



PROPERTY FUNDS  
AUSTRALIA LIMITED

ACN 078 199 569

G A R D E N S Q U A R E



J O I N T I N V E S T M E N T

*G a r d e n C i t y , B r i s b a n e*

PROSPECTUS



## Investor Enquiries FREECALL 1800 687 170

*This Prospectus is dated 2 January, 1998 and was lodged with the Australian Securities Commission (A.S.C.) on the 6 January, 1998. The A.S.C. takes no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates. No Units or Interests will be allotted or issued on the basis of this Prospectus later than 12 months after the date of the issue of this Prospectus.*

*Neither the Trustee, the Manager, nor their associates or directors guarantee the success of the Joint Investment, the*

*repayment of capital or any particular rate of capital or income return.*

*The Trustee is not the issuer of this Prospectus and has not prepared this Prospectus. The Trustee makes no representation and takes no responsibility for the accuracy or truth of any statement or omission from any part of this Prospectus.*

*This Prospectus contains important information and you should read it carefully. If you have any questions, please contact the Manager on Freecall 1800 687 170, your stockbroker or professional investment adviser.*

# Garden Square Joint Investment



Property Funds  
Australia Limited

A.C.N. 078 199 569

Property Fund Managers

## Manager

Garden Square Syndicate  
&  
Garden Square Property Trust



## Trustee

Trust Company of Australia Limited

*Cover: Aerial view of Garden Square.*

*Left: The Property's 1.665 hectare site is extensively landscaped.*

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## Defined Terms

<b>Applicant:</b> A person or entity who submits an Application Form.	<b>Syndicate Deed:</b> The Syndicate Deed between the Manager and the Trustee dated 22 December 1997.
<b>Application Form:</b> An Application Form attached to the Prospectus.	<b>Syndicate Offer:</b> The offer of an Interest in the Syndicate.
<b>A.S.C.:</b> The Australian Securities Commission.	<b>The Deeds:</b> The Trust Deed and the Syndicate Deed.
<b>Corporations Law:</b> The Corporations Law of Queensland.	<b>The Property or Garden Square:</b> The office park comprising the commercial property and land known as Garden Square bounded by Kessels Road, Macgregor Street and the South East Freeway, Upper Mt Gravatt, Brisbane, Queensland.
<b>Interest:</b> The percentage interest of an Owner in the Syndicate assets.	<b>Trust:</b> The Garden Square Property Trust established by the Trust Deed.
<b>Investor:</b> An investor in the Syndicate or the Trust.	<b>Trust Deed:</b> The Trust Deed between the Manager and the Trustee dated 22 December 1997.
<b>Joint Investment:</b> The ownership of units in the Trust or of an Interest in the Syndicate.	<b>Trust Offer:</b> The offer of units in the Trust.
<b>Manager:</b> Property Funds of Australia Limited A.C.N. 078 199 569.	<b>Trustee:</b> Trust Company of Australia Limited A.C.N. 004 027 749.
<b>Owners:</b> Investors in the Syndicate.	<b>Unitholder:</b> A holder of units in the Trust.
<b>Prospectus:</b> This prospectus.	<b>Us:</b> the Manager.
<b>Subscription:</b> The amount as set out on an Application Form, paid by the Applicant and accepted by the Manager.	<b>We:</b> the Manager.
<b>Syndicate:</b> The Syndicate established by the Syndicate Deed between the Manager and the Trustee.	<b>You:</b> the Investors.

## Manager

Property Funds Australia Limited  
A.C.N. 078 199 569  
*Office*  
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127 Creek Street  
BRISBANE Q 4000  
Phone: (07) 3221 7170  
Fax: (07) 3221 6729  
*Postal Address*  
PO Box 10398  
BRISBANE ADELAIDE STREET Q 4000

## Directors of the Manager

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

## Valuer

Arthur Andersen  
Level 31  
Comalco Place  
12 Creek Street  
BRISBANE Q 4000

## Auditor

Hacketts  
Chartered Accountants  
220 Boundary Street  
SPRING HILL Q 4000

## Trustee

Trust Company of Australia Limited  
A.C.N. 004 027 749  
213 St Paul's Terrace  
BRISBANE Q 4000

## Taxation Adviser

Kendalls KBM  
Level 18  
300 Queen Street  
BRISBANE Q 4000

## Financial Adviser

Kendalls Securities Limited  
Level 18  
300 Queen Street  
BRISBANE Q 4000

## Registry

Kendalls KBM  
Level 18  
300 Queen Street  
BRISBANE Q 4000

## Solicitors for the Manager

McCullough Robertson  
Level 12  
Central Plaza II  
66 Eagle Street  
BRISBANE Q 4000



**“We introduce through this Prospectus the opportunity to share in the benefits of owning a quality commercial property offering:**

- an attractive income return**
- security**
- tax effectiveness**
- capital gain potential.”**

*Rodney M Keown, Chairman  
Property Funds Australia Limited*



## Attractive and Tax Effective Distributions

Forecast distributions are shown in this table.

Year To	Distributed Return on Equity	% Tax Free/Tax Deferred
30/6/1998	10.5% p.a.	150%*
30/6/1999	10.5% p.a.	94%
30/6/2000	10.85% p.a.	73%
30/6/2001	11.2% p.a.	58%
30/6/2002	11.55% p.a.	47%
30/5/2003	12.05% p.a.	38%

Tax effective distributions of this nature are not usually available to the private investor market.

### Security

Garden Square is in the privileged position of having 86% of its income secured by leases to Coles Myer and government departments. We believe that the quality of these tenants significantly enhances the security of your investment (*see Section 2*).

### Monthly Payments

Distributions will occur monthly. This is a feature which is not common in many property syndicate or property trust investments.

### Single Property Investment

You are investing in a single property and not an investment vehicle such as a diversified property trust which can change its investments without reference to you.

### Less Volatile Value

Unlike investments in listed shares or property trusts, investments of this nature generally have significantly less fluctuations in value.

### Choice Of Investment Method

You can invest directly in the Syndicate or via the Trust. This allows you to choose the type of investment vehicle that best suits your circumstances.

### Experienced Management and Trustee

Your investment will be managed by Property Funds Australia Limited (the Manager). This company has an experienced board with a wide variety of relevant background skills and experience to maximise the performance of your investment.

Trust Company of Australia Limited is the trustee. It has been established for 112 years. It is the trustee of your investment and will hold all Investor application money in trust pending settlement of the purchase.

\* The tax free/tax deferred component of this part year is forecast to be in the vicinity of 150% assuming a 1 March 1998 settlement date. The percentage will be higher the later the settlement date.

**This page contains a summary of the main features of this investment. To make an informed assessment of this investment you must read the whole Prospectus.**

***Your investment should be viewed as long term as it is considered to be illiquid because there is unlikely to be a secondary market. Investors have no right to require their investment to be bought by the Manager or any other person, or to have their investment redeemed.***

*Left: Aerial of Garden Square looking towards Garden City Shopping Centre and onto the Australian Tax Office building. The Property is outlined in red.*



*Garden Square comprises two separate commercial office buildings, one of three storeys and one of four storeys.*

**These 2 pages contain a summary of the main features of this investment.**

**To make an informed assessment of this investment you must read the whole Prospectus.**

### **Q1** What is the minimum investment?

The minimum investment is \$10,000.

### **Q2** In what property am I investing?

The Garden Square Office Park at Upper Mt Gravatt, Brisbane. It is located in the Garden City business centre which is the largest of Brisbane's regional centres.

### **Q3** How can I invest in the property?

You have two options. Firstly, you can invest as an Owner in the Garden Square Property Syndicate with all Owners having a direct interest in the Property.

Alternatively, you can invest in the Garden Square Property Trust. This trust will be an Owner in the Garden Square Property Syndicate.

There is a choice so that you can choose the style of investment that suits your

circumstances. It is anticipated that Investors, such as superannuation funds, will prefer to invest in the Garden Square Property Trust.

### **Q4** Is the property well leased?

Yes. At the date of this Prospectus, the Property is 98.6% let. Coles Myer and government departments currently comprise 86% of the income. Coles Myer's tenancy which currently represents 60% of the office park's lettable area expires in December 2004.

### **Q5** What are my possible returns? When do I receive them?

You will receive monthly income distributions (estimated to be 10.5%pa on your investment in your 1st full year rising to 12.05% in the 5th year (see Section 11)). You may also share in capital gains depending upon the price achieved on sale of the Property.



**Q6****Are there any tax advantages in this investment?**

Yes. The Manager believes that 93.77% of the 1st full year's return will be tax free/tax deferred (*see Note 9, Section 11.2*). In fact, in the period to 30 June 1998, this percentage is expected to be even higher. Thereafter approximately 73%, 58%, 47%, and 38% of your distributions will be tax free/tax deferred in the 2nd, 3rd, 4th and 5th full years respectively (*see Section 11*). For Investors in the Syndicate there is a further tax benefit in that the initial cost base of your investment for capital gains tax purposes will be approximately \$1.95 for every \$1 that you subscribe (*see Section 9*).

**Q7****Who are the manager and the trustee?**

The Manager has broad skills and experience, with a property focus. The Manager is responsible for ensuring that the Property is managed in the best interest of all Investors.

The Trustee is Trust Company of Australia Limited which has over 112 years of history as a trustee company (*see Section 14*). The Trustee holds the title to the Property on your behalf and on behalf of the other Owners. The role of the Trustee is to protect your rights and interests and it is obliged to exercise due diligence and vigilance in carrying out its duties.

**Q8****How long are my funds committed?**

The Manager expects that the Property will be held for approximately 5 years and then sold. This timeframe has been selected by the Manager after consideration of the commercial property cycle and the tenancy profile of the building. There are circumstances in which the Property can be sold earlier (*see Section 18.9*). The Property cannot however be held for more than 8 years without all of the Owners agreeing.

You should plan to remain an Investor for the duration. There is no guarantee that you will be able to realise your investment prior to the sale of the Property.

**Q9****What are the borrowing arrangements?**

Investors are asked to Subscribe \$11.6 million. The Manager will arrange for a financier to provide loan funds to Owners to supplement their subscribed amount. A total of \$11.25 million in loan funds will be initially lent to Owners to enable the purchase price and other acquisition costs to be met. A further \$1.75 million borrowing facility will be initially arranged to meet some anticipated future expenditures and to enable relatively even monthly distributions. Borrowing arrangements for the Trust will be identical for all other Owners. The initial loan together with the \$11.6 million in subscription money will provide sufficient funds to cover the purchase price of the Property, acquisition costs, borrowing costs and fees. The financier will have rights against the Property and the Property's rental income. The financier will have no further recourse to the Investors (*see Section 9*).

**Q10****What is my liability as an investor to the financier?**

The basis of the borrowing arrangements is to limit the liability of Investors to their Subscription. (ie: You do not have any additional liability to the financier.)

**Q11****What happens to my subscription before completion?**

It is important to get your Subscription in early. Your money will be held for you by the Trustee and returned to you in full if for some reason the Joint Investment does not proceed (*see Section 5.3*), or if your application is not accepted. In the event that this occurs, you will receive interest on your money to the extent that it has earned interest whilst in the hands of the Trustee.



## 1.1 Advantages

Some of the benefits you access by investing in this Joint Investment are:

- You have a choice of **two investment options** tailored to suit your needs.
- You know exactly in which Property you have invested. This is a **single property Joint Investment** and no other property investment can occur in this structure.
- You benefit from the thorough **research, investigation and analysis** that has been conducted on the Property, to ensure as much as is possible, that your investment is a sound one.
- You benefit from the **skills** of the Manager, an organisation that has the **expertise** and broad professional skills which are important in delivering property performance.
- You are investing in a product which is aligned to **direct property investment**. Its performance is significantly governed by movements in the property market – not by any other market like the stock market which affects the performance of property products like listed property trusts.
- Your **distributions are untaxed** before you receive them and will then only be subject to tax at your individual rate.
- Owners have an **effective initial cost base** (for capital gains tax purposes) that is approximately twice the sum subscribed as the amount borrowed is treated as part of your cost base.
- You are able to participate in the **higher returns** available from a large quality property that are not usually available on smaller investment amounts.

*Garden Square contains 12,902.9m<sup>2</sup> of net lettable area, of which only 170m<sup>2</sup> is currently unlet.*

## 1.2 Rights of Investors

Owner rights are set out in the Syndicate Deed. Unitholder's rights are set out in the Trust Deed. Further rights are provided by the Corporations Law. Briefly your rights include:

- the right to receive a **certificate** evidencing your investment;
- the right to receive **distributions** proportionate to your investment;
- the right to receive regular **reports and accounts**;
- the right to have the Manager and Trustee perform their duties with **diligence** and vigilance in a proper and efficient manner;
- the right to request the convening of **meetings**;
- the right to **vote** at meetings;
- the right to have the Trustee or the Manager **removed** under the terms of the Deeds; and
- the right to **sell** or transfer your investment.



*Interior of Garden City Shopping Centre looking towards David Jones entry. The Shopping Centre is adjacent to the Property.*

## 2.1 Key Features of the Property

<b>Location</b>	643 Kessels Road Upper Mt Gravatt, Brisbane, Queensland
<b>Zoning</b>	Business – Regional Centre
<b>Nature of Title</b>	Freehold
<b>Site Area</b>	1.665 hectares

<b>Current Net Lettable Area</b>	12,902 m <sup>2</sup> (approx)
<b>Car Park Spaces</b>	418 (approx)
<b>Major Tenants</b>	Coles Myer Queensland Government
<b>Date of Construction</b>	1984

## 2.2 Location

The Property is located within the commercial and retail centre of the Garden City regional centre and is approximately 11 radial kilometres south of the central business district of Brisbane.

It is adjacent to the Garden City regional shopping centre which is one of Queensland's largest shopping centres occupied by major retailers such as David Jones, Coles, Woolworths and K-Mart. It is also close to several commercial and retail showroom developments. It is surrounded by substantial residential areas.

The Property is bounded by the South East Freeway (which connects Brisbane to the Gold Coast), Macgregor Street (which also bounds the Garden City regional shopping centre) and Kessels Road (a major arterial road which leads to the Gateway Arterial road system).

Significant occupiers of the area include major retailers, retail showrooms, small businesses and State and Federal government regional offices.

Public transport in the form of buses operate along Kessels Road. A park'n'ride facility is located 50 metres from the Property. A major bus terminus is located approximately 150 metres from the Property. A major busway system (called the South East busway transport system) is proposed by the State government. Under this proposal, a significant busway station will be located at or





The major bus terminus is located approximately 150 metres from Garden Square.

about the current bus terminus.

The Property is ideally located for a regional office development having the benefit of the large Garden City retail complex across the road from it to service the retail needs of tenants, a child care facility 20 metres from the Property (a facility which is increasingly sought after by tenants) and ready access to public transport. AMP have announced the development of a 16 cinema complex across the road from the property in Macgregor Street.

### 2.3 Site Details

The land is irregular in shape with a frontage to Kessels Road of approximately 87.6 metres, a rear boundary alignment to the South East Freeway of 182.62 metres and a frontage to Macgregor Street of 147.7 metres.

