOTE 3: INCOME TAX EXPENSE | | |
| The prima facie tax on operating profit is reconciled to the income tax provided in the accounts as follows: | | |
| Prima facie tax payable on operating profit before income tax at 48.5% | - | - |
| Tax effect of: | | |
| Income Distributed to beneficiaries | - | - |
| Income tax expense | <u>-</u> | <u>-</u> |
| | | |
| NOTE 4: CASH | | |
| Cash at Bank - Distribution Account | <u>-</u> | <u>69</u> |
| | <u>-</u> | <u>69</u> |
| | | |
| NOTE 5: INVESTMENTS | | |
| Interest in Garden Square Syndicate | <u>2,819,117</u> | <u>3,199,667</u> |
| | <u>2,819,117</u> | <u>3,199,667</u> |
| The value of the Trust's investment in the Garden Square Syndicate includes reductions to recognise the trust's share of the Syndicate loss for the period and the distributions received from the Syndicate for the period which represent a return of capital. | | |
| Opening Balance | 3,199,667 | 3,624,044 |
| Distributions from Garden Square Syndicate | (417,728) | (411,984) |
| Share of Syndicate Profit (Loss) | 37,178 | (12,393) |
| | <u>2,819,117</u> | <u>3,199,667</u> |
| | | |
| NOTE 6: OTHER ASSETS | | |
| Registry Establishment Costs | 1,500 | 1,500 |
| Less Accumulated Amortisation | (681) | (381) |
| | <u>819</u> | <u>1,119</u> |

**GARDEN SQUARE PROPERTY TRUST
NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2000**



| | 2000 \$ | 1999 \$ |
|--|--------------|--------------|
| NOTE 7: ACCOUNTS PAYABLE | | |
| Current | | |
| Trade Creditors & Accruals – Accountancy | 1,750 | 1,750 |
| Other Creditor | 1,590 | - |
| EFT Distributions Rejected | 180 | - |
| | <u>3,520</u> | <u>1,750</u> |

NOTE 8: NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

| | | |
|--------------|---|----|
| Cash at Bank | - | 69 |
|--------------|---|----|

Reconciliation of Net Cash provided by Operating Activities to Operating Profit after Income Tax

| | | |
|--|---------|----------|
| Operating Profit (Loss) after Income Tax | 32,832 | (16,802) |
| Non Cash Flows in Operating Profit: | | |
| Registry Establishment Costs | 300 | 300 |
| Diminution in Investments | 380,551 | 424,377 |
| Changes in Assets & Liabilities: | | |
| Increase (Decrease) in Accrued Expenses | - | 4,115 |

| | | |
|--|----------------|----------------|
| Net Cash Provided by Operating Activities | <u>413,683</u> | <u>411,990</u> |
|--|----------------|----------------|

NOTE 9: EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year the trust has received a Distribution from the Garden Square Syndicate of \$34,849 in relation to the year ended June 30 2000 and an amount of \$35,980 in relation to July 2000.



NOTE 10: OTHER STATUTORY INFORMATION

- (a) The Trust was deemed to have commenced operations on the Commencement Date, being February 12, 1998 (the date of receipt by the Trustee of the first Contribution). Under the Trust Deed the property cannot be held for more than eight years unless all of the Investors agree that it should be retained for a further period.
- (b) No earnings have been capitalised and used in writing down the book value of the Trust's investment.
- (c) There were no transfers to reserves during the period to which these financial statements relate.
- (d) No commissions were paid or are payable by the Trustee in relation to the issue or purchase of equity in the Trust. The Manager did pay commissions to authorised persons out of its own funds.
- (e) There were no disposals of property in the period to which these financial statements relate.
- (g) As at June 30 2000, the Manager and associates held 1.55% of total investors capital in the Trust which was fully paid for.
- (h) Book value of the net tangible assets of the Syndicate at June 30 2000 is \$2,816,416. Each Unitholder's Interest in the book value of the net tangible assets of the Trust is in the proportion of each Unitholder's percentage share in the Trust.

NOTE 11: RELATED PARTY TRANSACTIONS

- (i) Details of the Manager and the Trustee/Nominee are as follows:-

Manager

Property Funds Australia Limited ACN 078 199 569

Directors who held office during the period were -

R M Keown, C A Morton, A N Douglas, C D Schultz, D Conquest

Trustee/Nominee

Trust Company of Australia Limited ACN 004 027 749

- (ii) In the context of the Trust, no transactions occurred with related parties to the Manager or the Trustee. Such transactions did occur in relation to related parties of the Manager for the Garden Square Syndicate in which the Trust holds a 33.23% interest (See Garden Square Syndicate Financial Statements).



