

**PFA** **DIVERSIFIED**  
PROPERTY TRUST

AND CONTROLLED ENTITIES  
ARSN 097 860 690



ANNUAL REPORT 2005



ACN 078 199 569  
AFSL No. 224106

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PFA Diversified Property Trust,  
a listed Australian unit trust, which owns  
a portfolio of Australian investment grade  
properties currently valued at \$330 million.

*Property Funds Australia Limited ACN 078 199 569 ("PFA") does not guarantee or in any way stand behind the performance of the PFA Diversified Property Trust or the repayments of capital by the PFA Diversified Property Trust. The information contained in this annual report ("the Information") does not constitute a securities recommendation. It has not been prepared taking into account your particular investment objectives, financial situation and particular needs. You should assess whether it is appropriate in the light of your own*



**PFA** **DIVERSIFIED**  
PROPERTY TRUST

The PFA Diversified Property Trust is a listed Australian unit trust which owns a portfolio (either directly or through wholly owned subsidiary trusts) of Australian investment grade properties currently valued at \$330 million. The portfolio is diversified by property sector, geographic location, tenant profile and lease expiry.

The Trust currently has in excess of 3,300 unitholders.

The Trust's fundamental strategy is to invest in a growing portfolio of quality properties diversified by property sector, geographic location, tenant profile and lease expiry with the properties generally in the price range of \$10 million to \$50 million.

The Trust is listed on the Bendigo Stock Exchange.

The responsible entity of the Trust is Property Funds Australia Limited ("PFA"), a specialist property fund manager. Details of PFA can be obtained from its website [www.pfaltd.com.au](http://www.pfaltd.com.au).

The custodian for PFA in holding the assets of the Trust is Trust Company of Australia Limited which was established in 1885.

*circumstances before acting on it. If you are unsure you should seek the help of your financial adviser. Whilst all reasonable care has been taken in relation to the preparation and collation of the Information, no person, including PFA and its directors, accept responsibility for loss or damage howsoever occurring resulting from a use or reliance on the Information by any person. Past performance is not indicative of future performance and no guarantee of future returns is implied or given.*

# Managing Director's Letter



Dear Unitholders,

As managing director of Property Funds Australia Limited ("PFA"), the responsible entity of the PFA Diversified Property Trust ("the Trust"), I am pleased to present the 2005 annual report to unitholders.

This year has been a strong year of consolidation and building upon the strategic implementation of the objectives of the merger which was carried out in July, 2003.

The fruits from the seeds of the work of recent years have started to be delivered including stability of incomes through diversity, increasing rents and a strong 15% increase in the net tangible assets of the Trust. This NTA increase was fundamentally due to increases in the value of 4 of the properties which were revalued in this revaluation cycle. Revenue and profit performances of the Trust were also creditable over the year.

During the year, the Trust acquired 3 more properties, two in Perth (one office, one industrial) and one office/industrial property in Melbourne.

In addition, after considered strategic analysis, a put and call option was entered into to sell the Post Office Square property consequent upon the receipt of a strong offer to purchase. The task to replace this asset is well underway.

Capital raisings and placements throughout the year together with growth in the value of the assets of the Trust saw significant growth in the Trust's equity. Particularly humbling for PFA as manager of the Trust, was the level of support from existing unitholders to the rights issue and PDS No. 2 during March this year. Over 70% of equity in that capital raising came from existing unitholders. This vote of confidence is recognised and appreciated by PFA.

The Trust would appear to be fortunate to be "overweight" in assets located in those markets which appear to have strong future growth in them (e.g. the Brisbane office market), auguring well for its future.

Looking forward, we plan to continue to build on the Trust's sound financial performances as well as acquiring further assets in a careful and rational growth of the Trust taking into consideration the Trust's key objectives.

We intend to be acquiring further properties in appropriate markets in the 2005/06 financial year (including replacing Post Office Square) as well as carrying out further capital raising in the last quarter of the 2005 calendar year.

I take this opportunity to thank our existing unitholders for their ongoing support and welcome those new unitholders who may have invested with us as a consequence of recent capital raisings.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Chris Morton". The signature is fluid and cursive, written over a light blue horizontal line.

**Chris Morton**  
**Managing Director**

# Operating Highlights

## Events

- **September, 2004:**
  - Product disclosure statement dated 27 February, 2004 closed to subscriptions;
  - Placement of 3,000,000 units;
  - Final repayment of short-term extension of joint finance facility.
- **December, 2004:** Three private placements completed for the issue of 13,421,053 units.
- **February, 2005:**
  - Product disclosure statement ("PDS No. 2") lodged with ASIC for the issue of 24.78 million units in the Trust. The offer price under PDS No. 2 is \$1.07 per unit.
  - Existing unitholders (i.e. those registered at 31 December, 2004) offered a one for five entitlement under the rights issue at \$1.05 per unit.
  - Acquisition of the Sevenoaks building, Cannington, Western Australia for \$38.0M settled on 10 February, 2005.
- **March, 2005:** Rights issue to existing unitholders successfully completed.
- **April, 2005:** Trust makes temporary investment in S8 Property Trust, acquiring 10,571,429 units at a cost of \$10M.
- **May, 2005:** Product disclosure statement No. 2 closed oversubscribed.

- **June, 2005:**
  - Acquisition of 33 McDowell Street, Welshpool, Western Australia for \$6.9M settled on 15 June, 2005.
  - Acquisition of AAPT Centre, 180-188 Burnley Street, Richmond, Victoria for \$15.25M settled on 29 June, 2005.
  - Trust entered into a put and call option agreement for the sale of Post Office Square.
  - As a consequence of the potential sale of Post Office Square, a special distribution of 6.76 cents per unit announced, subject to the completion of the sale, to be paid to unitholders on the register as at 30 June, 2005.
- **July, 2005:** Exercise of put option to sell the 10,571,429 units held in S8 Property Trust.

## Financial Performance

- Distribution of 9.48 cents per unit for the year ended 30 June, 2005 in accordance with PDS No. 2 forecasts;
- Net Profit (before amortisations) for the year approximately \$10.8M (up 21%);
- Net Profit (after tax and amortisations) for the year approximately \$9.0M (up 42%);
- Tax deferred component of distributions – 68.6% compared with PDS No. 2 forecasts of 63.0%;
- As at 30 June, 2005:-
  - Total assets \$353.7M, up \$93.8M;
  - Net asset backing of \$1.17 per unit (up 9 cents per unit);
  - Net tangible asset backing of \$1.11 per unit (up 15 cents per unit).

## Financial Overview

|   | As at 30 June, 2005                           | As at 30 June, 2004                           |
|---|---|---|
| Total assets (\$'000)                           | 353,673                                       | 259,910                                       |
| Total liabilities (\$'000)                      | 179,910                                       | 158,203                                       |
| Total equity (\$'000)                           | 173,763                                       | 101,707                                       |
| Net asset backing per unit (\$)                 | 1.17  | 1.08  |
| Net tangible asset backing per unit (\$)        | 1.11  | 0.96  |
| Number of units on issue ('000)                 | 147,872                                       | 94,167  |
| Total borrowings (\$'000)                       | 177,530                                       | 152,826                                       |
| % borrowings to total assets (%)                | 50  | 59  |
| Number of unitholders                           | 3,408   | 2,902   |
| Vacancy Rate (% by income)                      | 3.5   | 4.0   |
|   | <b>For 12 months ending<br/>30 June, 2005</b> | <b>For 12 months ending<br/>30 June, 2004</b> |
| Net profit after tax and amortisations (\$'000) | 9,002   | 6,345   |
| Distribution per ordinary unit (cents per unit) | 9.48  | 9.48  |

# Manager's Report

**We are pleased to report to you on the activities and achievements of the PFA Diversified Property Trust ("the Trust") for the financial year ended 30 June, 2005.**

## Fund Performance

Distributions for the year have been occurring at the rate of 0.79 cents per unit per month (9.48 cents per unit annualised – 68.6% tax deferred) which is in accordance with PDS forecasts for the Trust. In the product disclosure statement dated 7 February, 2005 ("PDS No. 2") the directors of the Manager have forecast that this distribution rate is likely to continue through to 30 June, 2006 (subject to the assumptions on which the forecast is based set out in section 6.2 of PDS No. 2).

Of particular note, during the year were the following positive results compared to the financial year ending 30 June, 2004 and forecasts in PDS No. 2:-

- net asset backing per unit increased 9 cents (approximately) to \$1.17 per unit;
- net tangible asset backing per unit increased 15 cents to \$1.11 per unit;
- positive revaluations of four of the properties in the portfolio resulted in a net increase of \$22.85M in the value of the portfolio;
- gross revenue increased by 20% to \$30.74M; and
- net profit (after tax and amortisations) increased by 41.87% to \$9.0M.

## Fund Management

Underpinning the Trust's sound financial result for the year has been a commitment by the Manager to meeting the objectives and strategies of the Trust as set out in the original merger explanatory memoranda and subsequent product disclosure statements. These have included the following events which are discussed in greater detail below:-

- the commitment to ongoing diversification – both sector and geographical (as exhibited by the acquisition of commercial and industrial properties located in Perth and Melbourne);
- the ongoing capital works which the Manager believes should occur to underpin and add to the value of the portfolio;
- give existing unitholders priority in public equity raisings (as demonstrated through the rights issue);
- greater funding flexibility and improved access to debt and equity markets;
- the delivery of sound growth in the value of the portfolio; and
- the provision of liquidity in the investment through the Bendigo Stock Exchange ("BSX").

## Asset Management

### Acquisitions

#### **303 Sevenoaks Street, Cannington, Perth, WA**

The Trust completed the purchase of the Sevenoaks office building located in the Perth suburb of Cannington, Western Australia for a purchase price of \$38.0M on 10 February, 2005.

Sevenoaks is a modern 4 level 22,000m<sup>2</sup> office building located in the Perth suburb of Cannington, 11 kilometres south-east of Perth's city centre. The building is fully leased on a net lease basis to the State Government of Western Australia with 78% of it leased until 2017.

The building has a large 5,500m<sup>2</sup> floorplate which is highly attractive to government and large corporate tenants due to spatial efficiencies. Two internal atriums within the building enable natural light to penetrate through it. The building which was originally built in 1992 for the Australian Taxation Office, has been constructed to a high government specification and offers a highly beneficial car parking ratio of 1 car space per 27m<sup>2</sup>.

The property comprises approximately 2 hectares of surplus land which the Manager currently intends to dispose of, after its subdivision and clarification of development issues associated with it.

The building has an attractive entrance area and is undergoing significant refurbishment and new fitout as a consequence of the commencement of the main Western Australian Government lease.

#### **33 McDowell Street, Welshpool, Perth, WA**

The acquisition of 33 McDowell Street, Welshpool was completed by the Trust on 15 June, 2005 for a purchase price of \$6.9M.

The Welshpool property is a large warehouse and distribution facility located in the industrial suburb of Welshpool, approximately 13 kilometres east of the Perth CBD. The property has a building area of approximately 14,036m<sup>2</sup> comprising 3 warehouses of 11,250m<sup>2</sup>, free-standing offices of 851m<sup>2</sup>, a covered loading dock of 1,812m<sup>2</sup> and truck maintenance workshop of 124m<sup>2</sup>. The total site area is 2.8996 hectares.



*Sevenoaks office building, Perth, WA*

The Kewdale/Welshpool area is one of the prime industrial locations in the Perth metropolitan area. It contains many national and strong local companies and has excellent access to all parts of the metropolitan area via major arteries from this location. It is also in close proximity to the Perth international and domestic air terminals.

The property was acquired from 1st Fleet Pty Ltd under a sale and leaseback structure with a new 10 year “double net” lease arrangement. 1st Fleet Pty Ltd is a national distribution and logistics company providing contract services to businesses including Dairy Farmers, Woolworths, Gordon & Gotch, Network Services and Mitsubishi. It maintains warehouses in all major states and approximately 750 trucks and couriers vans.

#### **180-188 Burnley Street, Richmond, Melbourne, Vic**

The Trust completed the purchase of the AAPT Building located in the Melbourne suburb of Richmond on 29 June, 2005 for a purchase price of \$15.25M.

The AAPT Building is an internet data, telecommunications and office administration centre located in the Melbourne CBD eastern fringe suburb of Richmond.

The property comprises basement level carpark, ground floor offices and data facility storage and first floor offices. The property has a total net lettable area of 5,501m<sup>2</sup>.

The property was acquired from AAPT Limited under a sale and leaseback structure with a new 12 year “double net” lease arrangement. The lease provides for the Trust to fund up to \$3.0M in fitout and refurbishment of the property.

AAPT is one of Australia’s three largest telecommunications carriers and is part of the Telecom New Zealand Group, and provides a range of voice, mobile, data and internet services to business, government, wholesale and residential customers throughout Australia.

## **Divestments**

### **Proposed Sale of Post Office Square**

On 30 June, 2005 the Manager announced that the Trust had entered into a put and call option agreement with the CFS Gandel Retail Trust for the sale of the Post Office Square property.

The agreed base purchase price under the arrangement is \$68.6M.

The price is subject to variations depending on the Trust’s ability to generate additional revenue streams by certain key milestone dates. The price may also vary depending on final leasing negotiations over a lease renewal (i.e. the Angus & Robertson tenancy) and two vacant tenancies. The Trust is providing a rental guarantee for these areas.

The variable component is currently expected, by the Manager, to result in an end purchase price of between \$69.0M and \$70.0M.

The put and call arrangements allow for settlement no later than 14 December, 2005.

The sale price represents an initial yield of around 7.00% (inclusive of the purchaser’s agency costs). The Trust did not incur any sales agency costs (as is often the case) as the sale was handled directly by the Manager to minimise the cost. The Post Office Square property is currently carried in the financial statements of the Trust at a book value of \$61.5M.

The Manager was approached on an off market basis by the CFS Gandel Retail Trust with what was considered to be a strong offer. The Manager had identified the Post Office Square property as one of the properties which should be disposed of in today’s property market as retail property market yields have firmed significantly over the last two years.

# Manager's Report

The Manager was focussed on the property's possible disposal at the end of this calendar year once a few new income streams had been added. The Manager believes the CFS Gandel Retail Trust to be a rare party who can add further strategic value to the property and therefore pay a firm price for the property. This is due to its current predominance in Brisbane CBD retail with its ownership of the Myer Centre and the recently opened Queens Plaza retail complex – approximately 100 metres away from Post Office Square.

## Portfolio Review

The Manager continues to monitor the Trust's portfolio of investment properties to ensure consistency with the business needs and objectives of the Trust. Properties which are not consistent with the objectives of the Trust will be considered for divestment.

## Redevelopment Opportunities

The portfolio contains a number of properties which have potential redevelopment opportunities. The Manager continues to assess and clarify these opportunities.

## Revaluations

Revaluations of 4 assets during the year have added \$22.85M to the portfolio's value. This equates to an increase in NTA per unit of approximately 15.6% during the year. The relevant properties subject to valuation increases during the year were:-

| Property           | Previous Book Value | New Book Value | Increase |
|--------------------|---------------------|----------------|----------|
| Post Office Square | \$55.0M             | \$61.5M        | \$6.5M   |
| Garden Square      | \$23.5M             | \$31.3M        | \$7.8M   |
| Anzac Square       | \$18.2M             | \$24.0M        | \$5.8M   |
| 388 Queen Street   | \$16.25M            | \$19.0M        | \$2.75M  |

Underlying the increases in valuations has been the general firming in capitalisation yields which have occurred in the Brisbane commercial and retail property market since the date of the last valuations. The portfolio's capital appreciation has also been the result of positive leasing campaigns resulting in new leasing deals and rental growth.

## Leasing Activity

The vacancy rate (based on income) for the Trust portfolio at the time of this report is 3.5% which compares favourably in industry terms. The vacancy rate for the Portfolio has increased marginally during the year (up from 3.24% as at the date of last year's annual report).



*Interior perspective of the AAPT Building in Richmond, Vic*

However, this has been a pleasing result given that the vacancy rate had risen temporarily to 6.4% during the year immediately following the departure of Coles Myer from the Garden Square property in December, 2004.

The weighted average lease expiry of the portfolio has increased by 19.4% from 5.5 years to a strong 6.6 years as a consequence of the three property acquisitions and positive leasing transactions during the year.

This current weighted average lease term of 6.6 years provides a strong lease profile and underpins the stability of future income for the Trust.

Leasing deals completed during the year have predominantly related to the Garden Square, 388 Queen Street, Cairns Hypermart, Post Office Square and 544 Kessels Road properties.

## Garden Square

Particularly pleasing is the leasing that has occurred at Garden Square since the departure of Coles Myer from this property in December, 2004. The Queensland Department of Education commenced a 4 year lease agreement from 1 February, 2005 for 1,920m<sup>2</sup> of space. Furthermore, ministerial approval has been granted for three other government departments for leases totaling approximately 4,170m<sup>2</sup>. Should all of the leases proceed as approved, approximately 80% of the net lettable area of the former Coles Myer space will have been relet – all at rentals materially above the rental levels previously paid by Coles Myer. Current market activity and enquiry for the leasing of the balance of this space is positive.

## 388 Queen Street

The Manager successfully renegotiated the continuation of Suncorp Metway's lease, which was due to expire in September this year, over 9 floors at 388 Queen Street. Suncorp Metway



will now remain in their tenancy until 31 December, 2007. This is a good outcome for the property as Suncorp Metway occupies 4,420m<sup>2</sup> or 70% of this property.

Westpac has leased space on the ground floor at this property under a new 7 year lease. The space was previously occupied by Primelife Corporation Limited who were looking to downsize and relocate. The building is fully occupied in light of the extension of the Suncorp lease until 31 December, 2007.

### Cairns Hypermart

A major focus for this property during the year, was the releasing of the CUB Centre component of the property, leading up to the expiry of the Carlton & United Breweries lease in March, 2005. Harvey Norman, who had previously sub-let the CUB Centre, committed to a new 7 year lease commencing 20 March, 2005 occupying all of the warehouse component of this facility. One of this property's major tenants, Freedom Furniture, executed, prior to their original lease expiry, a 10 year lease until July, 2015. This leaves only parts of the office component of the property to be relet.

### Post Office Square

Currently there is only one small vacancy at the Post Office Square property, following strong lease activity that has occurred at this property over the last 12 months. Quality tenants attracted during the year include Gloria Jeans, Green Bean, MYO and Student Flights. Three lease renewals also occurred during the year including a new 8 year lease to Torts and 5 year leases to both Flight Centre and Perrott's florist.

### Anzac Square

Well known Brisbane CBD café operator, Hard Coffee, has taken over as the lessee and operator of the heritage corridor space located on Adelaide Street. Hard Coffee commenced a new 10 year lease in December over the 59m<sup>2</sup> of retail space. The Anzac Square property is fully leased.

### 544 Kessels Road

As previously reported during the year, a significant 7 year lease over the former Hudson building at 544 Kessels Road was secured by Petwise at an increased rent compared to that paid by the previous tenant. Refurbishment of that building occurred in preparation for this tenant.

### Future Leasing Activity

Maintaining a strong tenant profile remains a critical focus for the Manager and a key point of difference for the Trust as against many trusts of a similar size, particularly with national

and government tenants currently accounting for approximately 84% of the income of the Trust.

This is not to say that there are not challenges in the forthcoming 12 months as some lease expiries occur and some current vacancies are focused upon. In particular, in the forthcoming twelve months, the Manager's major focus will be:-

- the releasing of the balance of the vacant space in the Garden Square Office Park and continuing the pursuit of the realisation of the value in the development potential in that property;
- ascertaining Angus & Robertson Bookworld's future occupancy intentions in relation to their expiring lease in October 2005 at Post Office Square;
- undertaking an ongoing tenancy remix at Homeworld;
- continuation of the leasing strategy and tenancy remix at the Riverdale Centre to continue to reduce the vacancy at that Centre over the year; and
- review of development and subdivision options of surplus land at 544 Kessels Road and Sevenoaks, Perth.

### Capital Works

The Manager is conscious of the necessity to maintain the assets to keep them competitive in the marketplace. Continuing with the strategy to maintain and enhance the physical quality of the Trust's property assets, the Manager has undertaken considerable capital works to a number of the properties during the year.



388 Queen Street, Brisbane, Qld

# Manager's Report



*The Garden Square Office Park, Brisbane, Qld*

## **Garden Square**

Significant works have been undertaken at the Garden Square property to accommodate new tenancies which have commenced during the year. Further works are underway to upgrade and improve base building services and the building's common areas including some toilets and lift lobbies. These works have been initiated to facilitate significant new leases at the property.

## **388 Queen Street**

Tenancy modifications, including new carpet and air conditioning works, were completed at 388 Queen Street to prepare the vacant floors for new leases that were completed during the year. A refurbishment of the ground floor entrance lobby to improve its presentation and street appeal has commenced. These works coincide with Westpac's fitout of their new premises on the ground floor which are adjacent to the property's entrance.

