

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

AND CONTROLLED ENTITIES  
ARSN 097 860 690



ANNUAL REPORT 2006



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 \$407 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*



## 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 \$407 million. The portfolio is diversified by property sector, geographic location, tenant profile and lease expiry.

The Trust currently has in excess of 3,900 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.

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# 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 2006 annual report to unitholders.

This past year, has seen a number of milestones and achievements for the Trust. One such achievement was the first sale of a Trust property asset, being Post Office, which resulted in a final sale price of \$9.0M above the property's book value at 30 June 2005. This sale resulted in those unitholders, who were eligible, receiving a 6.76 cents per unit special distribution.

Additionally, the Trust made a significant acquisition of a Sydney CBD office property. The joint acquisition of Civic Tower with diversified property group, Australand, enabled the Trust to gain exposure to a quality commercial office property without increasing the Trust's exposure to a large single property or tenants.

The Trust also acquired 2 further properties during the year, including a retail/office property within the Brisbane CBD and a 182 room hotel property in the Melbourne CBD.

This financial year, the Trust has continued to benefit from the stability of income through diversity, increasing rents and further strong improvements in the value of the Trust's portfolio as evidenced by the upward revaluations of 7 of the Trust's property assets. Fundamentally, this has resulted in an increase in the NTA per unit to \$1.17 and has provided the Board of the Manager with the confidence to forecast an increase in the Trust's distribution rate for the 2006/07 financial year.

Unitholders who have held units as at 30 June 2005 enjoyed a 17% total return over the year. This sound performance was recognised in the strong level of existing unitholder further investment that occurred during the two capital raisings (PDS No. 3 and No. 4) during the year as well as in the 2005 Special Distribution Reinvestment Plan.

Industry recognition for the Manager and the Trust was also forthcoming. The performance and other qualities of the Trust were recognised by the Australian Property Institute (Queensland Division), which awarded it the Property Trust Industry Award for 2005.

Looking forward, we plan to continue to build on the Trust's sound financial performance. We intend to acquire further properties in appropriate markets which have the potential to provide secure income and capital returns. In particular, the investment of the proceeds of the recent capital raising (PDS No. 4) is outstanding. It is hoped that the investment will be finalised in the next few months. It is also anticipated that a further capital raising may occur during the year.

I take this opportunity to thank our existing unitholders and acknowledge the large number of unitholders who increased their investment in the Trust during the year. The vote of ongoing support by the increase of your commitment to the Trust is appreciated. I also welcome those new unitholders who may have invested in the Trust either as a consequence of the recent capital raisings or via the Bendigo Stock Exchange.

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

**July 2005:** Exercise of put option to sell the 10,571,942 units held in S8 Property Trust.

**August 2005:** Announcement of \$22.85M increase in value of the Trust's property portfolio resulting in 15% NTA increase over the previous financial year.

### October 2005:

- New product disclosure statement ("PDS No. 3") lodged with ASIC for the issue of 18.35 million units in the Trust. The offer price under PDS No. 3 was \$1.09 per unit.
- Acquisition of 180 Queen Street, Brisbane for \$18.0M settled on 31 October 2005.

**November 2005:** 2005 Special Distribution Reinvestment Plan ("DRP") offered to unitholders eligible for the Special Distribution as a consequence of the sale of Post Office Square. The offer price under the DRP was \$1.09 per unit.

### December 2005:

- Settlement of the sale of Post Office Square for \$70.5M completed on 1 December 2005.
- Special Distribution of 6.76 cents per unit paid to unitholders recorded on the register at as 30 June 2005.
- Participation in the DRP by those eligible unitholders resulted in 2,380,516 units being issued.
- Acquisition of a 50% interest in the Civic Tower, 66-68 Goulburn Street, Sydney completed for \$54.85M on 16 December 2005.

**February 2006:** PDS No. 3 closed oversubscribed with 19,870,786 units having been issued.

### June 2006:

- Product Disclosure Statement ("PDS No. 4") lodged with ASIC for the issue of up to 23,963,317 units in the Trust. The offer price under PDS No. 4 was \$1.11 per unit under the General Offer.

- Current Unitholders (i.e. those registered as at 14 June 2006) offered a one for seven entitlement under the Rights Issue at \$1.09 per unit.
- Acquisition of the Citigate Melbourne hotel property for \$34.0M settled on 30 June 2006.
- Increase in forecast distributions for the 2006/07 year to 9.80 cents per unit announced (up from 9.48 cents per unit).

**July 2006:** One for Seven rights issued closed on 25 July 2006 with 10,940,854 units having been issued at \$1.09 per unit.

**August 2006:** PDS No. 4 closed after receiving investments above the assumed capital raising amount of \$20.0M, and a total of 22,378,234 units having been issued.

## Financial Performance

- Distribution of 9.48 cents per unit for the year ended 30 June 2006 in accordance with previous forecasts;
- Special distribution for eligible unitholders of 6.76 cents per unit;
- Net Profit (before amortisations and unitholder distributions) for the year approximately \$38.7M (up 27%);
- Earnings per unit (before amortisations and unitholder distributions) for the year was 24.5 cents (down 1.5%);
- Net Profit (after tax and amortisations and before unitholder distributions) for the year approximately \$37.4M (up 25%);
- Tax deferred component of distributions – 73.6% compared with PDS No. 4 forecasts of 68.0%;
- As at 30 June 2006:-
  - Total assets \$415.5M, up \$70.3M;
  - Net tangible asset backing\* of \$1.17 per unit (up 6 cents per unit).

\* This calculation ignores AIFRS treatment of unitholder funds as debt.

## Financial Overview

	As at 30 June 2006	As at 30 June 2005
Total assets (\$'000)	415,481	345,156
Total unitholder funds (\$'000)	196,745	165,110
Net asset backing per unit (\$)	1.17	1.17
Net tangible asset backing per unit* (\$)	1.17	1.11
Number of units on issue ('000)	167,743	147,872
Total Financiers' debt (\$'000)	211,014	177,530
% Financiers' debt to total assets (%)	51	51
Number of unitholders	3,722	3,408
Vacancy Rate (% by income)	1.5	3.5

\* This calculation ignores AIFRS treatment of unitholder funds as debt.

	For 12 months ending 30 June 2006	For 12 months ending 30 June 2005
Net profit after tax and amortisations (\$'000)	37,386	29,951
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 2006.**

## Fund Performance

Monthly distributions for the year have been occurring at the rate of 0.79 cents per unit per month (9.48 cents per unit annualised – 73.58% tax deferred) which is in accordance with forecasts for the Trust in PDS Nos. 3 and 4 lodged during this year. The directors of the Manager have forecast an increase in this distribution rate to 9.80 cents per unit per annum through to 30 June 2007 (subject to the assumptions on which the forecast is based set out in section 6.2 of PDS No. 4).

In addition to the monthly distributions, a special distribution was paid at 6.76 cents per unit to those unitholders on the register as at 30 June 2005.

Of particular note, during the year were the following positive results compared to the financial year ending 30 June 2005 and forecasts in PDS No. 4:-

- net tangible asset backing per unit increased 6 cents to \$1.17 per unit;
- positive revaluations of 7 of the properties in the portfolio resulted in a net increase of \$25.5M in the value of the portfolio (an average increase of 15%);
- gross operating revenue increased by 26% to \$39.03M;
- net profit (after tax and amortisations and before unitholder distributions) increased by 25% to \$37.4M; and
- Earnings per unit (before amortisations and unitholder distributions) for the year was 24.5 cents.

## Fund Management

Underpinning the Trust's sound financial result for the year has been the ongoing 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 provision of stable distributions to unitholders;
- the commitment to ongoing diversification – both sector and geographical (as exhibited by the acquisition of commercial and hotel properties located in Sydney 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;
- the provision of liquidity in the investment through the Bendigo Stock Exchange ("BSX"); and
- maximise the total returns to unitholders (as demonstrated by the sale of the Post Office Square property and the subsequent special distribution of profit to unitholders).

## Asset Management

### Acquisitions

#### 180 Queen Street, Brisbane

The acquisition of 180 Queen Street, Brisbane was completed by the Trust on 31 October 2005 for a purchase price of \$18.0M.

180 Queen Street is a nine level retail and commercial office building located in the heart of Brisbane's Queen Street Mall. The building was purpose built for the National Australia Bank and was completed in 1930. It underwent extensive refurbishment works in 1990/91 and is heritage listed.