NOTE 12 FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

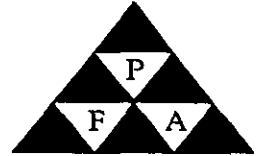
The Trust's exposure to interest rate risk, which is the risk that the trust debt will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

(b) Net Fair Values

The net fair values of all financial assets and liabilities approximates their carrying values.

| | Weighted Average Effective Interest Rate | | 1 to 5 Years | | Non- Interest Bearing | | Total | |
|------------------------------------|--|----------|--------------|----------|-----------------------|-----------|-----------|-----------|
| | 30/06/00 | 30/06/99 | 30/06/00 | 30/06/99 | 30/06/00 | 30/06/99 | 30/06/00 | 30/06/99 |
| Cash | - | - | - | - | - | 69 | - | 69 |
| Receivables | - | - | - | - | - | 1,532 | - | 1,532 |
| Investments | - | - | - | - | 2,819,117 | 3,199,667 | 2,819,117 | 3,199,667 |
| Total Financial Assets | | | - | - | 2,819,117 | 3,201,268 | 2,819,117 | 3,201,268 |
| Financial Liabilities | | | | | | | | |
| Trade & Sundry Creditors | - | - | - | - | 3,520 | 1,750 | 3,520 | 1,750 |
| Total Financial Liabilities | | | - | - | 2,815,597 | 3,199,518 | 2,815,597 | 3,199,518 |

DECLARATION BY THE DIRECTORS OF THE MANAGER



In the opinion of the Directors of Property Funds Australia Limited as Manager of the Garden Square Property Trust:

- (a) The accompanying financial statements and notes gives a true and fair view of the Trust's financial position as at 30 June 2000 and its performance for the year ended on that date in accordance with the Corporations Law (including Sections 296 and 297 thereof), applicable Accounting Standards and the Trust Deed dated 22 December 1997;
- (b) In the director's opinion there are reasonable ground to believe that the Garden Square Property Trust will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the directors of Property Funds Australia Limited in accordance with a resolution of the Board.

C A Morton
Managing Director

D J Conquest
Director

Brisbane
20 September 2000

**TRUST COMPANY OF AUSTRALIA LIMITED
TRUSTEE'S STATEMENT AND REPORT**



TRUSTEE'S STATEMENT

In accordance with the Corporations Law and the Trust Deed, Trust Company of Australia Limited A.C.N 004 027 749 ("the Trustee") as Trustee declares that:

- a) The accompanying financial statements and notes comply with Accounting Standards;
- b) The accompanying financial statements and notes give a true and fair view of the financial position and performance of the Trust; and
- c) There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

TRUSTEE'S REPORT

In accordance with the Corporations Law, Trust Company of Australia Limited A.C.N 004 027 749 ("the Trustee") in respect of the Garden Square Property Trust ("the Trust") reports as follows for the twelve (12) month period ended June 30, 2000

- a) A review of the Trust's operations during the twelve months and the results of those operations are contained in the Manager's Report and the financial accounts and accompanying notes relating to the Trust.
- b) Trust Company of Australia Limited has been the Trustee for the Trust throughout the period under review.
- c) As Trustee, it has caused the Manager to prepare the accounts which the Corporations Law requires.

For and on behalf of the Trust Company of Australia Limited A.C.N 004 027 749.



GEOFF FUNNELL
Authorised Representative

Dated: 20/9/00

GARDEN SQUARE TRUST

INDEPENDENT AUDIT REPORT TO UNITHOLDERS



SCOPE

We have audited the Financial Statements of the Garden Square Property Trust for the financial year ended 30 June 2000 being the Profit and Loss Account, Balance Sheet, Statement of Cash Flows, notes to and forming part of the accounts and Declaration by the Directors of the Manager. The trustee is responsible for the preparation and presentation of the financial statements and the information they contain. The manager has prepared the financial statements from accounting records maintained by the manager. We have conducted an independent audit of these financial statements in order to express an opinion on them to the unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus View), statutory requirements and the terms of the trust deed so as to present a view which is consistent with our understanding of the Garden Square Property Trust's financial position, the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

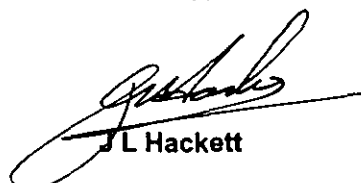
AUDIT OPINION

In our opinion, the Financial Statements of The Garden Square Property Trust are properly drawn up:

- (a) so as to give a true and fair view of:
 - (iii) the state of affairs of the Garden Square Property Trust as at 30 June 2000 and their results and cash flows for the period ended on that date; and
 - (iv) the other matters required by Division 11 of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law;
- (c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements; and
- (d) in accordance with the terms of the trust deed.