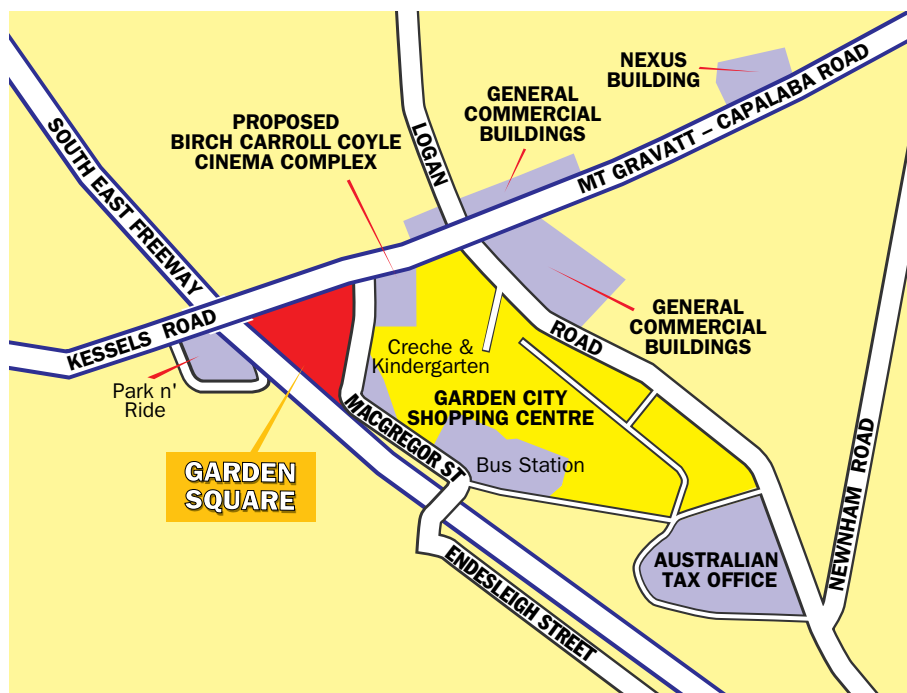
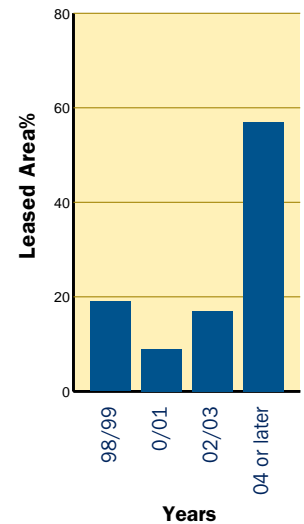
### 2.4 Improvements

The Property comprises two separate commercial office buildings – one of three storeys and one of four storeys. Each building is divided into two separate blocks known as blocks “A” and “B” and blocks “C” and “D”. The basement level provides what is essentially under cover parking for 193 vehicles. A further 225 open car parking bays are provided in two separate parking areas to the east and north of the buildings.

### 2.5 Lease Expiry Profile

The accompanying graph represents the lease expiry profile for the Property.

GARDEN SQUARE LEASE EXPIRIES





*The open parking area outlined offers potential for the development of up to 14,500m<sup>2</sup> of additional net lettable area for the Property.*

## 2.6 Vacancies

As at the date of the issue of this Prospectus approximately 170m<sup>2</sup> representing 1.4% of the Property's total net lettable area is unlet. The vendor of the Property has agreed to guarantee the rent from this area for 2 years.

## 2.7 Development Potential

A town planning analysis has concluded that should additional car parking be constructed on the site by means of underground or above ground parking, there is potential for further development of up to 14,500m<sup>2</sup> of additional net lettable area on the land. This means that potentially the amount of development on the land could double its current size. Due to the zoning of the land, the type of development that is permitted is broad and includes offices, residential, hotel, retail and clubs. A further building of up to 10 storeys is currently permitted upon the land.

The Manager has no current proposal for further development. However, some limited further expansion may be contemplated during the term of the Joint Investment should it be in the interests of the Owners.

The potential to build further on the land is a positive market value feature whether or not any further development is undertaken during the life of the Joint Investment.

## 2.8 The Tenants

**Tenant Income:** Garden Square offers comparatively stable income during the anticipated life of the investment particularly due to the Coles Myer and government tenancies. The income from the Property will increase in accordance with the lease conditions based on:-

- CPI; or
- market review; or
- automatic minimum increases.

## Tenancy Schedule:

Tenant	Area (m <sup>2</sup> )	Annual Rent	Lease Expiry Terms	Option
1. Coles Myer Ltd	7,687.6	\$1,391,455.56	02/12/04	5 + 5
2. Queensland Government (Q-Build)	1,780	\$427,200.00	31/08/02	2 + 2
3. Queensland Government (DEVETIR)	872.7	\$191,994.00	31/10/99	2 + 2
4. Hanover Holdings Pty Ltd	908	\$166,471.80	30/09/00	5 + 5
5. Wilson & Chan Pty Ltd	110	\$26,400.00	31/05/02	5
6. Queensland Government (Regional Health)	880	\$202,399.92	30/06/98	3
7. Commonwealth of Australia (Comm. Rehabilitation Service)	190	\$45,600.00	31/05/98	n/a
8. Breakwater Island Limited	151	\$32,465.04	31/12/97	**
9. Kedcorp Pty Ltd	153.6	\$45,722.88	31/10/99	*
10. Vacant Area	170			
<b>Total Current Net Lettable Area</b>	<b>12,902.9</b>			

\* Agreement has been reached for the extension of this lease term. This agreement is subject to the finalisation of formal legal documentation.

\*\* Negotiations are currently occurring for an extension of this lease term.

## Major Tenants

**Coles Myer Limited** lease approximately 60% of the net lettable area of the Property on a lease which expires on 2 December 2004. The Manager believes that this tenancy underpins the stable income flow to Investors. Coles Myer currently sub-leases portions of its space to a variety of government related tenants. The Manager believes that these sub-tenancies are advantageous to the long term interests of the Owners of the Property. Assuming that Coles Myer does not seek an extension of its term, then at the expiry of the Coles Myer lease the sub-tenancies create an enhanced opportunity to secure direct tenancies from any sub-tenants of Coles Myer at that time. The Manager believes that this is a more favourable situation than if Coles Myer occupied all of its leased space.

**The Queensland Government** currently leases approximately 27% of the net lettable area of the Property in three separate direct tenancies comprising part of blocks C and D. The larger tenancies are for the purpose of the Department of Health and a regional office of Q-Build, the Queensland Government body responsible for construction services.



*Queensland Government agencies lease approximately 27% of the Property's net lettable area, including the Department of Training and Industrial Relations.*



*Continued improvement in office occupancy levels within the Brisbane CBD market is expected in the next few years.*

### 3.1 General Office Markets with a Brisbane Perspective

Along with most cities in Australia, the Brisbane office market has been recovering from an oversupply of space created by excess building in the late 1980's and the recession of the early 1990's. Brisbane CBD vacancy rates were not as adversely affected as other capital cities and did not reach the same "high" as other cities. Rental rate growth was substantially restrained as a result of the oversupply and weak demand in the early 1990's.

Rental rates in the Brisbane market have slowly improved over the past 3 years although rents are still well below the level required to justify new development. Continued improvement in office occupancy levels is expected in the next couple of years. Expected dwindling supply of vacant space both in the general Brisbane market and the Upper Mt Gravatt market will inevitably cause rents to increase to a level where new construction will be justified.

Whilst low inflation is a negative factor in rental growth, supply and demand is a more dominant factor in an area such as Brisbane where comparatively strong population growth is projected and the consequent demand for office space will continue to grow. As the existing stock of vacant office space reduces and the new supply is constrained by current low rents, existing rents will increase, with a corresponding increase in the capital value of the existing

office stock.

The recovery of the office market within Upper Mt Gravatt should be significantly linked to the upswing in the Brisbane CBD and CBD fringe office markets which have shown recent signs of recovery. Once strong effective rental growth is experienced in these markets, key issues such as affordability, parking and access will once again become important for many tenants. The cheaper established suburban markets will then prove to be increasingly viable alternatives as CBD vacancy rates fall further. Rental rates and capital values should then increase in those markets which should filter through to the regional suburban markets such as the Garden City regional centre as economic growth continues in the medium term.

### 3.2 Upper Mt Gravatt Overview

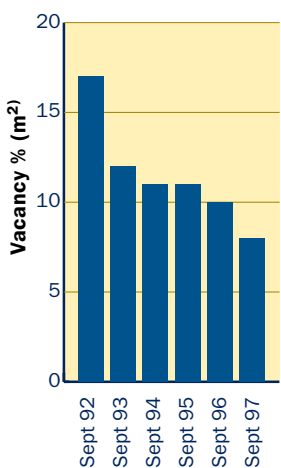
Garden Square is located in the Upper Mt Gravatt area approximately 11 radial kilometres south of the Brisbane CBD. It is the largest regional office precinct within Brisbane. It has now become recognised as the Garden City regional business centre with approximately 63,000m<sup>2</sup> of office space. The Property represents approximately 20% of the total office space in this regional centre. The largest office building within the region is the Mt Gravatt Australian Taxation Office which represents approximately 24% of the total office space in this regional centre.

### 3.3 Upper Mt Gravatt Office Vacancy Factor

The graph at left represents the total vacancy factor for the Upper Mt Gravatt office area since 1992. The historical vacancy factors have been estimated by Knight Frank Research. The vacancy factor is estimated to stand at approximately 7.9% at September 1997, the lowest on record for the period since 1992 when the vacancy factor was approximately 18%.

The downward trend over the last two years has been initiated by positive net absorption of the remaining vacant space within the region without any large scale increase of new supply within the region over the past four years.

**UPPER MT GRAVATT OFFICE MARKET VACANCY**



Source: Knight Frank Research



The Brisbane 2011 Plan has identified the Upper Mt Gravatt retail/commercial area to increase from 7,500 persons in 1991 to 20,500 persons employed in the area by the year 2011. It is predicted that the Upper Mt Gravatt area will experience employment growth during this period of 161% or 8% p.a.. This is the highest percentage increase projected for those areas that the Brisbane City Council has identified as significant employment areas for commercial purposes.

### 3.4 Growth in the Upper Mt Gravatt Office Rentals

Following the downward trend in the office vacancy factor, a moderate growth in the average indicative rental level for the Upper Mt Gravatt Region has occurred. The graph opposite indicates the average net effective rental levels achieved for the Upper Mt Gravatt Region since September, 1992.

### 3.5 Upper Mt Gravatt Office Capital Values

The underlying capital value of commercial buildings in the Upper Mt Gravatt Region has remained reasonably steady over the past 5 years falling within a range of approximately \$1,600/m<sup>2</sup> – \$2,250/m<sup>2</sup> at September 1997. The Property is being acquired at \$1,600m<sup>2</sup>.

### 3.6 Upper Mt Gravatt Business Composition

According to the Upper Mt Gravatt Regional Business Centre Local Area Plan (July, 1997) the ratio of public sector -v- private sector tenants in total space leased in the centre is 53% public sector and 47% private sector. This indicates a greater emphasis towards the public sector in this region than in the Brisbane CBD and its fringe.

### 3.7 The History and Growth of Commercial Regional Centres

The growth of commercial regional centres has historically received strong state and local government support to overcome the inherent problems of pursuing a centralised development approach such as traffic

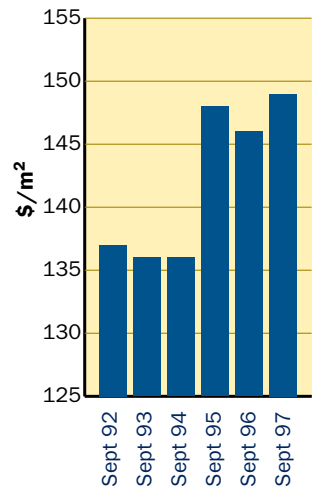
problems and increased infrastructure costs. The concept of decentralisation of office buildings and associated land uses to key existing suburban centres has evolved. The process commenced initially in New South Wales and has since been followed in other states and territories of Australia.

The Upper Mt Gravatt Business Centre Local Area Plan acknowledges that the intention to develop the Upper Mt Gravatt Area as a regional business centre has been a clear and consistent part of Brisbane City's strategic policy since 1975.

The Brisbane City Council has planned a series of initiatives relating to decentralisation, one of which is the policy of restricted parking volumes in the Brisbane CBD and relying on increased usage of the public transport systems.

Combining the policy initiatives of state and local governments with the recognition of increasing journey times to CBD workplaces suggests that there will be an increasing acceptance of designated suburban office locations in the future.

**UPPER MT GRAVATT EFFECTIVE OFFICE MARKET RENTALS**



Source: Knight Frank Research



*The Australian Taxation Office is one of a number of government departments located in Upper Mt Gravatt to service the expanding surrounding region.*

# 4 Why Buy This Property?

The Manager has reviewed and assessed a number of properties to find an investment that provides the necessary security, offers a sound attractive income with potential for income growth and capital gain. The Garden Square property has been selected as it is our belief that it meets these objectives.

Some of the fundamental issues that we have considered in forming our view as to the prudence of acquiring Garden Square, are explained below.

## 4.1 Strengths and Security

We believe an investment in Garden Square to be logical and secure due to the following factors:-

**Strength of Tenants:** Over 88% of the current income in the building is payable by Coles Myer Limited and government tenants;

**Good Lease Terms:** The lease expiry profile of the Property is good with comparatively few short term income streams in the building. This is considerably aided by the Coles Myer Limited lease not expiring until December 2004 and the Queensland Government Q-Build lease not expiring until August 2002.



*Coles Myer Limited have a lease for approximately 60% of the Property's net lettable area expiring in December 2004.*

**Location:** For an office park, Garden Square is ideally located in that it has the following locational features which greatly enhance its attractiveness to tenants:-

- close proximity to services that staff desire such as food and retail facilities, banking and child care;
- close proximity to public transport, and in

particular the Garden City bus station;

- relatively cheaper car parking rates being a suburban location; and
- high visibility from major roads such as the South East Freeway and Kessels Road.

**Large Floor Plate:** Garden Square has large floor sizes in all of its blocks. Large floors are sought by government and large corporate tenants due to the spatial efficiency that they provide. This means that the nature of the tenant that will generally occupy the building is likely to have a better ability to pay rent than a smaller tenant.

**Regional Centre:** The Brisbane office market has (due to the nature of the city) been more dominated by government office requirements than say Sydney and Melbourne which have a stronger corporate base. Buildings which are more focussed towards government requirements will, in the long term, in a city such as Brisbane, have a good chance of regular occupancy. Government tenants in Brisbane currently appear more disposed towards regionalisation than corporate tenants. Regional centres such as the Garden City regional business centre will become increasingly popular as traffic congestion increases along the major arterial roads and freeways leading towards the Brisbane CBD.

**Development Potential:** The ability to be able to construct up to another 14,500m<sup>2</sup> of net lettable area upon the land and up to 10 storeys provides flexibility for a future owner, particularly when this regional centre further consolidates. The wide variety of uses permitted within the land's zoning is a further benefit.

**Cost of New Buildings:** The rents currently paid under leases in the Property are significantly below those rents which are required to justify new office developments in the immediate region or Brisbane generally.

This provides a significant cost advantage to the owners of existing office buildings which are in a reasonable state of repair.

**Good Employment Growth Area:** The Property is in a good employment growth area. The Brisbane SEQ 2011 draft policy paper on economic development and employment projects an average annual employment growth rate in the Upper Mt



*The Leslie Suggars Childcare Centre is located approximately 20 metres from Garden Square.*

Gravatt area of approximately 8% p.a. or 161% over the period between 1991 and 2011. This is one of the highest increases projected for Brisbane commercial employment areas and significantly exceeds the growth projections for Brisbane CBD and it's fringe. The increase in employment will mean the demand for office space should increase thereby reducing vacancy rates and providing the potential to increase rental rates.

**Coles Myer Sub-tenancies:** Coles Myer does not occupy all of its leased space. It currently subleases a significant portion of its space to a variety of government related tenants. The Manager believes that these sub-tenancies which represent approximately 50% of the Coles Myer lease area create an enhanced opportunity to secure direct tenancies from any sub-tenants of Coles Myer at, or prior to, the expiration of the Coles Myer lease. This considerably reduces reliance on securing a large area tenant at expiration of the Coles Myer lease, which is often a disadvantage with very large 'sole' occupants.

## 4.2 Weaknesses

**Subdivisability of Floors:** Whilst the large floor plates of Garden Square are an advantage in attracting government and large corporate tenants, they can be difficult to subdivide into smaller areas without the creation of greater than desired common areas. This means that rents need to be marginally increased (eg. by up to 5%) to justify the creation of these additional common areas so as to attract smaller tenants.

**Focus on Regionalisation:** Should the trend towards regionalisation not continue in Queensland then the logic of acquiring a regional office park is not as strong. However, we believe the regional trend is well entrenched and will continue.

**Lack of Pedestrian Focus:** From an architectural and user perspective the office park currently lacks a defined pedestrian point of entrance. Whilst vehicular entrance points are clear, there is no clear pedestrian arrival point. The Manager has provided in its cashflow forecasts for the expenditure of money to improve this aspect of the Property.

## 4.3 Opportunities

**Further Development:** The land has the potential for further development of buildings comprising up to 14,500m<sup>2</sup> of additional net lettable area should market opportunities arise.