## **Post Office Square**

Tenancy modifications have been undertaken at Post Office Square to accommodate several new tenants during the year. Carpet replacements in public areas and electronic variable message signage have also been installed.

## **Homeworld**

Proposed works to be undertaken at the Homeworld Centre to upgrade the retail forecourt at that Centre did not commence during the year. A design review of the refurbishment options for the retail forecourt area has been completed and planning

applications have been lodged to obtain the relevant approvals. We are considering the best timing for the commencement of works.

## **544 Kessels Road**

A refurbishment of the former Hudson Building was completed to accommodate new tenant Petwise who commenced a new 7 year lease in this building. An upgrade of the air conditioning system for one of the property's original buildings which is occupied by major tenants JB Hi-Fi and Encel, has also been completed.

## **Future Capital Works**

Other works proposed to be undertaken in the forthcoming 12 months include:-

- continuing owner's works at Garden Square to facilitate new leases;
- commencement of the Homeworld forecourt upgrade;
- design review of a revised tenancy mix and works to procure shop re-configurations and relocations at Riverdale; and
- consideration of an upgrade of common areas at Sevenoaks including atriums and garden areas.

## **Other Investments**

### **Temporary Investment in S8 Property Trust**

In April, the Manager announced on behalf of the Trust the acquisition of 10,571,429 units in the S8 Property Trust at a cost of \$10 million. The units provided a yield of 9.25% whilst held. The S8 Property Trust is an ASX listed trust, holding \$136 million of residential property and apartment management rights.

The Trust was granted a put option to dispose of the units on 90 days notice to S8 Limited, also an ASX listed entity with a market capitalisation of \$60.0M (approx.).

On 15 July, 2005 the Trust exercised this option to sell these units to S8 Limited, with settlement due by 13 October, 2005, delivering a small profit of approximately \$100,000 to the Trust.

This S8 Property Trust investment was intended only as a short-term investment as it provided a strong distribution yield for part of the proceeds of the recent capital raising whilst enabling future use of these funds for direct property acquisitions expected to occur later this calendar year.

## Debt Management

The total borrowings of the Trust as at 30 June, 2005 were \$177,530,500 although this has reduced to \$176,005,490 as at the date of this report as a result of repayments made since the end of the financial year. This represents as at the date of this report, a gearing ratio against total assets of 49.76%.

Of these borrowings, approximately 73% of the Trust's debt funding as at 30 June, 2005 had fixed interest rates or was hedged with the balance being at variable rates. As at the date of this report, this percentage has increased to over 95% as a result of market opportunities that arose with long term rates. The Manager continues to monitor the interest rate market for opportunities to purchase hedging style products at appropriate pricing.



Part of the Anzac Square Complex (right)

The Manager may seek to alter the above percentage during the current year.

The weighted average interest rate (inclusive of bank margins) on debt as at 30 June, 2005 was 6.70% per annum.

## Capital Management

### Capital Raising

On 7 September, 2004 the capital raising pursuant to the product disclosure statement dated 27 February, 2004 was closed after raising \$20,878,533. 20,420,162 units were allotted as part of this capital raising.

On 9 September, 2004 the Trust raised a further \$3.0 million by the placement of 3 million units at \$1.00 each to National Nominees Limited.

In December 2004, three further private placements were undertaken raising \$13.9 million. These placements occurred as follows:-

- 5,000,000 units at \$1.02 per unit to Sandhurst Trustees Limited on 21 December, 2004;
- 3,636,364 units at \$1.045 per unit to Tower Trust Limited on 31 December, 2004; and
- 4,784,689 units at \$1.045 per unit to RBC Global Services Australia Nominees Pty Ltd on 31 December, 2004.

The proceeds of these placements were used to partly fund the Sevenoaks property in Cannington, Perth.

On 7 February, 2005, the Manager lodged with the Australian Securities and Investments Commission a product disclosure statement for the issue of 24.78 million units in the Trust at an offer price of \$1.07 per unit.

Existing unitholders (i.e. those registered at 31 December, 2004) were offered a one for five entitlement under the rights issue at \$1.05 per unit. Existing unitholders could also purchase additional units above their entitlement under the PDS at the offer price of \$1.07 per unit.

The proceeds of this offer were used to:-

- initially reduce the Trust's debt to enable the financing of future acquisitions;
- provide cash reserves to enable funding of future acquisitions; and
- fund capital works which the Manager believes should occur to underpin and add to the value of the property portfolio.

# Manager's Report

Rights issue entitlements closed on 24 March, 2005 with existing unitholders subscribing approximately \$10.5M at the discounted offer price of \$1.05 per unit. Existing unitholders also subscribed an additional \$6.9M (approx.) under the general offer at \$1.07 per unit.

On 4 May, 2005 the Manager announced the closure of PDS No. 2 after raising \$25,474,795.67. 23,974,480 units in total were allotted as part of this process.

## Proposed Special Distribution

As a consequence of the potential sale of Post Office Square to the CFS Gandel Retail Trust, pursuant to a put and call option agreement ("the Put and Call"), it was announced on 30 June, 2005 that is the intention of the Manager to make a special distribution to unitholders on the following terms and conditions:-

**1. Amount of special distribution: 6.76 cents per unit;**

**2. Record date for distribution: 30 June, 2005;** Investors who become unitholders on the register after 30 June, 2005 will not be entitled to this special distribution. Should a unitholder on the register as at 30 June, 2005 subsequently sell their units they will still receive the special distribution subject to the conditions following.

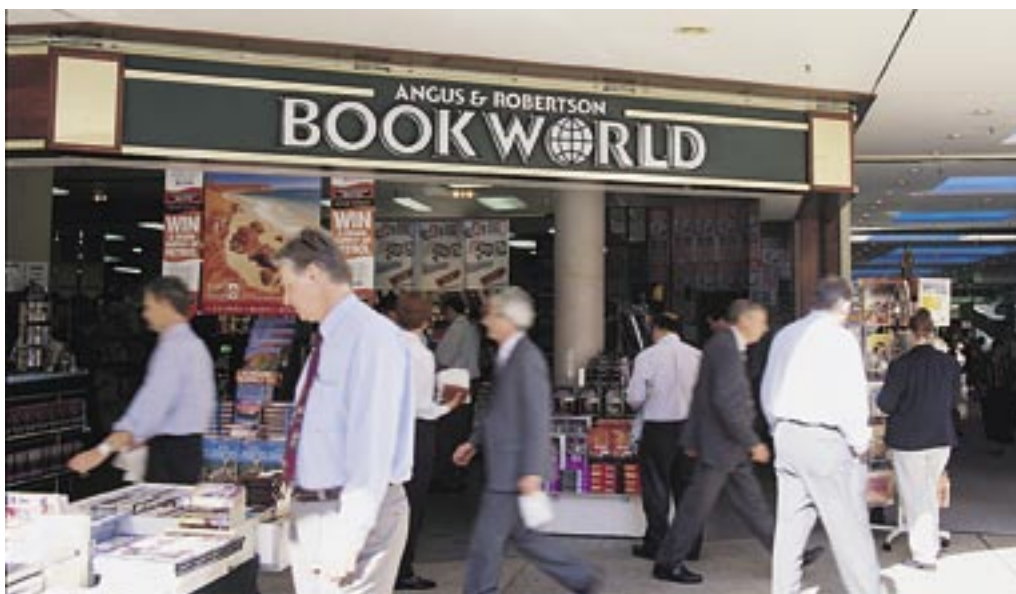
**3. Payment date: Fourteen (14) days after settlement** of the sale contract of Post Office Square. This settlement is currently projected by the Manager to be between 1 November, 2005 and 1 December, 2005.

**4. Conditions: The special distribution is conditional upon:-**

- (a) (i) the exercise by the Purchaser of its call option to purchase under the Put and Call; or
- (ii) the exercise by the PFA Diversified Property Trust of its put option to sell under the Put and Call; and
- (b) the completion of the sale contract which comes about as a consequence of the exercise of either of the options referred to in paragraph (a) above.

## Background

The special distribution is proposed to be made out of the capital profit which would arise from the Post Office Square sale. The Post Office Square property is currently carried in the financial statements of the Trust at a book value of \$61.5M. The base sale price under the Put and Call Option agreement is \$68.6M. As previously mentioned in this annual report, the price is subject to variation.



*The Angus and Robertson Bookworld tenancy at Post Office Square, Brisbane, Qld*



*The entrance foyer of 388 Queen Street, Brisbane, Qld*

## The Market

During the year, the weighted average price per unit that units in the Trust have traded on the BSX has been \$1.02, a 3% increase on the weighted average price per unit for the 2004 year and a 6.25% premium to the NTA per unit as at 30 June, 2004. The weighted average price per unit has increased to \$1.08 in the period 1 July, 2005 to 5 September, 2005. The market capitalisation of the Trust as at 30 June, 2005 was \$158.22 million, and total trade volume on the BSX for the year was approximately 2.0 million units.

The Manager is hopeful that given the sound financial performance of the Trust and the recently announced material increase in the net tangible assets per unit in the Trust that subsequent pricing may more fully reflect these events.

## Manager Update

On 27 August, 2004 the acquisition of a 50% interest in Property Funds Australia Limited, the Manager and the responsible entity of the Trust, by well known property specialists, the James Fielding Group (JFG), through James Fielding Holdings Limited was finalised.

In January of this year, the James Fielding Group was acquired by the Mirvac Group creating a diversified property group which has \$15 billion worth of assets under its control and a market capitalisation in excess of \$3.5 billion (approx.).

Mr Greg Paramor, James Fielding's managing director and Property Funds Australia Limited's non-executive chairman, was subsequently appointed managing director of the Mirvac

Group. Fellow Property Funds Australia Limited non-executive director, Mr Nicholas Collishaw also now heads Mirvac Group's investment division.

No changes to personnel at Property Funds Australia Limited have occurred as a result of the Mirvac/James Fielding transaction.

## Outlook

The 2005 financial year has been a positive and busy year for the Manager and the Trust and one which has seen significant achievements and a successful meeting by the Manager of the challenges that it had to face on behalf of the Trust during the year.

The Trust would appear to be fortunate to be overweight in assets located in those markets which appear to have strong growth in them (e.g. the Brisbane office market).

The Manager intends to continue its careful and considered growth of the Trust remaining conscious of the need for diversification (as per one of the Trust's key objectives) yet seeking value in property wherever that may reasonably reside in the Australian property market. In doing so, the Manager's focus will remain on the preservation of the stability of income and a reasonably high yield.

There are a number of exciting value adding opportunities within the portfolio which are still to be fully investigated and realised. Hopefully, the 2005/06 financial year will provide clarity on these opportunities.

The new financial year will still have its challenges particularly with the proposed sale of Post Office Square, the acquisition of suitable replacement property and certain forthcoming lease renewals (although not as many as last year). Capital expenditures proposed for the year, and assisted by the new proposed capital raising, should assist in underpinning of the portfolio's value and the Trust's future income stream well into the future.

# Property Portfolio

## Overview

### Portfolio Status

As at the date of this report, the Trust's portfolio had the following characteristics:-

- \$330.4 million in property assets over 14 properties;
- a strong 6.6 year weighted average lease expiry;
- a balanced lease expiry profile;
- a 3.5% vacancy rate;
- approximately 84% leased to national or government tenants;
- 129,791m<sup>2</sup> of net lettable area and a 316 bay public car parking facility;
- sound diversification, particularly by reference to sector and tenant, with a material Queensland geographical bias.

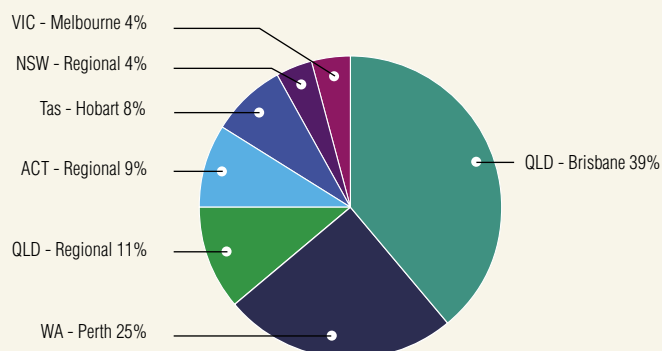
The portfolio comprises 14 properties, summarised as follows:

| Asset                     | Sector                   | Location                        | % of Portfolio Value | Current Valuation    |
|---------------------------|--------------------------|---------------------------------|----------------------|----------------------|
| Post Office Square        | Retail/Car Park          | Brisbane CBD, Qld               | 18.61%               | \$61,500,000         |
| Sevenoaks                 | Office                   | Cannington, Perth, WA           | 12.39%               | \$40,938,000         |
| Homeworld Centre          | Retail/Office            | Tuggeranong, ACT                | 9.84%                | \$32,500,000         |
| The Lands Building        | Office                   | Hobart, Tas                     | 9.33%                | \$30,833,000         |
| Garden Square             | Office                   | Upper Mt Gravatt, Brisbane, Qld | 9.47%                | \$31,300,000         |
| Anzac Square              | Office                   | Brisbane CBD, Qld               | 7.26%                | \$24,000,000         |
| Cairns Hypermart          | Retail/Industrial/Office | Cairns, Qld                     | 5.15%                | \$17,000,000         |
| 388 Queen Street          | Office                   | Brisbane CBD, Qld               | 5.75%                | \$19,000,000         |
| The AAPT Centre           | Industrial/Office        | Richmond, Melbourne, Vic        | 5.01%                | \$16,543,000         |
| Riverdale Centre          | Retail/Entertainment     | Dubbo, NSW                      | 4.77%                | \$15,750,000         |
| 544 Kessels Road          | Retail/Industrial        | MacGregor, Brisbane, Qld        | 3.67%                | \$12,140,000         |
| Centro on James - Stage 3 | Retail/Entertainment     | Fortitude Valley, Brisbane, Qld | 3.33%                | \$11,000,000         |
| The Precinct              | Office/Retail            | Coorparoo, Brisbane, Qld        | 3.16%                | \$10,450,000         |
| 33 McDowell Street        | Industrial               | Welshpool, Perth, WA            | 2.26%                | \$7,436,000          |
|                           |                          |                                 | <b>100.00%</b>       | <b>\$330,390,000</b> |

## Geographical diversification

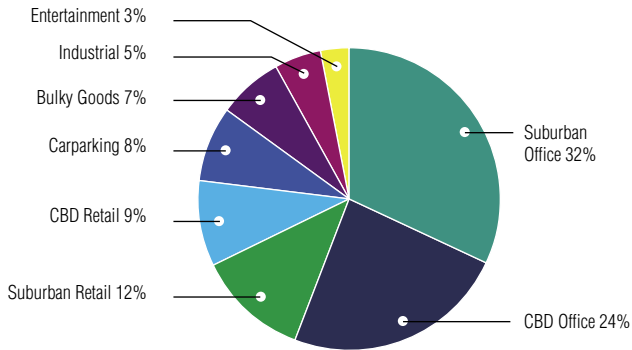
The adjacent graph demonstrates the geographical diversification of the portfolio and its current Queensland geographical bias. Part of the investment strategy of the Trust is to gradually reduce this bias towards Queensland as demonstrated by the acquisition of properties located in Perth and Melbourne during the year.

### Geographical Diversification (by NLA)



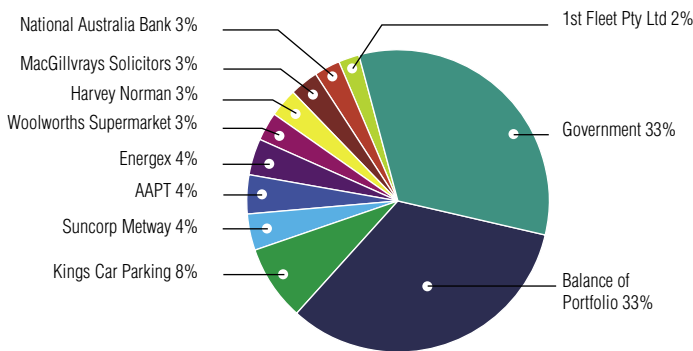
## Property sectors

**Property Sectors – % of Gross Passing Income**



## The Tenants

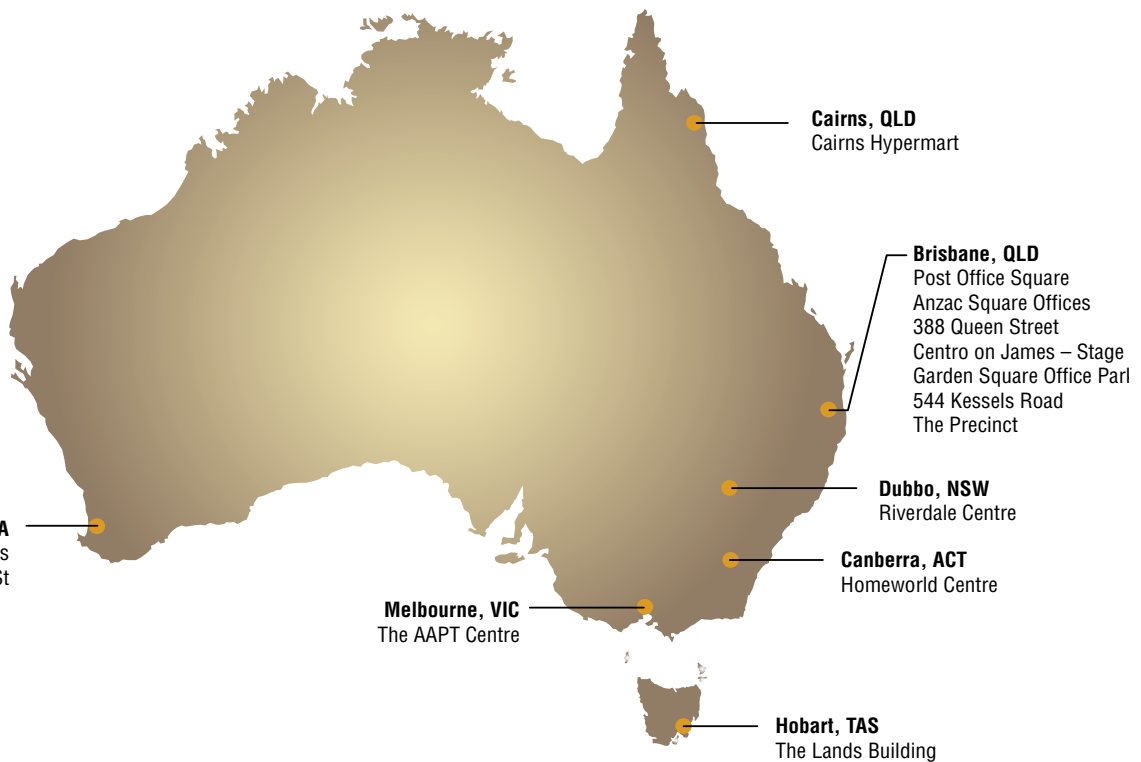
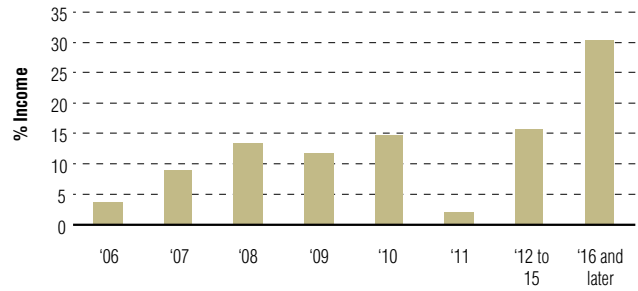
The following pie chart illustrates the contribution by income (approximately 67%) of the top 10 tenants.



## Lease expiry, average lease term and vacancy rate

The chart below shows the portfolio's current lease expiry profile. The portfolio has a weighted average lease term of 6.6 years and a vacancy rate of approximately 3.5%.

**Lease Expiry Profile - PFA Diversified Property Trust**



# Property Portfolio



## Post Office Square

### Description

Post Office Square is a landmark property located in the heart of the Brisbane CBD. The property is directly opposite the GPO and 100 metres from Central Railway Station. It comprises 27 retail shops and a six level underground car park of 316 spaces. The retail component is predominantly food oriented. The property's food court is located in the CBD office precinct. Post Office Square is essentially the gateway to the "Golden Triangle" premium office precinct of the CBD and Central Railway Station with high pedestrian traffic passing through the complex.

This property has a well established retail history and offers the diversity of prime CBD retail and car park sector exposure. The property, located between Queen and Adelaide Streets, also boasts a civic park above the food court level, which provides an enviable area for people to relax. The Brisbane City Council holds a lease over this civic park which ensures that it is unable to be developed. The title to the property is expected to revert to the Brisbane City Council in 2059.