20 September 2000
Brisbane

HACKETTS
Chartered Accountants



J L Hackett



Garden Square

Syndicate

**financial accounts for the
financial year ended June 30, 2000**

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**GARDEN SQUARE SYNDICATE
PROPERTY PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2000**



| | Note | 2000 \$ | 1999 \$ |
|---|------|------------------|------------------|
| PROPERTY INCOME | | | |
| Rent Received | | 2,480,201 | 2,582,480 |
| Outgoings recovered | | <u>287,122</u> | <u>367,099</u> |
| | | 2,767,323 | 2,949,579 |
| DIRECT PROPERTY EXPENSES | | | |
| Advertising | | 1,040 | - |
| Cleaning | | 44,047 | 48,681 |
| Consultants Fees | | 7,785 | 14,450 |
| Electricity & Gas | | 92,033 | 90,222 |
| Facilities Management Fee | | 12,500 | - |
| Fire Protection Costs | | 1,426 | 2,351 |
| Garden Maintenance | | 20,534 | 19,041 |
| Insurance | | 22,910 | 23,417 |
| Land Tax | | 45,900 | 49,590 |
| Licences & Fees | | 2,108 | 295 |
| Property Managers Fees & Petties - PRD Realty | | 28,230 | 32,000 |
| Pest Control | | 974 | 983 |
| Rates | | 121,107 | 118,655 |
| Rent Unrecovered | | - | 74,336 |
| Repairs & Maintenance - Building | | 106,315 | 95,334 |
| Security | | 13,835 | 19,764 |
| Telephone | | <u>3,789</u> | <u>3,559</u> |
| TOTAL DIRECT PROPERTY EXPENSES | | <u>524,533</u> | <u>592,678</u> |
| | | | |
| NET PROPERTY INCOME | | <u>2,242,790</u> | <u>2,356,901</u> |

To be read in conjunction with the attached notes

**GARDEN SQUARE SYNDICATE
SYNDICATE PROFIT & LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2000**



| | Note | 2000 | 1999 \$ |
|--|------|------------------|------------------|
| INCOME | | | |
| Net Property Income | | 2,242,790 | 2,356,901 |
| Interest Received | | 13 | 11 |
| TOTAL INCOME | | <u>2,242,803</u> | <u>2,356,912</u> |
| EXPENSES | | | |
| Accountancy | | 19,400 | 14,500 |
| Amortisation - Prospectus Costs | | 11,524 | 11,524 |
| Amortisation - Syndicate Formation & Prospectus Legal Costs | | 14,352 | 14,353 |
| Auditors Fees | | 4,432 | 4,187 |
| Bank Charges | | 1,104 | 751 |
| Borrowing Expenses | | 20,016 | 20,017 |
| Consultants Fees | | 24,815 | 8,400 |
| Depreciation - Plant & Equipment | | 1,049,813 | 1,355,749 |
| Freight & Cartage | | 391 | 171 |
| Interest on Borrowings | | 801,652 | 799,875 |
| Legal Fees | | 18,467 | 6,706 |
| Postage | | 1,059 | 585 |
| Printing & Stationery | | - | 46 |
| Registry Fees | | 3,000 | 3,750 |
| Reporting Expenses | | 3,373 | 5,134 |
| Syndicate Managers Fees | | 141,180 | 134,456 |
| Trustees Fees | | 14,000 | 14,000 |
| Travelling Expenses | | 2,354 | - |
| TOTAL EXPENSES | | <u>2,130,932</u> | <u>2,394,204</u> |
| NET OPERATING PROFIT | | <u>111,871</u> | <u>37,292</u> |