**Potential for Increased Car Park Income:** There are a significant number of car parks on the Property which are not currently income producing for which a charge could be made for their use. This would increase the net income and the



*Office buildings located in the Upper Mt Gravatt retail/commercial precinct, an area identified by the Brisbane 2011 Plan as increasing its workforce from 7,500 in 1991 to 20,500 by 2011.*



*In January 1998 work will commence on a 16 screen cinema complex to be located at Garden City Shopping Centre. The MEGAPLEX Senstadium™ cinema complex is scheduled to open in late 1998 and will be operated by Birch Carroll & Coyle.*

consequent capital value of the Property. Car park control procedures would need to be implemented to bring this about. Capital expenditure for the introduction of car park control mechanisms has been allowed for in the Property's cashflow forecast.

**Increased Services:** The construction of a 16 cinema complex with associated facilities opposite the Property in Macgregor Street and the Queensland Government's proposed South East transit busway project will both increase the services and infrastructure available to the Property and create further opportunities.

**Market Review Growth:** We believe that there are good prospects for medium term rental growth. The Coles Myer lease has a market review in 1999. We expect an increase in rent at that time.

**The Upper Mt Gravatt Local Area Plan (July 1997):** This plan indicates a strong desire by the Brisbane City Council to

'pedestrianise' the Garden City regional business centre thereby increasing its livability. Particular focus is upon the Garden City retail centre. Should these proposals develop they will enhance the attractiveness of all office developments located in the Garden City regional centre.

#### 4.4 Threats

**New Office Supply:** The construction of new office space is traditionally considered a threat. We are not aware of any significant new office supply in the regional centre which would create any further competition for tenants or increase vacancy rates. To justify new office commencements greater rents than are currently paid in the regional centre would have to be paid. Whilst new construction might be viewed as a threat, it in fact can be beneficial in triggering the opportunity for existing office buildings to increase their rents.

### **A Larger Regional Centre in Beenleigh:**

Currently the Beenleigh regional centre is in a fledgling state. We believe it is difficult for the government to justify the location of its offices in that centre until a greater surrounding population base evolves to create a customer service demand from that centre. In the long term however, a regional centre such as Beenleigh will develop, consolidate its population base, and thereby provide greater justification for the location of regional offices at Beenleigh rather than the Garden City regional centre. Beenleigh is a logical mid-way point between Brisbane City and the Gold Coast City.

### **4.5 Strategy**

The Manager after detailed consideration of the strengths, weaknesses and opportunities of the Property has developed a strategy to add value to it that includes the following actions:

- to create increased awareness by potential tenants (particularly government) of the locational advantages and features of the Property;

- to assess small scale value adding development opportunities for the Property on a non-speculative basis (eg. significantly pre-let);
- to monitor opportunities that may arise with Coles Myer sub-tenancies to secure a longer term tenancy profile;
- develop through improved design better floor sub-divisional layouts;
- to construct an improved entrance statement to the Property;
- to introduce, at an appropriate time, fees for car parking bays that are not currently income producing;
- to maximise market rent reviews; and
- to take a pro-active role in the pedestrianisation of the Garden City Precinct.

The Manager believes there is potential for a firming of yields for this type of property over the medium term which will also enhance the Property's capital gain potential.



*A section of the Property's open car parking area which has the potential to be developed as possible new office, residential, hotel, retail or club space.*

# 5 Purchase Arrangements

## 5.1 The Contract

An option agreement has been entered into for the purchase of the Property for \$20.65 million. The option period allows time to prepare this Prospectus and raise the necessary funds to complete the purchase. Settlement is to be 7 days after the minimum subscription is received under this Prospectus but no later than 8 April 1998. Settlement could be as early as February 1998.

The Property is one of the assets of the National Australia Property Fund. The Manager of that fund has advised that it is disposing of the Property as part of a repositioning of the portfolio of that fund.

## 5.2 The Yield

The valuers have advised that at the purchase price of \$20.65 million the Property shows a purchase yield of 11.3%.

Yield in this context is the passing net income in the first year post valuation divided by the purchase price.

This yield is attractive and reflects the excellent buying opportunities that exist at the present time. This is particularly so given the low interest rate environment that currently exists. The purchase price is attractive particularly given the value placed upon the Property and the contract to purchase it in the independent valuation of Arthur Andersen at \$21.6 million – almost 5% more than the purchase price (*see Section 17*).

## 5.3 The Purchase Procedure

The Manager has entered into an option agreement with the vendor of the Property. Once full Subscriptions have been received, the option agreement will be assigned to the Trustee who will then complete the purchase as the nominee of the Owners.

Until the purchase is settled, all subscription monies will be held by the Trustee in a bank account established for that purpose. Interest earned on that money belongs to the relevant Investor. If the purchase is not completed within the terms set out in this Prospectus or if \$11.6 million is not subscribed, then the Trustee will refund all Investors' subscriptions in full together with interest earned thereon (less any bank charges, taxes and trustee fees).



*Garden Square is currently leased to a range of quality tenants, including Coles Myer Ltd, the Queensland Government and the Commonwealth of Australia.*

## 6.1 Investment Options

There are two investment options available to Investors who wish to acquire an interest in the Property:-

- as an Owner who invests directly in the Garden Square Property Syndicate; or
- as a Unitholder who invests in the Garden Square Property Trust. The Trust then invests in the Garden Square Property Syndicate.

Both methods of investment allow the Investor to participate in an investment in a style of quality commercial property which is not usually accessible with small investment amounts. The nature of the investment is fundamentally 'equivalent' to a direct property

investment rather than units in a listed property trust which is considered an indirect property investment. The performance of the investment can therefore be expected to be more in line with the property market rather than the share market or the listed property trust market.

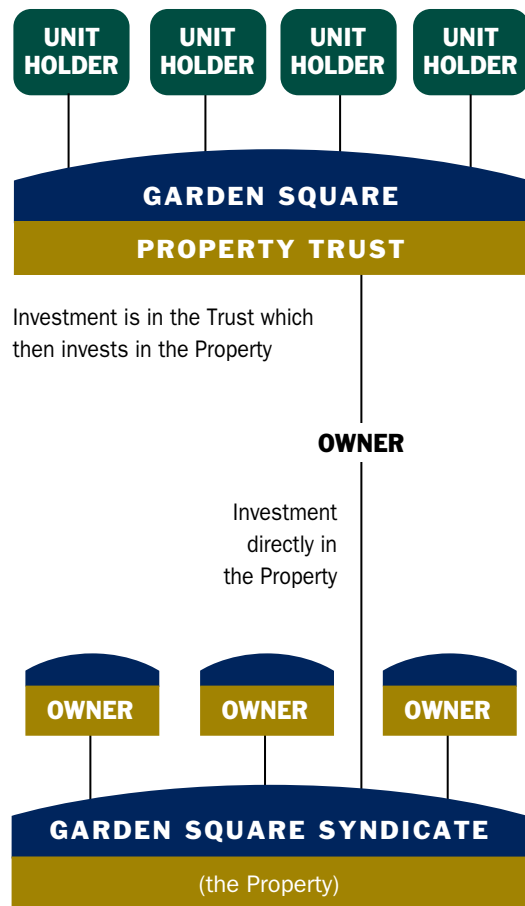
This is important for investors seeking to allocate their available funds across a range of investment sectors and cycles.

## 6.2 Why the Different Investment Options?

Owners in the Garden Square Property Syndicate are authorising the Manager to borrow money on their behalf subject to the terms of the Prospectus (*see Section 9*).

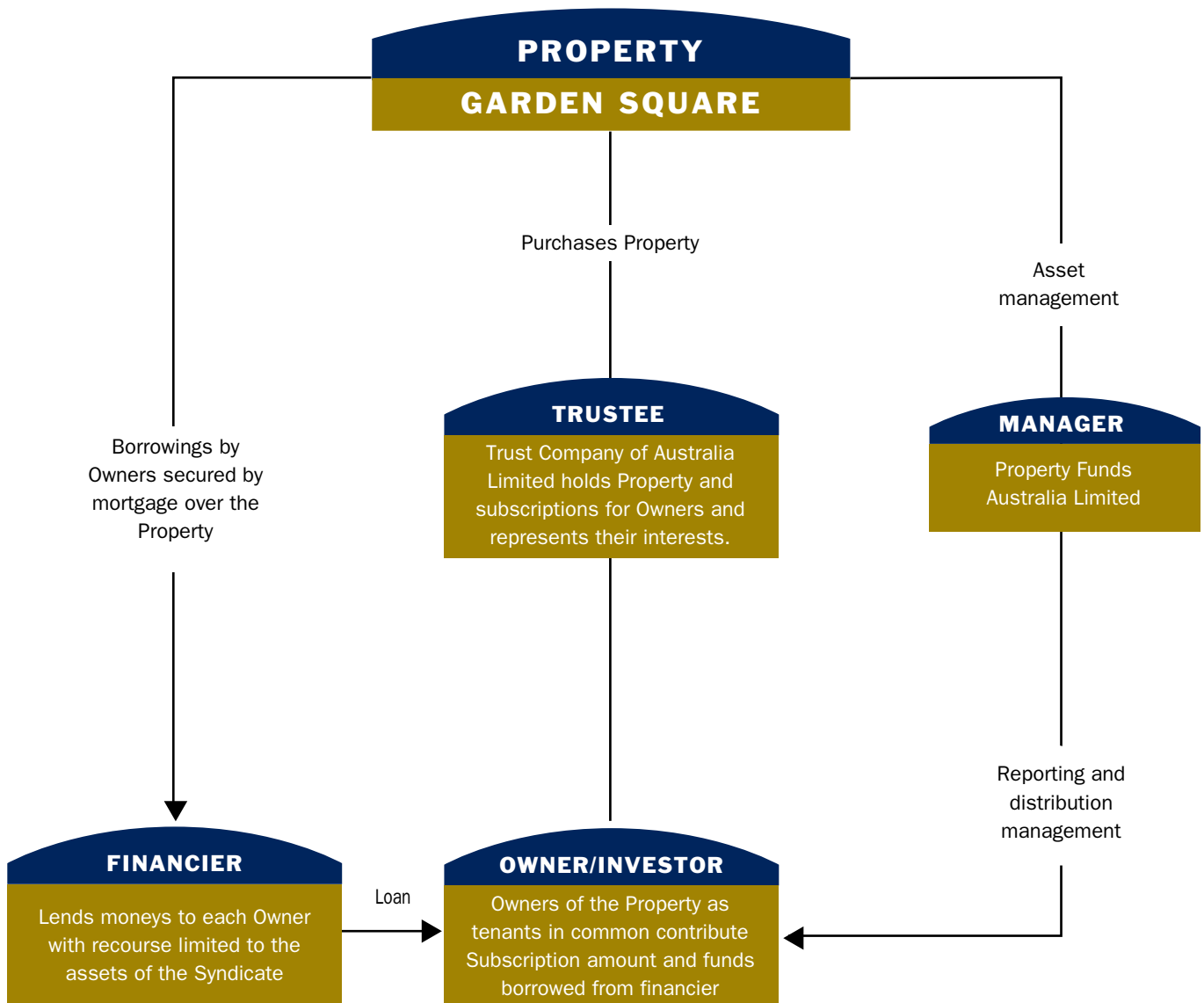
Certain categories of investors are however unable to or do not wish to borrow in their own right (for example, complying superannuation funds). For this purpose, the Garden Square Property Trust has been established to facilitate the opportunity of this category of Investor to invest in the Property. In this case, the Garden Square Property Trust as an Owner will borrow money that would otherwise be borrowed directly by the investor thereby providing an Investor in the Trust with leverage or gearing.

The diagram at left shows the relationship between the Syndicate and the Trust.



# 7 Syndicate Structure

The Syndicate structure is set out in the diagram below.



## 7.1 Syndicate Deed

The Syndicate Deed is the document which governs the relationship between the Manager, the Trustee and the Owners.

## 7.2 Owners

The Syndicate Investors are the Owners. Each owns the Property in the proportion that their investment bears to the total Subscriptions.

## 7.3 Trustee

Because it is impractical to have all Owners registered on the title, Trust Company of Australia Limited (the Trustee) holds the Property for the Owners as the Owners'

nominee pursuant to the terms of the Syndicate Deed.

## 7.4 Financier

The financier provides loans initially totalling just under 50% of the purchase price and associated acquisition costs. The Owners (including the Trust) are the borrowers. Their liability is limited to their interest in and entitlements from the Property. **The financier will have no recourse to an Investor's other assets.** The Property will be mortgaged and a charge over income received by the Trustee on behalf of the Owners will be provided in favour of the financier.



## 7.5 Manager

Property Funds Australia Limited is the Manager and is responsible for the management of the Syndicate under the terms of the Syndicate Deed.

## 7.6 Time Frame of the Syndicate

The term of the Syndicate is 8 years from the settlement of the Property. This term may only be extended if all Owners agree.

The Property can however be sold earlier:-

- if a resolution of 75% (by value) of Owners is passed at a meeting of Owners and at least 25% (by value) of Owners eligible to vote do so; or
- if in the opinion of the Manager and the Trustee it is desirable to do so providing that after costs of sale and fees each Owner receives at least 120% of their Subscription.

**However, the Manager expects that the Property will be held for approximately 5 years and then sold.**

As property values can be cyclical and fluctuate, the Manager will keep sales options under review on a continual basis. Should an offer be made which the Manager and Trustee consider to be in the best interests of the Investors serious consideration will be given to it.

## 7.7 Subscriptions

**The minimum amount each Investor may invest is \$10,000. Subscriptions in excess of \$10,000 are to be in increments of \$5,000.** There is no pre-determined maximum subscription amount an Investor may invest. The Manager has the right to accept or reject any application in full, or in part.

The total funds to be raised under this Prospectus is \$11.6 million. The acquisition of the Property will not proceed if this amount is not raised in time to exercise the option to purchase the Property. The Manager will not accept subscriptions in excess of \$11.6 million. Subscriptions will be held by the Trustee until settlement of the Property. If for some reason the purchase does not proceed, the Trustee will refund subscriptions in full and the

borrowings referred to in Section 9.2 will not be drawn down.

The issue is intended to be closed as soon as it is fully subscribed. Any oversubscriptions will be refunded in full by the Trustee.

## 7.8 Owner's Interest in Syndicate

An individual Owner's proportion of ownership in the Property is determined by dividing the Owner's subscription by the total amount of all Subscriptions.

## 7.9 Ownership Statement

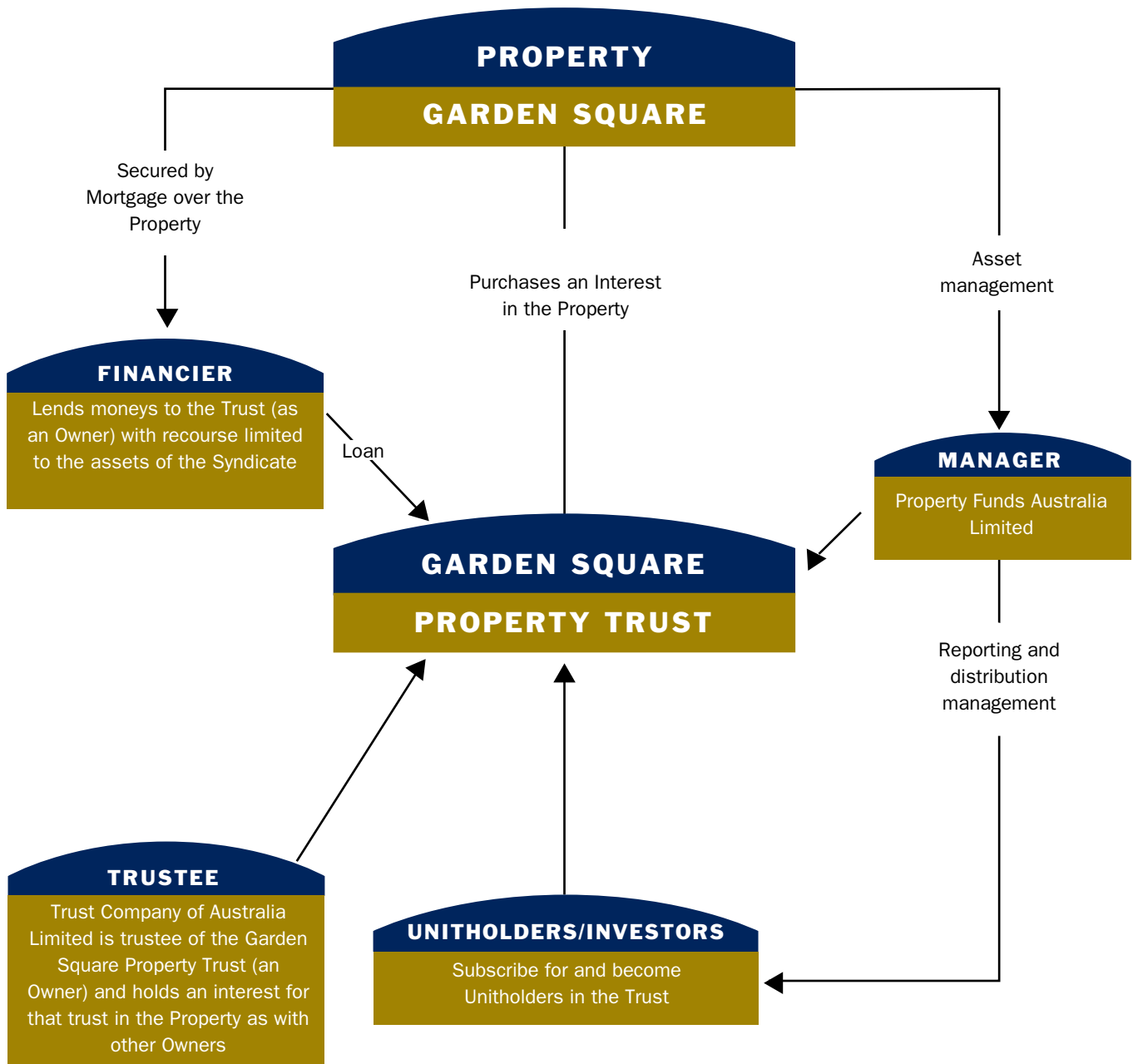
The Manager will issue an ownership statement to each Owner specifying the Owner's interest in the Syndicate. The statement will confirm the amount the Owner has contributed, the total amount contributed by all Owners and the percentage of ownership that Owner holds in the Syndicate assets.