The property's major tenant is retailer Country Road who occupy 866m<sup>2</sup> on the ground and mezzanine levels on a 10 year lease to 2010. The basement level consists of a safe deposit facility for the National Australia Bank Security Deposit on a 5 year lease to 2007. The upper levels provide commercial office accommodation comprising larger tenancies and individual suites ranging in size from 15m<sup>2</sup> to 492m<sup>2</sup> leased to a wide variety of businesses ranging from jewellers to valuers to legal firms.

This acquisition was consistent with the growth of the Trust by investing in properties in the price range of \$10 million to \$50 million. It also maintained some exposure to Brisbane's CBD retail for the Trust, which exposure was reduced with the sale of Post Office Square.



180 Queen Street, Brisbane, Qld

### Civic Tower, Sydney

The acquisition of a 50% interest in the Civic Tower in the Sydney CBD was finalised on 16 December 2005 for a purchase price of \$54.85M (half interest). The property was acquired in co-ownership with the diversified property trust group, the Australand Group with the vendor being Grocon.

Civic Tower is located on a prominent corner in the Sydney mid-town sector. The property has frontage onto both Castlereagh and Goulburn Streets and is situated in close proximity to the recently completed World Square development.

The property was completed in late 2004 within the airspace above the existing Masonic Centre – belonging to the site's freehold owners, Masonic Investments Ltd. Masonic Investments have granted a 125 year lease (expiring on 16 August 2116) over the airspace in which the office tower is located.

The property comprises a 22,932m<sup>2</sup> office tower over 24 floors constructed above the existing podium - being the Masonic Centre. Additionally, the property comprises a ground floor foyer and separate retail area. Typical floor plates are 940m<sup>2</sup> NLA with central core configuration and column free. The property has a 4½ star SEDA green rating.

The property's major tenants include Publishing and Broadcasting Limited (PBL), the Federal Department of Public Prosecutions, Keddies Litigation Lawyers and barristers, Samuel Griffith Chambers.

Seven floors are currently vacant. However at the time of this report, heads of agreement has been reached for the lease of 3 of these vacant floors. Rental support is being provided by part of the Challenger Group through to December 2008 whilst this remaining vacancy is let. However, this is subject to a maximum cap.

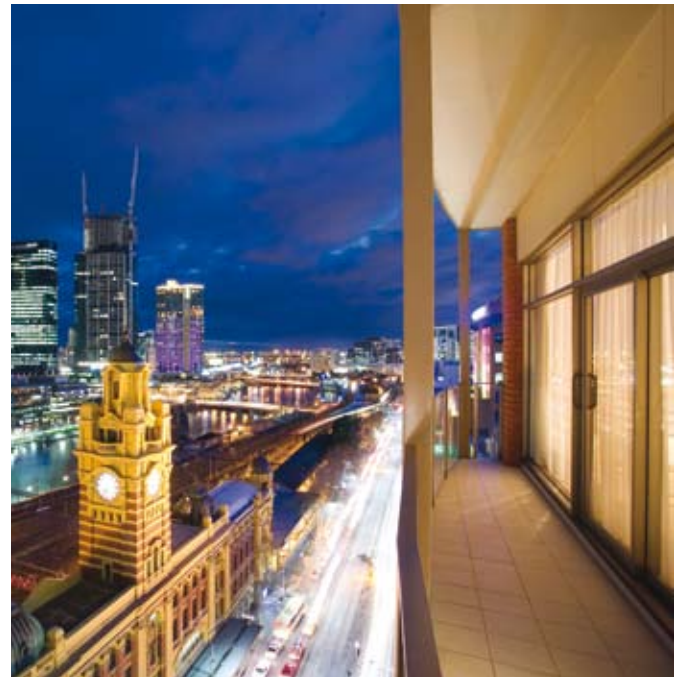
This acquisition was consistent with the Manager's continued commitment to further geographical diversification of the Trust's portfolio and provided exposure to the Sydney office market which is currently showing positive signs of improvement after a few years of stagnation.

### The Citigate, Melbourne

On 30 June 2006, the Trust acquired the Citigate Melbourne hotel located at 270 Flinders Street, Melbourne for \$34.0M.

The property is a 182 room four star hotel which is centrally located on Flinders Street between Elizabeth Street and Swanston Walk, directly across the road from Flinders Street Station.

The hotel was totally redeveloped from its previous use as an office building in 2002/03 and it possesses a contemporary fitout.



*Exterior balcony, The Citigate, Melbourne, Vic*

The hotel is only 100 metres from Federation Square and within walking distance to the Melbourne retail and commercial heart as well as major sporting, shopping and entertainment venues such as Crown Casino.

The hotel is leased to Citigate Melbourne Pty Ltd for 10 years and managed for that company by Mirvac Hotels Pty Limited under its Citigate brand. 49% of the voting shares of Citigate Melbourne Pty Ltd are owned by the Trust.

Mirvac currently manages over 30 hotels and resorts throughout Australia and New Zealand. Some of Mirvac's hotel brands include Sebel, Quay Grand, Quay West, Sea Temple and Citigate.

The settlement of the acquisition of this property was consistent with the charter for the Trust of further enhancing the diversification of the Trust's portfolio by exposure to other property sectors and locations.

### Divestments

#### Sale of Post Office Square

In the 2005 Annual Report, the Manager announced the sale of Post Office Square to the CFS Gandel Retail Trust. The completion of the sale of the property occurred on 1 December 2005. The sale price was \$70.5M, which was above the originally agreed base purchase price of \$68.6M.

The price was subject to post-settlement variation depending on final lease negotiations over a lease renewal and the results of the letting up of some vacant tenancies. Those further adjustments (if any) are likely to occur in the next 12 months.

# Manager's Report

## Potential Sale of Garden Square Office Park

Following considered strategic analysis, the Manager has decided to market the Garden Square property for sale. Since the departure in December 2004, of Garden Square's major tenant, Coles Myer, significant leasing has occurred at this property. Most of the vacant space that resulted following the Coles Myer departure has been leased to Queensland State Government departments at rental levels materially above the levels that previously existed in 2004. The Manager believes that the divestment is consistent with the ongoing diversification strategy of the Trust, particularly given the overweight nature of the Trust's exposure to the Brisbane office market.

In the event that a property is divested at any time, information relating to it will be available via PFA's website (see [www.pfaltd.com.au](http://www.pfaltd.com.au)), the announcements section of the BSX website relating to the Trust (see [www.bsx.com.au](http://www.bsx.com.au) and use BSX code PFD) or otherwise as required by law.

## 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 some properties which have potential redevelopment opportunities. The Manager continues to assess and clarify these opportunities.

## Revaluations

Revaluations of 8 assets during the year have added \$25.46M to the portfolio's value. The relevant properties subject to revaluation increases during the year were:-

Property	Previous Book Value	New Book Value	Increase
Sevenoaks	\$40.94M	\$48.80M	\$7.86M
Homeworld Centre	\$32.50M	\$34.70M	\$2.20M
Cairns Hypermart	\$17.00M	\$20.00M	\$3.00M
Riverdale Centre	\$15.75M	\$15.75M	\$0.00M
544 Kessels Road	\$12.14M	\$13.69M	\$1.55M
Centro on James – Stage 3	\$11.00M	\$14.70M	\$3.70M
The Precinct	\$10.45M	\$13.90M	\$3.45M
Garden Square Office Park	\$31.30M	\$35.00M	\$3.70M

Underlying the increases in valuations has been the general compression of capitalisation rates which have occurred in the property market generally (but more particularly in the Perth and Queensland commercial office markets and the general retail property markets) since the date of the last valuations. The portfolio's capital appreciation has also been the result of rental growth and positive leasing campaigns (particularly at Garden Square and Centro on James – Stage 3).

## Leasing Activity

The vacancy rate (based on income) for the Trust portfolio at the time of this report is 1.54% which is comparatively low in industry terms. The vacancy rate for the Portfolio has decreased during the year, down from 3.5% as at the date of last year's annual report. This has been a pleasing result and is significantly due to the active management strategy of the Manager for the Trust's property portfolio.

The weighted average lease expiry of the portfolio remained relatively constant during the year and remains strong at 6.8 years. This current weighted average lease term of 6.8 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, Centro On James – Stage 3, Anzac Square Offices, Cairns Hypermart and Civic Tower properties.