A put and call option with respect to the sale of this property has been entered into.

### Key Data

|                            |  |
|----------------------------|--|
| Location:                  | 280 Queen Street, Brisbane, Qld                              |
| Title:                     | Terminating freehold   |
| Principal Use:             | CBD retail and car park                                      |
| Date Built:                | 1983   |
| Date Acquired:             | December, 1999   |
| Site Area:                 | 3,311 m <sup>2</sup>   |
| Net Lettable Area:         | 1,764 m <sup>2</sup> Retail<br>9,245 m <sup>2</sup> Car Park |
| Vacancy:                   | 1.62%  |
| Weighted Av. Lease Expiry: | 4.24 years   |
| Value:                     | \$61.5M  |
| Valuation Date:            | June, 2005   |

| Major Tenants               | % of Income | Lease Expiry      |
|-----------------------------|-------------|-------------------|
| Kings Parking               | 48%         | 30 November, 2009 |
| Angus & Robertson Bookworld | 8%          | 16 October, 2005  |
| Coffee Club                 | 2%          | 25 March, 2012    |

## Anzac Square Offices

### Description

Anzac Square Offices is the commercial component of the award-winning Anzac Square heritage complex. This entire complex was successfully refurbished in 1998/1999 and reconfigured to include prestige residential apartments, serviced apartments, retail tenancies and the office component. The office component fundamentally comprises two of the six towers within the Anzac Square development. The Anzac Square Offices occupy a prominent corner location in the heart of the Brisbane CBD and are in close proximity to the Queen Street Mall, Central Railway Station and bus transport. Major tenants of the property include Energex and MacGillivrays solicitors. MacGillivrays is a medium sized Brisbane legal firm which employs approximately 130 people. Energex have sublet part of their space to the Commonwealth Government and others.

The office space provides floor sizes of around 1,200m<sup>2</sup> over 5 levels.

### Key Data

|                            |                                    |
|----------------------------|------------------------------------|
| Location:                  | 200 Adelaide Street, Brisbane, Qld |
| Title:                     | Freehold Volumetric                |
| Principal Use:             | Commercial Office                  |
| Date Built:                | 1933                               |
| Date Acquired:             | April, 1999                        |
| Site Area:                 | 2,046 m <sup>2</sup>               |
| Net Lettable Area:         | 6,180 m <sup>2</sup>               |
| Vacancy:                   | Nil                                |
| Weighted Av. Lease Expiry: | 2.66 years                         |
| Value:                     | \$24.0M                            |
| Valuation Date:            | June, 2005                         |

| Major Tenants            | % of Income | Lease Expiry   |
|--------------------------|-------------|----------------|
| Energex                  | 57%         | 30 June, 2008  |
| MacGillivrays Solicitors | 38%         | 30 April, 2007 |





## 388 Queen Street

### Description

388 Queen Street is a modern 14 level office building located on the edge of Brisbane's "Golden Triangle" CBD precinct. It is located 300 metres from the GPO and provides close proximity to both the financial and retail sectors of the CBD. It is positioned approximately 100 metres from the Brisbane River where the majority of the premium office buildings are located and where there has been considerable activity (e.g. refurbishment, new construction, etc.). The property is well positioned and provides good amenity to all transport services. Suncorp Metway, Australia's sixth largest bank is a significant major tenant. 388 Queen Street is an attractive and well presented office building which features good natural light and two sizes of floors (371m<sup>2</sup> and 700m<sup>2</sup>).

### Key Data

|                            |                                 |
|----------------------------|---------------------------------|
| Location:                  | 388 Queen Street, Brisbane, Qld |
| Title:                     | Freehold                        |
| Principal Use:             | Commercial Office               |
| Date Built:                | 1988                            |
| Date Acquired:             | December, 2001                  |
| Site Area:                 | 911 m <sup>2</sup>              |
| Net Lettable Area:         | 6,266 m <sup>2</sup>            |
| Vacancy:                   | Nil                             |
| Weighted Av. Lease Expiry: | 2.91 years                      |
| Value:                     | \$19.0M                         |
| Valuation Date:            | June, 2005                      |

| Major Tenants  | % of Income | Lease Expiry      |
|----------------|-------------|-------------------|
| Suncorp Metway | 64%         | 31 December, 2007 |



## Centro On James - Stage 3

### Description

Centro on James is an exciting mixed use property located in the heart of the dynamic urban renewal precinct of Brisbane, two kilometres north-east of the Brisbane CBD. This unique mixed-use property is the third stage of the Centro on James development. The Centro precinct is a fashionable and eclectic mix of office, showrooms, restaurants, quality warehousing and fresh produce markets producing a village atmosphere.

The uses of this property include a popular 4 screen Palace cinema complex (a Village Roadshow joint venture), attractive office accommodation and ground floor retail component which includes a wine bar, bistro, furniture retail/showroom, travel agency, real estate agency and hairdressing salon.

The Centro on James development is a unique style of property development within the Brisbane market, particularly given its close proximity to the Brisbane CBD. Furthermore, land costs in the vicinity of the property have significantly increased in recent years making the development of competitive product more difficult.

### Key Data

|                            |  |
|----------------------------|--|
| Location:                  | 39 James Street, Fortitude Valley, Qld |
| Title:                     | Freehold and part strata               |
| Principal Use:             | Retail and entertainment               |
| Date Built:                | 2000                                   |
| Date Acquired:             | December, 2001                         |
| Site Area:                 | 3,301 m <sup>2</sup>                   |
| Net Lettable Area:         | 3,872 m <sup>2</sup>                   |
| Vacancy:                   | Nil                                    |
| Weighted Av. Lease Expiry: | 4.66 years                             |
| Value:                     | \$11.0M                                |
| Valuation Date:            | June, 2004                             |

| Major Tenants          | % of Income | Lease Expiry      |
|------------------------|-------------|-------------------|
| Palace Cinemas         | 34%         | 13 December, 2015 |
| Workpac                | 19%         | 14 January, 2007  |
| Melandas Home Concepts | 14%         | 13 February, 2007 |

# Property Portfolio



## The Precinct

### Description

The Precinct is located just 4 kilometres south east of the Brisbane CBD, in the well established inner city suburb of Coorparoo. Coorparoo comprises a mix of residential, commercial and retail development. The property is conveniently located close to retailers such as Myer Megamart and Coles and is also well served by nearby public transport including bus and rail.

The property's dominant tenant is the National Australia Bank who occupies the ground floor office component of the complex which is principally used as the bank's state mortgage processing centre. Tenants in the retail component of the property which represents 24% of its income include Australia Post, Infront Solutions and four café/restaurant operators. This area has been further enhanced over recent years with the completion of major multi-residential developments attracted to the area because of its accessibility and close proximity to Brisbane city.

### Key Data

|                            |                                 |
|----------------------------|---------------------------------|
| Location:                  | 41 Harries Road, Coorparoo, Qld |
| Title:                     | Freehold Volumetric             |
| Principal Use:             | Commercial Office and Retail    |
| Date Built:                | 1999                            |
| Date Acquired:             | April, 1999                     |
| Site Area:                 | 7,955 m <sup>2</sup>            |
| Net Lettable Area:         | 4,898 m <sup>2</sup>            |
| Vacancy:                   | Nil                             |
| Weighted Av. Lease Expiry: | 4.13 years                      |
| Value:                     | \$10.45M                        |
| Valuation Date:            | June, 2004                      |

| Major Tenants           | % of Income | Lease Expiry   |
|-------------------------|-------------|----------------|
| National Australia Bank | 76%         | 29 April, 2009 |

## Garden Square Office Park

### Description

Garden Square is an office park comprising two separate commercial office buildings – one of three levels and the other of four levels. It is located 11kms south east of the Brisbane CBD and is located within the Garden City commercial and retail centre (one of Brisbane's major regional hubs). The property is ideally located for a regional office development having the benefit of being adjacent to the Garden City regional shopping centre, one of Queensland's largest shopping centres.

The property has a high profile, with frontage to the South East Freeway. The property also offers easy vehicular access, excellent public transport links and a good car parking ratio.

Since the property's acquisition, a capital works program has been completed with improvements including upgrade to the lift foyers and interiors, reconfiguration of the car park, new building signage and entrance statement. The property also has future development opportunities due to the land's size and versatile zoning. This zoning means there is an opportunity to increase Improvements by 24,585m<sup>2</sup> of gross floor area.

### Key Data

|                            |   |
|----------------------------|---|
| Location:                  | 643 Kessels Road, Upper Mt Gravatt, Qld |
| Title:                     | Freehold                                |
| Principal Use:             | Commercial Office                       |
| Date Built:                | 1984                                    |
| Date Acquired:             | March, 1998                             |
| Site Area:                 | 1.665 ha                                |
| Net Lettable Area:         | 12,687 m <sup>2</sup> (approx)          |
| Vacancy:                   | 13.63%                                  |
| Weighted Av. Lease Expiry: | 4.41 years                              |
| Value:                     | \$31.30M                                |
| Valuation Date:            | June, 2005                              |

| Major Tenants                          | % of Income | Lease Expiry       |
|--|-------------|--------------------|
| Qld State Govt. - Education            | 15%         | 31 January, 2009   |
| Qld State Govt. - Industrial Relations | 10%         | 31 August, 2007    |
| Trendwest*                             | 7%          | 30 June, 2009      |
| Qld State Govt. - Disability Services* | 7%          | 30 September, 2011 |
| Qld State Govt. - Smart Services       | 14%         | 30 November, 2011  |

\* Tenants in occupation or temporary arrangements. Leases unexecuted as at date of issue of this Annual Report



Note: Superstore building depicted at rear of site is an artist's impression of a development option discussed below.

## 544 Kessels Road

### Description

544 Kessels Road MacGregor comprises almost 7 acres in one of Brisbane's premier retail warehousing precincts. It is in a very prominent, easily accessible location approximately 11 kilometres south of the Brisbane CBD. The immediate area is designated retail/industrial and is home to major retailers and manufacturers such as Clive Peeters, Nick Scali Furniture, Freedom Furniture, Retravisio and AMart Furniture. The Kessels Road precinct continues to strengthen as a dominant bulky goods precinct with new major retailers continually establishing outlets in the area.

This property currently comprises four separate buildings, operating with a retail/warehousing emphasis. Major tenants include JB Hi-Fi, Encel Stereo (formerly Stereo Supplies), Bob Jane T-Mart and Petwise.

There is an excellent opportunity to add value to this property through staged redevelopment at the rear of the site so as to capitalise on its outstanding retail location. Redevelopment options for a significant part of this property are currently being assessed.

### Key Data

|                            |                                  |
|----------------------------|----------------------------------|
| Location:                  | 544 Kessels Road, MacGregor, Qld |
| Title:                     | Freehold                         |
| Principal Use:             | Retail                           |
| Date Built:                | Various                          |
| Date Acquired:             | April, 1999                      |
| Site Area:                 | 2.764 ha                         |
| Net Lettable Area:         | 8,269 m <sup>2</sup>             |
| Vacancy:                   | Nil                              |
| Weighted Av. Lease Expiry: | 4.46 years                       |
| Value:                     | \$12.14M                         |
| Valuation Date:            | June, 2004                       |

| Major Tenants | % of Income | Lease Expiry       |
|---------------|-------------|--------------------|
| JB Hi-Fi      | 20%         | 12 March, 2012     |
| Encel Stereo  | 19%         | 31 January, 2012   |
| Petwise Store | 16%         | 19 September, 2011 |



## The Homeworld Centre

### Description

This mixed use property comprises a unique mix of bulky goods and convenience style retail with a first floor office use. It is located at Tuggeranong, approximately 17kms south west of the centre of Canberra. Tuggeranong is one of the three major town centres within the ACT and has excellent road access (eg 15-20 mins) to the Canberra Civic Centre. Homeworld is adjacent to Tuggeranong's regional shopping centre.

The property has a strong and broad tenancy mix with the office component leased to the ACT Government until 2009. The retail areas are leased to various national chain and local operators including grocery retailer ALDI Stores, Woolworths trading as Dan Murphy's, Dick Smith Electronics, Sportsmans Warehouse, Camping World and PJ O'Reilly's, a popular Irish pub.

Homeworld is located in a large established population centre which has historically experienced good population growth.

### Key Data

|                            |  |
|----------------------------|--|
| Location:                  | Cnr Anketell Street and Soward Way, Tuggeranong, ACT       |
| Title:                     | Crown leasehold  |
| Principal Use:             | Retail and Office  |
| Date Built:                | 1988   |
| Date Acquired:             | December, 1999   |
| Site Area:                 | 2.19 ha  |
| Net Lettable Area:         | 8,525 m <sup>2</sup> Retail<br>3,836 m <sup>2</sup> Office |
| Vacancy:                   | 8.28%  |
| Weighted Av. Lease Expiry: | 5.59 years   |
| Value:                     | \$32.50M   |
| Valuation Date:            | June, 2004   |

| Major Tenants             | % of Income | Lease Expiry      |
|---------------------------|-------------|-------------------|
| ACT Government            | 28%         | 30 June, 2009     |
| Woolworths (Dan Murphy's) | 11%         | 22 December, 2017 |
| ALDI                      | 9%          | 6 February, 2017  |

# Property Portfolio



## Cairns Hypermart

### Description

This mixed use complex combines a bulky goods retail centre, a warehouse distribution facility and a small office component. The retail component is the largest bulky goods centre in Cairns.

The offices are located over three floors on the northern end of the site. The property is on a major arterial road, Spence Street, linking the Cairns CBD to the north-south highway. Cairns is one of Queensland's major provincial cities with approximately 188,000 residents in the Cairns region. The property is located only 100 metres southwest of Cairns Central, the city's major regional shopping centre.

The Cairns City Council administration centre is directly opposite the property. This local precinct has been subject to recent development activity with the completion of a Bunnings outlet and a new State government office development.

### Key Data

|                            |                                    |
|----------------------------|------------------------------------|
| Location:                  | 101-103 Spence Street, Cairns, Qld |
| Title:                     | Freehold                           |
| Principal Use:             | Bulky goods retail and office      |
| Date Built:                | 1995                               |
| Date Acquired:             | December, 2001                     |
| Site Area:                 | 2.43 ha                            |
| Net Lettable Area:         | 15,307 m <sup>2</sup>              |
| Vacancy:                   | 8.90%                              |
| Weighted Av. Lease Expiry: | 6.24 years                         |
| Value:                     | \$17.0M                            |
| Valuation Date:            | June, 2004                         |

| Major Tenants     | % of Income | Lease Expiry       |
|-------------------|-------------|--------------------|
| Harvey Norman     | 52%         | 30 September, 2012 |
| Freedom Furniture | 12%         | 31 July, 2005      |
| Capt'n Snooze     | 8%          | 31 December, 2008  |

## The Riverdale Centre

### Description

The Riverdale Shopping and Entertainment Centre is a quality community shopping and entertainment complex located in the heart of the vibrant, growing and prosperous inland NSW city of Dubbo.

Dubbo has a resident population of 39,000 people. However, the city services the broader geographical population of approximately 120,000 people from the Orana region. The city is strategically located at the intersection of the Brisbane / Melbourne Newell Highway, the Sydney / Adelaide Mitchell Highway and the major East-West rail link.

The Riverdale Centre includes a solidly trading Woolworths supermarket, a Readings 5-Plex 1,072 seat cinema complex, well patronised tavern and 9 specialty retailers. Reading International Inc. operates multiplex cinemas in Australia, New Zealand, the United States and Puerto Rico and is developing further entertainment centres in Australia and New Zealand.

The inclusion of the cinema complex (the only one in Dubbo and its surrounding shires) provides the center with a major point of difference over other retail facilities in Dubbo, particularly generating day and evening activity.

### Key Data

|                            |                                    |
|----------------------------|------------------------------------|
| Location:                  | 49-65 Macquarie Street, Dubbo, NSW |
| Title:                     | Freehold                           |
| Principal Use:             | Retail and Entertainment           |
| Date Built:                | 1974 (Expanded 1999)               |
| Date Acquired:             | September, 2002                    |
| Site Area:                 | 1.178 ha                           |
| Net Lettable Area:         | 6,159 m <sup>2</sup>               |
| Vacancy:                   | 8.70%                              |
| Weighted Av. Lease Expiry: | 8.71 years                         |
| Value:                     | \$15.75M                           |
| Valuation Date:            | June, 2004                         |

| Major Tenants        | % of Income | Lease Expiry      |
|----------------------|-------------|-------------------|
| Woolworths           | 33%         | 9 June, 2019      |
| Reading Cinemas      | 30%         | 8 June, 2014      |
| The River Inn Tavern | 11%         | 31 December, 2007 |



## The Lands Building

### Description

The Lands Building is a 10 level office building located in the prime southern precinct of Hobart's CBD. It is one block from the core of Hobart's CBD in an area recognised as the centre of State and Commonwealth Government activity. The precinct is characterised by a concentration of landmark buildings.

The Lands Building offers tenants generous natural light and impressive views over Hobart and its harbour. The building has floor plates of approximately 1,182m<sup>2</sup> and offers quality office accommodation.

The building is fully leased with a 13 year remaining lease term and houses a number of State Government agencies. The ground floor is home to the Tasmanian State Government's customer service centre, known as Service Tasmania. The building has an attractive entry foyer and has recently undergone a substantial refurbishment carried out in consultation with the tenant.

### Key Data

|                            |                                   |
|----------------------------|-----------------------------------|
| Location:                  | 134 Macquarie Street, Hobart, Tas |
| Title:                     | Freehold                          |
| Principal Use:             | Commercial Office                 |
| Date Built:                | 1976                              |
| Date Acquired:             | March, 2004                       |
| Site Area:                 | 1,968 m <sup>2</sup>              |
| Net Lettable Area:         | 11,675 m <sup>2</sup>             |
| Vacancy:                   | Nil                               |
| Weighted Av. Lease Expiry: | 12.76 years                       |
| Book Value:                | \$30.83M                          |
| Valuation Date:            | March, 2004                       |

| Major Tenants     | % of Income | Lease Expiry   |
|-------------------|-------------|----------------|
| State of Tasmania | 100%        | 31 March, 2018 |



## Sevenoaks

### Description

Sevenoaks is a modern four level office building situated in the Perth suburb of Cannington, 11 kilometres south-east of Perth's city centre. It is located across the road from Cannington train station and bus interchange and some 600 metres from the Westfield Carousel regional shopping centre.

Sevenoaks has a large 5,500m<sup>2</sup> floorplate which is highly attractive to government and large corporate tenants due to spatial efficiencies. Two internal atriums within the building enable natural light to penetrate through it.

The building, which was originally built for the Australian Taxation Office, has been constructed to a high government specification. It offers a highly beneficial car parking ratio of one car space per 27m<sup>2</sup>.

The building is wholly leased to the State Government of Western Australia with 78% of it leased until 30 June, 2017.

The property comprises approximately two hectares of surplus land which the Manager currently intends to dispose of, after its subdivision, and clarification of development issues associated with it.

The building has an attractive entrance area and is undergoing significant refurbishment and new fitout as a consequence of the commencement of the main Western Australian Government lease.

### Key Data

|                            |  |
|----------------------------|--|
| Location:                  | 303 Sevenoaks Street, Cannington, WA                         |
| Title:                     | Freehold   |
| Principal Use:             | Commercial Office  |
| Date Built:                | 1992   |
| Date Acquired:             | February, 2005   |
| Site Area:                 | 5.02 ha  |
| Net Lettable Area:         | 20,820 m <sup>2</sup> Office<br>1,382 m <sup>2</sup> Storage |
| Vacancy:                   | Nil  |
| Weighted Av. Lease Expiry: | 10.26 years  |
| Book Value:                | \$40.94M   |
| Valuation Date:            | January, 2005  |

| Major Tenants                           | % of Income | Lease Expiry   |
|---|-------------|----------------|
| State of Western Aust - Shared Services | 78%         | 30 June, 2017  |
| State of Western Aust - Education       | 13%         | 30 April, 2010 |

# Property Portfolio



## The AAPT Building

### Description

The AAPT Building is an internet data, telecommunications and office administration centre located in the Melbourne CBD eastern fringe suburb of Richmond.

The property comprises basement level carpark, ground floor offices and data facility storage and first floor offices.

The property was acquired in June 2005 from AAPT Limited under a sale and leaseback structure with a new 12 year "double net" lease arrangement. The lease provides for the Trust to fund up to \$3M in fitout and refurbishment of the property over the next 2 years.

AAPT is one of Australia's three largest telecommunications carriers and is part of the Telecom New Zealand Group, and provides a range of voice, mobile, data and internet services to business, government, wholesale and residential customers throughout Australia.