# 8 The Trust Structure

This section is principally of interest to Investors such as superannuation funds who are unable or do not wish to directly borrow money.

The Trust structure is set out in the diagram below.



The Trust has been established for Investors resident in Australia who are unable or who do not wish to borrow in their own right to invest in the Property (eg. complying superannuation funds) by subscribing for units in the Trust which then invests in the Property as an Owner.

The basic framework of the Trust structure is set out in the diagram above.

## 8.1 The Trust Offer

The issue price is \$1 per unit payable in

full by Investors on application. For each \$1 subscribed for by Investors in the Trust, the Trustee will subscribe for an Interest in the Syndicate on the same terms as other Investors in the Syndicate. This means that the Trustee as trustee of the Trust, rather than the individual investors in the Trust will borrow money under the limited recourse loan arranged by the Manager (see Section 9.3). Investors in the Trust will have no liability, for any borrowings undertaken by the Trustee as trustee of the Trust.

## 8.2 Periods of Trust Offer

The Trust offer will open and close at the same times as the Syndicate offer.

## 8.3 Allotment

The Manager reserves the right to allot less than the number of units applied for, or to decline any application. In such a case, any surplus application money will be returned to the applicant as soon as practicable after the offer closes. Interest (less bank charges, taxes and trustee fees) will be paid on money refunded.

## 8.4 Trust Deed

The Trust Deed is the document which governs the Trust and the relationship between the Manager, the Trustee and the Unitholders.

## 8.5 Trustee and Manager

The trustee and manager of the Trust are also the trustee and manager of the Syndicate. Neither the Manager nor the Trustee propose to charge a fee for the services they provide in those roles with the Trust whilst they have the same roles for the Syndicate.

## 8.6 Time Frame of the Trust

The term of the Trust is 8 years from the settlement of the Property purchase, the same term as the Syndicate. This may only be extended if all Unitholders agree.

However, the Manager expects that the Property will be sold and the Syndicate and Trust will end in approximately 5 years.

## 8.7 Subscription

The minimum subscription amount for units in the Trust is \$10,000 with subscription in excess of \$10,000 to be in increments of \$5,000. There is no predetermined maximum subscription amount an individual unitholder may invest in the Trust. The Manager has the right to accept or reject any applications for units in the Trust in full or in part. If for some reason the purchase does not proceed, the Trustee will refund subscriptions and the borrowings referred to in Section 9.3 will not be drawn down.

The Trust offer is conditional upon \$11.6 million being raised under this Prospectus. If the minimum subscription condition is not satisfied, application money received will be returned to Applicants.

The Trust offer is intended to be closed as soon as the Syndicate offer is fully subscribed.

## 8.8 Unitholders' Certificates

The Manager will issue a unitholder certificate to each Unitholder specifying the number of units held in the Trust. The statement will confirm the number of units held, the total amount subscribed by the Unitholder and the 'effective' percentage interest that the Unitholder has in the Trust and the Property.

Borrowing arrangements are an important and integral part of the Joint Investment.

## 9.1 Reason for Borrowing

The main reason for using borrowings to partly fund the investment is to improve the return on the equity invested by Owners. Improved returns are achieved in two ways:-

- firstly, interest rates are at historically low levels. It is currently possible to borrow at a rate below the yields available on quality commercial property. The positive difference between the interest rate paid and the yield from the Property results in an increased return on the funds invested;
- secondly, if there is an increase in the value of the Property, the debt level essentially remains unchanged so that the full amount of the increase in value is applicable to the equity invested. Of course, the opposite applies if a property decreases in value.

## 9.2 Borrowings by Owners (ie. Syndicate Investors)

By applying for an interest in the Syndicate, each Applicant will be granting the Manager a limited power of attorney (set out on the reverse side of the Application Form) to enter into a loan in the name of the Applicant.

Borrowings are in the name of the Owners and are in proportion to their interest in the Property. The cash equity subscribed by an Owner is added to the borrowings of that Owner (as arranged by the Manager) to make up the total contribution of funds to acquire that Owner's Interest.

The reason for combining both amounts and arranging funding in this way is to ensure that inflation indexation for capital gains tax purposes is calculated on the dollar value of the Owner's overall Interest in the Property rather than just the Owner's Subscription. This results in a more favourable capital gains tax outcome for Owners when the Property is sold. The indexation allowances which can be deducted when calculating capital gains tax liability will be much higher when using the full cost base of the Property rather than the Subscription amount. Although the Owners

are the borrowers, for practical purposes, the loans are arranged by the Manager and all documentation is executed by the Manager on behalf of the Owners under the limited power attorney. In other words, the Manager looks after all the documentation related to the borrowings. All the Owner need do is sign the Application Form.

## 9.3 Borrowings for Trust Investors (eg. superannuation funds)

Those Investors who are unable to, or choose because of their nature (eg. complying superannuation funds) not to borrow in their own name will still enjoy some of the benefits of borrowing as the Trustee on behalf of the Trust will borrow an amount equivalent to the money subscribed to the Trust. This provides similarly improved returns as a consequence of borrowing (*see Section 12*).

No power of attorney is given in favour of the Manager to effect the borrowing in the case of Investors in the Trust. Because of the nature of the structure the more favourable capital gains tax outcome which applies to Owners in the Syndicate (ie. inflation indexation being calculated on a higher cost base) does not apply to Unitholders in the Trust. In the case of complying superannuation funds, this is a product of the legislative difficulties applicable to those funds' inability to borrow.

Unitholders in the Trust are not a party to any borrowing arrangements as the Trustee as an Owner undertakes the borrowing. The Manager looks after all of the documentation related to the loan.

## 9.4 Limited Recourse Borrowings

The financier's security will be limited to the assets of the Syndicate. In the event of a default, the financier is not entitled to make a claim against an Investor's other assets.

In addition, no Investor will be responsible for any obligations of any other Investor.

## 9.5 The Initial Loan

The initial loan will be \$11.25 million, being slightly less than 50% of the total purchase price and acquisition costs.

Based on the terms of a detailed indicative letter of offer from a major bank, the Manager expects that the terms of the initial loan will be within the following parameters:-

- interest only payments during the term of the facility. Interest will be paid from the rental income of the Property;
- initial term of 5 years after which the loan will be required to be rolled over or renewed;
- based on applicable interest rates as at 6 January 1998 an interest rate of 6.9% pa (3 year fixed rate) or 7.2% pa (5 year fixed rate) would apply. However an interest rate of 7.75% pa has been used in the cash flow forecast; and
- an establishment fee of 0.2% of the principal which is part of the borrowing costs.

## 9.6 Gearing Level

The initial loan amount of \$11.25 million represents a gearing level of 54.5% of the Property's purchase price or just below 50% of the acquisition costs. The forecast net rental income of the Property represents a minimum interest cover of 2.6 times. The Manager considers this to be an appropriate level of borrowing which will enhance returns to Owners without creating a high level of risk.

## 9.7 Further Loans

To ensure some flexibility during the life of the investment, and in particular to meet capital expenditure, tenancy incentives and to assist in more even distribution payments a revolving facility will be arranged by the Manager. Based upon the current feasibility this borrowing will be a facility up to \$1.75 million during the forecast period of 5 years. Based on the current cashflow forecast most of this money will not be borrowed until after year 3.

The Manager and the Trustee also have the power to increase borrowings by the Owners for the purposes of improving, refurbishing and maintaining the Property. The total amount of any borrowings effected by the Manager is such that it is not to result in the total of all loans exceeding 75% of the Property's value.

At present the Manager is not intending that there should be any increase in the borrowings but believes some flexibility in a long term investment is desirable and prudent as a means of protecting and enhancing the value of the Property.

## 9.8 Replacement Loans

During the term of the investment, it may be necessary to roll over, renew or replace loans and the limited power of attorney on the reverse side of the Application Form authorises the Manager to arrange those replacement loans.



*Garden City Shopping Centre, located adjacent to Garden Square, is one of the Brisbane region's largest retail complexes.*

Cash distributions will be made on a regular monthly basis. This is unlike almost all property trust and syndicated property investments. The distributions will be made by electronic transfer to accounts nominated by you on your Application Form.

The Manager is responsible for deciding the amount of any distribution. In making this decision, the Manager will have regard to the future cash requirements and the overall position of the Joint Investment. It is however the Manager's intention to equalise the monthly distributions as much as is reasonably possible within a financial year.

A brief six monthly update report will be sent to Investors advising of the issues relating to your investment including the Property's investment performance.

Any enquiries (telephone or written) by Investors on the performance of the Joint Investment will be answered by the Manager by the Manager's investor relations personnel.

An annual report and audited accounts for the Syndicate will be sent to Owners within 90 days of the end of each financial year. In addition Unitholders will receive an annual report and audited accounts for the Trust. A distribution summary of each Investors distributions over the past year will also be forwarded around this time. The distribution summary will be accompanied by a statement showing the details needed by Investors to complete their individual tax returns.



## 11.1 Forecast

Set out below are the forecast cash flows. Forecast net property income from the Property is shown first and then forecast expenses are deducted to arrive at the amount of cash available for distribution. The assumptions and other details on which the forecast is based are set out in the notes following the forecast.

	Note	Year To	Year To	Year To	Year To	Year To
	1	30/6/99	30/6/2000	30/6/2001	30/6/2002	30/6/2003
		\$	\$	\$	\$	\$
<b>Revenue</b>						
Net Property income	2	2 353 906	2 519 376	2 417 634	2 274 682	2 660 517
<b>Expenses</b>						
Interest on initial loan	3	871 875	871 875	871 875	871 875	726 563
Interest on revolving facility	4	22 890	31 417	36 805	78 916	102 504
Management fees	5	136 423	142 215	138 654	133 651	147 155
Valuation fees	6	0	15 000	0	15 000	0
Trustee fees	7	15 130	15 130	15 130	15 130	15 130
Registry costs	8	3 120	3 245	3 375	3 510	3 650
Audit and accountancy	9	18 720	19 469	20 248	21 057	21 900
Sundry expenses	10	5 200	5 408	5 624	5 849	6 083
<b>Total Expenses</b>		1 073 358	1 103 756	1 091 711	1 144 988	1 022 985
<b>Cash Available for Distribution</b>	11	1 280 548	1 415 617	1 325 923	1 129 694	1 637 532
<b>Distribution Equalisation Fund</b>	12	62 548	157 017	26 723	(210 186)	239 732
<b>Proposed Distribution</b>	13	1 218 000	1 258 600	1 299 200	1 339 800	1 397 800
<b>Distribution as a Percentage of Equity</b>	14	10.5%	10.85%	11.20%	11.55%	12.05%
<b>Tax Free/Tax Deferred Component</b>	15	93.77%	72.74%	57.75%	46.87%	37.74%

### NOTES ON CASH FLOW FORECAST

#### Note 1 Forecast up to 30 June 1998

Income for the period to 30 June 1998 is not shown because of the potential variability of that time frame. However, the Manager forecasts that a distribution at the rate of 10.5% per annum would be paid for this period. The tax free/tax deferred component of this is expected to be in the vicinity of 150% assuming a 1 March 1998 settlement date. The percentage will be higher the later the settlement date.

#### Note 2 Net Property Income

Net Property income is based on the following assumptions:

- Individual leases have been reviewed in line with the lease terms. Where the expiry of a

lease occurs in a particular year, depending upon the nature of the tenant, tenant history, the nature of the fitout and the area of the relevant leased space, individualised forecasts are made as to the prospect of a vacancy or a renewal. In the case of forecast vacancies, an assumption is made as to any consequent letting up period that may follow that expiry.

- Provisions are made upon lease renewals or expiries as to any incentives to be offered to existing tenants or new tenants to lease that space, as well as refurbishment of space and leasing agent's fees.
- Where any lease rental rates are considered inconsistent with underlying market rates, the income has been adjusted up or down to a market rate at the expiry of the relevant lease term.

- CPI increases of 2% for the first financial year and 3% for the balance of the forecast period.
- Average market rental increases in comparable properties over the forecast period of 4.76% per annum compound.
- Outgoings and car park fees to increase in accordance with the above CPI projections.

### **Note 3 Interest on Initial Loan**

Based on applicable interest rates as at 6 January 1998 an interest rate of 6.9% pa (3 year fixed rate) or 7.2% pa (5 year fixed rate) would apply. However, an interest rate of 7.75% pa has been used in the cash flow forecast. The rate of 7.75% pa has been selected to allow a contingency for any upward movement in rates up to the drawdown date of the loan.

### **Note 4 Interest Rate on Revolving Facility**

The maximum borrowed amount for capital expenditure and other purposes is projected over the forecast period to reach \$1.75 million. As this facility will be on a 'revolving' basis, a variable interest rate will apply. An average interest rate over the forecast period of 7.5% per annum has been adopted.

### **Note 5 Management Fees**

Management fees are 0.25% of the gross value of assets under management and 3.5% of the net income (as defined in the Syndicate Deed).

### **Note 6 Valuation Fees**

An allowance for a full valuation of the Property every two years has been made, although the Syndicate Deed requires it only every three years.

### **Note 7 Trustee Fees**

Trustee fees are 0.07% of the gross value of the assets under management with a minimum fee of \$14,000 per annum. (See Section 15.3)

### **Note 8 Registry Costs**

Utilisation of an external registry service is assumed and has been based on estimates provided by Kendalls KBM.

### **Note 9 Audit and Accountancy**

Accounting and audit fees have been based on estimates provided by Kendalls KBM.

### **Note 10 Sundry Expenses**

Estimated expenses such as the cost of payment of distributions to Investors, preparation and mailing of reports and other general administration expenses.

### **Note 11 Cash Available for Distribution**

This is the estimated cash which could be distributed to Owners.

### **Note 12 Distribution Equalisation Fund**

This is an amount added to or taken from the cash available for distribution to ensure relatively even distribution levels.

### **Note 13 Proposed Distribution**

This is the amount forecast to be distributed to Owners.

### **Note 14 Distribution as a Percentage of Equity**

This is the proposed distribution expressed as a percentage of \$11.6 million equity.

### **Note 15 Tax Free/Tax Deferred Component**

The tax free/tax deferred component of the proposed distribution to Owners which is, tax free/tax deferred. (Refer to Section 11.2 for details on tax matters.)