## Garden Square Office Park

The Manager has progressively been reporting on the status of leasing at Garden Square. As at the time of the 2005 Annual Report, Queensland State government ministerial approval had been granted for several new government leases at this property. However, the leases had not been executed. The Manager is pleased to report that all of the state government department leases were executed during the year. The state government leases now account for approximately 60% of this property's income. The rental levels for the property are now materially above the levels that existed in 2004 when the Coles Myer lease (the primary lease for the property) was in existence. This property now has only one vacant area of approximately 900m<sup>2</sup>. The active and positive leasing that has occurred at this property has been reflected in the positive revaluation that occurred at the time of revaluation at December 2005 and is part of the motivation in putting this property on the market.



### Centro On James – Stage 3

In January 2006, the property's major tenant within the commercial component, Workpac (now known as Smart Service) executed, prior to their original lease expiry, a new 7 year lease until December 2012. As part of this new lease, Smart Service increased their space by an additional 200m<sup>2</sup> (approx.) and with a material rental increase to that previously paid.

Following the early departure of a major retail tenant (Melandas Home Concepts) prior to the expiration of their lease, three new retail tenants including fashion retailers Lorna Jane, Milu and Boom Hair leased the previous Melandas' space following reconfiguration works to accommodate these new tenants. These new leases are at rental levels materially above the previous levels and have resulted in an increase of this property's value upon revaluation as at 30 June 2006.

### Anzac Square Offices

The Manager has been in negotiation with major Anzac Square tenant, MacGillivrays Solicitors, for the renewal of their lease which is due to expire in April 2007. MacGillivrays currently occupy 2,513m<sup>2</sup> over 2 levels at this property. At the time of this report, MacGillivrays have executed an early renewal of their lease. MacGillivrays will now remain in their tenancy for a further 6 years to 30 April 2013. The new rental agreement with MacGillivrays is in line with the significant rental increases being experienced in the Brisbane commercial property market. The Anzac Square property continues to be fully leased.

### 388 Queen Street

Westpac has leased space on the ground floor of this property under a new 7 year lease. The space was previously occupied by Primelife Corporation Limited who were looking to downsize and relocate. This building is also fully leased.

### 544 Kessels Road, MacGregor

Following a strategic decision by Encel Stereo to withdraw from the local market, the Manager co-operated with a surrender by Encel of their lease with the contemporaneous entry into a new 7 year lease to Aussie Living Furniture and Bedding (an existing tenant of another building within the complex). The new lease to Aussie Living is at a materially increased rental level to that of Encel's previous rental, and runs from 1 April 2006.

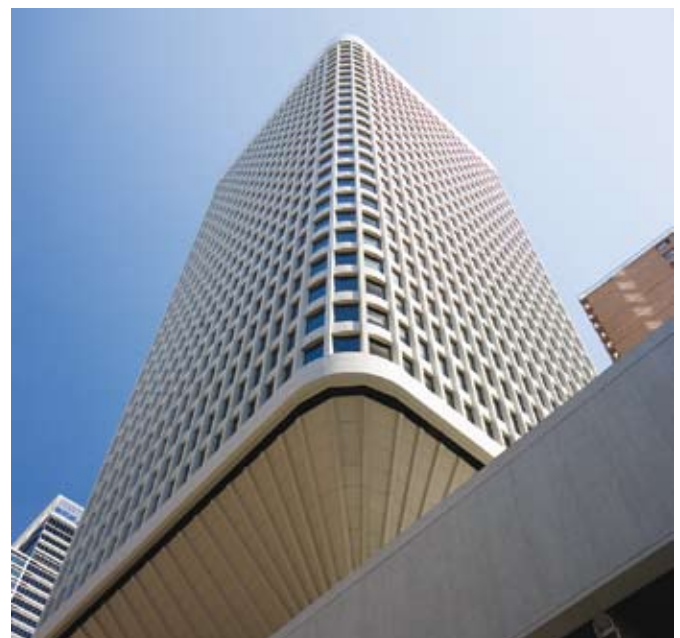
In May 2006, a lease was granted over 5,560m<sup>2</sup> of unused land at the rear of this property to a local motor vehicle dealership. This lease generates a reasonable level of additional rental income for the property pending the realisation of a redevelopment outcome for this part of the property. The 544 Kessels Road property is also fully leased.

### Cairns Hypermart

In the 2005 Annual Report, it was reported that Harvey Norman had committed to a new 7 year lease (commencing 20 March 2005) occupying all of the warehouse facility of this property. However, at the time of the report, the lease had not been executed. The Manager is pleased to report that this lease has been executed. Additionally, Harvey Norman has now agreed to lease part of the vacant office component of the warehouse facility. Heads of agreement has also been reached to lease the balance of this warehouse office space to a gymnasium operator. Following the execution of these leases approximately 70m<sup>2</sup> of vacant space will remain in the office component of this property.

### Civic Tower

At the time of the acquisition of Civic Tower, floors 23 to 30 of this property were vacant. Level 30 was subsequently leased to barristers, Samuel Griffith Chambers, for 10 years commencing 1 April 2006. The Manager has since had heads of agreement to lease 3 other vacant floors (levels 23, 28 and 29). Agreement has also been reached for the establishment of a café to operate from the ground level of this property. The energetic leasing campaign for the vacant upper levels (currently under rental guarantee) will continue.



*Civic Tower, Sydney, NSW*

### The Homeworld Centre

Several smaller leases, totalling approximately 880m<sup>2</sup> within the retail component of this property have commenced during the year. This has resulted in the vacancy rate at this property being reduced to 4%. A tenancy remix at this property remains an ongoing project.

# Manager's Report

## The Riverdale Centre

Following The River Inn Tavern's desire to negotiate an early exit of their tavern lease due to a lack of profitability of their existing operation from the premises, the Manager has now negotiated a satisfactory surrender of this lease. As part of this process, the Manager has successfully negotiated the relocation of the Tavern's bottleshop to a vacant area within the internal mall area of the Centre. A new lease for this bottleshop licence has successfully been negotiated with Woolworths to operate a BWS discount liquor outlet in this space.

## 180 Queen Street

The upper levels of the commercial office component of this property provides accommodation comprising of larger tenancies and individual suites ranging in size from 15m<sup>2</sup> to 492m<sup>2</sup>. These tenancies are leased to a wide variety of businesses ranging from jewellers to valuers to legal firms. At the time of acquisition of this property, most of these tenants were on month-to-month tenancy agreements. The Manager has successfully negotiated new lease terms with existing tenants and new tenants on lease terms ranging between 1 to 6 years. As part of these negotiations, rental levels have increased significantly.

## 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 86% of the income of the Trust. Importantly, the Manager's management strategy for the Trust is to maintain and develop relationships with tenants to meet their current and future requirements and actively manage the property portfolio with a focus to enhancing the portfolio's income stream. Consequently, Mirvac Retail management has been appointed to run the physical aspects of the property management of the Riverdale Centre and Cairns Hypermart properties (with the financial aspects remaining with Knight Frank).

This is not to say that there are not challenges in the forthcoming period as some of the current vacancies are focused upon. In particular, the Manager's main focus will be:-

- undertaking an ongoing tenancy remix at Homeworld;
- continuation of the leasing strategy and tenancy remix at the Riverdale Centre;
- ongoing review of the property management and lease profile of the commercial office tenancies at 180 Queen Street, Brisbane;

- the continuation of an energetic leasing campaign for the vacant upper levels (currently under rental support) of Civic Tower, Sydney; and
- resolving as early as possible Suncorp Metway's tenancy intentions for their space in 388 Queen Street which lease expires at the end of 2007.

## 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.

## Garden Square Office Park

Significant works have continued to be undertaken at the Garden Square property as a consequence of the significant leasing activity throughout the year. Capital works have been completed to both upgrade and refurbish selected toilet amenities, lift lobbies and various base building services. Given the age of this property and as part of the accommodation of new tenancies, building infrastructure such as air conditioning services, main switchboard and basement car parking operation, have been upgraded to meet the ever increasing demands of large commercial tenancies. External repairs and replacements were also undertaken in preparation for the sale of the property.

## 388 Queen Street

A refurbishment of the ground floor entry of 388 Queen Street has been completed. This has created a significant improvement to the building's identity as well as lifting and improving its internal appeal. Upgrades of air conditioning plant and equipment are continuing so as to accommodate the needs of the property's major tenant, Suncorp Metway.

## Centro on James – Stage 3

Some external works and improvements have been made to parts of this property to assist with the new letting that has recently occurred at Centro on James – Stage 3.

## Future Capital Works

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

- completion of the Homeworld forecourt upgrade;
- ongoing works and improvements at Riverdale for shop re-configurations and relocations;
- upgrade of common areas at Sevenoaks including the foyer and car parking areas;



*Garden Square Office Park, Upper Mt Gravatt, Qld*

- improvements and works to the Cairns Hypermart particularly to the warehouse component.