To be read in conjunction with the attached notes

GARDEN SQUARE SYNDICATE
BALANCE SHEET
AS AT JUNE 30, 2000



| | Note | 2000 \$ | 1999 \$ |
|---------------------------------------|------|-------------------|-------------------|
| CURRENT ASSETS | | | |
| Cash | 2 | 3,241 | 249,105 |
| Receivables | 3 | 49,152 | 17,200 |
| TOTAL CURRENT ASSETS | | <u>52,393</u> | <u>266,305</u> |
| NON-CURRENT ASSETS | | | |
| Property, Plant and Equipment | 4 | 19,983,122 | 20,517,640 |
| Other Assets | 5 | 125,357 | 171,252 |
| TOTAL NON-CURRENT ASSETS | | <u>20,108,479</u> | <u>20,688,892</u> |
| TOTAL ASSETS | | <u>20,160,872</u> | <u>20,955,197</u> |
| CURRENT LIABILITIES | | | |
| Accounts Payable | 6 | 427,927 | 77,146 |
| TOTAL CURRENT LIABILITIES | | <u>427,927</u> | <u>77,146</u> |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 7 | 11,250,000 | 11,250,000 |
| TOTAL NON-CURRENT LIABILITIES | | <u>11,250,000</u> | <u>11,250,000</u> |
| TOTAL LIABILITIES | | <u>11,677,927</u> | <u>11,327,146</u> |
| NET ASSETS/(DEFICIT) | | <u>8,482,945</u> | <u>9,628,051</u> |
| TOTAL SYNDICATE MEMBERS' FUNDS | 8 | <u>8,482,945</u> | <u>9,628,051</u> |

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2000

| | Note | 2000 \$ | 1999 \$ |
|---|------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Rental received | | 2,697,442 | 2,396,179 |
| Payments to suppliers | | (1,535,768) | (980,739) |
| Interest Received | | 13 | 11 |
| GST Paid in Advance | | (1,626) | - |
| Net cash provided by operating activities | | <u>1,160,061</u> | <u>1,415,451</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of non current assets and capital improvements | | (309,240) | (87,936) |
| Net cash provided by investing activities | | <u>(309,240)</u> | <u>(87,936)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Distributions to Syndicate Members | | (1,256,886) | (1,239,692) |
| Expenses to be reimbursed by related entity | | (3,120) | (7,131) |
| Net cash provided by financing activities | | <u>(1,260,006)</u> | <u>(1,246,823)</u> |
| Net increase in cash held | | <u>(409,185)</u> | <u>80,692</u> |
| Cash at beginning | | 246,106 | 165,414 |
| Cash at June 30 2000 | 9 | <u>(163,079)</u> | <u>246,106</u> |

To be read in conjunction with the attached notes



NOTE 1: STATEMENT OF ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material policies adopted by the syndicate in the preparation of the financial accounts.

(a) Income & Expenditure

Property and other income and expenditure are accounted for on an accrual basis.

(b) Property, Plant and Equipment

Freehold land and buildings are brought to account at cost or at independent or Trustee's valuation.

The syndicate has not charged depreciation on buildings as the interest in land and buildings is held as an investment property.

The carrying amount of fixed assets is reviewed annually by the syndicate trustee to ensure it is not in excess of the recoverable amount of those assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining the recoverable amounts.

Plant and equipment are depreciated on the diminishing value basis using the rates determined by Napier & Blakely Pty Ltd Depreciation Consultants in their report for income tax purposes. The depreciation rates used for each class of assets are:

| Class of Fixed Asset | Depreciation Rate |
|----------------------|-------------------|
| Buildings | 2.5% |
| Plant & Equipment | 10-40% |

(c) Capitalised Costs

Costs associated with the establishment of the Syndicate, issue of the Prospectus and the Borrowing Costs incurred in relation to the funding of the acquisition of the investment property have been capitalised. The costs are amortised over 5 years which is the estimated period of the investment in accordance with the Prospectus.

(d) Income Tax

The Syndicate itself is not subject to income tax as all the Investors are entitled to its taxable income/tax loss in any one tax year.

(e) Cash

For the purpose of the Statement of Cashflows, Cash includes Cash at Bank.