## **11.2 Taxation Analysis**

For Owners, the Syndicate structure is particularly tax effective. Only part of the distributions you are expected to receive will be taxable income. A significant part of the income received is expected to be tax free or tax deferred (*see note 9*). These taxation benefits significantly come about as a result of the offset against income that is available due to the available building allowance and depreciation of the Property's plant and equipment. In addition, Owners will obtain the benefit of amortisation (i.e. writing off) of some of the borrowing and other expenses of establishing the Syndicate. The assumptions and other details on which the calculations are based are set out in the notes following.



	<b>Note 1</b>	<b>Year To 30/6/99 \$</b>	<b>Year To 30/6/2000 \$</b>	<b>Year To 30/6/2001 \$</b>	<b>Year To 30/6/2002 \$</b>	<b>Year To 30/6/2003 \$</b>
<b>Cash Available for Distribution</b>	2	1 280 548	1 415 617	1 325 923	1 129 694	1 637 532
<b>Less Deductions</b>						
Amortised borrowing costs	3	25 562	25 562	25 562	25 562	17 041
Depreciation of plant	4	942 250	714 250	547 700	423 900	330 550
Building allowance	5	148 100	148 100	148 100	148 100	148 100
Repairs & maintenance	6	26 250	27 563	28 941	30 388	31 907
<b>Total Deductions</b>		1 142 162	915 475	750 305	627 950	527 598
<b>Taxable Income</b>	7	138 385	500 142	575 620	501 744	1 101 413
<b>Proposed Distribution to Owners</b>	8	1 218 000	1 258 600	1 299 200	1 339 800	1 109 934
<b>Tax Free/Tax Deferred Component of Return</b>	9	93.77%	72.74%	57.75%	46.87%	37.74%

## NOTES ON TAX CALCULATIONS

### Note 1 Period to 30 June 1998

The tax analysis for the period to 30 June 1998 is not shown because of the potential variability of that time frame. Based on a 1 March 1998 settlement date the tax free/tax deferred component is expected to be in the vicinity of 150%. The percentage will be higher the later the settlement date.

### Note 2 Cash Available for Distribution

This amount is the cash available for distribution as shown in the cash flow forecast in Section 11.1.

### Note 3 Amortised Borrowing Costs

Borrowing costs for stamp duty and establishment, valuation and legal fees are estimated to be \$128,810. These costs are included as part of the estimated acquisition costs and may be claimed progressively over the term of the loan as tax deductions. There may be a minor variation in these figures dependent on the settlement date of the Property.

### Note 4 Depreciation of Plant

A tax deduction is allowed for depreciation of plant, equipment and other articles such as air conditioning plant, electrical, machinery and equipment, carpets, lifts, etc. The amount to be claimed has been independently assessed by a quantity surveyor in accordance with the terms

of the purchase contract. The diminishing value method has been used to determine annual deductions. Calculations are based on a projected settlement date of 1 March 1998.

### Note 5 Building Allowance

An allowance of 2.5% per annum on qualifying capital expenditure incurred in the construction of the building is available as a tax deduction. The amount of \$148,100 per annum has been determined.

### Note 6 Repairs & Maintenance

A regular ongoing level of general repairs and maintenance is provided for. In the period to 30 June 1999, provision is also made for \$33,333 for initial repairs and maintenance. A portion of these costs may be tax deductible when incurred.

### Note 7 Taxable Income

This is the forecast aggregate taxable income of Owners (*refer to Section 11.3 for information about Owners' tax returns*).

### Note 8 Proposed Distribution to Owners

This amount is the proposed distribution as shown in the cash flow forecast in Section 11.1.

### Note 9 Tax Free/Tax Deferred Component of Return

This is the estimated percentage of cash distributed to Owners which is tax deferred but tax free in the year received.

The annual distribution in excess of the taxable income is not subject to tax, to that extent they are tax free in that year. However, the deductions for depreciation, building allowance and some other items, which represent this annual tax free part of the distributions, will reduce the capital gains cost base of the Property or the investment in the Property. The lower cost base will have the effect of increasing a capital gain, or reducing the amount of capital loss, made on the sale of the Property. As such, the tax liability on this portion of the cash distributions is effectively deferred until the Property is sold. However, should a capital loss upon sale of the Property occur then the tax free component remains tax free.

Until the 1997 Federal Government budget, the building allowance was not required to be deducted from the capital gains tax cost base when a property was sold. The effect of the budget changes is that the building allowance benefit may now be tax deferred (where a capital gain for tax purposes occurs) rather than remaining tax free as it has been in the past. The legislation in respect of this change has been introduced into Parliament as Taxation Laws Amendment Bill (No 6) 1997 on the 29th October 1997. At the date of the Prospectus, the Bill has not received Royal Assent.

**Investors should note that Australian income tax laws are subject to change. The views set out above are based on current law only. The ultimate interpretation of the law rests with the Courts. Tax liabilities are the responsibility of each individual Investor and neither the Trustee nor the Manager is responsible for taxation or penalties incurred by Investors. Investors should consult their taxation advisers on the tax implications of their own investment.**

### 11.3 Owners' Tax Returns

To facilitate the completion of Owners' tax returns, the Manager will arrange for the preparation and lodgement of the tax return for the Syndicate as soon as possible after the end of each year. The Manager will then send to each Owner a statement showing the details needed by that Owner to complete their individual returns. **Owners should not lodge their tax returns until this information is received.**

### 11.4 Acquisition costs and sources of funds

The estimated acquisition costs are:

Cost	\$
Purchase price	20,650,000
Stamp Duty and registration fees on –	
– purchase and option	813,877
– mortgage	50,310
Legal fees – acquisition & prospectus	70,000
Due diligence consultants' fees	77,780
Joint acquisition fee	1,032,500
Prospectus issue and promotion expenses	42,600
Borrowing costs	77,500
Trustee establishment costs	3,000
Contingency	32,433
<b>Total acquisition costs</b>	<b>\$22,850,000</b>

The source of funds for the acquisition costs are:

Subscriptions from Investors (50.76%)	11,600,000
Loan from financier (49.24%)	11,250,000
<b>Total funds</b>	<b>\$22,850,000</b>

The tangible assets of the Syndicate on settlement of the Property will be:

Garden Square	22,594,157
<b>Total tangible assets</b>	<b>22,594,157</b>

The net tangible asset backing for each \$1 subscribed will therefore be \$0.99. This net tangible asset calculation is based on the carrying value of the Property in the accounts of the Syndicate at settlement date. The carrying value includes the purchase price and capitalised acquisition costs such as stamp duty, due diligence and acquisition fees, as disclosed in the acquisition costs and sources of funds table above.

**This section is principally of interest to Investors such as superannuation funds or those who are unable or do not wish to directly borrow money.**

### 12.1 Forecast Distribution for Trust Investors

Costs specifically associated with the operation of the Trust (eg. its accounts and tax return preparation) will be incurred directly by the Trust. It is expected these costs will be immaterial. Therefore, the forecast distribution on equity subscribed by Trust Investors will not vary materially from that forecast for the Syndicate (see Section 11.1).

### 12.2 Forecast Tax Free/Tax Deferred Component of Return for Trust Investors

Under current legislation the Trustee is not able to pass on to Unitholders more than 100% of the tax benefit that is received in a year. The benefit is not lost but is claimed later in the term of the Trust when the portion of return is less than 100%. The table below sets out the forecast tax free/tax deferred component of the distribution as it applies to Unitholders.

### 12.3 Capital Gains Tax Cost Base

Where the Unitholders hold their investment on capital account, the cost base for capital gains tax purposes will be \$1.00

per unit which, under current legislation and assuming the investment is held for at least twelve months, will be increased by CPI each quarter until the Property is sold or the Trust is terminated. On the other hand, Owners investing directly into the Syndicate as compared with the Trust will have a cost base for capital gains tax purposes of approximately \$1.95, with any CPI percentage increase applying to this higher base amount. As a consequence, depending upon the size of any CPI increase, there will be a variation in the capital gains tax position between the Trust and the Syndicate, where an identical amount is subscribed in each.

### 12.4 Net Tangible Assets

The net tangible asset backing for each \$1 unit subscribed for in the Trust will be \$0.99. This net tangible asset calculation is based on the carrying value of the Trusts interest in the Property in the accounts of the Trust at settlement date. The carrying value includes the Trust's proportionate share of the purchase price and capitalised acquisition costs such as stamp duty, due diligence and acquisition fees as disclosed in the acquisition costs and sources of funds table in section 11.4.

	<b>Period To 30/6/98</b>	<b>Year To 30/6/99</b>	<b>Year To 30/6/2000</b>	<b>Year To 30/6/2001</b>	<b>Year To 30/6/2002</b>	<b>Year To 30/6/2003</b>
<b>Annual Distribution %</b>	10.5%	10.5%	10.85%	11.2%	11.55%	12.05%
<b>Tax Free/Tax Deferred * component of distribution for Trust Investor</b>	100%	100%	75%	58%	47%	38%

\* (see Note 9 section 11.2)



KENDALLS SECURITIES  
LIMITED

2 January 1998

The Directors  
Property Funds Australia Limited  
Level 14  
127 Creek Street  
BRISBANE Q 4000

Dear Sirs

### **Independent Review Report on Forecasts**

#### **Scope**

We have reviewed the forecasts of Garden Square Property Syndicate (the Syndicate) for the period ending 30 June 1998 and for the financial years ending 30 June 1999 to 2003 as set out in section 11 of the Prospectus. The directors of Property Funds Australia Limited are responsible for the preparation and presentation of the forecasts and the information contained therein, including the assumptions on which the forecasts are based as set out in section 11 of the Prospectus.

We have performed an independent review of the forecasts in order to state whether, on the basis of the procedures described, anything has come to our attention which would indicate that the director's assumptions do not provide a reasonable basis for the preparation of the forecasts or that the forecasts are not properly prepared on the basis of the assumptions.

The forecasts have been prepared for inclusion in the Prospectus dated 2 January 1998 for the proposed subscription of \$11,600,000 by Investors. We disclaim any assumption of responsibility for any reliance on this review report or on the forecasts to which it relates to any person other than to the Owners of the Syndicate or for any purpose other than that for which it was prepared. As the Garden Square Property Trust will be an Owner in the Syndicate, Trust investors are entitled to rely on this report. In addition, the forecasts have been prepared using assumptions about future events and management's actions that may not necessarily occur as projected. Consequently, readers are cautioned that these forecasts may not be appropriate for purposes other than that described above.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements and has had regard to the Standard applicable to the Audit of Prospective Financial Information. This review was limited to inquiries as to the processes used in preparing the forecasts, consideration and discussion with the directors of the factors considered in determining the assumptions, analytical procedures applied to the forecasts and test checking the application of the assumptions in the forecasts.



A review is substantially less in scope than audit examination conducted in accordance with Australian Auditing Standards. In addition, because assumptions relate to future events and management actions which may not necessarily occur as projected, and variations may be material we are not in a position to, and do not express an opinion on whether the results for the period ending 30 June 1998, and for the financial years ending 30 June, 1999 to 2003 will approximate these forecasts.

### **Statement**

Based on our review of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that:

- (a) the assumptions as set out in section 11.1 of the prospectus do not provide a reasonable basis for the preparation of the forecasts.
- (b) the forecasts are not properly prepared on the basis of the assumptions as set out in section 11.1 of the Prospectus.

Actual results are likely to be different from the forecasts since anticipated events frequently do not occur as expected and the variation may be material. Accordingly, we express no opinion as to whether the forecasts will be achieved.

Yours sincerely

**Paul Gallagher**  
Proper Authority

### 14.1 Property Funds Australia

Property Funds Australia Limited is the Manager of the Syndicate and manages the Property on each Owner's behalf. The Manager holds Dealer's Licence No. 171414 issued by the A.S.C. which permits it to manage property syndicates and property trusts.

The Manager's directors and officers have a wide variety of background skills and experience in areas critical to the successful acquisition, management and sale of the Property. They have background skills in areas such as property acquisition, valuation, financial and credit analysis, loan structuring, property law, real estate agency, funds and asset management, accounting and development management. The Manager's focus is on maximising the performance of Property.

### 14.2 The Manager's Role

The Manager is responsible for the efficient management of the Syndicate. It has a range of duties, responsibilities and powers which are set out in the Syndicate Deed. The Manager must also comply with the various requirements of the Corporations Law. The Manager is required to act in the best interests of the Owners.

In addition to supervising the management of the Property and the collection of the income, the Manager will also arrange and manage:-

- the borrowings of the Owners;
- the maintenance of accounting and taxation records;
- the Investors distributions;
- the preparation of reports to Investors;
- the maintenance of the register; and
- the general business affairs of the Joint Investment.

### 14.3 The Manager's Remuneration

The Manager is entitled to an initial fee of 5% of the purchase price from which the Manager pays commissions in relation to the equity raising. The Manager is also entitled to an annual management fee which has a

significant performance emphasis. It is made up of 0.25% of the gross value of assets under management and 3.5% of the net income (as defined in the Syndicate Deed).

If upon sale of the Property, the sale price (after deduction 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. This fee is to compensate the Manager for additional workloads during the sale phase.

As an incentive to enhance the Property's performance, if the Property is sold at a price which, after the deduction of agents' fees, management fees and expenses on the sale results in a premium on Subscriptions by Owners of more than 30% of their Subscription, then the Manager shall be entitled to an additional fee of 1.5% of the sale price. However, if the premium is more than 50% of their Subscriptions, then this additional fee is 2.5% of the sale price.

The Manager is also entitled to be reimbursed for any costs or expenses incurred on behalf of the Syndicate or the Trust.

### 14.4 Property Management

Day to day physical property management and rent collection duties are initially proposed to be carried out by PRD Realty which is a related company of the Manager. Fees payable to this entity will be in accordance with normal market rates payable to agents performing this type of service.

### 14.5 Change in the Manager

If unsatisfied with the performance of the Manager, the Owners may require the Manager to retire if the Owners of 50% or more of the value of interests in the Syndicate resolve at a meeting that the Manager should be removed. The Manager may also retire by giving 6 months' notice to the Trustee. The procedures for calling the meeting and voting are set out in the Syndicate Deed.

Similar provisions in the Trust Deed enable Unitholders to consider the Manager's position if they are unsatisfied with the performance of the Manager.



*Left to right:  
Christopher Morton  
(Managing Director),  
Clive Schultz, Archibald  
Douglas, Rodney Keown  
(Chairman).*

#### **14.6 Manager's Subscription**

The Manager believes that the Joint Investment is an excellent investment opportunity. Entities associated with the Manager intend to lodge Subscriptions of at least \$200,000 in relation to the Joint Investment.

#### **14.7 Manager's Insurance**

At settlement date of the Property the Manager undertakes to have professional indemnity insurance cover for at least \$2,000,000 effected with a reputable insurer.

#### **14.8 Directors of the Manager**

##### **Rodney Michael Keown Chairman**

Rod Keown is the Chairman of the Manager. He is a Fellow of the Australian Institute of Valuers and Land Economists.

He has been involved in the property investment, agency and the property funds management industries for the past 25 years. He was one of the pioneers of the property trust industry in particular as one of the early appointees to Growth Equities Mutual Limited, which became one of Australia's larger property trust managers. He retired from that organisation as the executive director in charge of property trusts with a property portfolio of almost \$1 billion under his supervision.

He has served on various state boards and committees of the Property Council of Australia (formerly BOMA) for various periods between 1976 and 1993.

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He has also been the managing director of the state office of a major national real estate agency.

Rod brings to Property Funds Australia considerable property funds management experience.

**Christopher Arthur Morton**  
**Managing Director**

Chris Morton holds the degrees of Bachelor of Commerce and Bachelor of Laws from the University of Queensland and a Master of Laws from Cambridge University (United Kingdom). He has been admitted as a solicitor for over 16 years.

As a solicitor, he was a partner of the national legal firm Phillips Fox where towards the end of his legal career he headed the property division and was one of the management executives of that firm's Brisbane office. In his legal capacity, he was involved in some of the larger property developments in South East Queensland.

More recently, Chris has managed the redevelopment of a significant CBD office building on behalf of a syndicate of investors. Chris has also in his career held an accounting position and was an Associate to a Supreme Court Judge.

Chris is the Managing Director of Property Funds Australia and maintains a "hands on" role in the day to day running of the company.

**Archibald Norman Douglas**  
**Director**

Archibald Douglas is a licensed real estate agent who is the joint managing director and co-founder of PRD Realty a major national real estate agency. He is also a director of PRD Consulting Services, a real estate consulting organisation offering broad property and research advice.