## Debt Management

The total Financiers' debt of the Trust as at 30 June 2006 was \$211,014,000 (before amortised borrowing costs). This represents as at the date of this report, a gearing ratio against total assets of 51%.

Of these borrowings, approximately 81% of the Trust's debt funding as at 30 June 2006 had fixed interest rates or was hedged with the balance being at variable rates. The Manager continues to monitor the interest rate market for opportunities to purchase hedging style products at appropriate pricing.

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

The weighted average interest rate (inclusive of Lenders' margins) on debt as at 30 June 2006 was 6.49% per annum.

With the growth in the size and quality of the Trust's portfolio and the increasing quality of the tenants' covenants within it, the Manager saw an opportunity to enter into discussions with the Trust's financiers with the object of achieving a reduction in the debt margins applicable to the Joint Finance Facility provided by CBA and mortgage funds managed by ING. These discussions were successful and resulted in reductions of the Lenders' margins as follows:-

- CBA: 0.60% down to 0.45% (for up to 40% loan to valuation ratio)
- ING: 1.38% down to 1.20% (for between 40% to 60% loan to valuation ratio)

The fees paid to AMG for management of these facilities were also negotiated down.

The term of the Finance Facility has remained the same. The effect of these negotiations has resulted in a reduction in debt cost of approximately \$345,000p.a. to the Trust based on current debt levels.

These new arrangements took effect from 1 February 2006.

The trending upwards throughout the year of interest rates has been of some concern although the level of existing fixed rates and hedging has provided some protection.

Currently, the Manager is adopting a "wait and see" approach to rates. Some fixed rates mature/expire later in this calendar year. The impact of their expiry is not currently significant. However, if rates continue the ongoing upward trend through the year then some impact could result.

## Capital Management

### Capital Raising

On 20 October 2005 the Manager lodged with ASIC a product disclosure statement ("PDS No. 3") for the issue of an additional 18.35 million units in the Trust at an offer price of \$1.09 per unit. PDS No. 3 closed oversubscribed on 24 February 2006 with 19,870,786 units having been issued. The purpose of the offer was to enable the Trust to continue to grow through property acquisitions in accordance with the investment strategies of the Trust. The primary use of these funds was the eventual acquisition of the Citigate Melbourne property.

On 5 June 2006 a further product disclosure statement ("PDS No. 4") was lodged by the Manager with ASIC for the issue of up to 23,963,317 units in the Trust at an offer price of \$1.11 per unit.

Current Unitholders (i.e. those registered at 14 June 2006) were also offered a one for seven entitlement under the rights issue at \$1.09 per unit. Current Unitholders could also purchase additional units above their entitlement under the PDS at the general offer price of \$1.11 per unit.

Rights issue entitlements closed on 25 July 2006 with Current Unitholders subscribing approximately \$11.9M at the discounted offer price of \$1.09 per unit. Current Unitholders also subscribed an additional \$2.6M (approx.) under the general offer at \$1.11 per unit.

On 25 August 2006 the Manager announced the closure of PDS No. 4 after raising \$24.6M. 22,378,234 units in total were allotted as part of this process.

# Manager's Report

## 2005 Special Distribution Reinvestment Plan

As a consequence of the sale of Post Office Square, unitholders eligible for the Special Distribution (i.e. those on the unitholder register as at 30 June 2005) were offered the 2005 Special Distribution Reinvestment Plan ('DRP'). The offer price under the DRP was \$1.09 per unit. 2,380,516 units were allotted on 8 December 2005 as a consequence of the DRP.

## The Market

During the year, the weighted average price per unit that units in the Trust have traded on the BSX has been \$1.07, a 5% increase on the weighted average price per unit for the 2005 year. The weighted average price per unit has increased to \$1.09 in the period 1 July 2006 to 5 September 2006. The market capitalisation of the Trust as at 30 June 2006 was \$182.84 million, and total trade volume on the BSX for the year was approximately 3.3 million units, a 65% increase in the total number of units traded when compared with the 2005 year.

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

## Unit Pricing Policy

The Manager has implemented a Unit Pricing Policy which is primarily based on the issue price requirements of the Trust's constitution. A copy of the Unit Pricing Policy and any discretions exercised by the Manager are available free of charge on request.

## Manager Update

### Change in Directors

It was with regret, that on 16 January 2006 the Manager announced the retirement of PFA executive director, David Conquest due to health reasons. His retirement as a director took immediate effect.

We thank David for his considerable contribution to PFA during his almost six years as a director and executive. Mr Conquest's contribution, particularly as the main liaison point with financial intermediaries, has seen a material growth of the funds under management of PFA. He has provided to PFA an innate understanding of the needs of the users of investment products and their advisers' requirements.

Mr Greg Paramor, PFA's non-executive chairman, retired from the board effective 9 March 2006 due to his obligations as managing director of Mirvac.

Greg was appointed as PFA's non-executive chairman in 2004 following the James Fielding Group's (now a division of Mirvac) acquisition of a 50% interest in PFA. In his role in Mirvac, Greg Paramor will still have a strategic interest in PFA and the success of the funds that it manages.

Mirvac's nominated replacement to the board and as the new non-executive chairman is James Fielding Funds Management director Mr Robert Summerton. Mr Summerton is a consultant of the Queensland law firm Summerton de Vere. He has extensive experience in the law on major commercial and property transactions in Australia and the United Kingdom. He is a member of professional bodies including the Law Council of Australia and the Australian Institute of Company Directors and is a director of a number of companies. Mr Summerton has had considerable experience as a director of property funds management companies including as a current director of James Fielding Funds Management and a former director of Paladin Australia Limited.

Ms Jenny Hutson was also appointed to PFA's board as a non-executive director to fill the place vacated by David Conquest. Jenny is managing director of Wellington Capital, a merchant and investment bank. She is a former partner of McCullough Robertson Lawyers. She was head of the Corporate Advisory Group and the Corporate Division of that legal firm.

As an investment banker, Jenny is focused on capital raisings, mergers and acquisitions and property based funds management. She has a special focus on and experience in property based projects and capital raising issues. Jenny is a director of a number of companies including chairperson of the ASX listed S8 Limited which is an integrated global travel company which owns Harvey World Travel, Travelscene and Gulliver's Travel. She is also a director of the responsible entity of an ASX listed property trust.

We welcome both Bob Summerton and Jenny Hutson to the Board. They both come to the Board with an enormous wealth of experience in the world of property funds management.

### Trust Wins Property Trust Industry Award

The Manager takes great pride in the fact that the Trust was awarded the 2005 Property Trust Industry Award by the Australian Property Institute (Qld Division) – the industry organisation that represents valuers and land economists. Judged against 6 other candidates, the award was made on the basis of financial performance, management and innovation.

## Outlook

The 2006 financial year has been a positive and busy year for the Manager and the Trust. It has been one of significant achievements and the successful meeting by the Manager of the challenges that it had to face on behalf of the Trust during the year.

The Trust has in the last year or so, and probably will over the next year or two, continue to benefit from its overweight nature in those markets which continue to have strong growth in them (e.g. the general office markets of Australia, and in particular, Brisbane office).

The Manager intends to continue the diversification process (which is one of the Trust's key objectives). This objective, for example, underpins the recent decision to look to dispose of Garden Square and reinvest the proceeds elsewhere. As certain properties reach stages within their life cycle, over the next year or two, they may cease to best meet the objectives of the Trust and may no longer be considered appropriate or strategic to continue to hold. Consequently, a reinvestment of their capital may become more appropriate.

Given the yield focus of the Trust, one of the current challenges for the Manager is to continue to find appropriately yielding properties which enable the Trust to grow and diversify yet meet unitholders' distribution needs. The yield compression which has occurred over the last few years in the Australian property market has required the Manager to focus upon different sectors of value (e.g. the hotel markets) as exemplified by the Trust's recent Citigate Melbourne acquisition.

At the time of writing this report, the spectre of increasing interest rates appears to have faded in the short-term. Whether that is an ongoing state of affairs in the short to medium term is yet to be seen. If interest rates were to continue to rise and property yields do not soften in response, then the ongoing growth of the Trust by further property acquisitions, beyond say \$500M of gross assets, may be restricted for a while, until either yields on investment property rise or interest rates drop. It is the Manager's intention to grow the Trust on a careful and considered basis to preserve the Trust's stability of income and its reasonably high yield.