### Key Data

|                            |                                       |
|----------------------------|---------------------------------------|
| Location:                  | 180-188 Burnley Street, Richmond, Vic |
| Title:                     | Freehold                              |
| Principal Use:             | Commercial Office and industrial      |
| Date Built:                | 1978                                  |
| Date Acquired:             | June, 2005                            |
| Site Area:                 | 4,696 m <sup>2</sup> (approx)         |
| Net Lettable Area:         | 5,501m <sup>2</sup>                   |
| Vacancy:                   | Nil                                   |
| Weighted Av. Lease Expiry: | 12.0 years                            |
| Book Value:                | \$16.54M                              |
| Valuation Date:            | June, 2005                            |

| Major Tenants | % of Income | Lease Expiry  |
|---------------|-------------|---------------|
| AAPT Limited  | 100%        | 28 June, 2017 |

## Welshpool

### Description

The Welshpool property is a large warehouse and distribution facility located in the industrial suburb of Welshpool, approximately 13 kilometres east of the Perth CBD. The property has a building area of approximately 14,036m<sup>2</sup> comprising 3 warehouses of 11,250m<sup>2</sup>, free-standing offices of 851m<sup>2</sup>, a covered loading dock of 1,812m<sup>2</sup> and truck maintenance workshop of 124m<sup>2</sup>. The total site area is 2.8996 hectares.

The Kewdale/Welshpool area is one of the prime industrial locations in the Perth metropolitan area. It contains many national and strong local companies and has excellent access to all parts of the metropolitan area via major arteries from this location. It is also in close proximity to the Perth international and domestic air terminals.

The property was acquired from 1st Fleet Pty Ltd under a sale and leaseback structure with a new 10 year "double net" lease arrangement. 1st Fleet Pty Ltd is a national distribution and logistics company providing contract services to businesses including Dairy Farmers, Woolworths, Gordon & Gotch, Network Services and Mitsubishi. It maintains warehouses in all major states and approximately 750 trucks and courier vans.

### Key Data

|                            |                                   |
|----------------------------|-----------------------------------|
| Location:                  | 33 McDowell Street, Welshpool, WA |
| Title:                     | Freehold                          |
| Principal Use:             | Industrial                        |
| Date Built:                | 1985                              |
| Date Acquired:             | June, 2005                        |
| Site Area:                 | 2.8996 hectares                   |
| Net Lettable Area:         | 14,036m <sup>2</sup>              |
| Vacancy:                   | Nil                               |
| Weighted Av. Lease Expiry: | 9.96 years                        |
| Book Value:                | \$7.44M                           |
| Valuation Date:            | May, 2005                         |

| Major Tenants     | % of Income | Lease Expiry  |
|-------------------|-------------|---------------|
| 1st Fleet Pty Ltd | 100%        | 15 June, 2015 |

# The Directors

## **Gregory James Paramor**

### *Non-Executive Chairman*

Greg Paramor is managing director of Mirvac Group. Greg was a co-founder and managing director of the James Fielding Group which managed funds totaling \$1.8 billion. In December, 2004, James Fielding Group was acquired by Mirvac Group creating a diversified property group which has \$15 billion worth of assets under its control and a market capitalisation in excess \$3.5 billion.

He has been involved in the real estate and funds management industry for the past 30 years. He has participated in forming property vehicles for public investment since 1981, with direct involvement in the organisation of approximately \$6 billion worth of commercial, retail and industrial projects and property securities.

Greg is a past president of the Property Council of Australia, a former chairman of the Investment Funds Association of Australia Limited and a Fellow of the Australian Property Institute. He is a director of a number of organisations and companies, including the Garvan Institute of Medical Research and Leighton Properties Pty Limited.



## **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 23 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.

Chris has established and managed successful development and investment syndicates and trusts since 1994. Chris has also in his career held an accounting position and was an Associate to a Supreme Court Judge. Chris is the immediate past president of the Property Council of Australia (Queensland Division) and a member of the Queensland Heritage Council. He is also a past president of the Australian Direct Property Investment Association (ADPIA). He is a member of the Australian Institute of Company Directors and the Securities Institute of Australia.



## **David John Conquest**

### *Executive Director*

David has been involved in the property and financial services industry for over 28 years. He has previously held senior executive positions with Growth Equities Mutual (GEM), Lend Lease, Suncorp Metway and Deutsche Bank.

David is a former property lecturer for the Securities Institute of Australia. He has had considerable experience with a range of financial products offered by the Australian funds management industry, with a particular focus on property products. David is well respected by financial intermediaries throughout Australia.

David provides an innate understanding of the needs of the users of investment products and their advisers' requirements.



## **Dennis Wayne Wildenburg**

### *Non-Executive Director*

Dennis brings to the board over 20 years experience in the financial services and funds management industry.

He has been a director of MLC Funds Management Limited and was an associate director of Hill Samuel Australia (now Macquarie Bank Limited).

Dennis is currently a compliance committee member of State Street Services Limited and State Street Global Advisors, Australia Services Limited. Dennis has been consulting to the financial services industry for over a decade and has significant national and international fund managers as clients.

Dennis' broad experience includes professional accounting, development of superannuation and unit trust products and financial services marketing.



## **Nicholas Roland Collishaw**

### *Non-Executive Director*

Nicholas Collishaw has been involved in property and property funds management for more than 20 years. He has extensive experience in commercial, retail and industrial property throughout Australia. He heads Mirvac Group's investment division and managed James Fielding Group's property assets and trust funds prior to the Group's acquisition by Mirvac. In various roles, he has co-ordinated and implemented portfolio sales programs from \$30 million to \$300 million. Nicholas has managed many large industrial, retail and commercial acquisitions.

He has an Associate Diploma in Business (Valuations) from the Sydney Institute of Technology and a Diploma in Financial Markets from the Securities Institute of Australia. He held senior positions with Deutsche Asset Management, Paladin Australia Limited and Schroders Australia.



# Investor Relations



## BSX Listing

The Trust is listed on the Bendigo Stock Exchange (“BSX”). The code for The PFA Diversified Property Trust is PFD.

BSX price information can currently be found on the market pages of the Australian Financial Review. However, unitholders are readily able to ascertain market prices for bid and offer by logging onto [www.bsx.com.au](http://www.bsx.com.au) where trading information is available at all times.

To place an order to buy or sell units, a unitholder or their adviser instructs an accredited BSX broker. BSX brokers are able to be identified on the BSX website [www.bsx.com.au](http://www.bsx.com.au).

## Monthly Distributions

Monthly distributions are electronically deposited into unitholder bank accounts on or about the 21st of each month.

Distribution policies are determined by the Board and are subject to review at all times.

A personal notification will be sent to unitholders if there is any variation to the distribution rate.

## Annual Taxation Statements

An annual taxation statement and distribution summary is sent to all unitholders who held units in the Trust and received distributions during the financial year. This was forwarded to unitholders on or about 24 August, 2005. The statement provides a summary of the distributions received by unitholders during the financial year, and includes taxation details for the completion of their tax return. Unitholders should not lodge their tax return until this information is received. This statement should be retained for taxation purposes.



## Unitholder Communications

Unitholders receive:-

- A Unitholder statement confirming their unitholding.
- Monthly distributions paid by electronic funds transfer into their nominated bank account.
- A six monthly investor update advising of issues relating to their investment and the portfolio generally.
- An annual report and audited accounts for their investment. These reports are sent to unitholders within 90 days of the end of each financial year. Six monthly audited accounts and Manager's report are available on request.
- An annual statement of distributions and taxation details for the completion of their tax return. Unitholders should not lodge their tax return until this information is received.
- Confirmation of any changes made to their account details including their bank account or address, following notification to us of such changes.

## Registry

If you have any queries relating to your investment or you wish to change your details such as your mailing address or bank account details, please contact our investment services personnel on:-

Telephone: (07) 3221-7170  
 Toll Free: 1800 687 170  
 Facsimile: (07) 3221-6729  
 Email: info@pfaltd.com.au  
 Website: www.pfaltd.com.au  
 Postal: PO Box 10398  
 Brisbane Adelaide St Q 4000

## Annual Reports

Unitholders who do not wish to receive a copy of the annual report should notify us in writing.

## Privacy

PFA collects personal information when unitholders apply to invest in the Trust. Our privacy statement is available on [www.pfaltd.com.au](http://www.pfaltd.com.au) or alternatively please contact PFA's investment services personnel to request a copy free of charge. This will enable unitholders to understand their rights, PFA's obligations and what PFA does with this personal information and any other information it collects about unitholders during the course of their investment.

## Complaints

The Trust's constitution establishes a procedure for the directors of the Manager to receive, consider, investigate and respond to complaints by unitholders dissatisfied with the management or administration of the Trust. Complaints should be addressed to:-

The Dispute Resolution Officer  
 Property Funds Australia Limited  
 PO Box 10398  
 Brisbane Adelaide St Q 4000

PFA is also a member of the Financial Industry Complaints Services, an external complaints resolution service which has been approved by ASIC.



*Mary Goodwin – Investment Services Officer*

# Corporate Governance

**The Corporate Governance practices of the Manager as responsible entity of the Trust are set out below. Unless otherwise stated, these practices were in place for the entire year.**

## The Responsible Entity

Property Funds Australia Limited (the Manager) is the responsible entity of the Trust. The role of a responsible entity is to manage the Trust in the unitholders' best interests in accordance with the Trust's constitution and the law.

The Corporations Act (2001) (Commonwealth) empowers the Manager to engage agents to act on its behalf, however the Manager remains fully responsible for the actions of those agents.

## The Board of the Responsible Entity

The Directors of the Board of the Manager are appointed by the shareholders of the Manager. They hold office until removed by the shareholders of the Manager or until they retire. Ultimate responsibility for corporate governance matters resides with the Board of Directors who are currently as follows:-

- Gregory J Paramor (Non-Executive Chairman)
- Christopher A Morton (Managing Director)
- David J Conquest (Executive)
- Dennis W Wildenburg (Non-Executive and Independent)
- Nicholas R Collishaw (Non-Executive)

The Board has access to all documents and information necessary to discharge its duties and responsibilities. Throughout the year, board meetings are regularly held with generally around 10 being held throughout a year.

## Compliance Monitoring and Reporting

The Manager engages a Compliance Officer. The Compliance Officer is responsible for reviewing and monitoring the efficiency of compliance systems on an ongoing basis, and ensuring appropriate compliance measures are in place. The Compliance Officer prepares regular reports to the Compliance Committee.

## The Compliance Committee

The Compliance Committee is appointed by the Board of the Manager. The Committee currently consists of three members, two of whom are independent of the responsible entity, including the chair of the Compliance Committee. The members are:-

- **Mr Bede King** (External Chairman): Mr King is a senior legal practitioner previously practising in corporate and property areas of the law and is a partner of the legal firm Tobin King Lateef.
- **Mr Ray Kellerman** (External Member): Mr Kellerman is the former Head of Compliance Services, Corporate Trust Division, at Perpetual Trustees Limited, a long established trustee company. He now specialises in the provision of

compliance services as a compliance committee member for a number of significant managed investment schemes.

- **Mr Chris Morton** (the Manager's managing director) was re-appointed as a member of the Compliance Committee on 24 February, 2005 following the resignation of Mr Stephen Barnard.

The Compliance Committee has a statutory obligation to monitor the extent to which the Manager complies with the Trust's compliance plan and the Corporations Act.

The Committee generally meets quarterly, or as necessary. It is provided, by the Compliance Officer, with comprehensive compliance reports. The Committee reports its findings to the Board of the responsible entity.

## Independent Professional Advice

Under the Corporations Act, the Compliance Committee, in carrying out its functions, may commission independent legal, accounting or other professional advice or assistance, at the reasonable expense of the Trust.

## Access to Information

The Compliance Committee has access to all information relevant to the Manager's compliance with the Compliance Plan and the Corporations Act.

## Risk Management

A number of risk management related issues relating to the Trust are considered and dealt with in the Compliance Plan. Both the Board and the Compliance Committee consider risk management issues relating to their particular area of focus with the intent of developing mechanisms and systems to deal with risk.

## Remuneration of Expenses

The Directors of the Manager are remunerated by the Manager itself. There is no remuneration payable to the Directors by the Trust itself. The Board of the Manager contractually establishes the remuneration of the external Compliance Committee members.

The Trust meets the costs associated with external Compliance Committee Members and committee related costs.

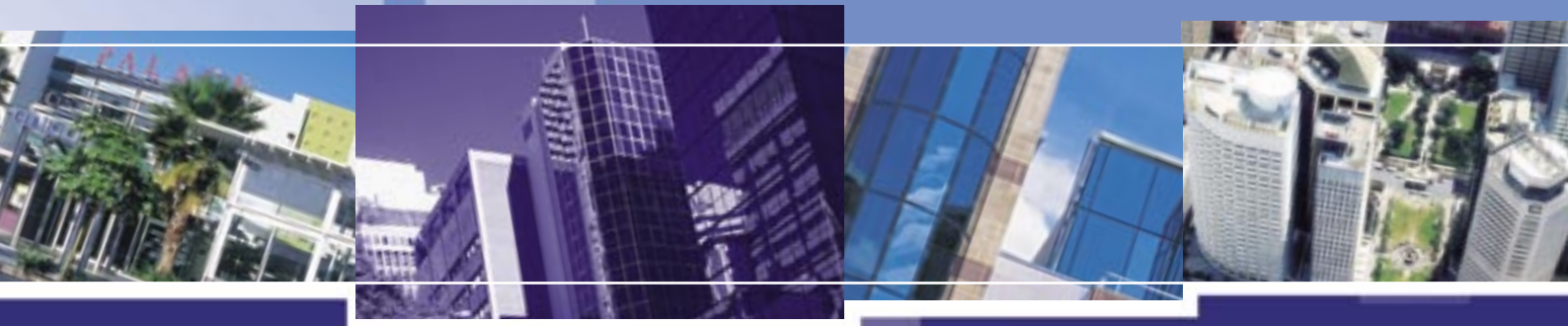
## Audit

The Manager does not have a formally constituted audit committee. The Manager has appointed an external auditor to audit the operations of the Trust and its financial statements. An external auditor has also been appointed to audit the responsible entity's compliance with the Compliance Plan.

PFA DIVERSIFIED PROPERTY TRUST  
AND CONTROLLED ENTITIES  
(FORMERLY THE TRILOGY TRUST)

# FINANCIAL STATEMENTS

## For the Year Ended 30 June, 2005



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## DIRECTORS' REPORT

The Directors of Property Funds Australia Limited ("the Manager") as the Responsible Entity of the PFA Diversified Property Trust present their report on The PFA Diversified Property Trust (formerly The Trilogy Trust) (referred to as "the Trust") and its controlled entities for the financial year ended 30 June, 2005.

### Directors of the Manager

The name of each person who has been a director of the Manager during the year and to the date of this report are:-

|                      |                             |
|----------------------|-----------------------------|
| Gregory J Paramor    | (appointed 27 August, 2004) |
| Christopher A Morton |                             |
| David J Conquest     |                             |
| Dennis W Wildenburg  |                             |
| Nicholas R Collishaw | (appointed 27 August, 2004) |
| Elizabeth A Pidgeon  | (retired 27 August, 2004)   |

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

### Principal Activities

The principal activity of the Trust is property investment. The Trust operates in one geographical area, Australia.

### Review of Operations

The key financial results of the Trust for the year are as follows:-

|                          | 2005<br>\$  | 2004<br>\$  |
|--------------------------|-------------|-------------|
| Gross Revenue            | 30,739,687  | 25,571,733  |
| Net Profit               | 9,001,916   | 6,345,043   |
| Total Distributions Paid | 11,183,140  | 8,259,994   |
| Total Assets             | 353,673,758 | 259,909,865 |
| Net Assets               | 173,762,690 | 101,706,576 |

### Distributions – for the Year Ended 30 June, 2005

Distributions were paid monthly during the year at 0.79 cents per unit per month (which totals 9.48 cents per unit for the year) on the contributed capital subscribed by unitholders in the Trust. The Manager has declared its distribution policy for the Trust up to December 2005 as being 0.79 cents per unit per month. Distributions totaling \$2,336,384 have been paid since the end of the year in accordance with this policy.

The Board will continue to monitor the appropriateness of any proposed distribution rate throughout the current financial year.

### Significant Changes in State of Affairs

#### Acquisitions

The Trust acquired 3 properties during the year, including:-

- the Sevenoaks building, Cannington, Western Australia for \$38.0M which settled on 10 February, 2005.
- 33 McDowell Street, Welshpool, Western Australia for \$6.9M which settled on 15 June, 2005.
- AAPT Centre, 180-188 Burnley Street, Richmond, Victoria for \$15.25M which settled on 30 June, 2005.

#### Temporary Investment in S8 Property Trust

In April, the Trust acquired 10,571,429 units in the S8 Property Trust at a cost of \$10 million. The units provide a yield of 9.25% whilst held. On 15 July, 2005 the Trust exercised its option to sell these units to S8 Limited, with settlement due by 13 October, 2005.

#### Capital Raising

The Manager issued on behalf of the Trust a product disclosure statement on 7 February, 2005 for the issue of 24.78 million units in the Trust. Existing unitholders (i.e. those registered at 31 December, 2004) were offered a one for five entitlement under the rights issue at \$1.05 per unit.

### Placement of Units in the Trust

On 9 September, 2004 the Trust allotted 3,000,000 units in the Trust to National Nominees Limited. The issue price of these units was \$1.00 per unit.

In December 2004, three further private placements were undertaken raising \$13.9 million. These placements occurred as follows:-

- 5,000,000 units at \$1.02 per unit to Sandhurst Trustees Limited on 21 December, 2004;
- 3,636,364 units at \$1.045 per unit to Tower Trust Limited on 31 December, 2004; and
- 4,784,689 units at \$1.045 per unit to RBC Global Services Australia Nominees Pty Ltd on 31 December, 2004.

The proceeds of these placements were used to partly fund the Sevenoaks property in Cannington, Perth.

### Proposed Sale of Post Office Square

On 30 June, 2005 PFA announced that the Trust entered into a put and call option agreement with the CFS Gandel Retail Trust for the sale of the Post Office Square property. The agreed base purchase price under the arrangement is \$68.6 million. The price is subject to variations depending on the Trust's ability to generate additional revenue streams by certain key milestone dates. The put and call arrangements allow for settlement no earlier than 31 August, 2005 and no later than 14 December, 2005.

### Payment of Special Distribution

As a consequence of the potential sale of Post Office Square, a special distribution of 6.76 cents per unit was announced, subject to the completion of the sale, to be paid to unitholders on the register on 30 June, 2005.

## After Balance Date Events

### Interest Rate Swap

Since the end of the year, the Trust entered into an interest rate swap with Commonwealth Bank of Australia to fix the interest rate on \$20M of debt for a five year period at 5.67% plus appropriate borrower's margin. This transaction had an effective date of 28 July, 2005.

The Trust also entered into an interest rate swap with Commonwealth Bank of Australia to fix the interest rate on \$20M of debt for a five year period at 5.48% plus appropriate borrower's margin. This transaction had an effective date of 2 September, 2005.

### Repayment of Debt

Since the end of the year, the Trust repaid \$1,525,010 to its finance facility. This was in accordance with agreed financing terms.

Other than the items noted above or elsewhere in this report, there has not arisen in the interval between the end of the year and the date of this report, any item, transaction or event (other than as disclosed in this report) of a material or unusual nature likely, in the opinion of the Manager, to significantly affect the operations of the Trust, the results of those operations or the state of affairs of the Trust, in future financial years.

## Future Developments

The Trust will continue to progress its objectives of identifying opportunities to enhance the profitability and net asset value of the Trust.

## Environmental Issues

The Trust's operations are not subject to any significant environmental regulation under Commonwealth or State legislation other than that which any real property located in Australia could be subjected.

## Options

No options over units in the Trust were granted during or since the end of the year and there were no options outstanding at the date of this report.