Archie with his brother Gordon has been actively involved in developing a real estate practice that includes three corporate offices in Sydney, Brisbane and the Gold Coast and approximately 48 franchise offices throughout most States and Territories. In addition, he adds property development experience as well

as having been actively involved in the development of an apartment business which managed in excess of 2,000 apartments and hotel rooms.

He has been a member of the board of directors of the Real Estate Institute of Queensland.

The Manager will utilise this experience to enhance the timing of its decisions and up to date understanding of the property market.

**Clive Douglas Schultz**  
**Director**

Clive Schultz is an affiliate member of the Securities Institute of Australia. He has been employed by legal firms, finance companies and banks for over 35 years all with a principal emphasis upon real estate including acquisition, development, financing and marketing.

Clive operates a consultancy practice specialising in banking and finance services. He has been the general manager for Challenge Bank for Victoria and South Australia with responsibility for over 300 staff and an asset base of \$1 billion. He is a member of the national training committee of the Securities Institute of Australia and has been active in the development of courses for the mortgage industry.

The Manager is able to draw on Clive's expertise in debt management and financial analysis.



## 15.1 Trust Company of Australia

Trust Company of Australia Limited is a statutory trustee company authorised to act in Victoria, New South Wales and Queensland. It is a publicly listed company on the Australian Stock Exchange.

It is one of the oldest independent statutory trustee companies in Australia, having been incorporated in 1885. It operates on the eastern seaboard of Australia with offices in Melbourne, Sydney, Brisbane and Townsville. Its head office is located in Melbourne. The total number of staff throughout the company is approximately 130.

## 15.2 The Trustee's Role

The Trustee's duties and obligations are set out in the Deeds. The role of the Trustee is to protect the rights and interests of the Investors. In performing this role, the Trustee must exercise all due diligence and vigilance. The Trustee holds the interest of the Owners in the Syndicate as nominee. All subscription money is held by the Trustee until it is utilised in the purchase of the Property.

## 15.3 The Trustee's Remuneration

The Trustee is entitled to receive an annual fee at the rate of 0.07% p.a. of the gross value of the assets under management subject to a minimum fee of \$14,000 p.a. The Trustee will also receive a one off establishment fee of \$3,000 at the time of settlement of the Property. It is entitled to be reimbursed for legal fees or any other costs and expenses it incurs on behalf of the Joint Investment. The Trustee has waived its entitlement to any fee in respect of the Trust whilst it remains trustee of the Syndicate.

## 15.4 Changing the Trustee

The Investors may require the Trustee to retire if 50% or more of the Investors (by value) resolve in a meeting that the Trustee should retire. The Trustee may also retire by giving 3 months' notice.

The Commonwealth Government has announced that it is proceeding with legislative reform in relation to managed

investments such as this. A Managed Investment Bill has been presented to Parliament. As part of this Bill it is contemplated that a single responsible entity would take over the role of both the Trustee and the Manager.

## 15.5 Other Comments

The Trustee has not been involved in the preparation of this Prospectus other than in relation to those parts which specifically refer to the Trustee or the Deeds. Although referred to in the Prospectus, the Trustee has not authorised the issue of the Prospectus.

Specifically, the Trustee does not guarantee the repayment of Subscriptions, the receipt of income or the performance of the Joint Investment.

Investors should be aware that the future level of income and capital distributions and Investor's total returns may be influenced by a number of factors, including those outside the control of the Manager or the Trustee.

### 16.1 Property

The nature of this investment is fundamentally equivalent to a direct property investment. Accordingly, the risks commonly associated with commercial property investment would apply equally to this investment. These potential risks include forecast assumptions not eventuating.

In addition, the Joint Investment is exposed to a specific property, that is, Garden Square. As such, the Joint Investment will be affected by the risk of fluctuating property value due to such factors as:-

- a general downturn in the property market;
- a downturn in the general Australian or the South East Queensland economy;
- a failure of tenants to meet their financial obligations;
- a future tenancy vacancy factor being higher than projected; or
- interest rate fluctuations.



*Typical government  
tenancy workstation in  
Garden Square.*

### 16.2 Liquidity

The Interests offered in this Prospectus are likely to be illiquid investments because it is unlikely there will be a secondary market. No Investor has the right to redeem their investment. Neither the Manager nor the Trustee are permitted to buy back an Investor's Interest.

### 16.3 Fixed Term

The term of the Syndicate and Trust are both a fixed term of 8 years unless terminated earlier by the Manager or by special resolution of the Investors. The term may be extended with the consent of Investors.

### 16.4 Borrowings

The principal loan facility will be for a fixed period, probably 5 years, although the Syndicate may continue for longer than that period. There is no guarantee that the Manager will be able to refinance the loans. Further, if the loans are refinanced the interest rate payable may be higher than current interest rates.

If a tenant fails to pay rental due under its lease, the income of the Syndicate may not be sufficient to meet interest payments under the loans. If there is a default in paying such interest, the financier may be entitled to enforce its security.

Currently, final arrangements with the proposed financier have not been concluded and are not intended to be concluded until Subscriptions have closed. Although a detailed application for finance has been made and a detailed indicative letter of offer received from the proposed financier, no hedging arrangements have been entered into in relation to the borrowings.

Borrowings will be used to partly fund the purchase of the Property. This is referred to as "gearing" or "leveraging" and enhances the potential for capital gain for Owners if the Property increases in value. However, it may also increase any capital loss in the event that the value of the Property falls compared to a property investment which has no borrowings.

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## 16.5 Legal


Adverse consequences to investments can occur because of amendments to statutes and regulations affecting them. Taxation analysis of forecast income is based on current tax law and its interpretation. The law may be changed during the term of the investment or new decisions or determinations may alter the way the law is generally interpreted.

## 16.6 Specific Risks

The Manager believes that opportunities will arise for the restructuring of tenancies in the Property around 5 years from the commencement of the investment. These restructurings and lease negotiations will create the opportunity to preserve or increase the value of the Property. If however this restructuring was not able to occur, then there is a risk to the value of the Property.

## 16.7 Conclusion

Investment in the Joint Investment, as with any property investment, is by its nature a speculative investment. No guarantee is or can be given that there will be a capital gain arising out of an investment in the Joint Investment or that the Property will not decrease in value.



## ARTHUR ANDERSEN

*Official Financial, Taxation and  
Business Consulting Advisor to  
the 2000 Olympic Games*

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Arthur Andersen  
A Member Firm of  
Andersen Worldwide SC

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12 Creek Street Brisbane QLD 4000  
GPO Box 2461 Brisbane QLD 4001  
07 3309 4488  
07 3309 4499 Fax

10 December 1997

Mr Paul Sheppard  
Chief Executive Officer  
Trust Company of Australia Limited  
213 St Pauls Terrace  
BRISBANE QLD 4000

Dear Sir

### **Valuation of 'Garden Square' Office Complex, 643 Kessels Road, Upper Mt Gravatt**

We refer to our instructions from Trust Company of Australia Limited dated 4 December 1997 to undertake a valuation of the commercial office complex located at 643 Kessels Road, Upper Mt Gravatt known as 'Garden Square'.

The valuation determines the Market Value which is defined as the price at which an interest in a property might reasonably be expected to be sold by private treaty at the date of valuation assuming:

- a willing seller;
- a reasonable period within which to negotiate the sale taking into account the nature of the property and the state of the market;
- values will remain static throughout the period;
- the property will be freely exposed to the market with reasonable publicity;
- that no account be taken of a high bid by a special purchaser;
- that the trust has sufficient resources to allow a reasonable period for exposure of the property for sale; and
- that the trust has sufficient resources to negotiate an agreement for the sale of the property.

In addition we have been requested to separately assess any value accruing to the owners of the property from any contractual benefits.

### **Property Description**

The property comprises two commercial office buildings, one of three storeys and one of four storeys, known as 'Garden Square'. Each of the buildings can be divided into two separate blocks and the buildings are known as Blocks A & B and Blocks C & D. The complex was constructed in 1984 and provides undercover parking for 193 vehicles and a total lettable floor area of approximately 12,928 square metres in its current configuration. A further 225 open carparking bays are provided in two separate parking areas to the east and north of the buildings.

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# ARTHUR ANDERSEN

The complex has been developed upon a 'regional business' zoned site of approximately 1.665 hectares. The property, which adjoins the South East Freeway which connects Brisbane to the Gold Coast, is situated on the corner of McGregor Street and Kessels Road approximately 200 metres west of its intersection with Logan Road. The property is situated within the Mt Gravatt Regional Business Centre and is approximately 11 radial kilometres south of the Central Business District of Brisbane.

Blocks A & B which contain an area of approximately 7,688 square metres are currently fully leased to Coles Myer on a 20 year lease which expires in December 2004. Coles Myer currently pay a net rental of \$181 per square metre, however, under their existing lease certain outgoings are non-recoverable. Blocks C & D contain an area of approximately 5,239 square metres which comprises 11 tenancy areas of varying size with gross rental rates generally in the vicinity of \$230 to \$240 per square metre per annum. There is currently one vacancy of 170 square metres which is situated on the ground floor of Block C.

The buildings provide a good standard of air-conditioned office accommodation and appear to be generally well maintained.

## **Date of Valuation**

The property was inspected on 7 October 1997, however, due to the extended time which had been negotiated to settle the possible purchase of the property our calculations have been based upon an effective date of valuation as at 1 December 1997.

## **Valuation Methodology**

In assessing the current market values of the subject property we have been cognisant of both the capitalisation and the discounted cashflow methods of valuation.

Adopting the capitalisation approach as the primary method of valuation, we have estimated the net annual income at an optimum occupancy level of 97.5% to be \$2,252,175. A capitalisation rate of 10.5% has been adopted after due consideration to:

- the location and standard of accommodation provided;
- the current rental levels and prospects for rental growth;
- available sales evidence and the current state of the market;
- the additional opportunity for development on the site; and
- the potential for additional income from carparking.

Having regard to the rental guarantee negotiated between the purchaser and the vendor in relation to vacant areas, we have made no further deductions in our calculations for the letting of vacant areas. The capitalisation approach as outlined within the full report produces a value of \$21,400,000.

In addition, we have employed a ten year cashflow analysis as a check method in the valuation. The procedure utilised involves a projection of revenue and expenses over the estimated holding period, and the subsequent discounting of the annual cash flows and future reversionary value at a market derived discount rate to arrive at an indication of current market value. Our analysis is based upon the existing tenancy arrangements until their lease expiry at which time a position was taken on the likelihood of lease renewals or the need for an allowance for the reletting of the space.

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# ARTHUR ANDERSEN

Having regard to the nature and characteristics of this property, available sales and leasing evidence and the current state of the market, we have applied a discount rate of 12.25% and a terminal capitalisation rate of 11.0% to our cashflow projections. This procedure results in a present value for the subject property of \$21,300,000 which strongly supports our capitalisation approach.

During the course of negotiations, an outgoings supplement of \$250,000 over three years has been included in the purchase contract. We have valued this contractual benefit on the basis of the present value of three equal annual payments. This produces a value of \$200,000.

## Valuation

Subject to the various assumptions outlined within the full report prepared on the property the current market value of the commercial office development known as 'Garden Square' located at 643 Kessels Road, Upper Mt Gravatt, Brisbane, Qld has been assessed at \$21,400,000. The value of contractual benefit associated with the outgoings supplement has been assessed at \$200,000.

This produces a combined Market Value and value of the contractual benefits of \$21,600,000 (Twenty-one million, six hundred thousand dollars).

## Disclaimer

We confirm that this report may be used in the Prospectus and may be relied upon by Trust Company of Australia Limited for the specific purpose to which it refers.

Mr Stephen O'Keeffe and Mr Michael Lynch of Arthur Andersen have prepared this summary which appears in this prospectus. Messrs O'Keeffe and Lynch were involved only in the preparation of the summary and the valuation referred to herein and specifically disclaim liability to any person in the event of any omission from false or misleading statements included in the prospectus, other than in respect of the valuation and summary.

Yours faithfully



**Stephen O'Keeffe**  
Manager, Real Estate Services Group  
Registered Valuer (Qld) No. 2156



**Michael J. Lynch**  
Director, Real Estate Services Group  
Registered Valuer (Qld) No. 892

**“We will be bringing  
to you many property  
investment  
opportunities of this  
quality in the future.  
We hope that you will  
take up these  
opportunities over  
the long term so as  
to minimise risk  
through  
diversification.  
This, we believe, is a  
prudent property  
investment strategy.”**

*Christopher Morton, Managing Director  
Property Funds Australia Limited*



*Forecast income distributions to investors in Garden Square are 10.5% p.a. in the first full year rising to 12.05% in the fifth year.*

### **18.1 Documents Available for Inspection**

Copies of the following documents are available for inspection during normal office hours at the office of the Manager for 12 months after registration of this Prospectus:

- The Syndicate Deed, Trust Deed and Options referred to in this Section.
- The consents to the issue of this Prospectus.
- The full valuation of the Property.

### **18.2 Consents**

McCullough Robertson has given its written consent to being named in this Prospectus as legal adviser to the Manager and has not withdrawn that consent prior to lodgement of this Prospectus with the A.S.C..

Kendalls Securities Limited has given its written consent to the issue of this Prospectus with its independent review dated 2 January 1998 in Section 13 in the form and context in which it is included, and has not withdrawn that consent prior to lodgement of

this Prospectus with the A.S.C..

Arthur Andersen has given its written consent to the issue of this Prospectus with its valuation summary report dated 10 December 1997 in Section 17 in the form and context in which it is included and has not withdrawn that consent prior to lodgement of this Prospectus with the A.S.C..

Knight Frank (Qld) Pty Ltd ACN 009 672 628 ('Knight Frank') has given its written consent to the issue of this Prospectus, including its research in the form and context in which it is included in Section 3 and has not withdrawn that consent prior to lodgement of this Prospectus with the A.S.C..

Hacketts Chartered Accountants has given its written consent to being named in this Prospectus as auditor and has not withdrawn that consent prior to lodgement of this Prospectus with the A.S.C..

Trust Company of Australia Limited has given its written consent to being named as the Trustee and has not withdrawn that consent prior to lodgement of this Prospectus with the A.S.C..

Trust Company of Australia Limited is not the issuer of this Prospectus and has not prepared this



Prospectus. Trust Company of Australia Limited makes no representation and takes no responsibility for the accuracy or truth of any statement or omission from any part of this Prospectus.

### 18.3 Interest of Experts

No expert or firm in which an expert is a partner, has any interest in the promotion of the Syndicate or the Trust and no amounts have been paid or agreed to be paid (whether in cash or otherwise) to an expert or to such firm for services rendered in connection with the promotion of the Syndicate other than as set out below:

- McCullough Robertson undertook due diligence enquiries and advised in relation to the terms of the options, Trust Deed and Syndicate Deed. An amount of up to \$70,000 has been paid or is agreed to be paid in respect of these services and additional work involved in the preparation of this Prospectus. McCullough Robertson does not make or purport to make, and is not responsible for any statement in this Prospectus and has not authorised or caused the issue of this Prospectus.
- Kendalls Securities Limited has prepared the Independent Review in Section 13 and accounting advice. An amount of \$6,950 has been paid or is agreed to be paid in respect of these services. Kendalls Securities does not make or purport to make, and is not responsible for any statement in this Prospectus other than its Independent Review and has not authorised or caused the issue of this Prospectus.
- Arthur Andersen undertook the valuation and prepared the valuation summary report in Section 17. An amount of \$15,000 has been paid or is agreed to be paid in respect of these and other services. Arthur Andersen does not make or purport to make, any statement in this Prospectus other than its valuation report and is not responsible for any other statement. Arthur Andersen has not authorised or caused the issue of this Prospectus.
- Knight Frank undertook research work as disclosed in Section 3 of this Prospectus. An amount of \$4,000 has been paid or is agreed to be paid in respect of this and other services. Knight Frank does not make or purport to make, any statement in this Prospectus other than its research and is not responsible for any other statement. Knight Frank has not authorised or caused the issue of this Prospectus.

### 18.4 Disclosure Of Interests

#### Directors of the Manager

Other than as set out below or elsewhere in the Prospectus, no director of the Manager has an interest in the promotion of the Syndicate or the Trust and no amounts, whether in cash or shares or otherwise, have been paid or agreed to be paid to any director or proposed director either to induce to become, or to qualify as, a director, or otherwise for services rendered in connection with the promotion of the Syndicate or the Trust.