The Manager will be carrying out a significant review of the structure and strategy of the Trust (including its liquidity) later this calendar year. The conclusions of that review will be advised to unitholders at the appropriate time.

The Manager remains positive about the underlying fundamentals of the Trust and its future. In the context of alternative property investment opportunities available in the market, it would appear to offer value. In the meantime, the Manager will continue to focus on providing to unitholders via the Trust, stable and tax effective income returns underpinned by a reasonable level of security.

*Country Road tenancy at 180 Queen Street, Brisbane*



# Property Portfolio

## Overview

### Portfolio Status

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

- \$407.6 million in property assets over 16 properties;
- a strong 6.8 year weighted average lease expiry;
- a balanced lease expiry profile;
- a 1.54% vacancy rate;
- approximately 86% leased to national or government tenants;
- 144,329m<sup>2</sup> of net lettable area;
- sound diversification, particularly by reference to sector and tenant, with a material Queensland geographical bias.

The portfolio comprises 16 properties, summarised as follows:

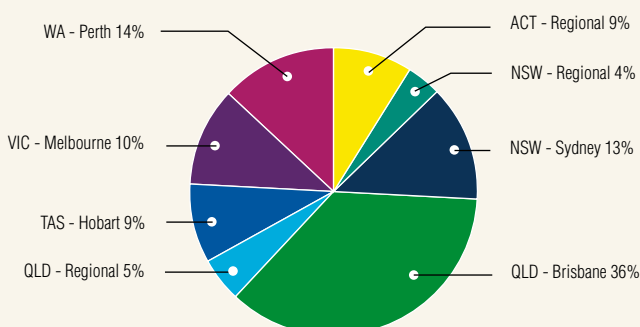
Asset	Sector	Location	% of Portfolio Value	Current Value
Civic Tower	Commercial Office	Sydney CBD, NSW	14.44%	\$ 58,872,000*
Sevenoaks	Office	Cannington, Perth, WA	11.97%	\$ 48,800,000
Citigate Melbourne	Hotel	Melbourne CBD, VIC	9.06%	\$ 36,932,000
Garden Square Office Park	Office	Upper Mt Gravatt, Brisbane, QLD	8.59%	\$ 35,000,000
Homeworld Centre	Retail/Office	Tuggeranong, ACT	8.51%	\$ 34,700,000
The Lands Building	Office	Hobart, TAS	7.12%	\$ 29,000,000
Anzac Square Offices	Office	Brisbane CBD, QLD	5.89%	\$ 24,000,000
Cairns Hypermart	Retail/Industrial/Office	Cairns, QLD	4.91%	\$ 20,000,000
180 Queen Street	Retail/Office	Brisbane CBD, QLD	4.71%	\$ 19,184,000
388 Queen Street	Office	Brisbane CBD, QLD	4.66%	\$ 19,000,000
AAPT Centre	Industrial/Office	Richmond, Melbourne, VIC	4.06%	\$ 16,566,000
Riverdale Centre	Retail/Entertainment	Dubbo, NSW	3.86%	\$ 15,750,000
Centro on James - Stage 3	Retail/Entertainment	Fortitude Valley, Brisbane, QLD	3.61%	\$ 14,700,000
The Precinct	Office/Retail	Coorparoo, Brisbane, QLD	3.41%	\$ 13,900,000
544 Kessels Road	Retail/Industrial	MacGregor, Brisbane, QLD	3.36%	\$ 13,690,000
33 McDowell Street	Industrial	Welshpool, Perth, WA	1.84%	\$ 7,489,000
			<b>100.00%</b>	<b>\$407,583,000</b>

\* The value of the Trust's 50% interest is shown.

## Geographical diversification

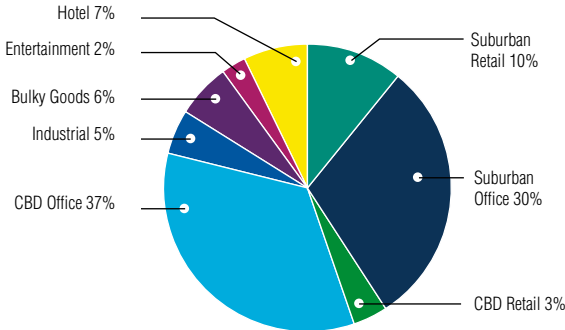
The adjacent graph demonstrates the geographical diversification of the portfolio and its current Queensland geographical bias. Part of the investment strategy of the Trust is to gradually reduce this bias towards Queensland as demonstrated by the disposal of Post Office Square and the acquisition of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

Geographical Diversification (by Gross Income)



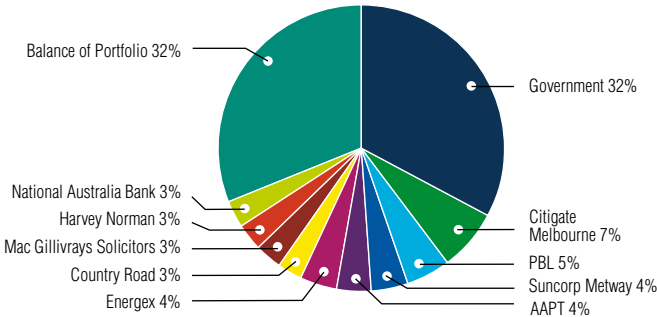
### Property sectors

**Property Sectors (by % of Gross Passing Income)**



### The Tenants

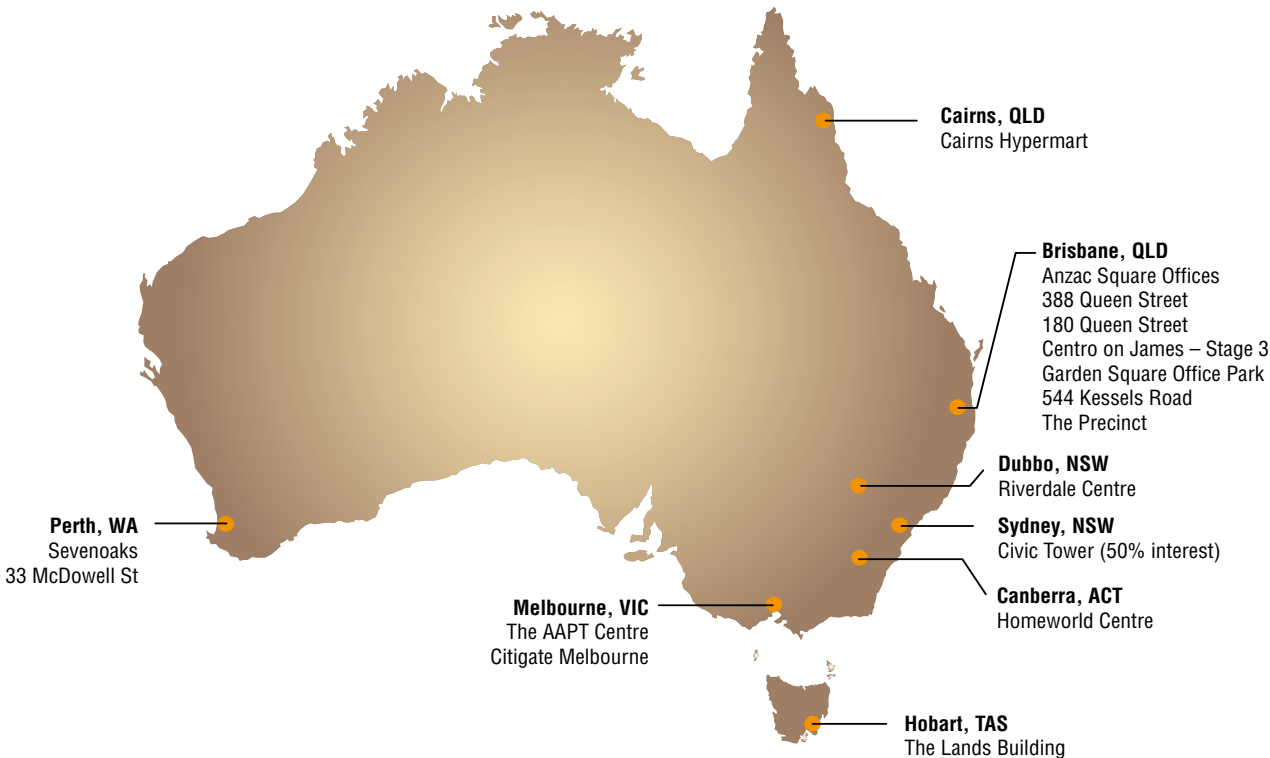
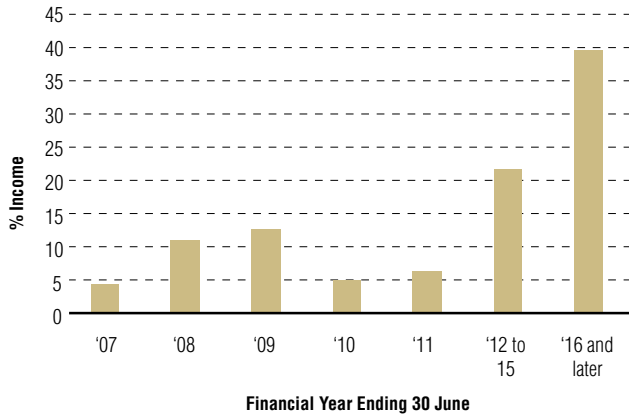
The following pie chart illustrates the contribution by income (approximately 68%) of the top 10 tenants.