## DIRECTORS' REPORT

### Information on Directors

The names, details of experience, responsibilities and meeting attendance details of all Directors of the Manager during the year or at the date of this report are listed below:-

| Name   | Qualifications  | Responsibilities                      | Directors Meetings During Year |                    |
|--|---|---------------------------------------|--------------------------------|--------------------|
|  |   |                                       | Attended                       | Eligible to Attend |
| Gregory James Paramor<br>(appointed 27 August, 2004) | <p>Greg Paramor is the managing director of Mirvac Group. Greg was a co-founder and managing director of the James Fielding Group which managed funds totalling \$1.8 billion. In December 2004, James Fielding Group was acquired by Mirvac Group creating a diversified property group which has \$15 billion worth of assets under its control and a market capitalisation in excess of \$3.5 billion.</p> <p>He has been involved in the real estate and funds management industry for the past 30 years. He has participated in forming property vehicles for public investment since 1981, with direct involvement in the organisation of approximately \$4 billion of commercial, retail and industrial projects and property securities.</p> <p>He is the past president of the Property Council of Australia, a former chairman of the Investment Funds Association of Australia Limited and a Fellow of the Australian Property Institute. Greg is a Director of a number of organisations and companies, including the Garvan Institute of Medical Research and Leighton Properties Pty Limited.</p> <p>Greg was a director of James Fielding Group. The Group was delisted on 17 February, 2005 upon its acquisition by Mirvac Group. Greg is a current director of Mirvac Limited appointed 7 January, 2005.</p> | Chairman and Director                 | 8                              | 10                 |
| Christopher Arthur Morton                            | <p>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 23 years.</p> <p>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 executive of that firm's Brisbane office. In his legal capacity, he was involved in some of the larger property developments in South East Queensland.</p> <p>Chris has established and managed successful development and investment syndications and trusts since 1994. Chris has also in his career held an accounting position and was an Associate to a Supreme Court Judge. Chris is the recent Past President of the Property Council of Australia (Qld Division). He is a recent Past President of the Australian Direct Property Investment Association ("ADPIA").</p>  | Managing Director & Company Secretary | 13                             | 13                 |
| David John Conquest                                  | <p>David has been involved in the property and financial services industry for over 28 years. He has previously held senior executive positions with Growth Equities Mutual (GEM), Lend Lease, Suncorp Metway and Deutsche Bank.</p> <p>David is a former property lecturer for the Securities Institute of Australia (SIA). He has had considerable experience with a range of financial products offered by the Australian funds management industry, with a particular focus on property products. David is well respected by financial intermediaries throughout Australia.</p> <p>David provides to the company an innate understanding of the needs of the users of investment products and their advisers' requirements.</p>   | Director                              | 13                             | 13                 |
| Dennis Wayne Wildenburg                              | <p>Dennis brings to the Board over 20 years experience in the financial services and funds management industry. Dennis has been a Director of MLC Funds Management Limited and was an Associate Director of Hill Samuel Australia (now Macquarie Bank Limited).</p> <p>Dennis is currently a compliance committee member of State Street Services Limited and State Street Global Advisors, Australia Services Limited. Dennis has been consulting to the financial services industry for over a decade and has significant national and international fund managers as clients.</p> <p>Dennis' broad experience includes professional accounting, development of superannuation and unit trust products and financial services marketing.</p>  | Director                              | 13                             | 13                 |

| Name   | Qualifications   | Responsibilities | Directors Meetings During Year |                    |
|--|--|------------------|--------------------------------|--------------------|
|  |  |                  | Attended                       | Eligible to Attend |
| Nicholas Roland Collishaw<br>(appointed 27 August, 2004) | <p>Nicholas Collishaw has been involved in property and property funds management for more than 20 years. He has extensive experience in commercial, retail and industrial property throughout Australia. He heads Mirvac Group's investment division and managed James Fielding Group's property assets and trust funds prior to the Group's acquisition by Mirvac. In various roles he has co-ordinated and implemented portfolio sales programs from \$30 million to \$300 million. He has managed many large industrial, retail and commercial acquisitions.</p> <p>Nicholas has an Associate Diploma in Business (Valuations) from the Sydney Institute of Technology and a Diploma in Financial Markets from the Securities Institute of Australia. He held senior positions with Deutsche Asset Management, Paladin Australia Limited and Schroders Australia.</p> <p>Nicholas was a director of James Fielding Holdings Limited appointed 14 November, 2002. James Fielding Holdings Limited was delisted on 17 February, 2005 upon its acquisition by Mirvac Group.</p> | Director         | 9                              | 10                 |
| Elizabeth Ann Pidgeon<br>(retired 27 August, 2004)       | <p>Liz has been involved in the property industry for 15 years culminating in her gaining industry recognition as President of the Property Council of Australia (Queensland Division), the industry's peak body.</p> <p>She holds a Bachelor of Business – Management Degree and is a licensed real estate agent.</p> <p>Liz's grounding in property started with Richard Ellis, a major real estate agency group. She was appointed as an executive director of F.A. Pidgeon &amp; Son Pty Ltd, a construction and development company which through the 1980's and 1990's was a major builder and developer within south east Queensland. She is now a partner and director of Cornerstone Properties Limited, a development company.</p> <p>She has been on several boards and committees, both professional and charitable including a member of the Brisbane City Council's Urban Renewal Task Force, Urban Design Advisory Panel and Brisbane Marketing.</p>  | Director         | 2                              | 3                  |

## Indemnification and Insurance of Officers and Auditors

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

## Proceedings on behalf of the Manager

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

## DIRECTORS' REPORT

### Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- The nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.
- The nature of the services performed are not directly correlated with the audit of the financial report.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June, 2005:

|                                  | \$     |
|----------------------------------|--------|
| Taxation Services                | 25,000 |
| Investigating Accountants Report | 20,000 |
| IFRS Advice                      | 3,900  |

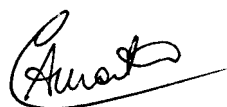
### Auditor's Independence Declaration

A copy of the auditor's independence declaration is set out on page 31.

### Rounding Amounts

The PFA Diversified Property Trust has applied the relief available to it in ASIC Class Order 98/100 and accordingly certain amounts in the financial report have been rounded off to the nearest one thousand dollars.

Signed in accordance with a resolution of the Board of Directors of the Manager.



**Christopher A. Morton**

Managing Director  
Brisbane

**20 September, 2005**



## AUDITOR'S INDEPENDENCE DECLARATION



**BDO Kendalls**  
Chartered Accountants  
& Advisers

[www.bdokendalls.com.au](http://www.bdokendalls.com.au)  
[enquiries@bdokendalls.com.au](mailto:enquiries@bdokendalls.com.au)

Level 18, 300 Queen Street  
GPO Box 457 Brisbane  
Queensland 4001 Australia

**Telephone** + 61 7 3237 5999  
**Facsimile** + 61 7 3221 9227

20 September, 2005

The Directors  
Property Funds Australia Ltd  
Level 3  
200 Adelaide Street  
BRISBANE Q 4000

Dear Directors

### AUDITOR'S INDEPENDENCE DECLARATION

In relation to our audit of the Financial Report of PFA Diversified Property Trust for the year ended 30 June, 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Yours sincerely

**BDO Kendalls**

A handwritten signature in black ink, appearing to read 'Paul Gallagher', written in a cursive style.

**Paul Gallagher**

*Partner*

## STATEMENT OF FINANCIAL PERFORMANCE

for the Year Ended 30 June, 2005

|  | Note | Consolidated   |                | Parent         |                |
|--|------|----------------|----------------|----------------|----------------|
|  |      | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| Revenues from ordinary activities  | 2    | 30,740         | 25,572         | 17,051         | 11,545         |
| Expenses from ordinary activities  |      |                |                |                |                |
| Property expenses  | 2    | (7,054)        | (5,521)        | (2,683)        | (1,479)        |
| Fund expenses  |      |                |                |                |                |
| Direct expenses  | 2    | (2,878)        | (2,272)        | (2,495)        | (1,840)        |
| Amortisation   | 2    | (1,572)        | (1,586)        | (466)          | (480)          |
|  |      | (4,450)        | (3,858)        | (2,961)        | (2,320)        |
| Borrowing costs  |      |                |                |                |                |
| Interest   | 2    | (9,998)        | (8,803)        | (3,644)        | (2,432)        |
| Amortisation   | 2    | (236)          | (1,045)        | (180)          | (471)          |
|  |      | (10,234)       | (9,848)        | (3,824)        | (2,903)        |
| <b>Profit/(Loss) from ordinary activities before income tax expense</b>                                      |      | <b>9,002</b>   | <b>6,345</b>   | <b>7,583</b>   | <b>4,843</b>   |
| Income tax expense relating to ordinary activities   | 1(e) | -              | -              | -              | -              |
| <b>Profit/(Loss) after income tax expense attributable to Unitholders</b>                                    |      | <b>9,002</b>   | <b>6,345</b>   | <b>7,583</b>   | <b>4,843</b>   |
| Increase in asset revaluation reserve  | 16   | 19,582         | 10,669         | 1,728          | 1,433          |
| <b>Total changes in Trust equity other than those resulting from transactions with Unitholders as owners</b> |      | <b>28,584</b>  | <b>17,014</b>  | <b>9,311</b>   | <b>6,276</b>   |
| Basic earnings per Unit (cents)  | 3    | 7.42           | 6.83           |                |                |
| Diluted earnings per Unit (cents)  | 3    | 7.42           | 6.83           |                |                |

*To be read in conjunction with the notes to the financial statements*

## STATEMENT OF FINANCIAL POSITION

as at 30 June, 2005

|                                      | Note | Consolidated   |                | Parent         |                |
|--------------------------------------|------|----------------|----------------|----------------|----------------|
|                                      |      | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>CURRENT ASSETS</b>                |      |                |                |                |                |
| Cash assets                          | 6    | 468            | 4,593          | 468            | 3,996          |
| Receivables                          | 7    | 2,218          | 701            | 2,077          | 1,364          |
| Other                                | 8    | 832            | 726            | 416            | 256            |
| <b>TOTAL CURRENT ASSETS</b>          |      | <b>3,518</b>   | <b>6,020</b>   | <b>2,961</b>   | <b>5,616</b>   |
| <b>NON-CURRENT ASSETS</b>            |      |                |                |                |                |
| Investment – Property                | 9    | 330,390        | 242,662        | 142,750        | 75,046         |
| Other financial assets               | 10   | 10,000         | -              | 79,715         | 69,715         |
| Intangible assets                    | 11   | 6,634          | 7,740          | -              | -              |
| Other                                | 12   | 3,131          | 3,488          | 3,009          | 3,310          |
| <b>TOTAL NON-CURRENT ASSETS</b>      |      | <b>350,155</b> | <b>253,890</b> | <b>225,474</b> | <b>148,071</b> |
| <b>TOTAL ASSETS</b>                  |      | <b>353,673</b> | <b>259,910</b> | <b>228,435</b> | <b>153,687</b> |
| <b>CURRENT LIABILITIES</b>           |      |                |                |                |                |
| Payables                             | 13   | 2,380          | 5,377          | 1,293          | 4,033          |
| Interest bearing liabilities         | 14   | 2,436          | 16,410         | 2,436          | 16,410         |
| <b>TOTAL CURRENT LIABILITIES</b>     |      | <b>4,816</b>   | <b>21,787</b>  | <b>3,729</b>   | <b>20,443</b>  |
| <b>NON-CURRENT LIABILITIES</b>       |      |                |                |                |                |
| Interest-bearing liabilities         | 14   | 175,094        | 136,416        | 80,954         | 42,276         |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |      | <b>175,094</b> | <b>136,416</b> | <b>80,954</b>  | <b>42,276</b>  |
| <b>TOTAL LIABILITIES</b>             |      | <b>179,910</b> | <b>158,203</b> | <b>84,683</b>  | <b>62,719</b>  |
| <b>NET ASSETS</b>                    |      | <b>173,763</b> | <b>101,707</b> | <b>143,752</b> | <b>90,968</b>  |
| <b>EQUITY</b>                        |      |                |                |                |                |
| Unitholders' equity                  | 15   | 143,149        | 90,675         | 140,227        | 89,172         |
| Reserves                             | 16   | 30,614         | 11,032         | 3,525          | 1,796          |
| <b>TOTAL EQUITY</b>                  |      | <b>173,763</b> | <b>101,707</b> | <b>143,752</b> | <b>90,968</b>  |

*To be read in conjunction with the notes to the financial statements*

## STATEMENT OF CASH FLOWS

for the Year Ended 30 June, 2005

|  | Note  | Consolidated   |                | Parent         |                |
|--|-------|----------------|----------------|----------------|----------------|
|  |       | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |       |                |                |                |                |
| Rent & outgoings received                                  |       | 32,977         | 27,954         | 12,345         | 7,325          |
| Interest received  |       | 336            | 79             | 336            | 63             |
| Distributions received – S8 Property Trust                 |       | 462            | -              | 462            | -              |
| Sundry income  |       | -              | 23             | -              | -              |
| Payments to suppliers                                      |       | (14,313)       | (11,899)       | (8,014)        | (4,885)        |
| Interest paid  |       | (10,106)       | (8,877)        | (3,778)        | (2,286)        |
| <b>Net cash provided by (used in) operating activities</b> | 17(b) | 9,356          | 7,280          | 1,351          | 217            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |       |                |                |                |                |
| Net cash assumed as result of merger                       |       | -              | (723)          | -              | -              |
| Investment in S8 Property Trust                            |       | (10,000)       | -              | (10,000)       | -              |
| Purchase of investment – property and capital improvements |       | (68,146)       | (31,683)       | (65,976)       | (30,803)       |
| <b>Net cash provided by (used in) investing activities</b> |       | (78,146)       | (32,406)       | (75,976)       | (30,803)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |       |                |                |                |                |
| Distributions to Unitholders                               |       | (11,183)       | (8,260)        | (11,183)       | (8,260)        |
| Cost of equity raising                                     |       | (1,272)        | (436)          | (1,272)        | (436)          |
| Merger expenses  |       | -              | (13)           | -              | (13)           |
| Units issued   |       | 55,927         | 7,252          | 55,927         | 7,252          |
| Capital raising funds provided for (used)                  |       | (3,512)        | 3,512          | (3,512)        | 3,512          |
| Off-market buy back  |       | -              | (5,458)        | -              | (5,458)        |
| On-market buy back   |       | -              | (499)          | -              | (499)          |
| Inter-trust loans  |       | -              | -              | 6,432          | 3,631          |
| Net proceeds from borrowings                               |       | 26,705         | 30,872         | 26,705         | 32,104         |
| <b>Net cash provided by (used in) financing activities</b> |       | 66,665         | 26,970         | 73,097         | 31,833         |
| Net increase in cash held                                  |       | (2,125)        | 1,844          | (1,528)        | 1,247          |
| Cash at 1 July   |       | 2,593          | 749            | 1,996          | 749            |
| Cash at 30 June  | 17(a) | 468            | 2,593          | 468            | 1,996          |

*To be read in conjunction with the notes to the financial statements*

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the Corporations Act 2001 and the terms of the Trust Constitution.

The financial report covers the economic entity of the PFA Diversified Property Trust and controlled entities, and the PFA Diversified Property Trust as an individual parent entity.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of material accounting policies adopted by the Trust in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

#### (a) Principles of Consolidation

A controlled entity is any entity controlled by the Trust. Control exists where the Trust has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Trust to achieve the objectives of the Trust. A list of controlled entities is contained in Note 10.

All inter-entity balances and transactions between entities in the economic entity, including any unrealised profits and losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

#### (b) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

#### (c) Investment - Property

Investment – Property consists of investments in property, primarily of land, buildings and improvements to land and buildings.

Investment property is measured on the fair value basis. This basis initially comprises acquisition costs, due diligence costs and the Manager's fee. Annual assessments are undertaken by the Manager to ensure the carrying amount of investment property is not significantly different to the fair value of the investment property.

Where a material variance arises, a revaluation is required to align the carrying amount of investment property with its fair value. Revaluation increments are recognised as increases to the Asset Revaluation Reserve, except to the extent that they represent reversals of prior revaluation decrements. Reversals of prior year revaluation decrements are recognised in the Statement of Financial Performance as a revenue to the extent of the prior revaluation decrements. Revaluation decrements are recognised as expenses in the Statement of Financial Performance, except to the extent that they represent reversals of prior revaluation increments. Reversals of prior revaluation increments are recognised as decreases to the Asset Revaluation Reserve to the extent of the prior revaluation decrements.

Investment property is not depreciated as it is held as an investment where the value of the land, buildings and improvements is expected to appreciate over time.

The revaluation of investment properties has not taken into account potential capital gains tax on assets acquired after the introduction of capital gains tax.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

#### (c) *Investment - Property continued*

##### **Change in Accounting Policy**

Prior to 1 July, 2003 the Trust capitalised property acquisition costs (i.e. acquisition costs, due diligence costs and the Manager's fee) to Other Assets and amortised these over the original term of the Trust or that of its controlled entities. For all investment property acquired after 1 July, 2003 acquisition costs are included in the value of investment property measured at fair value. Where valuations subsequent to acquisition do not exceed the carrying value of the investment property, the investment property is revalued down to the valuation amount.

#### (d) *Non-Current Other Assets*

Establishment costs include acquisition and establishment costs such as stamp duty on purchase, legal costs, Manager's initial fee and due diligence costs in relation to the establishment of the Trust and the acquisition of initial investment properties.

These costs are capitalised to the extent of the future economic benefits expected to be derived from their initial incurrence and amortised on a straight-line basis.

Borrowing costs are amortised on a straight-line basis over the term of the loan.

#### (e) *Income Tax*

The Trust adopts the liability method of tax effect accounting whereby the income tax expense shown in the Statement of Financial Performance is based on the profit from ordinary activities before income tax adjusted for any permanent differences and distributions of taxable income to beneficiaries. No liability has been raised for income tax as no tax has been retained by the Trust during the year.

#### (f) *Cash*

For the purpose of the Statement of Cash flows, Cash includes Cash at Bank and Term Deposits.

#### (g) *Distributions Paid*

Distributions have been recognised when paid. No accrual for distribution entitlements is recognised.

#### (h) *Intangibles*

Goodwill on consolidation is initially recorded at the amount by which the purchase price of a controlled entity exceeds the fair value attributed to its net assets excluding non-current other assets but including borrowing costs as at the date of acquisition. Goodwill on consolidation is amortised on a straight line basis over an eight year period which represents the period of expected benefit. The balance is reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

#### (i) *Other Financial Assets*

Non-current Other Financial Assets are measured on the cost basis. The carrying amount of non-current other financial assets is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The expected net cashflows from investments have not been discounted to their present value in determining the recoverable amounts.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued***(j) Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

All revenue is stated net of the amount of GST.

Receivables and payables in the statement of financial position are shown inclusive of GST.

*(k) Derivatives*

The consolidated entity is exposed to changes in interest rates from its activities. It is the consolidated entity's policy to use interest rate swap agreements to hedge this risk. Derivative financial instruments are not held for speculative purposes.

Derivative financial instruments designated as hedges are effective as hedges of underlying exposures and are accounted for on the same basis as the underlying exposure.