- Entities associated with Christopher Morton and Archibald Douglas own shares in the Manager.
- PRD Consulting Services Pty Ltd will receive a fee of up to \$25,000 in relation to finance procurement in the event that finance facilities arranged by PRD Consulting Services Pty Ltd are drawn down.
- PRD Realty Pty Ltd has provided property management due diligence advice in relation to the Property and received a fee of up to \$1,250. PRD Realty Pty Ltd will initially manage the Property.
- Archibald Douglas has an interest in both PRD Consulting Services and PRD Realty.

#### Trustee and Directors of the Trustee

At the date of this Prospectus and throughout the preceding two year period neither the Trustee nor any directors of the Trustee has or had any interest in the promotion of or in the Syndicate or the Trust other than the remuneration to which it is entitled as Trustee.

### 18.5 Underwriting

The issue of Interests in the Syndicate and the issue of units in the Trust is not underwritten.

### 18.6 Auditor

The auditor of the Syndicate and the Trust is Hacketts, Chartered Accountants.

### 18.7 Material Contracts

The following contracts are material to a potential investor in this Joint Investment. Each of the contracts is available for inspection.

#### Deed of Put and Call Option to Purchase the Real Estate

##### Dated:

26 November 1997

##### Vendor:

Sandhurst Trustee Limited ACN 004 303 737

##### Grantee:

Property Funds Australia Limited ACN 078 199 569

**Real Estate:**

The commercial building situated at 643 Kessels Road, Upper Mt Gravatt, Queensland

**Title Particulars:**

The land being purchased is the land comprised in Certificate of Title Reference 17480054 being Lot 4 on RP191701 County of Stanley Parish of Yeerongpilly

**Purchase Price:**

\$20,650,000

**Option Fee:**

\$35,000 (if the Option is exercised this forms part of the deposit)

**Call Option:**

May be exercised any time between 28 January 1998 and 5.00 pm on 1 April 1998

**Put Option:**

May only be exercised no later than 5.00pm on the day following expiry of the Call Option.

**Settlement Date:**

Seven days after exercise of Option

**Right of Assignment:**

The put and call option contains a right to assign the option which permits Property Funds Australia Limited to assign the option to the Trustee and for it to settle the contract as purchaser.

**Contamination:**

As part of the due diligence on the Property, some contamination issues were identified. The contamination is primarily hydrocarbon affecting a small part of the car park area near the adjoining Shell Service Station. It was identified by OTEK Australia Pty Ltd in its report. The vendor must remediate this area to both OTEK Australia Pty Ltd and Department of Environment's satisfaction before the settlement occurs. The vendor indemnifies the purchaser up to the sum of \$300,000 for any loss as a consequence of the contamination. In addition, the purchaser has the benefit of recovery rights against the contaminator (if required).

The Manager considers the amount of the indemnity is adequate to cover any residual problems.

**Rental Guarantee and Outgoing Supplement:**

The Vendor has guaranteed rentals in relation to tenants 7 to 9 in the Tenancy Schedule (*in section 2*) and the vacant area of 170m<sup>2</sup> for 2 years.

In addition the vendor is to pay \$250,000 into a bank account at settlement to underwrite non-recoverable outgoings of the purchaser for a period of 3 years from settlement.

## 18.8 Deeds

Not all provisions of the Syndicate Deed, Trust Deed and the law which are relevant to the Joint Investment are outlined. A summary is however set out below. Other relevant provisions of the Syndicate Deed and Trust Deed are outlined in other sections in this Prospectus and are therefore not included here. Investors should seek their own independent professional advice.

The A.S.C. has granted approval pursuant to its powers under Section 1067(4) of the Corporations Law to Trust Company of Australia Limited acting as trustee for the purposes of the Syndicate and the Trust.

The A.S.C. has declared pursuant to its powers under Section 1069(3) of the Corporations Law that neither the Syndicate Deed or the Trust Deed need contain the prescribed covenants relating to buy-back arrangements otherwise required by Section 1069(1) of the Corporations Law. This declaration was required because the Syndicate and the Trust are structured as long-term, illiquid investments in commercial property, and any buy-back arrangement would have been wholly inconsistent with this structure.

The relief set forth in the declaration is conditional upon the Syndicate Deed and the Trust Deed containing the prescribed covenants relating to property trusts and property syndicates, modified as necessary to reflect the features of the Joint Investment. The Syndicate Deed and Trust Deed meet these conditions.

## 18.9 Syndicate Deed

The Syndicate Deed is the primary document which establishes the Syndicate. The responsibilities of the Trustee and Manager, together with all duties, obligations and rights pertaining to the Syndicate, are set out in this document.

The document is dated 22 December 1997 and the parties to the document are:

Manager	Property Funds Australia Limited (ACN 078 199 569); and
Trustee	Trust Company of Australia Limited (ACN 004 027 749).

**Manager**

The Manager is empowered under the Syndicate Deed to manage the Property and the fund as if it were the owner. The rights, obligations and powers of the Manager arise not only from the Syndicate Deed but also from the relevant provisions of the Corporations Law.

Information about the Manager, its role and

remuneration is summarised in section 14 of this Prospectus.

#### **Remuneration of Manager**

The Manager is entitled to receive the fees as set out in section 14.3. The Manager is also entitled to be reimbursed and paid out of the fund for all costs, charges and expenses properly incurred in connection with the establishment and administration of the Syndicate.

#### **Duties and obligations of the Manager**

The main duties and obligations of the Manager are:

- to ensure the distribution of the income of the Syndicate to the Owners;
- to manage, improve and enhance the value of the Property and the fund;
- collect and receive all incoming capital receipts arising from the Property;
- to repair and maintain the Property;
- to negotiate and enter into deeds and agreements including guarantees and mortgages for the financing of the acquisition of the Property and any other real estate incidental thereto;
- to sell or dispose of any part or all of the Property;
- to employ any necessary personnel or engage contractors or sub-contractors;
- to make all necessary payments required for the proper management of the Syndicate;
- to keep records relating to all financial transactions and prepare the necessary income tax and other returns and reports as required;
- to insure and keep insured the Property for its full insurable value;
- to maintain a current register of Owners;
- to conduct the business of the Syndicate;
- to act in the best interests of the Owners;
- to treat Owners equally and fairly; and
- to act diligently.

#### **Retirement of the Manager**

In addition to the Corporations Law requirements, the Manager will retire from the Management of the Syndicate:

- if the Manager is placed in liquidation or ceases to carry on business or a receiver or manager is appointed;
- if the Manager contravenes its obligations to the Owners in a way in which the Trustee considers would materially adversely affect the Owners and does not remedy the contravention;
- if the Trustee reasonably believes it is in the best interests of the Owners for the Manager to retire; or
- if Owners of 50% or more of the value of Interests

resolve by a meeting to remove the Manager.

The Manager may only retire after providing six months notice, or such lesser period as the Trustee may accept in any particular case.

Where the Manager is removed from the management of the Property and the fund pursuant to the Syndicate Deed, the Trustee will cause the Property to be valued forthwith by an approved valuer. The Manager will be entitled to receive 2% of such value within 7 days of the sale of the Property.

#### **Trustee**

It is the obligation of the Trustee to protect the rights and interests of the Owners. The Trustee will hold the Property and the fund as nominee of the Owners in accordance with the terms and conditions of the Syndicate Deed and the Corporations Law.

#### **Remuneration of Trustee**

The Trustee will be entitled to receive an annual fee of 0.07% of the gross value of assets under management or \$14,000 p.a. whichever is the greater.

As with the Manager, the Trustee is entitled to be paid or reimbursed out of the fund for all costs, charges, outgoings and expenses properly incurred in connection with the administration of the Syndicate. The Trustee is also entitled to be indemnified and reimbursed out of the fund and Property in respect of such obligations, costs, charges and expenses.



*Interior of Garden City Shopping Centre which is adjacent to the Property.*

The Trustee is empowered under the Syndicate Deed to purchase the Property on behalf of the Owners as tenants in common. The Owners are entitled to the legal Ownership of the Property on and from its purchase.

#### **Duties and Obligations of the Trustee**

In accordance with the Corporations Law and the Syndicate Deed the primary duties and obligations of the Trustee are:

- to supervise the distribution of income by the Manager;
- to ensure the Manager keeps accurate and up-to-date records;
- to ensure certificates are issued to Owners;
- to act with due diligence and vigilance in exercising all its duties and functions and to protect the rights and interests of Owners;
- to retain the fund in safe custody on behalf of the Owners in accordance with the terms of the Syndicate Deed;
- to act in the best interests of Owners and to treat Owners equally and fairly;
- to take reasonable steps to supervise the Manager in the performance of its functions under the Syndicate Deed;
- to comply with any directions given at any meeting of Owners pursuant to the terms of the Syndicate Deed;



*A pleasant landscaped environment is provided for tenants.*

- to appoint and instruct an approved valuer from time to time as required; and
- to ensure accounts of the Syndicate are audited at the end of each financial year and that appropriate accounts are provided to each Owner.

#### **Retirement of Trustee**

In addition to the requirements of the Corporations Law dealing with the retirement of trustees, the Trustee must retire:

- at the request of the Manager following a resolution passed by the Owners comprising not less than 50% of Interests in the Syndicate;
- where the Trustee ceases to carry on business;
- where the Trustee is placed in liquidation or a receiver or manager is appointed in relation to the property of the Trustee and has not been removed or withdrawn within 30 days of the appointment;
- if the Trustee is no longer empowered to act; or
- if the approval of the Trustee under section 1067 of the Corporations Law is revoked.

In addition to the above, the Trustee is empowered to retire provided it has given three months notice, or such lesser notice as the Manager may agree.

#### **Owners**

Under the Syndicate Deed no Owner will be under any obligation to personally indemnify the Trustee or the Manager in respect of the liabilities or obligations in connection with the Syndicate to any extent beyond their Interest.

#### **Register of Owners**

The Manager must maintain an up-to-date register of Owners and their interests. The register is available for inspection at the registered office of the Manager, without fee to Owners. The Manager may with the approval of the A.S.C. keep the Register of Owners at another location.

#### **Voting**

The Syndicate Deed provides that each Owner shall have one vote for each 0.1% (or part thereof) of the total Interest in the Syndicate. Voting will generally be by a show of hands unless a poll is demanded. Owners will receive notification of meetings. Only those Owners that are entered on the register of Owners shall be entitled to vote at a meeting of Owners.

#### **Borrowings**

Owners Interest in the fund and the Property will be charged or mortgaged together with the Property as security. All loans will be on a limited recourse basis and the financier will only have access to the Property and the fund as security. The financier will not have

access to other assets of the Owners.

Each Owner in applying for an Interest in the Syndicate authorises the Manager on its behalf under a limited power of attorney (refer to back of the Application Form) to borrow on behalf of the Owner in proportion to that Owner's interest in the Syndicate.

The Manager may not without the approval of the Trustee arrange any loans which exceed 75% of the value of the Property. In the event that such loans are used for capital improvements to the Property, the value of the Property will be re-assessed on completion of the capital improvements.

#### **Distribution of Income**

Under the Syndicate Deed the Manager is charged with the responsibility of collecting all income of the Property and the fund and distributing it to Owners. The Syndicate Deed provides that the Manager may maintain a revolving finance facility. The Manager is empowered to provide Owners with consistent distributions, through an equalisation fund.

The Syndicate Deed provides that the Manager in consultation with the Auditor has complete discretion in determining whether an item for distribution will be income or capital. The Manager proposes to make the first distribution to Owners within 21 days after the first full month of operation. Subsequent distributions will be made 21 days after the end of each month.

Owners will be provided with a statement specifying the amount of income distributed and the amount of capital distributed in any financial year.

#### **Duration and Termination of the Syndicate**

The Syndicate will commence on the date the first funds are received by the Trustee and will terminate eight years after the date of purchase of the Property is complete. The Syndicate Deed provides that the Syndicate may be terminated earlier:

- upon sale of the Property; or
- if the office of either the Trustee or the Manager becomes vacant and is not filled within a period of three months and a meeting of Owners so determines.

Where the Syndicate is terminated, the Trustee will realise all authorised investments and other assets including the Property and after deducting selling commissions etc will distribute the net proceeds of the realisation of the authorised investments and other assets (including the Property) amongst Owners in the proportion to their Interests provided that:

- the Trustee is entitled to retain its costs, charges and expenses including remuneration and will be entitled to retain for as long as it thinks fit such

amount which in its opinion may be required to meet all claims, demands and expenses incurred or expected to be incurred by the Syndicate on determination of the Syndicate;

- distribution will be made only against delivery to the Trustee of such evidence as the Trustee may require of the Owner's entitlement and against delivery to the Trustee of such form of receipt and discharge as may reasonably be required by the Trustee;
- the Trustee is required to distribute all proceeds as soon as possible but in any event not more than two months after settlement of the sale of the Property;
- the sale of the Property is prohibited other than:
  - upon termination of the Syndicate; or
  - with the approval by Owners at a meeting adopting the procedures as set out in the Syndicate Deed.

Notwithstanding the above, the Owners expressly authorise the Manager to sell the Property at any time if a price after discharge of all liabilities of the Syndicate is sufficient to provide each Owner with a sum equal to or greater than 120% of the Owner's Subscription.

## **18.10 Property Trust Deed**

The Trust Deed has been prepared so that for the most part its provisions mirror the Syndicate Deed. The Trust Deed has been established for those Investors who are unable to or do not wish to borrow in their own right (eg. superannuation funds).

The Trust Deed is dated 22 December 1997 and the parties to the document are:

- Manager – Property Funds Australia Limited (ACN 078 199 569); and
- Trustee – Trust Company of Australia Limited (ACN 004 027 749).

The Trustee of the Trust will hold the interest in the Property and the funds of the Trust on behalf of Unitholders. Unitholders will make contributions to the Trust in the same manner as they would have made direct contributions to the Syndicate. The Trustee will then complete an Application Form and apply as Trustee for an Interest in the Syndicate.

The property held by the Trustee on behalf of the Trust will comprise the funds of the Trust and an Interest in the Syndicate corresponding to the Investors investment in the Trust. The Trustee will be an Owner in the Syndicate with an interest equivalent to the money subscribed into the Trust. The Trustee will as

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an Owner represent the interests of the Unitholders at meetings of the Syndicate and act in accordance with its directions determined at Unitholder meetings.

#### **Duties and Obligations**

Both the Manager and the Trustee have similar duties and obligations under the terms of the Trust Deed as under the Syndicate Deed.

#### **Remuneration**

The Manager and the Trustee have waived any entitlement to remuneration for their roles in the Trust whilst they are also manager and trustee of the Syndicate.

The Manager and the Trustee are entitled to be reimbursed for all expenses, obligations, costs and charges and to be indemnified out of both the fund and the interest of the Trust in the Syndicate.

#### **Retirement**

The provisions dealing with retirement of either the Manager and the Trustee are the same as contained in the Syndicate Deed.

#### **Voting**

The Trust Deed provides that each Unitholder shall have one vote for each unit in the Trust. Voting will generally be by a show of hands unless a poll is demanded. Unitholders will receive notification of meetings. Only those Unitholders that are entered on the register of Unit holders shall be entitled to vote at any meeting of Unitholders.

#### **Borrowings**

The Trustee may only borrow in accordance with the Trust Deed and the Corporations Law and will borrow on behalf of the Trust. The Trustee as an Owner in the Syndicate will authorise the Manager to borrow on its behalf.

#### **Duration and Termination of the Trust**

The Trust will commence at the date the first contributions are received by the Trustee and will terminate 8 years after the date of the purchase of the Property is complete. The Trust Deed provides for further termination provisions and these are the same as contained in section 18.9 which relate to the Syndicate Deed.

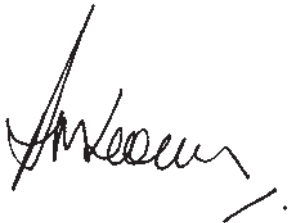
The Deeds provide that the Manager may refuse to register a transfer where the Manager considers (in its complete discretion) such transfer or application may be a breach of the *Foreign Acquisitions and Takeovers Act 1975* or government guidelines in relation to foreign investment and Ownership.