### 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 6.8 years and a vacancy rate of approximately 1.54%.

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



# Property Portfolio



## Civic Tower

### Description

Civic Tower is located on a prominent corner in the Sydney mid-town sector. The property has frontage onto both Castlereagh and Goulburn Streets and is situated in close proximity to the recently completed World Square development.

The property comprises a 22,931m<sup>2</sup> office tower over 24 floors constructed above an existing podium building known as the Masonic Centre. Additionally, the property comprises a ground floor foyer and separate retail area. Typical floor plates are 940m<sup>2</sup> NLA with central core configuration and column free. The property has a 4½ star SEDA green rating.

The property's major tenants include Publishing and Broadcasting Limited (PBL), the Federal Department of Public Prosecutions, Keddies Litigation Lawyers and barristers Samuel Griffith Chambers. Seven floors are presently vacant. Rental and other support is being provided for vacant areas until December 2008, subject, however, to a capped amount. The property was completed in late 2004 within the airspace above the existing Masonic Centre, belonging to the site's freehold owners, Masonic Investments Ltd. Masonic Investments has granted a 125 year lease (expiring on 16 August 2116) over the airspace in which the office tower is located.

The Trust has acquired the property as tenants-in-common in equal shares with diversified property trust group, the Australand Group.

### Key Data

Location:	66-68 Goulburn Street, Sydney, NSW
Title:	Stratum Leasehold
Principal Use:	Commercial Office
Date Built:	2004
Date Acquired:	December 2005
Site Area:	N/A - Stratum
Net Lettable Area:	22,931 m <sup>2</sup> Office 257 m <sup>2</sup> Retail
Vacancy:*	Nil
Weighted Av. Lease Expiry:*	8.08 years
Ownership:	50%
Book Value (50% interest):	\$58.87M
Valuation Date:	October 2005

Major Tenants	% of Income	Lease Expiry
PBL	37%	31 August 2016
Federal DPP	24%	23 May 2014
Samuel Griffith Chambers	5%	30 June 2016
Keddies	5%	15 August 2014



## 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 79% 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 has recently undergone 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 1,060 m <sup>2</sup> Storage
Vacancy:	Nil
Weighted Av. Lease Expiry:	9.24 years
Value:	\$48.8M
Valuation Date:	June 2006

Major Tenants	% of Income	Lease Expiry
State of Western Aust Shared Services	79%	30 June 2017
State of Western Aust Education	13%	30 April 2010

\* Rental support has been treated as a lease for the term of the relevant support.





## 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 12 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. This building is intended to be revalued in the next six months after the results of an outstanding market rent review are known.

### 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:	11.76 years
Value:	\$29.0M
Valuation Date:	March 2004

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



## 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:	2.35 years
Value:	\$19.0M
Valuation Date:	June 2005

Major Tenants	% of Income	Lease Expiry
Suncorp Metway	65%	31 December 2007

# Property Portfolio



## 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 11 kilometres 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 an office park 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.

Garden Square has the location and image that has attracted and should continue to attract significant tenants such as Queensland Government and Citibank.

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 on this property by up to 26,000m<sup>2</sup> of gross floor area.

Following a strategic review, the property has recently been put on the market for sale.

### 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:	12,685 m <sup>2</sup> (approx)
Vacancy:	7%
Weighted Av. Lease Expiry:	4.02 years
Value:	\$35.0M
Valuation Date:	December 2005

Major Tenants	% of Income	Lease Expiry
Qld State Govt. - Education	14%	31 January 2009
Qld State Govt. - Industrial Relations	11%	31 August 2010
Trendwest	7%	30 June 2009
Qld State Govt. - Disability Services	13%	8 December 2011
Qld State Govt. - Smart Services	15%	30 November 2011



## 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. This property is diagonally across from the up-market Queen's Plaza retail development.

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 a major construction company.

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:	4.14 years
Value:	\$24.0M
Valuation Date:	June 2005

Major Tenants	% of Income	Lease Expiry
Energex	54%	30 June 2008
MacGillivrays Solicitors*	42%	30 April 2013

\* Tenant in occupation. Lease renewal terms agreed but documentation unexecuted as at the date of this Report.



## The AAPT Centre

### Description

The AAPT Centre 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 with an increase in rent based on the acquisition yield.

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:	5,501 m <sup>2</sup>
Vacancy:	Nil
Weighted Av. Lease Expiry:	11.0 years
Book Value:	\$16.57M
Valuation Date:	June 2005

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



## 180 Queen Street

### Description

180 Queen Street is a heritage listed retail and commercial office building located in the heart of Brisbane's Queen Street Mall. The property has direct frontage to the Queen Street Mall and rear laneway access. The building was purpose built for the National Australia Bank and was completed in 1930. It underwent extensive refurbishment works in 1990/91.

The building comprises nine levels. The ground and mezzanine levels which used to comprise the original banking chamber are now occupied by fashion retailer Country Road. The basement level consists of a safe deposit facility for the National Australia Bank Security Deposit. The upper levels provide commercial office accommodation comprising larger tenancies and reasonably unique heritage style individual suites ranging in size from 15m<sup>2</sup> to 492m<sup>2</sup>.

The property is located on the northern end of the Queen Street Mall between David Jones and the Broadway on the Mall retail complex. It is directly across from the significant Wintergarden/Hilton complex. This end of the mall has recently undergone a transformation with the completion of the upmarket retail shopping complex, Queens Plaza, incorporating a new David Jones store. The next stage of the Queens Plaza development is currently under construction.

### Key Data

Location:	180 Queen Street, Brisbane, Qld
Title:	Freehold
Principal Use:	Retail and Office
Date Built:	1930
Date Acquired:	October 2005
Site Area:	723 m <sup>2</sup>
Net Lettable Area:	3,670 m <sup>2</sup> (approx)
Vacancy:*	Nil
Weighted Av. Lease Expiry:	3.36 years
Book Value:	\$19.18M
Valuation Date:	September 2005

Major Tenants	% of Income	Lease Expiry
Country Road	55%	5 September 2010
National Australia Bank	6%	21 June 2007

\* Rental support has been treated as a lease for the term of the relevant support.

# 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 Harvey Norman 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:	3.12 years
Value:	\$13.9M
Valuation Date:	June 2006

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



## 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, travel agency, fashion retailers, 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:	3,870 m <sup>2</sup>
Vacancy:	Nil
Weighted Av. Lease Expiry:	6.14 years
Value:	\$14.7M
Valuation Date:	June 2006

Major Tenants	% of Income	Lease Expiry
Palace Cinemas	31%	13 December 2015
Smart Services Centre (previously Workpac)	26%	31 December 2012



## 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:	Nil
Weighted Av. Lease Expiry:	5.21 years
Value:	\$20.0M
Valuation Date:	June 2006

Major Tenants	% of Income	Lease Expiry
Harvey Norman	54%	30 September 2012
Freedom Furniture	12%	31 July 2015
Capt'n Snooze	8%	31 December 2008



## 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 17 kilometres south-west of the centre of Canberra. Tuggeranong is one of the three major town centres within the ACT and has excellent road access (e.g. 15-20 minutes) 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 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:	8,518 m <sup>2</sup> Retail 3,836 m <sup>2</sup> Office
Vacancy:	4%
Weighted Av. Lease Expiry:	4.86 years
Value:	\$34.7M
Valuation Date:	June 2006

Major Tenants	% of Income	Lease Expiry
ACT Government	29%	30 June 2009
Woolworths (Dan Murphy's)	11%	22 December 2017
ALDI	9%	6 February 2017

# Property Portfolio



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

## The Riverdale Centre

### Description

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

Dubbo has a resident population of approximately 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 Woolworths supermarket, a successful Readings 5-Plex 1,072 seat cinema complex and nine specialty shops. 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 centre with a major point of difference over other retail facilities in Dubbo, particularly generating day and evening activity.