*(l) Interest Rate Swaps*

Interest payments and receipts under interest rate swap contracts are recognised on an accruals basis, in the statement of financial performance, as an adjustment to borrowing costs when the designated hedge transaction occurs.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 2: REVENUE &amp; EXPENSES FROM ORDINARY ACTIVITIES</b> |                |                |                |                |
| <b>REVENUE FROM ORDINARY ACTIVITIES</b>                        |                |                |                |                |
| Rent received  | 26,411         | 22,997         | 9,746          | 5,844          |
| Outgoings recovered  | 3,131          | 2,473          | 1,480          | 813            |
| Distributions – Controlled entities                            |                |                |                |                |
| The Riverdale Fixed Term Property Trust                        | -              | -              | 382            | 473            |
| Garden Square Trust  | -              | -              | 890            | 867            |
| The Capital Collection – Diverse Sector Fund Trust No.1        | -              | -              | 2,540          | 2,144          |
| The Metropolitan Collection – Brisbane Trust                   | -              | -              | 1,365          | 1,341          |
| Make good Income   | 550            | -              | -              | -              |
| Sundry income  | -              | 23             | -              | -              |
| Interest received  | 336            | 79             | 336            | 63             |
| Distributions received - S8 Property Trust                     | 312            | -              | 312            | -              |
|  | 30,740         | 25,572         | 17,051         | 11,545         |
| <b>PROPERTY EXPENSES</b>                                       |                |                |                |                |
| Air-conditioning maintenance                                   | 430            | 280            | 205            | 80             |
| Body corporate costs   | 189            | 174            | 2              | 2              |
| Cleaning   | 860            | 686            | 349            | 196            |
| Electricity & gas  | 1,012          | 758            | 281            | 192            |
| Fire protection costs  | 110            | 72             | 54             | 39             |
| Garden maintenance   | 54             | 31             | 29             | 9              |
| Insurance  | 571            | 506            | 225            | 150            |
| Land tax   | 600            | 521            | 168            | 124            |
| Lift maintenance   | 240            | 173            | 105            | 54             |
| Professional fees  | 15             | 12             | 3              | -              |
| Property management costs                                      | 709            | 661            | 260            | 155            |
| Rates  | 1,594          | 1,174          | 761            | 353            |
| Repairs & maintenance  | 375            | 277            | 163            | 92             |
| Security costs   | 150            | 143            | 37             | 25             |
| Sundry costs   | 145            | 53             | 41             | 8              |
|  | 7,054          | 5,521          | 2,683          | 1,479          |



|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 2: REVENUE &amp; EXPENSES FROM<br/>ORDINARY ACTIVITIES continued</b> |                |                |                |                |
| <b>DIRECT EXPENSES</b>   |                |                |                |                |
| Accountancy  | 108            | 125            | 108            | 115            |
| Advertising  | 43             | 30             | 5              | 1              |
| Auction expenses   | -              | 4              | -              | -              |
| Auditors remuneration  | 57             | 66             | 57             | 66             |
| Bad debts  | 79             | 11             | -              | -              |
| Bank charges   | 33             | 34             | 32             | 19             |
| BSX listing fees   | 39             | 9              | 39             | 9              |
| Commission – buyback   | -              | 2              | -              | 2              |
| Commission – leasing   | 59             | 128            | 25             | 41             |
| Compliance committee costs   | 49             | 46             | 49             | 47             |
| Consultants fees   | 265            | 74             | 181            | 52             |
| Custodian fees   | 71             | 66             | 71             | 67             |
| Filing fees  | 3              | 26             | 3              | 26             |
| Finance intermediary fees  | 149            | 69             | 149            | 69             |
| Lease settlement   | -              | 30             | -              | -              |
| Legal fees   | 173            | 184            | 62             | 33             |
| Provision for doubtful debts   | (12)           | -              | -              | -              |
| Registry fees  | 27             | 21             | 27             | 21             |
| Reporting expenses   | 82             | 76             | 82             | 76             |
| Responsible Entity's fees  | 1,555          | 1,152          | 1,555          | 1,147          |
| Traveling expenses   | 24             | 16             | 24             | 16             |
| Valuation fees   | 74             | 103            | 26             | 33             |
|  | 2,878          | 2,272          | 2,495          | 1,840          |
| <b>AMORTISATION</b>  |                |                |                |                |
| Establishment costs  | 466            | 480            | 466            | 480            |
| Goodwill on consolidation  | 1,106          | 1,106          | -              | -              |
|  | 1,572          | 1,586          | 466            | 480            |
| <b>BORROWING COSTS</b>   |                |                |                |                |
| Interest   | 9,998          | 8,803          | 3,644          | 2,432          |
| Amortisation   | 236            | 1,045          | 180            | 471            |
|  | 10,234         | 9,848          | 3,824          | 2,903          |
| <b>PROFIT FROM ORDINARY ACTIVITIES<br/>BEFORE INCOME TAX EXPENSE</b>         |                |                |                |                |
|  | 9,002          | 6,345          | 7,583          | 4,843          |

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

|                                  | Consolidated   |                |
|----------------------------------|----------------|----------------|
|                                  | 2005           | 2004           |
|                                  | cents per unit | cents per unit |
| <b>NOTE 3: EARNINGS PER UNIT</b> |                |                |
| Basic earnings per unit          | 7.42           | 6.83           |
| Diluted earnings per unit        | 7.42           | 6.83           |

|   | Consolidated |        |
|---|--------------|--------|
|   | 2005         | 2004   |
|   | '000         | '000   |
| Weighted average number of units used in calculation of basic earnings per unit   | 121,209      | 92,931 |
| Weighted average number of units used in calculation of diluted earnings per unit | 121,209      | 92,931 |

|   | Consolidated |        |
|---|--------------|--------|
|   | 2005         | 2004   |
|   | \$'000       | \$'000 |
| Earnings used in calculation of basic earnings per unit   | 9,002        | 6,345  |
| Earnings used in calculation of diluted earnings per unit | 9,002        | 6,345  |

|   | Consolidated |                |        |                |
|---|--------------|----------------|--------|----------------|
|   | 2005         | 2005           | 2004   | 2004           |
|   | \$'000       | cents per unit | \$'000 | cents per unit |
| <b>NOTE 4: DISTRIBUTIONS PAID AND PAYABLE</b> |              |                |        |                |
| 21 July                                       | 744          | 0.79           | 194    | 0.79           |
| 21 August                                     | 770          | 0.79           | 735    | 0.79           |
| 21 September                                  | 806          | 0.79           | 735    | 0.79           |
| 21 October                                    | 873          | 0.79           | 735    | 0.79           |
| 21 November                                   | 873          | 0.79           | 735    | 0.79           |
| 21 December                                   | 873          | 0.79           | 735    | 0.79           |
| 21 January                                    | 979          | 0.79           | 735    | 0.79           |
| 21 February                                   | 979          | 0.79           | 735    | 0.79           |
| 21 March                                      | 979          | 0.79           | 733    | 0.79           |
| 21 April                                      | 995          | 0.79           | 730    | 0.79           |
| 21 May  | 1,144        | 0.79           | 738    | 0.79           |
| 21 June                                       | 1,168        | 0.79           | 720    | 0.79           |
|   | 11,183       | 9.48           | 8,260  | 9.48           |

|                                   | 2005 | 2004 |
|-----------------------------------|------|------|
|                                   | %    | %    |
| <b>Tax Distributions Break Up</b> |      |      |
| Taxable income                    | 31.4 | 21.1 |
| Tax deferred                      | 68.6 | 78.9 |

|                                       | Consolidated |            | Parent     |            |
|---------------------------------------|--------------|------------|------------|------------|
|                                       | 2005<br>\$   | 2004<br>\$ | 2005<br>\$ | 2004<br>\$ |
| <b>NOTE 5: AUDITORS' REMUNERATION</b> |              |            |            |            |
| Audit of financial report             | 53,500       | 75,063     | 53,500     | 68,513     |
| Other services                        | 35,900       | 69,218     | 35,900     | 59,208     |
|                                       | 89,400       | 144,281    | 89,400     | 127,721    |

|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 6: CURRENT CASH ASSETS</b>                 |                |                |                |                |
| Cash at bank                                       | 468            | 4,593          | 468            | 3,996          |
| <b>NOTE 7: CURRENT RECEIVABLES</b>                 |                |                |                |                |
| GST receivable                                     | 1,651          | -              | 1,989          | -              |
| Related entity receivables                         | -              | -              | -              | 1,193          |
| Trade debtors                                      | 399            | 436            | 37             | 110            |
| Provision for doubtful debts                       | (35)           | (47)           | -              | -              |
| Other debtors                                      | 13             | 28             | 4              | 28             |
| Accrued income                                     | 190            | 284            | 47             | 33             |
|  | 2,218          | 701            | 2,077          | 1,364          |
| <b>NOTE 8: CURRENT OTHER ASSETS</b>                |                |                |                |                |
| Prepaid expenses                                   | 821            | 718            | 413            | 253            |
| Deposits   | 11             | 8              | 3              | 3              |
|  | 832            | 726            | 416            | 256            |
| <b>NOTE 9: NON-CURRENT INVESTMENT – PROPERTY</b>   |                |                |                |                |
| <b>TOTAL INVESTMENT – PROPERTY</b>                 | 330,390        | 242,662        | 142,750        | 75,046         |
| Carrying amount at the beginning of financial year | 242,662        | 200,310        | 75,046         | 42,810         |
| Capital improvements                               | 3,229          | 887            | 1,059          | 7              |
| Purchase of investment property at cost            | 64,917         | 30,796         | 64,917         | 30,796         |
| Revaluation increment/(decrement)                  | 19,582         | 10,669         | 1,728          | 1,433          |
| Carrying amount at the end of the financial year   | 330,390        | 242,662        | 142,750        | 75,046         |

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 9: NON-CURRENT INVESTMENT – PROPERTY</b>   |                |                |                |                |
| <b>continued</b>   |                |                |                |                |
| <b>Property Summary</b>  |                |                |                |                |
| Centro on James (Stage 3), Fortitude Valley, Brisbane, Queensland<br>Investment in Land & Buildings – at independent valuation | 11,000         | 11,000         | 11,000         | 11,000         |
| 388 Queen Street, Brisbane CBD, Queensland<br>Investment in Land & Buildings – at independent valuation                        | 19,000         | 16,250         | 19,000         | 16,250         |
| Cairns Hypermart, 101 – 113 Spence Street, Cairns, Queensland<br>Investment in Land & Buildings – at independent valuation     | 17,000         | 17,000         | 17,000         | 17,000         |
| Lands Building, 134 Macquarie Street, Hobart, Tasmania<br>Investment in Land & Buildings – at cost                             | 30,833         | 30,796         | 30,833         | 30,796         |
| Garden Square, Upper Mt Gravatt, Brisbane, Queensland<br>Investment in Land & Buildings – at independent valuation             | 31,300         | 23,500         | -              | -              |
| Development works in progress – at cost  | -              | 57             | -              | -              |
|  | 31,300         | 23,557         | -              | -              |
| The Precinct, Coorparoo, Brisbane, Queensland<br>Investment in Land & Buildings – at independent valuation                     | 10,450         | 10,450         | -              | -              |
| 544 Kessels Road, MacGregor, Brisbane, Queensland<br>Investment in Land & Buildings – at independent valuation                 | 12,140         | 12,140         | -              | -              |
| Riverdale Centre, Dubbo, New South Wales<br>Investment in Land & Buildings – at independent valuation                          | 15,750         | 15,750         | -              | -              |
| Homeworld Centre, Tuggeranong, Canberra<br>Investment in Land & Buildings – at independent valuation                           | 32,500         | 32,500         | -              | -              |
| Post Office Square, Brisbane CBD, Queensland<br>Investment in Land & Buildings – at independent valuation                      | 61,500         | 55,000         | -              | -              |
| Anzac Square, Brisbane CBD, Queensland<br>Investment in Land & Buildings – at independent valuation                            | 24,000         | 18,200         | -              | -              |
| Development works in progress – at cost  | -              | 19             | -              | -              |
|  | 24,000         | 18,219         | -              | -              |
| 303 Sevenoaks Street, Cannington, Perth, Western Australia<br>Investment in Land & Buildings – at cost                         | 40,938         | -              | 40,938         | -              |
| 33 McDowell Street, Welshpool, Perth, Western Australia<br>Investment in Land & Buildings – at cost                            | 7,436          | -              | 7,436          | -              |
| 180-188 Burnley Street, Richmond, Melbourne, Victoria<br>Investment in Land & Buildings – at cost                              | 16,543         | -              | 16,543         | -              |
| <b>TOTAL INVESTMENT – PROPERTY</b>   | <b>330,390</b> | <b>242,662</b> | <b>142,750</b> | <b>75,046</b>  |

### Independent Valuations

**Centro on James (Stage 3), Brisbane:** An Independent valuation of land and buildings was undertaken by Nicholas Wordsworth AAPI Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2004.

**388 Queen Street, Brisbane:** An Independent valuation of land and buildings was undertaken by Christopher Andrew AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2005.

**Cairns Hypermart, Cairns:** An Independent valuation of land and buildings was undertaken by Nicholas Wordsworth AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2004.

**Garden Square Complex, Upper Mt Gravatt, Brisbane:** An Independent valuation of land and buildings was undertaken by Christopher Andrew AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2005.

**The Precinct, Coorparoo, Brisbane:** An Independent valuation of land and buildings was undertaken by Christopher Andrew AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2004.

**544 Kessels Road, MacGregor, Brisbane:** An Independent valuation of land and buildings was undertaken by Christopher Andrew AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2004.

**Riverdale Centre, Dubbo:** An Independent valuation of land and buildings was undertaken by David McLennan AAPI, Certified Practising Valuer of Jones Lang LaSalle. The valuation was based on market value as at 30 June, 2004.

**Homeworld Centre, Canberra:** An Independent valuation of land and buildings was undertaken by Richard Lawrie AAPI, Certified Practising Valuer of Jones Lang LaSalle. The valuation was based on market value as at 30 June, 2004.

**Post Office Square, Brisbane:** An Independent valuation of land and buildings was undertaken by Nicholas Wordsworth AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2005. Post Office Square is held as a terminating freehold property to be transferred to the Brisbane City Council on 4 April, 2059.

**Anzac Square, Brisbane:** An Independent valuation of land and buildings was undertaken by Nicholas Wordsworth AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2005.

|   | Consolidated   |                | Parent         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 10: NON-CURRENT OTHER FINANCIAL ASSETS</b>                      |                |                |                |                |
| Investment in S8 Property Trust   | 10,000         | -              | 10,000         | -              |
| <b>Investments in controlled entities</b>                               |                |                |                |                |
| The Riverdale Fixed Term Property Trust                                 | -              | -              | 8,101          | 8,101          |
| The Capital Collection – Diverse Sector Fund Trust No. 1                | -              | -              | 34,137         | 34,137         |
| The Metropolitan Collection – Brisbane Trust                            | -              | -              | 16,464         | 16,464         |
| Garden Square Trust   | -              | -              | 11,013         | 11,013         |
|   | 10,000         | -              | 79,715         | 69,715         |
| All controlled entities are 100% owned since the merger on 1 July, 2003 |                |                |                |                |
| <b>NOTE 11: NON-CURRENT INTANGIBLE ASSETS</b>                           |                |                |                |                |
| Goodwill on consolidation   | 8,846          | 8,846          | -              | -              |
| Accumulated amortisation  | (2,212)        | (1,106)        | -              | -              |
|   | 6,634          | 7,740          | -              | -              |
| <b>NOTE 12: NON-CURRENT OTHER ASSETS</b>                                |                |                |                |                |
| Borrowing costs   | 1,440          | 1,094          | 1,160          | 814            |
| Accumulated amortisation  | (408)          | (172)          | (250)          | (70)           |
|   | 1,032          | 922            | 910            | 744            |
| Establishment costs   | 3,733          | 3,733          | 3,733          | 3,733          |
| Accumulated amortisation  | (1,634)        | (1,167)        | (1,634)        | (1,167)        |
|   | 2,099          | 2,566          | 2,099          | 2,566          |
|   | 3,131          | 3,488          | 3,009          | 3,310          |

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

|   | Note  | Consolidated   |                | Parent         |                |
|---|-------|----------------|----------------|----------------|----------------|
|   |       | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 13: CURRENT PAYABLES</b>  |       |                |                |                |                |
| Related entity payables   |       | -              | -              | 61             | -              |
| Income in advance   |       | 150            | -              | 150            | -              |
| Trade creditors   |       | 677            | 776            | 100            | 91             |
| Accrued expenses  |       | 735            | 739            | 341            | 354            |
| GST payable   |       | -              | 350            | -              | 76             |
| Unit application monies <sup>(1)</sup>  |       | -              | 3,512          | -              | 3,512          |
| Accrued capital works   |       | 818            | -              | 641            | -              |
|   |       | 2,380          | 5,377          | 1,293          | 4,033          |
| <br>(1) Unit Application Monies   |       |                |                |                |                |
| Units in the Trust are allotted on the first business day of the next month in accordance with the Product Disclosure Statement dated 27 February, 2004. At 30 June, 2004 the Trust held application monies for unallotted units and related investor directed commissions in the Trust of \$3,511,582. |       |                |                |                |                |
| <b>NOTE 14: INTEREST BEARING LIABILITIES</b>  |       |                |                |                |                |
| <b>Current</b>  |       |                |                |                |                |
| Bank Overdraft  |       | -              | 2,000          | -              | 2,000          |
| Mortgage Loans  |       | 2,436          | 14,410         | 2,436          | 14,410         |
|   |       | 2,436          | 16,410         | 2,436          | 16,410         |
| <b>Non-Current</b>  |       |                |                |                |                |
| Mortgage Loans  |       | 175,094        | 136,416        | 80,954         | 42,276         |
| <b>NOTE 15: UNITHOLDERS' EQUITY</b>   |       |                |                |                |                |
| Unitholders' equity is made up of:  |       |                |                |                |                |
| Contributed Capital   | 15(i) | 150,237        | 94,310         | 150,237        | 94,310         |
| Accumulated profits at beginning of financial year  |       | 8,833          | 2,488          | 7,330          | 2,487          |
| Current year profit   |       | 9,002          | 6,345          | 7,583          | 4,843          |
| Capital raising costs   |       | (2,095)        | (823)          | (2,095)        | (823)          |
| Accumulated distributions at beginning of financial year  |       | (11,645)       | (3,385)        | (11,645)       | (3,385)        |
| Current year distributions  |       | (11,183)       | (8,260)        | (11,183)       | (8,260)        |
|   |       | 143,149        | 90,675         | 140,227        | 89,172         |

|   | Parent      |                | Parent      |                |
|---|-------------|----------------|-------------|----------------|
|   | 2005<br>\$  | 2005<br>Number | 2004<br>\$  | 2004<br>Number |
| <b>NOTE 15: UNITHOLDERS' EQUITY continued</b>   |             |                |             |                |
| <b>(i) Contributed Capital</b>  |             |                |             |                |
| Units on Issue at the beginning of the financial year   | 94,309,509  | 94,166,712     | 23,300,000  | 23,300,000     |
| Units issued during the year in accordance with the Product Disclosure Statement dated 27 February, 2004      | 13,576,183  | 13,310,188     | -           | -              |
| Placement to National Nominees Limited as nominee for the ARA Investment Fund on 9 September, 2004            | 3,000,000   | 3,000,000      | -           | -              |
| Placement to Sandhurst Trustees Limited ACF MacarthurCook Property Securities Fund on 21 December, 2004       | 5,100,000   | 5,000,000      | -           | -              |
| Placement to Tower Trust Limited ACF Tankstream Property Investments Fund on 31 December, 2004                | 3,800,000   | 3,636,364      | -           | -              |
| Placement to RBC Global Services Australia Nominees Pty Limited ACF APNFM a/c on 31 December, 2004            | 5,000,000   | 4,784,689      | -           | -              |
| Units issued during the year in accordance with the Product Disclosure Statement No. 2 dated 7 February, 2005 | 25,450,819  | 23,974,480     | -           | -              |
| Units issued 1 July, 2003 to investors in:  |             |                |             |                |
| Garden Square Syndicate   | -           | -              | 11,013,037  | 11,013,037     |
| The Metropolitan Collection – Brisbane Syndicate  | -           | -              | 16,463,875  | 16,463,875     |
| The Capital Collection – Diverse Sector Fund Syndicate No.1   | -           | -              | 34,136,906  | 34,136,906     |
| Riverdale Fixed Term Property Trust   | -           | -              | 8,101,169   | 8,101,169      |
| Units on issue on completion of the merger  | -           | -              | 93,014,987  | 93,014,987     |
| Units issued in accordance with the Product Disclosure Statement dated 27 February, 2004                      | -           | -              | 7,252,172   | 7,109,973      |
| Units cancelled in accordance with Off Market Capital Buyback Offer   | -           | -              | (5,458,248) | (5,458,248)    |
| Units cancelled in accordance with On Market Capital Buyback Offer  | -           | -              | (499,402)   | (500,000)      |
| Units on Issue at the end of the financial year   | 150,236,511 | 147,872,433    | 94,309,509  | 94,166,712     |

|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 16: RESERVES – ASSET REVALUATION RESERVE</b> |                |                |                |                |
| Opening balance                                      | 11,032         | 363            | 1,796          | 363            |
| Asset revaluation increment                          | 19,582         | 10,669         | 1,728          | 1,433          |
| Closing balance                                      | 30,614         | 11,032         | 3,525          | 1,796          |

The purpose of the asset revaluation reserve is to record the revaluation increments and decrements of investment property

#### NOTE 17: NOTES TO THE STATEMENT OF CASH FLOWS

##### (a) Reconciliation of cash

Cash at the end of the financial year as shown in The Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:-

|                                |     |         |     |         |
|--------------------------------|-----|---------|-----|---------|
| Cash at bank and term deposits | 468 | 4,593   | 468 | 3,996   |
| Bank overdraft                 | -   | (2,000) | -   | (2,000) |
|                                | 468 | 2,593   | 468 | 1,996   |

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 17: NOTES TO THE STATEMENT OF CASH FLOWS continued</b>   |                |                |                |                |
| <b>(b) Reconciliation of net cash provided by activities to profit from ordinary activities after income tax expense</b> |                |                |                |                |
| Profit from ordinary activities after income tax expense   | 9,002          | 6,345          | 7,583          | 4,843          |
| <b>Non Cash Items in Profit from Ordinary Activities:-</b>   |                |                |                |                |
| Distributions – Controlled entities  | -              | -              | (5,178)        | (4,825)        |
| Amortisation – Establishment costs   | 466            | 480            | 466            | 480            |
| Amortisation – Goodwill  | 1,106          | 1,106          | -              | -              |
| Amortisation – Borrowing costs   | 236            | 1,045          | 180            | 471            |
| <b>Changes in Assets and Liabilities:-</b>   |                |                |                |                |
| (Increase) / decrease in Receivables   | 133            | (23)           | 82             | (34)           |
| (Increase) / decrease in Current other assets  | (105)          | (377)          | (158)          | (140)          |
| (Increase) / decrease in Borrowing costs   | (346)          | (818)          | (346)          | (814)          |
| Increase / (decrease) in Payables  | (1,136)        | (478)          | (1,278)        | 236            |
| <b>Net Cash Provided by Operating Activities</b>   | <b>9,356</b>   | <b>7,280</b>   | <b>1,351</b>   | <b>217</b>     |
| <b>(c) Credit standby arrangement – Bank Overdraft</b>   |                |                |                |                |
| Bank overdraft facilities available  | 4,000          | 3,000          | 4,000          | 3,000          |
| Bank overdraft facilities utilised   | -              | 2,000          | -              | 2,000          |
| <b>Unused bank overdraft facilities</b>  | <b>4,000</b>   | <b>1,000</b>   | <b>4,000</b>   | <b>1,000</b>   |
| <b>(d) Financing arrangements</b>  |                |                |                |                |
| Finance facilities available   | 177,530        | 150,826        | 83,390         | 56,686         |
| Finance facilities utilised  | 177,530        | 150,826        | 83,390         | 56,686         |
| <b>Unused finance facilities</b>   | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>       |

The major facilities are summarised as follows:-

**Overdraft Facility:** The Trust has an overdraft facility of up to \$4M with the Commonwealth Bank of Australia which is used to fund day to day operations. This overdraft facility is secured by mortgages over certain properties.