**GARDEN SQUARE SYNDICATE
NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2000**



| | 2000 \$ | 1999 \$ |
|---|--------------------|--------------------|
| NOTE 2: CASH | | |
| Cash at Bank | 241 | 246,105 |
| Deposits Refundable – Energex | 3,000 | 3,000 |
| | <u>3,241</u> | <u>249,105</u> |
| NOTE 3: RECEIVABLES | | |
| Current | | |
| Trade Debtors | 25,134 | - |
| Other Debtors | 1,588 | - |
| Prepaid Expenses | 20,804 | 17,200 |
| GST Paid in Advance | 1,626 | - |
| | <u>49,152</u> | <u>17,200</u> |
| NOTE 4: PROPERTY, PLANT & EQUIPMENT | | |
| Property described as Garden Square, Kessels Road Mt Gravatt, Brisbane, Queensland | | |
| Land at Cost | 3,391,321 | 3,391,321 |
| Buildings at Cost | 12,539,691 | 12,215,007 |
| Total Land & Buildings | <u>15,931,012</u> | <u>15,606,328</u> |
| Plant & Equipment at Cost | 7,262,795 | 7,072,184 |
| Less Provision for Depreciation | <u>(3,210,685)</u> | <u>(2,160,872)</u> |
| | 4,052,110 | 4,911,312 |
| Total Property, Plant & Equipment | <u>19,983,122</u> | <u>20,517,640</u> |

At June 30 2000, the valuation of the land and buildings at Garden Square was \$22,000,000. The valuation was based on the current market value. The independent valuation as at June 30 2000 was carried out by M J Buckley AAPI from FPD Savills. The valuation was made in accordance with the obligations under the Syndicate Deed to value land and buildings no less than every three years.



| | 2000 \$ | 1999 \$ |
|------------------------------------|-----------------|-----------------|
| NOTE 5: OTHER ASSETS | | |
| Prospectus Issue & Promotion Costs | 57,621 | 57,621 |
| Less Accumulated Amortisation | <u>(26,143)</u> | <u>(14,618)</u> |
| | <u>31,478</u> | <u>43,003</u> |
| | | |
| Borrowing Costs | 100,082 | 100,082 |
| Less Accumulated Amortisation | <u>(45,407)</u> | <u>(25,391)</u> |
| | <u>54,675</u> | <u>74,691</u> |
| | | |
| Syndicate & Prospectus Legal Costs | 71,764 | 71,764 |
| Less Accumulated Amortisation | <u>(32,560)</u> | <u>(18,206)</u> |
| | <u>39,204</u> | <u>53,558</u> |
| | <u>125,357</u> | <u>171,252</u> |

NOTE 6: ACCOUNTS PAYABLE

Current

| | | |
|---|----------------|---------------|
| Bank Overdraft – Citibank Mortgage Power Acct | 163,265 | - |
| Bank Overdraft – National Australia Bank | 55 | - |
| Trade Creditors | 231,477 | 2,750 |
| EFT Distributions Rejected | 90 | - |
| Other Creditors | - | 1,532 |
| Rental/Outgoings in Advance | - | 44,747 |
| Accrued Expenses | <u>33,040</u> | <u>28,117</u> |
| | <u>427,927</u> | <u>77,146</u> |

NOTE 7: BORROWINGS

Non-Current

| | | |
|---------------|-------------------|-------------------|
| Mortgage Loan | <u>11,250,000</u> | <u>11,250,000</u> |
|---------------|-------------------|-------------------|

- (a) The Mortgage Loan from Citibank Limited comprises a fixed five year facility of \$11,250,000 secured by a First Registered Mortgage over the land and buildings and plant and equipment at Garden Square, Kessels Road Mt Gravatt and a set-off agreement. Interest on the loan is payable monthly in arrears on the same day of each month as the loan was made.
- (b) The Syndicate also has a Mortgage Power Credit Line Facility with Citibank Limited which is currently limited to \$1,140,000 (subject to review to \$1,750,000 with later valuations). The Credit Line Facility is secured by the same securities as the Fully Drawn Advance.
- (c) The borrowings were undertaken by Property Funds Australia Limited as Manager of the Syndicate and on behalf of the Owners and Trust Company of Australia Limited as Trustee has given a mortgage over the Property. Neither the Investors, Manager or Trustee are personally liable beyond the value of the equity subscribed.