The Directors of the Manager report that after due enquiry by them that they have not become aware of any circumstances which in their opinion will materially affect the Syndicate or the Trust other than as disclosed in this Prospectus.

To the best of the Directors' knowledge and belief, the information contained in this Prospectus is correct and there are no material omissions likely to affect the accuracy of the information.

**Signed by each Director of the Manager**

**2 January 1998**



Rodney M Keown



Archibald N Douglas



Christopher A Morton



Clive D Schultz

# Instructions to Applicants Investing in the Syndicate

Applications may only be made on an Application Form attached to this Prospectus.

The Manager, with the prior approval of the Trustee has the right to close the issue at any time. The Manager has the right to accept or reject any Application in whole or in part.

## Minimum Subscription

**You may invest an amount of \$10,000 or more with investments in excess of \$10,000 being in increments of \$5,000.**

## Cheques

Cheques must be made payable to **“Trust Company of Australia Limited – Garden Square Property Syndicate”**. Please pin your cheque to the Application Form. Your cheque must be drawn on an Australian bank. Receipts will not be issued.

## Tax File Numbers

Collection of tax file numbers is authorised by tax law and the Privacy Act 1988. You do not have to advise us of your tax file number (TFN) or exemption. Failure to provide a tax file number will not affect the success of your application. However, if not initially provided, your TFN will be subsequently requested.

## Signing the Application Form

**Before signing the Application Form on the reverse side, you should read this Prospectus.** The Application Form must be signed by you personally, or under company seal or by an attorney.

Joint applications must be signed by each Applicant. Joint Applicants will be assumed to be joint tenants unless otherwise specified.

If signed by an attorney, the attorney declares that no notice of revocation of the power of attorney has been received.

If signed under company seal, the director(s) and/or secretary attest that the common seal was affixed in accordance with the company's articles of association.

## Correspondence

All correspondence will only be addressed to the person and address as completed on the Application Form. For joint applicants, one address only can be entered.

## Lodgement of Application Forms

Completed Application Forms and cheques must be sent to:

### Postal address for mail:

Property Funds Australia Limited  
PO Box 10398, Brisbane Adelaide St  
BRISBANE QLD 4000

### Office address for delivery:

Property Funds Australia Limited  
Level 14  
127 Creek Street  
BRISBANE QLD 4000

## Enquiries

**Contact Property Funds Australia Limited Freecall 1800 687 170 or Facsimile (07) 3221 6729.**

## Correct forms of registrable names

Note that only legal entities are allowed to hold Interests. Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to the Manager. At least one given name in full and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if requested. Use the symbols < > as shown below to indicate an account designation.

TYPE OF INVESTOR	CORRECT FORM	INCORRECT FORM
<b>Individual</b> Use given names in full, not initials	John James Smith	J. J. Smith
<b>Company</b> Use company title, not abbreviations	XYZ Pty Ltd	XYZ P/L XYZ Co
<b>Minor</b> (a person under the age of 18) Do not use the name of the minor, use the name of the responsible adult	John James Smith <John Smith Jnr>	John Smith Jnr
<b>Trusts</b> Do not use the name of trust, use trustee(s) name(s)	Mary Smith <Mary Smith Family Trust> or ABC Pty Ltd <ABC Family Trust>	Mary Smith Family Trust ABC Trust
<b>Partnerships</b> Do not use the name of partnership, use partners personal names	John Smith & Michael Smith <Smith Brothers>	Smith Brothers



Dealer/Advisor's Stamp

NOTE: THIS FORM IS TO BE COMPLETED BY THOSE INVESTORS WHO ARE INVESTING IN THE SYNDICATE. IT IS ANTICIPATED THAT SUPERANNUATION FUNDS MAY CHOOSE TO COMPLETE THE APPLICATION FORM – TRUST.

Reference No.

**1. COMPLETE FULL NAME DETAILS (PLEASE PRINT)**

Surname/Company Name (including A.C.N.)

Applicant Given Names

Joint Applicant # 2

Joint Applicant #3

**2. POSTAL ADDRESS**

Street No. Street (or PO box details)

Suburb

State

Post Code

Country (if not Australia)

**3. TELEPHONE NUMBERS**

Area Code & Home Phone No.

Area Code & Work Phone No.

Area Code & Fax No.

Contact Person (if different to Applicant)

Prospectus No.

**4. TAX FILE NUMBERS**

Tax File No for App. #1

Tax File No. For App. #2

Tax File No. For App. #3

**5. I/WE SUBSCRIBE FOR** \$  OF INTERESTS IN THE SYNDICATE

**6. DISTRIBUTIONS**

Insert Name of Account which is to be credited

Bank

Branch

BSB Number

Account Number

**PLEASE SIGN ON THE REVERSE SIDE OF THIS FORM.**



## 7. Acknowledgement

I/We acknowledge, agree and understand that:-

- My application is made on the basis that pending completion of the purchase of 643 Kessels Road, Upper Mt Gravatt (“the Property”), my Subscription will be held by the Trustee and will be returned to me if the purchase does not proceed or if my application is not accepted.
- I have read and understood the Prospectus to which this application is attached.
- the Manager may accept or reject this application in whole or in part.
- if my application is accepted I agree to be bound by the Syndicate Deed.

## 8. Limited Power of Attorney

That if my application is accepted, I hereby irrevocably appoint Property Funds Australia Limited ACN 078 199 569 (“the Manager”) to be my attorney (with power to appoint and from time to time remove a substitute or substitutes) in accordance with and subject to the terms of the Syndicate Deed and this Prospectus and authorise and empower the Manager, in my name or in the Manager’s name:-

- to sign all documents necessary to arrange and complete loan facilities, on terms not materially more onerous than those set out in this Prospectus on my behalf in proportion to my subscription (“the Loans”) including to execute agreements for the Loans in such form and substance as the Manager in its absolute discretion approves;
- to mortgage or charge my Interest in the Syndicate to the financier of loans;
- if any loan falls due prior to the sale of the Property, to roll it over or discharge it and enter into new Loans;
- sign all documents necessary to arrange and complete further loan facilities for the purposes of improving, refurbishing, further developing or maintaining the Property on my behalf in proportion to my Subscription (“Further Loans”) including to execute documents for the Further Loans in such form and substance as the Manager approves;
- to make such amendments to a loan document as the Manager in its absolute discretion approves, whether or not involving changes to the parties; and
- generally do all other acts or things on my behalf which the Manager may consider advisable, desirable or necessary in connection with or in relation to a loan and any of the transactions contemplated by a Loan as the case may be.

I agree to ratify and confirm whatever the Manager does under this power of attorney and be bound, together with any person claiming under or through me, by anything the Manager does in exercising powers under this power of attorney.

The terms of this power of attorney have the same meanings as given to them in this Prospectus.

### EXECUTED as a deed

Applicant

Joint Applicant #2

Joint Applicant #3

### DATE:

Witness

Any other person

(Note: A J.P., Commissioner of Declaration, is NOT required)

### HOW TO APPLY

**Fill out the Application Form on the opposite page**  
**Draw a cheque payable to “Trust Company of Australia Limited – Garden Square Property Syndicate” and cross it “Not Negotiable”.**

**Return the completed Application Form with the cheque to Property Funds Australia Limited, PO Box 10398, Brisbane, Adelaide Street Q 4000.**

### OFFICE USE ONLY

Received  /  /

Corporations signing under common seal sign here.

Dealer/Advisor's Stamp

NOTE: THIS FORM IS TO BE COMPLETED BY THOSE INVESTORS WHO ARE INVESTING IN THE SYNDICATE. IT IS ANTICIPATED THAT SUPERANNUATION FUNDS MAY CHOOSE TO COMPLETE THE APPLICATION FORM – TRUST.

Reference No.

## 1. COMPLETE FULL NAME DETAILS (PLEASE PRINT)

Surname/Company Name (including A.C.N.)

Applicant Given Names

Joint Applicant # 2

Joint Applicant #3

## 2. POSTAL ADDRESS

Street No. Street (or PO box details)

Suburb

State

Post Code

Country (if not Australia)

## 3. TELEPHONE NUMBERS

Area Code & Home Phone No.

Area Code & Work Phone No.

Area Code & Fax No.

Contact Person (if different to Applicant)

Prospectus No.

## 4. TAX FILE NUMBERS

Tax File No for App. #1

Tax File No. For App. #2

Tax File No. For App. #3

5. I/WE SUBSCRIBE FOR \$  OF INTERESTS IN THE SYNDICATE

## 6. DISTRIBUTIONS

Insert Name of Account which is to be credited

Bank

Branch

BSB Number

Account Number

PLEASE SIGN ON THE REVERSE SIDE OF THIS FORM.



## 7. Acknowledgement

I/We acknowledge, agree and understand that:-

- My application is made on the basis that pending completion of the purchase of 643 Kessels Road, Upper Mt Gravatt ("the Property"), my Subscription will be held by the Trustee and will be returned to me if the purchase does not proceed or if my application is not accepted.
- I have read and understood the Prospectus to which this application is attached.
- the Manager may accept or reject this application in whole or in part.
- if my application is accepted I agree to be bound by the Syndicate Deed.

## 8. Limited Power of Attorney

That if my application is accepted, I hereby irrevocably appoint Property Funds Australia Limited ACN 078 199 569 ("the Manager") to be my attorney (with power to appoint and from time to time remove a substitute or substitutes) in accordance with and subject to the terms of the Syndicate Deed and this Prospectus and authorise and empower the Manager, in my name or in the Manager's name:-

- to sign all documents necessary to arrange and complete loan facilities, on terms not materially more onerous than those set out in this Prospectus on my behalf in proportion to my subscription ("the Loans") including to execute agreements for the Loans in such form and substance as the Manager in its absolute discretion approves;
- to mortgage or charge my Interest in the Syndicate to the financier of loans;
- if any loan falls due prior to the sale of the Property, to roll it over or discharge it and enter into new Loans;
- sign all documents necessary to arrange and complete further loan facilities for the purposes of improving, refurbishing, further developing or maintaining the Property on my behalf in proportion to my Subscription ("Further Loans") including to execute documents for the Further Loans in such form and substance as the Manager approves;
- to make such amendments to a loan document as the Manager in its absolute discretion approves, whether or not involving changes to the parties; and
- generally do all other acts or things on my behalf which the Manager may consider advisable, desirable or necessary in connection with or in relation to a loan and any of the transactions contemplated by a Loan as the case may be.

I agree to ratify and confirm whatever the Manager does under this power of attorney and be bound, together with any person claiming under or through me, by anything the Manager does in exercising powers under this power of attorney.

The terms of this power of attorney have the same meanings as given to them in this Prospectus.

### EXECUTED as a deed

Applicant

Joint Applicant #2

Joint Applicant #3

### DATE:

Witness

Any other person

(Note: A J.P., Commissioner of Declaration, is NOT required)

### HOW TO APPLY

**Fill out the Application Form on the opposite page**  
**Draw a cheque payable to "Trust Company of Australia Limited – Garden Square Property Syndicate" and cross it "Not Negotiable".**

**Return the completed Application Form with the cheque to Property Funds Australia Limited, PO Box 10398, Brisbane, Adelaide Street Q 4000.**

### OFFICE USE ONLY

Received  /  /

Corporations signing under common seal sign here.

Common Seal (affix here)

Director

Director/Secretary

# Instructions to Applicants Investing in the Trust

**This application form is applicable to those investors who are unable or do not wish to borrow in their own name (e.g. complying superannuation funds).**

Applications may only be made on the Application Form attached to this Prospectus.

The Manager, with the prior approval of the Trustee has the right to close the issue at any time. The Manager has the right to accept or reject any Application in whole or in part.

## Minimum Subscription

**You may invest an amount of \$10,000 or more with investments in excess of \$10,000 being in increments of \$5,000.**

## Cheques

Cheques must be made payable to **“Trust Company of Australia Limited – Garden Square Property Trust”**. Please pin your cheque to the Application Form. Your cheque must be drawn on an Australian bank. Receipts will not be issued.

## Tax File Numbers

Collection of tax file numbers is authorised by tax law and the Privacy Act 1988. You do not have to advise us of your tax file number (TFN) or exemption. Failure to provide a tax file number will not affect the success of your application. However, if not initially provided, your TFN will be subsequently requested.

## Signing the Application Form

**Before signing the Application Form, you should read this Prospectus.** The Application Form must be signed by you personally, or under company seal or by an attorney.

## Correct forms of registrable names

Note that only legal entities are allowed to hold interests. Applications must be in the name(s) of natural persons, companies or other legal entities acceptable to the Manager. At least one given name in full and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if requested. Use the symbols < > as shown below to indicate an account designation.

TYPE OF INVESTOR	CORRECT FORM	INCORRECT FORM
<b>Individual</b> Use given names in full, not initials	John James Smith	J. J. Smith
<b>Company</b> Use company title, not abbreviations	XYZ Pty Ltd	XYZ P/L XYZ Co
<b>Minor</b> (a person under the age of 18) Do not use the name of the minor, use the name of the responsible adult	John James Smith <John Smith Jnr>	John Smith Jnr
<b>Trusts</b> Do not use the name of trust, use trustee(s) name(s)	Mary Smith <Mary Smith Family Trust> or ABC Pty Ltd <ABC Family Trust>	Mary Smith Family Trust ABC Trust
<b>Partnerships</b> Do not use the name of partnership, use partners personal names	John Smith & Michael Smith <Smith Brothers>	Smith Brothers

Joint applications must be signed by each applicant. Joint Applicants will be assumed to be joint tenants unless otherwise specified.

If signed by an attorney, the attorney declares that no notice of revocation of the power of attorney has been received.

If signed under company seal, the director(s) and/or secretary attest that the common seal was affixed in accordance with the company's Articles of Association.

## Correspondence

All correspondence will only be addressed to the person and address as completed on the Application Form. For joint applicants, one address can only be entered.

## Lodgement of Application Forms

Completed Application Forms and cheques must be sent to:

### Postal address for mail:

Property Funds Australia Limited  
PO Box 10398, Brisbane Adelaide St  
BRISBANE QLD 4000

### Office address for delivery:

Property Funds Australia Limited  
Level 14  
127 Creek Street  
BRISBANE QLD 4000

## Enquiries

**Contact Property Funds Australia Limited Freecall 1800 687 170 or Facsimile (07) 3221 6729.**

# Application Form TRUST

Dealer/Advisor's Stamp

NOTE: THIS FORM IS TO BE COMPLETED BY THOSE INVESTORS WHO ARE UNABLE TO OR DO NOT WISH TO BORROW IN THEIR OWN NAME (E.G. COMPLYING SUPERANNUATION FUNDS)

Reference No.

## 1. COMPLETE FULL NAME DETAILS (PLEASE PRINT)

Surname/Company Name (including A.C.N.)	Applicant Given Names
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Joint Applicant # 2
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Joint Applicant #3
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## 2. POSTAL ADDRESS

Street No.	Street (or PO box details)
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Suburb	State	Post Code
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Country (if not Australia)
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## 3. TELEPHONE NUMBERS

Area Code & Home Phone No.	Area Code & Work Phone No.
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Area Code & Fax No.	Contact Person (if different to Applicant)
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## 4. TAX FILE NUMBERS

Tax File No for App. #1	Tax File No. For App. #2
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Tax File No. For App. #3
--------------------------

5. I/WE APPLY FOR  UNITS OF \$1 PER UNIT IN THE GARDEN  
SQUARE PROPERTY TRUST AND LODGE APPLICATION MONIES OF \$

## 6. DISTRIBUTIONS

Insert Name of Account which is to be credited
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Bank	Branch
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BSB Number	Account Number
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Prospectus No.

## 7. I acknowledge, agree and understand that:-

- a) My application is made on the basis that pending completion of the purchase of 643 Kessels Road, Upper Mt Gravatt ("the Property"), my subscription will be held by the Trustee and will be returned to me if the purchase does not proceed or if my application is not accepted.
- b) I have read and understood the Prospectus to which this application is attached.
- c) the Manager may accept or reject this application in whole or in part.
- d) if my application is accepted I agree to be bound by the Trust Deed.

### EXECUTED as a deed

Applicant
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Joint Applicant #2
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Joint Applicant #3
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### DATE:

/ /
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Corporations signing under common seal sign here.

Common Seal
Director
Director/Secretary

### OFFICE USE ONLY

Received	/ /	
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ACN 078 199 569