The property is currently undergoing a strategic repositioning and refocus of its tenancy mix.

### 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:	6,143 m <sup>2</sup>
Vacancy:	8%
Weighted Av. Lease Expiry:	8.19 years
Value:	\$15.75M
Valuation Date:	June 2006

Major Tenants	% of Income	Lease Expiry
Woolworths	36%	9 June 2019
Reading Cinemas	32%	8 June 2014

## 544 Kessels Road

### Description

544 Kessels Road, MacGregor comprises almost three hectares in one of Brisbane's premier retail warehousing precincts. It is in a 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, Retravision and Super 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, Aussie Living Furniture, 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 strong retail location. Redevelopment options for a significant part of this property continue to be 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:	4.21 years
Value:	\$13.69M
Valuation Date:	June 2006

Major Tenants	% of Income	Lease Expiry
Aussie Living Furniture	30%	31 December 2012
JB Hi-Fi	19%	12 March 2012
Petwise Store	15%	19 September 2011



## 33 McDowell Street

### Description

The 33 McDowell Street 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 comprises three warehouses and a freestanding office of 850m<sup>2</sup>, a covered loading dock and truck maintenance workshop.

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 10 year "double net" lease arrangement. 1st Fleet Pty Ltd is a national distribution and logistics company providing contract services to major national businesses throughout Australia. It maintains warehouses in all major States and has 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 ha
Net Lettable Area:	14,036m <sup>2</sup>
Vacancy:	Nil
Weighted Av. Lease Expiry:	8.96 years
Book Value:	\$7.49M
Valuation Date:	May 2005

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



Note: Citigate Melbourne (building at right of photo) shown as a Ramada.

## Citigate Melbourne

### Description

The Citigate Melbourne is a 4 star rated hotel with 182 guest rooms comprising 13 floors of accommodation, one restaurant and bar, function and meeting rooms.

The building was converted from an office building to a hotel, opening in December 2002 as a Ramada Hotel.

The property is located on Flinders Street between Elizabeth Street and Swanston Walk, directly across the road from Flinders Street Station, one of the two major railway stations within the Melbourne CBD. It is only 100 metres from Federation Square which is increasingly becoming a tourism focus in Melbourne. The property is within walking distance to the main shopping area, Bourke Street Mall, sporting venues including Telstra Dome, Rod Laver Arena and other major attractions such as Melbourne Convention Centre, Melbourne Exhibition Centre, Crown Casino, Melbourne Concert Hall and The National Gallery.

This property is leased to Citigate Melbourne Pty Ltd and managed by Mirvac Hotels Pty Limited under its Citigate brand. Mirvac currently manages over 30 hotels and resorts throughout Australia and New Zealand. Mirvac's hotel brands include Sebel, Quay Grand, The Como, Quay West, Sea Temple and Citigate.

### Key Data

Location:	270-272 Flinders Street, Melbourne, Vic
Title:	Freehold
Principal Use:	Hotel
Date Built:	1977 (redeveloped 2002)
Date Acquired:	June 2006
Site Area:	594 m <sup>2</sup>
No. of Rooms:	182
Weighted Av. Lease Expiry:	10.01 years
Book Value:	\$36.93M
Valuation Date:	March 2006

Major Tenants	% of Income	Lease Expiry
Citigate Melbourne Pty Ltd	100%	30 June 2016

# The Directors

## **Robert T Summerton**

*Non-Executive Chairman*

Robert Summerton is a consultant of the Queensland law firm Summerton de Vere. He has extensive experience in the law on major commercial and property transactions in Australia and the United Kingdom. He is a member of professional bodies including the Law Council of Australia and the Australian Institute of Company Directors and is a director of a number of companies. Robert has had considerable experience as a director of property funds management companies including as a current director of James Fielding Funds Management Limited and a former director of Paladin Australia Limited.



Robert brings to the board an intrinsic understanding of the fundamentals of property and property funds management, as well as a high level of technical knowledge including due diligence expertise.

## **Christopher A 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), a member of the Queensland Heritage Council and a director of the Australian Pacific Exchange Limited – a recently launched stock exchange focused on providing liquidity tailored to the property market.

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 Financial Services Institute of Australasia (Finsia).

## **Dennis W 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 R 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 is an executive director of Mirvac and 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 Finsia, formerly the Securities Institute of Australia. He has held senior positions with Deutsche Asset Management, Paladin Australia Limited and Schrodgers Australia.



**Jennifer J Hutson***Non-Executive Director*

Jenny Hutson is managing director of Wellington Capital, a merchant and investment bank. She is a former partner of McCullough Robertson Lawyers. She was head of the Corporate Advisory Group and the Corporate Division of that legal firm.



As an investment banker, Jenny is focused on capital raisings, mergers and acquisitions and property based funds management. She has a special focus on and experience in property based projects and capital raising issues.

Jenny is a director of a number of companies including chairperson of the ASX listed S8 Limited which is an integrated global travel company which owns Harvey World Travel, Travelscene and Gulliver's Travel. She is also a director of the responsible entity of an ASX listed property trust.

# 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 22 August 2006. 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 Australian bank, building society or credit union account.
- A six monthly Investor update advising of issues relating to their investment and the portfolio generally.
- An annual report and audited financial report for their investment. These reports are sent to unitholders within 90 days of the end of each financial year. A half-yearly financial report 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:-

Robert T Summerton (Non-Executive Chairman)  
Christopher A Morton (Managing Director)  
Dennis W Wildenburg (Non-Executive and Independent)  
Nicholas R Collishaw (Non-Executive)  
Jennifer J Hutson (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 6 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 Michael White** (General Manager and Company Secretary of the Manager) was appointed as a member of the Compliance Committee on 3 July 2006. Mr Chris Morton (the Manager's managing director) resigned as a member of the Compliance Committee on 3 July 2006.

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. A Risk Register for the Trust is maintained by the Manager.

## 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.

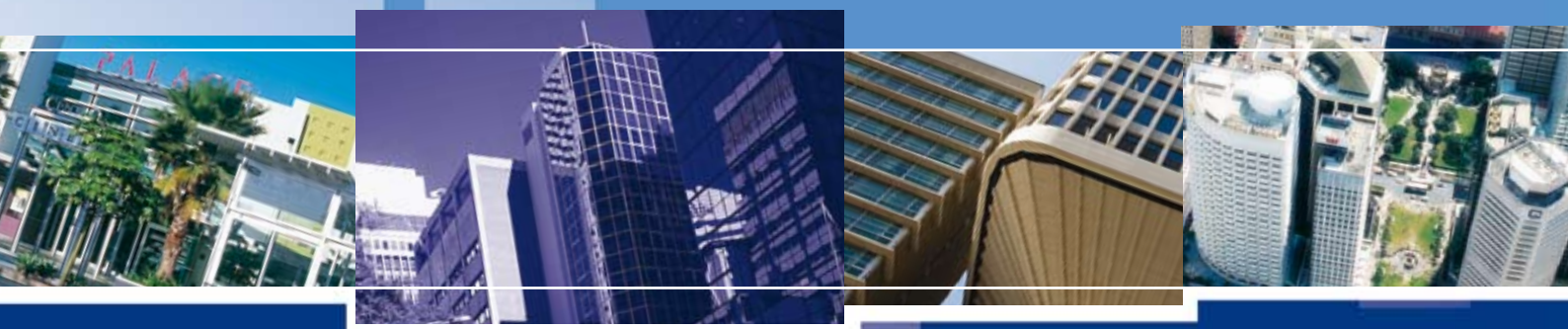
## Audit

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

# FINANCIAL STATEMENTS

## For the Year Ended 30 June 2006



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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 (referred to as "the Trust") and its controlled entities for the financial year ended 30 June 2006.