**GARDEN SQUARE SYNDICATE
NOTES TO AND FORMING PART OF THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2000**



| | 2000 \$ | 1999 \$ |
|---|------------------|------------------|
| NOTE 8: SYNDICATE MEMBERS' FUNDS | | |
| Opening Balance | 9,628,051 | 10,905,035 |
| Distributions to Syndicate Members | (1,256,977) | (1,239,692) |
| Profit (Loss) for the Year | 111,871 | (37,292) |
| Closing Balance | <u>8,482,945</u> | <u>9,628,051</u> |

NOTE 9: NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

| | | |
|--|------------------|----------------|
| Bank Overdraft – Citibank Mortgage Power Account | (163,265) | - |
| Bank Overdraft – National Australia Bank | (55) | - |
| Cash at Bank | 241 | 246,106 |
| | <u>(163,079)</u> | <u>246,106</u> |

Reconciliation of Net Cash provided by Operating Activities to Operating Profit after Income Tax

| | | |
|---|------------------|------------------|
| Operating Profit (Loss) after Income Tax | 111,871 | (37,292) |
| Non Cash Flows in Operating Profit: | | |
| Amortisation – Prospectus Costs | 11,524 | 11,524 |
| Amortisation – Syndicate Formation & Prospectus Legal Costs | 14,352 | 14,352 |
| Depreciation | 1,049,813 | 1,355,749 |
| Borrowing Costs | 20,016 | 20,017 |
| Changes in Assets & Liabilities: | | |
| Decrease(Increase) in Trade Debtors | (25,134) | - |
| Decrease (Increase) in Prepayments | (3,604) | 102 |
| Decrease (Increase) in GST Paid in Advance | (1,626) | - |
| Increase (Decrease) in Trade and Other Creditors | 22,673 | (2,176) |
| Increase (Decrease) in Accrued Expenses | 4,923 | 12,391 |
| Increase (Decrease) in Rental/Outgoings in Advance | (44,747) | 40,784 |
| Net Cash Provided by Operating Activities | <u>1,160,061</u> | <u>1,415,451</u> |



| | 2000 \$ | 1999 \$ |
|--|------------|------------|
| NOTE 10: EVENTS SUBSEQUENT TO BALANCE DATE | | |
| Since the end of the financial year, the Syndicate has paid the Distribution to Syndicate Members for the month of June 2000 totalling \$104,864 and July 2000 totalling \$108,912 | | |
| NOTE 11: PRINCIPAL ACTIVITY | | |
| The principal activity of the Garden Square Syndicate is investment in an income producing commercial building at Mt Gravatt, Brisbane, Queensland. | | |
| NOTE 12: INCOME TAX | | |
| Net Operating Profit (Loss) | 111,871 | (37,292) |
| Decrease in Non deductible accrued expenses | (1,850) | (2,280) |
| Non deductible syndicate legal & prospectus costs | 25,877 | 25,877 |
| Non Deductible Accounting | | |
| Depreciation - Plant & Equipment | 52,360 | 68,075 |
| Allowable Taxation Depreciation – Buildings | (168,056) | (167,955) |
| Increase in Deductible Prepaid Expenses | (3,604) | 101 |
| Net Taxable Income (Loss) for the Period | 16,598 | (113,474) |

NOTE 13: CONTINGENT LIABILITY

Sale Performance Management Fees

In accordance with the prospectus and Syndicate Deed, the Manager is entitled to remuneration as follows:-

- (i) If upon the sale of the property, the sale price (after deductions of agents' commission, legal fees, advertising and auction expenses) exceeds the purchase price, the Manager is entitled to a fee equal to 2% of the sale price.
- (ii) If the property is sold at a price which, after a deduction of agents' fees and expenses on the sale results in a premium on the subscribed amount by owners at:-
 - (a) More than 50% of their original subscribed amount then the Manager will be paid an additional fee of 2.5% calculated on the gross sale price; or
 - (b) 50% or less but more than 30% on their original subscribed amount, the Manager will be paid an additional fee of 1.5% calculated on the gross sale price.

This is more comprehensively outlined in Section 14.3 of the prospectus or Clause 18.4 of the Syndicate Deed.