**Joint Finance Facility:** The Trust has a combined finance facility between the Commonwealth Bank of Australia (“CBA”) and mortgage funds managed by ING Management Limited (“ING”) collectively referred to as the Financiers. Under this joint finance facility, the total debt is \$177,530,500. CBA lends funds equivalent to the first 40% of the Financiers’ valuation of the Portfolio and ING lends that component above 40% and up to 60% of the Financiers’ valuation. ING may agree to this 60% limit being exceeded from time to time on certain terms and on a short term basis (e.g. to enable acquisitions with capital to be raised subsequently so as to reduce debt).



**NOTE 17: NOTES TO THE STATEMENT OF CASH FLOWS continued**

The major terms of the joint finance facility are:-

**Term:** 5 years from 6 November, 2003.

**Lender's Margin:**

**CBA:** 0.6% per annum up to 40% loan to value ratio ("LVR"); and

**ING:** 1.38% per annum above 40% LVR and up to 60% LVR;  
1.80% per annum above 60% LVR.

**Security:** Securities were provided to the Financiers including registered first mortgages over all properties in the Portfolio and charges over the assets and income of the Trust and its sub-trusts.

**Hedging:** As at 30 June, 2005, 73% of the Trust debt funding has fixed interest rates or is hedged with the balance being on variable rates.

The tables below outline the various fixed or hedged portions of the debt portfolio referenced against the hedge expiry date and the fixed interest rate or minimum/maximum interest rate for those facilities that have a 'cap and collar' arrangement. All rates in the table are inclusive of interest rate margin.

**Caps & Collars**

| Settlement       | Effective Interest Rate | Notional Principal<br>\$'000 |
|------------------|-------------------------|------------------------------|
| Less than 1 year | -                       | -                            |
| 1 to 2 years     | 5.10% to 5.70%          | 9,100                        |
| 2 to 5 years     | 5.25% to 7.47%          | 19,270                       |
| <b>Total</b>     |                         | <b>28,370</b>                |

**Interest Rate Swaps**

| Settlement       | Weighted Average Interest Rate | Notional Principal<br>\$'000 |
|------------------|--------------------------------|------------------------------|
| Less than 1 year | -                              | -                            |
| 1 to 2 years     | 6.59%                          | 25,885                       |
| 2 to 5 years     | 6.84%                          | 75,629                       |
| <b>Total</b>     | <b>6.78%</b>                   | <b>101,514</b>               |

**Combined Hedging Arrangements**

| Fixed to:               | Oct-06         | Dec-06        | Jun-07        | Sep-07       | Dec-07         | Oct-08        | Nov-08       | Nov-09        | Jun-10        | Total Hedged   |   |        |         |
|-------------------------|----------------|---------------|---------------|--------------|----------------|---------------|--------------|---------------|---------------|----------------|---|--------|---------|
|                         | \$'000         | \$'000        | \$'000        | \$'000       | \$'000         | \$'000        | \$'000       | \$'000        | \$'000        | \$'000         |   |        |         |
| Caps & Collars          | 9,100          | -             | -             | -            | 9,270          | -             | -            | -             | -             | 10,000         | - | -      | 28,370  |
| Effective Interest Rate | 5.10% to 5.70% | -             | -             | -            | 5.25% to 5.90% | -             | -            | -             | -             | 6.83% to 7.47% | - | -      |         |
| Interest Rate Swaps     | -              | 5,885         | 10,000        | 10,000       | -              | 13,917        | 12,560       | 10,000        | 10,000        | 9,152          | - | 10,000 | 101,514 |
| Effective Interest Rate | -              | 6.28%         | 6.98%         | 6.39%        | -              | 6.97%         | 6.98%        | 6.98%         | 7.07%         | 6.45%          | - | 6.26%  | 7.04%   |
| <b>Total Hedged</b>     | <b>9,100</b>   | <b>15,885</b> | <b>10,000</b> | <b>9,270</b> | <b>26,477</b>  | <b>20,000</b> | <b>9,152</b> | <b>10,000</b> | <b>20,000</b> | <b>129,884</b> |   |        |         |

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 17: NOTES TO THE STATEMENT OF CASH FLOWS continued

Since the end of the year, the Trust entered into an interest rate swap with the Commonwealth Bank of Australia to fix the interest rate on \$20M of debt for a five year period at 5.67% plus appropriate borrower's margin. This transaction had an effective date of 28 July, 2005.

The Trust also entered into an interest rate swap with Commonwealth Bank of Australia to fix the interest rate on \$20M of debt for a five year period at 5.48% plus appropriate borrower's margin. This transaction had an effective date of 2 September, 2005.

Since the end of the year, the Trust repaid \$1,525,010 to its finance facility. This was in accordance with the agreed financing terms.

After the above transactions since the end of the year, 97% of the Trust debt funding has fixed interest rates or is hedged.

**Other Financial Information:** The borrowings were undertaken by the Manager as responsible entity of the Trust and its sub-trusts. Trust Company of Australia Limited as Custodian granted mortgages over the investment property and interest bearing deposits to secure the borrowings. Neither the unitholders, the Manager or Custodian are personally liable beyond the value of the capital contributed.

The Trust has entered into an agreement with the Anthony Moreton Group ("AMG") for procuring and managing the Joint Finance Facility. This agreement entitles AMG to an ongoing fee of 0.10% per annum of the total facility amount for the life of the facility.

### NOTE 18: EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the year, the Trust has paid monthly distributions to unitholders in the months of July and August 2005 totalling \$2,336,384.

#### *Potential Sale of Post Office Square, Brisbane*

On 30 June, 2005 the directors of the Manager signed a Put and Call Option Agreement for the sale of Post Office Square, Brisbane, with a base sale price of \$68.6M. The settlement is projected to be between 1 September, 2005 and 14 December, 2005.

#### *Special Distribution*

As a consequence of the potential sale of Post Office Square, Brisbane pursuant to a Put and Call Option Agreement, it is the intention to make a special distribution to unitholders on the following terms and conditions:-

- (a) Amount of special distribution: 6.76 cents per unit;
- (b) Record date for distribution: 30 June, 2005;
- (c) Payment date: Fourteen (14) days after settlement;
- (d) Conditions: The special distribution is conditional upon:-
  - (i) 1. the exercise by the Purchaser of its call option to purchase under the Put and Call; or
  - 2. the exercise by the PFA Diversified Property Trust of its put option to sell under the Put and Call; and
  - (ii) the completion of the sale contract which comes about as a consequence of the exercise of either of the options referred to in paragraph (1) above.

**NOTE 19: CONTINGENT LIABILITY****Sale Performance Management Fees**

In accordance with the Trust Constitution, the Manager is entitled to remuneration as follows:-

- (a) The Manager is entitled to receive a disposal fee from the Trust in respect of the sale of any property equal to 2% of the gross sale price achieved.
- (b) If the sale of a property results in a gross sale price above the original gross purchase price, the Manager is entitled to an additional performance fee as follows:-
- (i) 2.5% of the gross sale price (if gross sale price is more than 50% of original gross purchase price); or
- (ii) 1.5% of the gross sale price (if gross sale price is between 30% and 50% more than the original gross purchase price).
- Original gross purchase price includes that purchase price paid by any sub-trusts of the Trust.
- (c) If the Manager is removed as responsible entity of the Trust (other than for its gross negligence or a material fiduciary breach), then it is entitled to be paid 2% of the scheme value as at the time of the removal.

This is outlined in Clause 25.1 of the Trust's Constitution.

As per Note 18, on the 30 June, 2005 the directors of the Manager signed a Put and Call Option Agreement for the sale of Post Office Square, Brisbane, with a base sale price of \$68.6M. The settlement is projected to be between 1 September, 2005 and 14 December, 2005. The potential fee payable to the Manager is estimated to be \$2.4M.

|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>NOTE 20: OPERATING LEASE COMMITMENT RECEIVABLE</b>  |                |                |                |                |
| Operating Lease Commitments contracted as receivables: |                |                |                |                |
| - not later than 1 year                                | 32,355         | 28,302         | 14,329         | 9,441          |
| - later than 1 year but not later than 5 years         | 108,834        | 74,665         | 54,433         | 21,684         |
| - later than 5 years                                   | 100,057        | 59,077         | 79,085         | 35,239         |
| Aggregate lease revenue contracted for at balance date | 241,246        | 162,044        | 147,847        | 66,365         |

**NOTE 21: OTHER STATUTORY INFORMATION**

- (a) Property Funds Australia Limited ACN 078 199 569 ("the Manager"), the holder of Australian Financial Services Licence No. 224106 is the responsible entity of the PFA Diversified Property Trust ARSN 097 860 690 ("the Trust").
- (b) The land title to investment property of the Trust is registered in the name of Trust Company of Australia Limited who is appointed under the Custody Agreement to act as the custodian on behalf of the Manager who in turn is trustee for the unitholders.
- (c) The PFA Diversified Property Trust is a Trust settled and domiciled in Australia.
- (d) The PFA Diversified Property Trust is a registered managed investment scheme established in Australia and listed on the Bendigo Stock Exchange.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 22: DIRECTORS' AND EXECUTIVES' REMUNERATION

As the Directors and Specified Executives are not employees of the Trust, the remuneration detailed in this note is not paid by the Trust. Their remuneration is paid by the Manager from its own funds, some of which funds have come from management fees earned by it from the performance of its role as the responsible entity of the Trust. Consequently, the remuneration of the Directors and Specified Executives is not an additional expense of the Trust and should be viewed accordingly.

**(a) Names and positions held of Property Funds Australia Limited ("the Manager") directors and specified executives in office at any time during the financial year are:-**

| Directors       |                               |                           |
|-----------------|-------------------------------|---------------------------|
| Mr G J Paramor  | Chairman - Non-Executive      | appointed 27 August, 2004 |
| Mr C Morton     | Managing Director - Executive |                           |
| Mr D Conquest   | Director - Executive          |                           |
| Mr D Wildenburg | Director - Non-Executive      |                           |
| Mr N Collishaw  | Director - Non-Executive      | appointed 27 August, 2004 |
| Ms L Pidgeon    | Director - Non-Executive      | retired 27 August, 2004   |

**(b) Directors' Remuneration**

| 2005<br>Name    | Primary<br>Cash Salary & Fees<br>\$ | Primary<br>Cash Bonus<br>\$ | Primary<br>Non-monetary Benefits<br>\$ | Post Employment<br>Superannuation<br>\$ | Total<br>\$ |
|-----------------|-------------------------------------|-----------------------------|--|---|-------------|
| Mr G J Paramor  | -                                   | -                           | -                                      | -                                       | -           |
| Mr C Morton     | 237,913                             | 80,000                      | 4,740                                  | 18,606                                  | 341,259     |
| Mr D Conquest   | 151,313                             | 44,385                      | 3,280                                  | 14,625                                  | 213,603     |
| Mr D Wildenburg | 32,500                              | -                           | -                                      | -                                       | 32,500      |
| Mr N Collishaw  | -                                   | -                           | -                                      | -                                       | -           |
| Ms L Pidgeon    | 2,250                               | -                           | -                                      | -                                       | 2,250       |
|                 | 423,976                             | 124,385                     | 8,020                                  | 33,231                                  | 589,612     |

| 2004<br>Name    | Primary<br>Cash Salary & Fees<br>\$ | Primary<br>Cash Bonus<br>\$ | Primary<br>Non-monetary Benefits<br>\$ | Post Employment<br>Superannuation<br>\$ | Total<br>\$ |
|-----------------|-------------------------------------|-----------------------------|--|---|-------------|
| Mr G J Paramor  | -                                   | -                           | -                                      | -                                       | -           |
| Mr C Morton     | 200,000                             | -                           | 4,740                                  | -                                       | 204,740     |
| Mr D Conquest   | 142,348                             | 46,656                      | 3,188                                  | 16,436                                  | 208,628     |
| Mr D Wildenburg | 24,375                              | -                           | -                                      | -                                       | 24,375      |
| Mr N Collishaw  | -                                   | -                           | -                                      | -                                       | -           |
| Ms L Pidgeon    | 13,500                              | -                           | -                                      | -                                       | 13,500      |
|                 | 380,223                             | 46,656                      | 7,928                                  | 16,436                                  | 451,243     |

The Manager pays from its own monies (and not from the funds of the Trust) the premium for directors' and officers' liability insurance, to which the directors receive the benefit. This insurance forms part of the Definition of Directors' and Executives' Remuneration, but due to impracticability, the insurance premium has not been allocated to each director and executive.

**NOTE 22: DIRECTORS' AND EXECUTIVES' REMUNERATION continued****(c) Specified Executive's Remuneration**

In accordance with the definition of "Specified Executive" in AASB 1046, there are no other "Specified Executives" other than Mr C Morton and Mr D Conquest, whose remuneration details are contained in the Director's remuneration section of this note.

**(d) Remuneration Practices**

As the Directors and Specified Executives are not employees of the Trust, the remuneration detailed in this note is not paid by the Trust. Such remuneration relating to Directors and Specified Executives is paid by the Manager as responsible entity of the Trust from its own moneys and not from the moneys of the Trust. The Manager does however receive remuneration from the Trust such as management fees from which remuneration to Directors and Specified Executives may be paid.

The Manager does in the case of certain Directors and Specified Executives include as some part of their remuneration, reward based on certain events or scenarios. The basis of these incentive payments includes such matters as capital raisings, the profitability of the Manager's business and the growth of funds under management by the Manager.

The cash bonuses granted during or relating to the financial year ended 30 June, 2005 were determined as follows:

*Directors and Specified Executives*

Mr C Morton – A bonus entitlement based on the profitability of the Manager during that financial year and the growth of funds under management during that financial year.

Mr D Conquest – A bonus entitlement based on a percentage of certain capital raised by the Manager during that financial year.

The Directors and Specified Executives do not hold any loans with PFA Diversified Property Trust or Property Funds Australia Limited.

**NOTE 23: RELATED PARTY DISCLOSURES**

(a) Details of the Manager and the Custodian are as follows:-

**Manager**

Property Funds Australia Limited ACN 078 199 569 Directors who held office during the year were:-

|                           |                             |
|---------------------------|-----------------------------|
| Gregory James Paramor     | (appointed 27 August, 2004) |
| Christopher Arthur Morton |                             |
| David John Conquest       |                             |
| Dennis Wayne Wildenburg   |                             |
| Nicholas Roland Collishaw | (appointed 27 August, 2004) |
| Elizabeth Ann Pidgeon     | (retired 27 August, 2004)   |

**Custodian**

Trust Company of Australia Limited ACN 004 027 749 Directors who held office during the year were:-

Robert Bruce Corlett – Chairman  
Jonathan Westaby Sweeney – Managing Director  
John Gregory Macarthur-Stanham  
Warren John McLeland \*  
Duncan Paul Saville  
William John Forrest

*\*Standing alternate Director for Duncan Paul Saville*

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 23: RELATED PARTY DISCLOSURES continued

|   | Consolidated   |                | Parent         |                |
|---|----------------|----------------|----------------|----------------|
|   | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>(b) Related party transactions during the year were as follows:-</b>   |                |                |                |                |
| <b><i>The Manager – Property Funds Australia Limited</i></b>  |                |                |                |                |
| <b>Management fee</b> for the year in accordance with the Trust Constitution.   | 1,555          | 1,152          | 1,555          | 1,147          |
| <b>Product Disclosure Statement</b> production fee as provided for in the Product Disclosure Statement No. 2 dated 7 February, 2005 and in accordance with the Trust Constitution. This fee was determined on a commercial basis (30 June, 2004: Product Disclosure Statement lodged on 27 February, 2004).   | 100            | 100            | 100            | 100            |
| <b>Acquisition fee</b> (purchase of Lands Building, Hobart, Tasmania) as provided for in the Product Disclosure Statement dated 27 February, 2004 and in accordance with the Trust Constitution.  | -              | 578            | -              | 578            |
| <b>Acquisition fee</b> (purchase of 303 Sevenoaks Street, Cannington, Perth, Western Australia) as provided for in the Product Disclosure Statement No. 2 dated 7 February, 2005 and in accordance with the Trust Constitution.   | 760            | -              | 760            | -              |
| <b>Acquisition fee</b> (purchase of 33 McDowell Street, Welshpool, Perth, Western Australia) as provided for in the Product Disclosure Statement No. 2 dated 7 February, 2005 and in accordance with the Trust Constitution.  | 138            | -              | 138            | -              |
| <b>Acquisition fee</b> (purchase of 180-188 Burnley Street, Richmond, Melbourne, Victoria) as provided for in the Product Disclosure Statement No. 2 dated 7 February, 2005 and in accordance with the Trust Constitution.  | 305            | -              | 305            | -              |
| <b>Capital raising fee</b> as provided for in the Product Disclosure Statement No. 2 dated 7 February, 2005 and in accordance with the Trust Constitution (30 June, 2004: Product Disclosure Statement lodged on 27 February, 2004). This fee was determined on a commercial basis. From the capital raising fee paid to the Manager by the Trust, the Manager paid handling fees of \$386,426 to advisors and brokers. This resulted in the Manager receiving \$613,689 in capital raising fees. | 1,000          | 106            | 1,000          | 106            |
| <b>In-house accountancy fee</b> for the year. This fee was determined on a commercial basis.  | 93             | 80             | 93             | 80             |
| <b>Registry fee</b> for the year. This fee was determined on a commercial basis.  | 27             | 21             | 27             | 21             |

|  | Consolidated   |                | Parent         |                |
|--|----------------|----------------|----------------|----------------|
|  | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>(b) Related party transactions during the year were as follows:- continued</b>  |                |                |                |                |
| <b>The Manager</b> is a sub-tenant of a tenant of a sub-trust of the Trust at the Anzac Square Offices, 200 Adelaide Street, Brisbane. The sub-lease term is from 1 March, 2005 to 28 February, 2006. The terms of the lease were negotiated on commercial terms with the head tenant. | 130            | 130            | -              | -              |
| <b>The Custodian</b>   |                |                |                |                |
| <b>Custodian fee</b> for the year paid to Trust Company of Australia Limited in accordance with the Custody Agreement.   | 71             | 66             | 71             | 66             |
| <b>(c) Unitholdings in the Trust:-</b>   |                |                |                |                |
| <b>Number of units held in the Trust</b>   |                |                |                |                |
| Property Funds Australia Limited   | 196            | 196            |                |                |
| Christopher Morton related entity  | 97             | 97             |                |                |
| David Conquest   | 59             | 59             |                |                |
| <b>Distributions received during the Year</b>  |                |                |                |                |
| Property Funds Australia Limited   | 19             | 19             |                |                |
| Christopher Morton related entity  | 9              | 9              |                |                |
| David Conquest   | 6              | 6              |                |                |

**(d) Leasing Agreement**

The Trust has appointed Mirvac Investments to provide leasing assistance at the Riverdale Centre and Homeworld Centre. Mirvac Group owns 50% of the Manager. The terms of the leasing fee were negotiated on a commercial basis. As at 30 June, 2005 no leasing fees were paid to Mirvac Investments.

**NOTE 24: CONTINGENT ASSETS**

The Trust and its controlled entities (lessor) hold unconditional bank guarantees from lessees. These bank guarantees may crystallise on default by the lessee to the lessor. The total amount of bank guarantees held as at 30 June, 2005 was \$2,112,370 (30 June, 2004: \$1,548,245) for the Consolidated entity and \$1,036,290 (30 June, 2004: \$496,263) for the Parent entity.

**NOTE 25: FINANCIAL INSTRUMENTS****(a) Interest Rate Risk**

The consolidated entity enters into interest rate swaps to manage cash flow risks associated with the interest rates on borrowings that are floating, or to alter interest rate exposures arising from mismatches between assets and liabilities.