NOTE 14: OTHER STATUTORY INFORMATION

- (a) The Syndicate was deemed to have commenced operations on the Commencement Date, being February 12, 1998 (the date of receipt by the Trustee of the first Contribution). Under the Syndicate Deed the property cannot be held for more than eight years unless all of the Investors agree that it should be retained for a further period.
- (b) No earnings have been capitalised and used in writing down the book value of the Syndicate's property.
- (c) There were no transfers to reserves during the period to which these financial statements relate.
- (d) No commissions were paid or are payable by the Syndicate in relation to the issue or purchase of equity in the Syndicate. The Manager did pay commissions to authorised persons out of its own funds.
- (e) There were no disposals of property in the period to which these financial statements relate.
- (f) As at June 30 2000, the Manager and associates held 1.2% of total investors capital in the Syndicate and 1.55% of the Garden Square Property Trust which owns 33.23% of the Garden Square Syndicate. All of the above interests were fully paid for.
- (g) Book value of the net tangible assets of the Syndicate at June 30 2000 is \$8,482,945. Each Owner's Interest in the book value of the net tangible assets of the Syndicate is in the proportion of each Owner's percentage share in the Syndicate.
- (h) The land title to the property is registered in the name of Trust Company of Australia Limited who is appointed under the Syndicate Deed to act as nominee for the owners and trustee of the Joint Investment.



| | 2000 \$ | 1999 \$ |
|---|------------|------------|
| NOTE 15: OPERATING LEASE COMMITMENT RECEIVABLE | | |
| Operating Lease Commitments contracted as receivables: | | |
| Receivables | | |
| Not later than 1 year | 2,539,653 | |
| Later than 1 year but not later than 2 years | 2,379,772 | |
| Later than 2 years but not later than 5 years | 4,490,541 | |
| | | |
| NOTE 16: RELATED PARTY TRANSACTIONS | | |
| (i) Details of the Manager and the Trustee/Nominee are as follows:- | | |
| <u>Manager</u> | | |
| Property Funds Australia Limited ACN 078 199 569 | | |
| Directors who held office during the period were - | | |
| R M Keown, C A Morton, A N Douglas, C D Schultz, D Conquest | | |
| <u>Trustee/Nominee</u> | | |
| Trust Company of Australia Limited ACN 004 027 749 | | |
| (ii) Related party transactions during the period were as follows:- | | |
| <u>The Manager</u> | | |
| Syndicate Management Fee for the period was paid to Property Funds Australia Limited as provided for in the prospectus in accordance with the Garden Square Syndicate Deed. | 141,180 | 134,456 |
| PRD Realty for property management services for the period. | 28,230 | 32,000 |
| <u>The Trustee</u> | | |
| Trustee fee for the period was paid to Trust Company of Australia Limited as provided for in the prospectus in accordance with the Syndicate Deed. | 14,000 | 14,000 |



NOTE 16 RELATED PARTIES TRANSACTIONS (CONT'D)

Director Related Entities

Hanover Holdings Pty Ltd is a tenant of Garden Square. Administrators were appointed to the company on December 7 1998. The company subsequently entered into a Deed of Company Arrangement on January 28 1999. A N Douglas and C A Morton were appointed directors of Hanover Holdings Pty Ltd on February 3 1999.

The directors were appointed to the Board of Hanover Holdings Pty Ltd (Deed of Company Arrangement) in order to protect the interests of the Garden Square Syndicate. Rent is currently charged to Hanover Holdings Pty Ltd (Deed of Company Arrangement) on the basis of the amount that may be recovered.

NOTE 17 FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

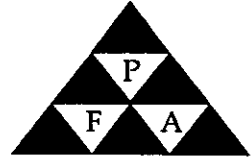
The Syndicate's exposure to interest rate risk, which is the risk that the syndicate debt will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

(b) Net Fair Values

The net fair values of all financial assets and liabilities approximates their carrying values.

| | Weighted Average Effective Interest Rate | | 1 to 5 Years | | Non- Interest Bearing | | Total | |
|------------------------------------|--|----------|-------------------|-------------------|-----------------------|----------------|-------------------|-------------------|
| | 30/06/00 | 30/06/99 | 30/06/00 | 30/06/99 | 30/06/00 | 30/06/99 | 30/06/00 | 30/06/99 |
| Cash | - | - | - | - | 3,241 | 249,105 | 3,241 | 249,105 |
| Receivables | - | - | - | - | 49,152 | 17,200 | 49,152 | 17,200 |
| Total Financial Assets | | | | | 52,393 | 266,305 | 52,393 | 266,305 |
| Financial Liabilities | | | | | | | | |
| Bank Overdraft | 9.49 | - | 163,320 | - | - | - | 163,320 | - |
| Mortgage Loan | 7.11 | 7.11 | 11,250,000 | 11,250,000 | - | - | 11,250,000 | 11,250,000 |
| Trade & Sundry Creditors | - | - | - | - | 170,992 | 77,146 | 170,992 | 77,146 |
| Total Financial Liabilities | | | 11,250,000 | 11,250,000 | 170,992 | 77,146 | 11,584,312 | 11,327,146 |

DECLARATION BY THE DIRECTORS OF THE MANAGER



In the opinion of the Directors of Property Funds Australia Limited as Manager of the Garden Square Syndicate:

- (a) The accompanying financial statements and notes give a true and fair view of the Syndicate's financial position as at 30 June 2000 and its performance for the year ended on that date in accordance with the Corporations Law (including Sections 296 and 297 thereof), applicable Accounting Standards and the Syndicate Deed dated 22 December 1997;
- (b) In the director's opinion there are reasonable ground to believe that the Garden Square Syndicate will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the directors of Property Funds Australia Limited in accordance with a resolution of the Board.

C A Morton
Managing Director

D J Conquest
Director

Brisbane
20 September 2000

TRUST COMPANY OF AUSTRALIA LIMITED TRUSTEE'S STATEMENT AND REPORT

TRUSTEE'S STATEMENT

In accordance with the Corporations Law and the Syndicate Deed, Trust Company of Australia Limited A.C.N 004 027 749 ("the Trustee") as Trustee declares that:

- a) The accompanying financial statements and notes comply with Accounting Standards;
- b) The accompanying financial statements and notes give a true and fair view of the financial position and performance of the Syndicate; and
- c) There are reasonable grounds to believe that the Syndicate will be able to pay its debts as and when they become due and payable.

TRUSTEE'S REPORT

In accordance with the Corporations Law, Trust Company of Australia Limited A.C.N 004 027 749 ("the Trustee") in respect of the Garden Square Syndicate ("the Syndicate") reports as follows for the twelve (12) month period ended June 30, 2000

- d) A review of the Syndicate's operations during the twelve months and the results of those operations are contained in the Manager's Report and the financial accounts and accompanying notes relating to the Syndicate.
- e) Trust Company of Australia Limited has been the Trustee for the Syndicate throughout the period under review.
- f) As Trustee, it has caused the Manager to prepare the accounts which the Corporations Law requires.

For and on behalf of the Trust Company of Australia Limited A.C.N 004 027 749.


GEOFF FUNNELL
Authorised Representative

Dated: 20/7/00

GARDEN SQUARE SYNDICATE

INDEPENDENT AUDIT REPORT TO OWNERS



SCOPE

We have audited the Financial Statements of the Garden Square Syndicate for the financial year ended 30 June 2000 being the Property Profit and Loss Account, Syndicate Profit and Loss Account, Balance Sheet, Statement of Cash Flows, notes to and forming part of the accounts and Declaration by the Directors of the Manager. The trustee is responsible for the preparation and presentation of the financial statements and the information they contain. The manager has prepared the financial statements from accounting records maintained by the manager. We have conducted an independent audit of these financial statements in order to express an opinion on them to the owners.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus View), statutory requirements and the terms of the syndicate deed so as to present a view which is consistent with our understanding of the Garden Square Syndicate's financial position, the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

In our opinion, the Financial Statements of The Garden Square Syndicate are properly drawn up:

- (a) so as to give a true and fair view of:
 - (i) the state of affairs of the Garden Square Syndicate as at 30 June 2000 and their results and cash flows for the period ended on that date; and
 - (ii) the other matters required by Division 11 of Part 3.6 of the Corporations Law to be dealt with in the financial statements;
- (b) in accordance with the provisions of the Corporations Law;
- (c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements; and
- (d) in accordance with the terms of the syndicate deed.

20 September 2000
Brisbane

HACKETTS
Chartered Accountants



J L Hackett

DIRECTORY



MANAGER

Property Funds Australia Limited
ACN 078 199 569

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TRUSTEE

Trust Company of Australia Limited
ACN 004 027 749

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BRISBANE Q 4000

TAXATION ADVISER

BDO Kendalls
Level 18
300 Queen Street
BRISBANE Q 4000

DIRECTORS OF THE MANAGER

Rodney M Keown (Chairman)
Christopher A Morton (Managing Director)
Archibald N Douglas (Director)
Clive D Schultz (Director)
David J Conquest (Director)

REGISTRY

BDO Kendalls
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AUDITOR

Hacketts
Chartered Accountants
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SPRING HILL Q 4000

SOLICITORS FOR MANAGER

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