**(b) Interest Rate Swaps**

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rates. Maturities of swap contracts are principally between two and five years.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 25: FINANCIAL INSTRUMENTS continued

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

| Consolidated Entity                | Weighted Average Effective Interest Rate |      | Fixed Interest Rate Maturing |        |              |         | Non-Interest Bearing |        | Total   |         |
|------------------------------------|--|------|------------------------------|--------|--------------|---------|----------------------|--------|---------|---------|
|                                    | 2005                                     | 2004 | Within 1 Year                |        | 1 to 5 years |         | 2005                 | 2004   | 2005    | 2004    |
|                                    | %  | %    | 2005                         | 2004   | 2005         | 2004    | \$'000               | \$'000 | \$'000  | \$'000  |
| <b>Financial Assets</b>            |  |      |                              |        |              |         |                      |        |         |         |
| Cash assets                        | 4.73                                     | 3.83 | -                            | -      | 468          | 4,593   | -                    | -      | 468     | 4,593   |
| Other                              | 9.25                                     | -    | 10,000                       | -      | -            | -       | -                    | -      | 10,000  | -       |
| Receivables                        | -  | -    | -                            | -      | -            | -       | 2,218                | 701    | 2,218   | 701     |
| <b>Total Financial Assets</b>      |  |      | 10,000                       | -      | 468          | 4,593   | 2,218                | 701    | 12,686  | 5,294   |
| <b>Financial Liabilities</b>       |  |      |                              |        |              |         |                      |        |         |         |
| Interest Bearing Liabilities       | 6.62                                     | 6.64 | 2,436                        | 16,410 | 175,094      | 136,416 | -                    | -      | 177,530 | 152,826 |
| Payables                           | -  | -    | -                            | -      | -            | -       | 2,380                | 5,377  | 2,380   | 5,377   |
| <b>Total Financial Liabilities</b> |  |      | 2,436                        | 16,410 | 175,094      | 136,416 | 2,380                | 5,377  | 179,910 | 158,203 |

#### (c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements. The Trust does not have any concentration of credit risk.



**NOTE 26: SEGMENT INFORMATION**

The Trust operates in one business segment, being property investment and in one geographical segment being Australia.

**NOTE 27: BENDIGO STOCK EXCHANGE SUPPLEMENTARY INFORMATION**

(a) The information in this note is current as at 1 September, 2005 and is stated as it applies to the PFA Diversified Property Trust.

(b) Voting rights of unitholders:-

1 vote for each unit held.

(c) PFA Diversified Property Trust spread of unitholders:

| Number           | Total No. of Unitholders |
|------------------|--------------------------|
| 1 – 1,000        | -                        |
| 1,001 – 5,000    | 51                       |
| 5,001 – 10,000   | 647                      |
| 10,001 – 100,000 | 2,544                    |
| 100,001 and over | 152                      |
| Total            | 3,394                    |

(d) 10 largest unitholders of the PFA Diversified Property Trust:-

| Investor   | No. of Units Held | % of Equity |
|--|-------------------|-------------|
| RBC Global Services Australia Nominees Pty Limited | 16,015,070        | 10.83%      |
| Sandhurst Trustees Limited                         | 9,711,589         | 6.57%       |
| Tower Trust Limited                                | 3,636,364         | 2.46%       |
| National Nominees Limited                          | 3,600,000         | 2.43%       |
| Dorothy May Ferris & Kenneth Charles Ferris        | 1,178,311         | 0.80%       |
| Peter Arthur Hadley & Isabel Mary Hadley           | 493,458           | 0.33%       |
| Robert Gregory Paddon & Karen Frances Paddon       | 490,197           | 0.33%       |
| Alan Bernard Caradine & Judith Louise Caradine     | 409,329           | 0.28%       |
| GB Rowlatt Pty Ltd                                 | 400,000           | 0.27%       |
| Michelle Maree Kuczynski                           | 392,157           | 0.27%       |

**NOTE 28: ECONOMIC DEPENDENCY**

Where the rental income from a tenant is 10% or more of the total Trust rental income, the tenant is considered to be a key tenant. The operation of the scheme is dependent upon the continuation of receipts from a number of key tenants. Those key tenants as at 30 June, 2005 are State Government of Tasmania, Lands Building, Hobart and State Government of Western Australia, 303 Sevenoaks Street, Cannington, Perth.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 29: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRSS

For years ending on or after 30 June, 2006, all general purpose financial reports prepared in accordance with the requirements of Chapter 2M of the Corporations Act will be required to comply with Australian Equivalents to International Financial Reporting Standards (IFRSs) instead of Australian Accounting Standards presently on issue. The adoption of Australian Equivalents to IFRSs will be first reflected in the Trust's financial statements for the half-year ending 31 December, 2005 and the year ending 30 June, 2005.

#### (a) *Management of the Transition Process*

In order to facilitate this transition process, the Manager on behalf of the Trust has established a transition project team. The transition project team have established a time table for the transition process to ensure that each phase of the transition project is completed on schedule and to ensure a smooth implementation.

The Trust's transition process consists of 3 phases as follows:-

#### **Planning Phase**

This phase involves setting out the time table for transition and identifying differences in key accounting policies between current Australian Accounting Standards and the Australian Equivalents to IFRSs to be adopted in future.

The planning phase has been completed.

#### **Diagnosis Phase**

Detailed training on specific Australian Equivalents to IFRSs will be undertaken during this phase, particularly for staff directly involved in accounting functions.

The Diagnosis Phase also involves a more detailed analysis (than merely of key accounting policy differences) of measurement and disclosure impacts and preparatory work on revised statutory reporting templates. Decisions will be taken on exemptions and options provided in AASB 1 "First Time Adoption of Australian Equivalents to IFRSs" and detailed impairment testing will be performed on opening balance sheet carrying values of assets at 1 July, 2004.

Business impacts (e.g. relationships with bankers and lenders and employees), accounting system changes, training and resource requirements will also be identified during this phase.

This phase has commenced and is due for completion by 31 December, 2005.

#### **Conversion Phase**

During this phase, changes required to accounting and reporting systems will be finalised and tested. Agreements with lenders and contracts with employees will be renegotiated to ensure that the Trust is not prejudiced by the adoption of the new accounting framework. Key performance indicators will be reset and extensive training will be undertaken during this phase to ensure that all employees, accounting personnel and other, who are impacted by the adoption of Australian Equivalents to IFRSs are confident with new processes.

This phase is due for expected to be completed by 31 December, 2005.

**NOTE 29: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRSS continued****(b) Changes to Key Accounting Policies**

The Trust has identified the following key differences in accounting policies that are expected to arise from adopting Australian Equivalents to IFRSs, and a best estimate of the impact of the changes.

**(i) Intangible Asset – Goodwill**

Goodwill acquired in a business combination, such as the Trust's acquisition of Subsidiary Trusts, will not require amortisation, but instead be subject to impairment testing at least annually. If there is any impairment, it will be recognised immediately in the Income Statement. This will result in lower amortisation expenses, and therefore higher earnings on an annual basis, but increased volatility of results in the event of impairment.

The trust has identified an estimated impairment of \$6,634,776 to be recognised in the Income Statement for the first Australian Equivalents to IFRSs financial statements as at 31 December, 2005.

**(ii) Revenue on Disposal of Assets**

Currently the Trust includes gross revenue received on disposal of assets as revenue. Under Australian Equivalents to IFRSs, gains and losses on sale of assets will be recognised on a net basis in revenue, resulting in lower revenue being recorded by the Trust.

**(iii) Capitalisation of Borrowing Costs**

Borrowing costs can no longer be capitalised as an asset as AASB 123 Borrowing Costs does not allow these costs to be capitalised for non-qualifying assets. However, borrowing costs can be recognised as a reduction in the interest bearing liabilities using the effective interest method in accordance with AASB 139 Financial Instruments: Recognition and Measurement. This amount is expensed over the period of the loan and will not result in any significant changes of implementation of Australian Equivalents to IFRSs.

**(iv) Other Liabilities**

Other liabilities represent unitholders' funds contributed to the Trust. The recognition of unitholders' funds as liabilities for accounting purposes does not impact on the taxation treatment of these amounts. The amounts paid to unitholders for accounting purposes will be treated as a borrowing cost expense. For taxation purposes, these payments continue to represent distributions under ITAA 1997. Borrowing costs on unitholders' funds for accounting purposes are accrued once the amounts are declared to the market.

**(v) Unitholders' Funds**

Funds raised from unitholders have previously been recognised as equity of the Trust. Under Australian Equivalents to IFRSs, these funds will be treated as a liability. The variation in this accounting treatment arises because the Trust has a fixed and determinate life and funds previously raised from unitholders must be returned on the vesting date of the Trust.

**(vi) Other Assets – Non-Current**

Establishment costs are currently recognised in the Statement of Financial Position at cost less accumulated amortisation. The Directors are of the view that these intangible assets will have to be written off on adoption of Australian Equivalents to IFRSs.

The Trust has identified an estimated impairment of \$2,099,441 to be recognised in the Income Statement for the first Australian Equivalents to IFRSs financial statements as at 31 December, 2005.

**(vii) Derivative Financial Instruments**

The Trust currently does not recognise derivative financial instruments, including embedded derivatives, in the financial statements. Under Australian Equivalents to IFRSs derivative financial instruments will need to be recognised in the Balance Sheet at fair value with unrealised gains or losses recognised in income if they do not qualify for hedge accounting. This will result in new assets and liabilities being recognised and an increased volatility in future earnings. The directors are satisfied that there is not anticipated to be any material effect on implementation on the Australian Equivalents to IFRSs.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

### NOTE 29: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRSS continued

#### (viii) Non-Current Other Financial Assets

##### *Investments in Controlled Entities*

Under Australian Equivalents to IFRSs, these investments are not classified as held for sale and as such will be measured by the Trust entity at cost with impairment tests performed when indicators of impairment are identified in accordance with AASB 136 Impairment of Assets. Initial impairment adjustments may arise because of the requirement to discount cash flows and these would have a negative impact on opening balances of retained earnings at 1 July, 2004.

#### (ix) Hedging

All derivatives contracts, whether used as hedging instruments or otherwise, will be carried at fair value on the Trust's Balance Sheet. Australian Equivalents to IFRSs recognise fair value hedge accounting, cash flow hedge accounting, and hedges of investments in foreign operations. Fair value and cash flow hedge accounting can only be considered where effectiveness tests are met.

Ineffectiveness outside the prescribed range precludes the use of hedge accounting and can result in significant volatility in the Income Statement. The Trust expects to predominantly use cash flow hedging in respect of its interest rate risk hedges, which will create volatility in equity reserve balances.

The hedging rules will impact the way the Trust accounts for hedges of its funding and for hedges of its Balance Sheet. This will result in new assets and liabilities being recognised, increased volatility in future earnings. The directors are satisfied that there is not anticipated to be any material effect on implementation on the Australian Equivalents to IFRSs.

#### (x) Investment – Property

The Trust's investment properties are currently carried at cost or a revalued amount, with changes in the revalued amount recognised in asset revaluation reserves. Australian Equivalents to IFRSs permit a choice for subsequent measurement at fair value or at cost, less accumulated depreciation and impairment losses. If measured at fair value, changes in fair value are recognised in the net profit or loss in the period in which they occur which will result in an increased volatility of future earnings. Use of fair value will also have an initial impact on opening balances of retained earnings at 1 July, 2004 because existing balances of asset revaluation reserves will be transferred to opening balances of retained earnings.

The Trust has identified the transfer of \$30,614,023 from the asset revaluation reserves to retained earnings to be recognised in the financial statements as at 31 December, 2005.

#### (xi) Leases

Under UIG 115: Operating Leases – Incentives, lease incentives are required to be recognised as a reduction in lease rental income over the lease term on a straight-line basis. The reduction in lease rental income will be offset by a corresponding valuation increment posted to the Statement of Financial Performance to maintain the overall fair value of each building and its associated lease incentives. As a result, lease incentives of \$0.43 million will be separately identified and shown as part of the fair value of the investment properties at 30 June, 2005. An amortisation charge of \$0.04 million would have been booked this financial year. These amounts are offset by a corresponding credit to the Statement of Financial Position, representing the revaluation increment to bring each building back to fair value.

**NOTE 29: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRSS continued***(c) Summary of Major Impacts*

The Trust has identified the following key differences in reporting requirements that are expected to arise from adoption Australia Equivalents to IFRSs. Although the adjustments disclosed in this note are based on the Manager's best knowledge of expected standards and interpretations, and current facts and circumstances, these may vary. There are no material impacts to the Statement of Cash Flows.

|   | Note      | Previous<br>AGAAP 2005<br>\$'000 | Adjustments<br>on Introduction<br>of Australian<br>Equivalents to<br>IFRS<br>\$'000 | Australian<br>Equivalents<br>to IFRS at<br>30 June,<br>2005<br>\$'000 |
|---|-----------|----------------------------------|---|---|
| <b>Consolidated Entity</b>  |           |                                  |   |   |
| <b>(i) Reconciliation of Profit or Loss for 2005</b>  |           |                                  |   |   |
| Revenues from ordinary activities   |           | 30,740                           | 19,582  | 50,32   |
| Expenses from ordinary activities   |           |                                  |   |   |
| Property expenses   |           | (7,054)                          | -   | (7,054)   |
| Fund expenses   |           |                                  |   |   |
| Direct expenses   |           | (2,878)                          | -   | (2,878)   |
| Amortisation  |           | (1,572)                          | -   | (1,572)   |
|   |           | (4,450)                          |   | (4,450)   |
| Borrowing costs   |           |                                  |   |   |
| Interest  |           | (9,998)                          | -   | (9,998)   |
| Amortisation  |           | (236)                            | -   | (236)   |
|   |           | (10,234)                         |   | (10,234)  |
| Borrowing Costs - Unitholders   | 29(b)(iv) | -                                | 12,351  | (12,351)  |
| <b>Profit/(Loss) from ordinary activities before income tax expense</b>   |           | 9,002                            | -   | 16,233  |
| Income tax expense relating to ordinary activities  |           | -                                |   | -   |
| <b>Profit/(Loss) after income tax expense attributable to Unitholders</b>   |           | 9,002                            | -   | 16,233  |
| Increase in asset revaluations  |           | 19,582                           | (19,582)  | -   |
| <b>Total changes in Trust equity other than those resulting from transactions with Unitholders as Unitholders</b> |           | 28,584                           | -   | 16,233  |

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2005

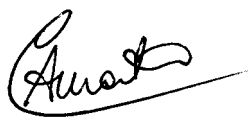
|   | Note              | Previous<br>AGAAP 2005<br>\$'000 | Adjustments<br>on Introduction<br>of Australian<br>Equivalents to<br>IFRS<br>\$'000 | Australian<br>Equivalents<br>to IFRS at<br>30 June,<br>2005<br>\$'000 |
|---|-------------------|----------------------------------|---|---|
| <b>NOTE 29: IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRSS</b> |                   |                                  |   |   |
| <b>continued</b>  |                   |                                  |   |   |
| <b>Consolidated Entity</b>  |                   |                                  |   |   |
| <b>(ii) Reconciliation of Equity at 30 June, 2005</b>               |                   |                                  |   |   |
| <b>CURRENT ASSETS</b>   |                   |                                  |   |   |
| Cash assets   |                   | 468                              | -   | 468   |
| Receivables   |                   | 2,218                            | -   | 2,218   |
| Other   |                   | 832                              | -   | 832   |
| <b>TOTAL CURRENT ASSETS</b>   |                   | <b>3,518</b>                     |   | <b>3,518</b>  |
| <b>NON-CURRENT ASSETS</b>   |                   |                                  |   |   |
| Investment – Property   |                   | 330,390                          | -   | 330,390   |
| Other financial assets  |                   | 10,000                           | -   | 10,000  |
| Intangible assets   | 29(b)(i)          | 6,634                            | (6,634)   | -   |
| Other   | 29(b)(iii) & (vi) | 3,131                            | (3,131)   | -   |
| <b>TOTAL NON-CURRENT ASSETS</b>                                     |                   | <b>350,155</b>                   |   | <b>340,390</b>  |
| <b>TOTAL ASSETS</b>   |                   | <b>353,673</b>                   |   | <b>343,908</b>  |
| <b>CURRENT LIABILITIES</b>  |                   |                                  |   |   |
| Payables  |                   | 2,380                            | -   | 2,380   |
| Other liabilities   | 29(b)(iv)         | -                                | 165,030   | 165,030   |
| Interest bearing liabilities  |                   | 2,436                            | -   | 2,436   |
| <b>TOTAL CURRENT LIABILITIES</b>                                    |                   | <b>4,816</b>                     |   | <b>169,846</b>  |
| <b>NON-CURRENT LIABILITIES</b>                                      |                   |                                  |   |   |
| Interest-bearing liabilities  | 29(b)(iii)        | 175,094                          | (1,032)   | 174,062   |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                                |                   | <b>175,094</b>                   |   | <b>174,062</b>  |
| <b>TOTAL LIABILITIES</b>  |                   | <b>179,910</b>                   |   | <b>343,908</b>  |
| <b>NET ASSETS</b>   |                   | <b>173,763</b>                   |   | <b>-</b>  |
| <b>EQUITY</b>   |                   |                                  |   |   |
| Unitholders' equity   | 29(b)(v)          | 143,149                          | (143,149)   | -   |
| Reserves  | 29(b)(x)          | 30,614                           | (30,614)  | -   |
| <b>TOTAL EQUITY</b>   |                   | <b>173,763</b>                   |   | <b>-</b>  |

## DIRECTORS' DECLARATION

The directors of Property Funds Australia Limited as responsible entity of The PFA Diversified Property Trust (formerly The Trilogy Trust) declare that:-

1. The financial statements and notes are in accordance with the Corporations Act 2001 and:
  - (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the Trust and the consolidated entity's financial position as at 30 June, 2005 and of its performance for the year ended on that date.
2. The Chief Financial Officer has declared that:
  - (a) the financial records of the PFA Diversified Property Trust for the financial year ended 30 June, 2005 have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and the accompanying notes to the financial statements for the financial year ended 30 June, 2005 comply with the Australian Accounting Standards; and
  - (c) the financial statements and the accompanying notes to the financial statements give a true and fair view of the financial position as at 30 June, 2005 and of the performance for the year ended on that date of the PFA Diversified Property Trust.
3. In the directors' opinion, there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of Property Funds Australia Limited.



**Christopher A Morton**

Managing Director

Brisbane

**20 September, 2005**

## INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

*Independent Audit Report to the Unitholders of the PFA Diversified Property Trust (formerly The Trilogy Trust)*

### Scope

#### **The financial report and directors' responsibility**

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, notes to the financial statements, and the declaration by the directors of the responsible entity for The PFA Diversified Property Trust and controlled entities for the year ended 30 June, 2005.

The financial report includes the consolidated financial statements of the consolidated entity comprising the Trust and entities it controlled at the year end or from time to time during the financial year.

The directors of the Manager are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit approach

We conducted an independent audit in order to express an opinion to the unitholders of the Trust. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Trust's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:-

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors of the Manager.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

We confirm that the independence declaration required by the Corporations Act 2001 provided to the directors of Property Funds Australia Limited the responsible entity of PFA Diversified Property Trust on 20 September, 2005, would be in the same terms if provided to the directors at the date of this audit report.



## Audit opinion

In our opinion, the financial report of The PFA Diversified Property Trust is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Trust and consolidated entity's financial position as at 30 June, 2005 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**BDO Kendalls**



**P A Gallagher**

Partner

Brisbane

**20 September, 2005**

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# Directory

## Manager

### **Property Funds Australia Limited**

ACN 078 199 569

## Registered Office and Principal Place of Business

Level 3

Anzac Square Commercial

200 Adelaide Street

Brisbane QLD 4000

Phone: (07) 3221 7170

Fax: (07) 3221 6729

Email: info@pfaltd.com.au

### **Postal Address**

PO Box 10398

Brisbane Adelaide Street QLD 4000

## Directors of Property Funds Australia Limited

Gregory J Paramor (Non-Executive Chairman)

Christopher A Morton (Managing Director)

Dennis W Wildenburg

David J Conquest

Nicholas R Collishaw

## Company Secretary

Christopher A Morton

## Auditor

### **BDO Kendalls**

Level 18, 300 Queen Street

Brisbane QLD 4000

## Custodian

### **Trust Company of Australia Limited**

ACN 004 027 749

213 St Pauls Terrace

Brisbane QLD 4000

## Taxation Adviser

### **BDO Kendalls**

Level 18, 300 Queen Street

Brisbane QLD 4000

## Corporate Lawyers for The Manager

### **McCullough Robertson Lawyers**

Level 12, Central Plaza II

66 Eagle Street

Brisbane QLD 4000

## Registry

### **Property Funds Australia Limited**

ACN 078 199 569

### **Office Postal Address**

PO Box 10398

Brisbane Adelaide Street QLD 4000

Phone: (07) 3221 7170

Fax: (07) 3221 6729

Email: info@pfaltd.com.au