### 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:-

Robert T Summerton	(appointed 9 March 2006)
Christopher A Morton	
Dennis W Wildenburg	
Nicholas R Collishaw	
Jennifer J Hutson	(appointed 9 March 2006)
Gregory J Paramor	(retired 9 March 2006)
David J Conquest	(retired 9 February 2006)
Michael F White	(Alternate Director representing David Conquest and Jennifer Hutson)

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:-

	2006 \$'000	2005 \$'000
Gross Operating Revenue	39,029	30,953
Profit before Distributions	37,386	29,951
Total Distributions Paid	24,941	11,607
Total Assets	415,481	345,156
Total Unitholder Funds	196,745	165,110

### Distributions – for the Year Ended 30 June 2006

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 September 2006 as being 0.8167 cents per unit per month. Distributions totalling \$2,699,808 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:-

- 180 Queen Street, Brisbane for \$18.0M which settled on 31 October 2005.
- A 50% interest in Civic Tower, Sydney for \$54.85M was settled on 16 December 2005. This property was acquired in co-ownership with the diversified property trust group, the Australand Group.
- Citigate Melbourne Hotel, 270 Flinders Street, Melbourne \$34.0M which settled on 30 June 2006.

#### Capital Raising

The Manager issued on behalf of the Trust a product disclosure statement on 20 October 2005 ("PDS No. 3") for the issue of 18.35 million units in the Trust. PDS No. 3 closed oversubscribed in February 2006 with 19,870,786 units having been issued.

On 5 June 2006 the Manager issued on behalf of the Trust a product disclosure statement ("PDS No. 4") for the issue of up to 23.96 million units in the Trust at \$1.11 per unit. Current unitholders (i.e. those registered at 14 June 2006) were also offered a one for seven entitlement under the rights issue at \$1.09 per unit. The General Offer was at \$1.11 per unit.

#### Sale of Post Office Square

The sale of Post Office Square was completed on 1 December 2005. The completed sale price was \$70.5M which is above the originally agreed base purchase price of \$68.6M.

#### Payment of Special Distribution

On 8 December 2005, as a consequence of the sale of Post Office Square, a special distribution of 6.76 cents per unit was paid to unitholders on the register on 30 June 2005.

### 2005 Distribution Reinvestment Plan ('DRP')

A Special Distribution Reinvestment Plan was offered to unitholders eligible for the Special Distribution as a consequence of the sale of Post Office Square. The offer price under the DRP was \$1.09 per unit. Participation in the DRP by those eligible unitholders who accepted resulted in 2,380,516 units being issued.

### Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian Equivalents to International Reporting Standards ("AIFRS"), the Trust's financial report has been prepared in accordance with those standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 of the financial statements.

### After Balance Date Events

#### Closure of Product Disclosure Statement No.4 ("PDS No.4")

PDS No.4 closed on 25 August 2006 with 22,378,234 units having been issued and allotted under that PDS (including units allotted under Rights Issue referred to earlier).

#### Potential Sale of Garden Square Office Park

Following considered strategic analysis of the Trust's portfolio, the Manager announced on 4 September 2006, that it had decided to market the Garden Square property for sale.

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
Robert Thomas Summerton (appointed 9 March 2006)	<p>Robert Summerton is a consultant of the Queensland law firm Summerton de Vere. He has extensive experience in the law on major commercial and property transactions in Australia and the United Kingdom. He is a member of professional bodies including the Law Council of Australia and the Australian Institute of Company Directors and is a director of a number of companies. Robert has had considerable experience as a director of property funds management companies including as a current director of James Fielding Funds Management Limited and a former director of Paladin Australia Limited.</p> <p>Robert brings to the board an intrinsic understanding of the fundamentals of property and property funds management, as well as a high level of technical knowledge including due diligence expertise.</p> <p>Robert is also a director of Bravura Solutions Limited.</p>	Chairman and Director  (Non-Executive)	3	3
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. 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.</p> <p>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), a member of the Queensland Heritage Council and a director of the Australian Pacific Exchange Limited – a recently launched stock exchange focused on providing liquidity tailored to the property market.</p> <p>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 Financial Services Institute of Australasia (Finsia).</p>	Managing Director (Executive)  Company Secretary from 1 July 2005 to 3 July 2006	8	8
Dennis Wayne Wildenburg	<p>Dennis brings to the board over 20 years experience in the financial services and funds management industry.</p> <p>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.</p> <p>Dennis' broad experience includes professional accounting, development of superannuation and unit trust products and financial services marketing.</p>	Director  (Non-Executive)	7	8



## Information on Directors continued

Name	Qualifications	Responsibilities	Directors Meetings During Year	
			Attended	Eligible to Attend
Nicholas Roland Collishaw	<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 is an executive director of Mirvac and 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.</p> <p>He has an Associate Diploma in Business (Valuations) from the Sydney Institute of Technology and a Diploma in Financial Markets from Finsia, formerly the Securities Institute of Australia. He has held senior positions with Deutsche Asset Management, Paladin Australia Limited and Schroders Australia.</p> <p>Nicholas is a director of Hotel Capital Partners Limited, James Fielding Funds Management Limited and Mirvac Limited.</p>	Director (Non-Executive)	7	8
Jennifer Joan Hutson (appointed 9 March 2006)	<p>Jenny Hutson is managing director of Wellington Capital Limited, a merchant and investment bank. She is a former partner of McCullough Robertson Lawyers. She was head of the Corporate Advisory Group and the Corporate Division of that legal firm.</p> <p>As an investment banker, Jenny is focused on capital raisings, mergers and acquisitions and property based funds management. She has a special focus on and experience in property based projects and capital raising issues.</p> <p>Jenny is a director of a number of companies including as chairperson of the ASX listed S8 Limited which is an integrated global travel company which owns Harvey World Travel, Travelscene and Gulliver's Travel. She is also a director of the responsible entity of an ASX listed property trust.</p>	Director (Non-Executive)	2	3
Gregory James Paramor (retired 9 March 2006)	<p>Greg Paramor is the managing director of Mirvac Group a diversified property group which has \$22 billion worth of assets under its control and a market capitalisation in excess of \$4 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 national 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>	Director (Non-Executive)	4	5
David John Conquest (retired 16 January 2006)	<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.</p>	Director (Executive)	4	4

## DIRECTORS' REPORT

### Information on Directors continued

Name	Qualifications	Responsibilities	Directors Meetings During Year	
			Attended	Eligible to Attend
Michael Francis White	<p>Michael is the general manager of the Manager. Michael is a Fellow of the Australian Society of Certified Practising Accountants. Since 1981 Michael has focused on property and hotel development and hotel asset management, initially as Finance Manager of Yulara Development Company Ltd (the developer of the Yulara Resort at Ayer's Rock) and asset manager of the Sheraton Hotels in Darwin and Alice Springs.</p> <p>He joined the Mirage Resorts Trust as financial controller/commercial manager for the development of the Sheraton Mirage Resorts at Port Douglas and the Gold Coast Queensland. He has acted as a hotel and resort consultant to the Queensland Tourist and Travel Corporation and was Chief Financial Officer for a large private property and construction group that developed constructed and owned hotels.</p> <p>In 1992 Michael joined the Singapore based Thakral family and led the establishment of the group's Australian operation. He was a senior executive of the ASX listed Thakral Holdings Group being responsible for hotel and property acquisitions.</p>	<p>Alternate Director</p> <p>Representing David Conquest from 13 December 2005 to 31 March 2006</p> <p>Representing Jennifer Hutson from 9 May 2006 to 9 June 2006</p> <p>Company Secretary (appointed 3 July 2006)</p>	3	3

## Remuneration Report

As the Directors and Key Management Personnel are not employees of the Trust, the remuneration 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 Key Management Personnel 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 Key Management Personnel in office at any time during the financial year are:-

Directors		
Mr R Summerton	Chairman - Non-Executive	appointed 9 March 2006
Mr C Morton	Managing Director - Executive	
Mr D Wildenburg	Director - Non-Executive	
Mr N Collishaw	Director - Non-Executive	
Ms J Hutson	Director - Non-Executive	appointed 9 March 2006
Mr G J Paramor	Director - Non-Executive	retired 9 March 2006
Mr D Conquest	Director - Executive	retired 9 February 2006
Mr M F White	Alternate Director	<p>Representing David Conquest from 13 December 2005 to 31 March 2006</p> <p>Representing Jennifer Hutson from 9 May 2006 to 9 June 2006</p>

## Remuneration Report continued

**(b) Directors' and Key Management Personnel Remuneration**

<b>2006</b>	<b>Cash Salary &amp; Fees</b>	<b>Cash Bonus</b>	<b>Non-cash Benefits</b>	<b>Post Employment Superannuation</b>	<b>Total</b>
<b>Name</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Mr R Summerton	10,833	-	-	-	10,833
Mr C Morton	260,336	80,000	4,740	23,430	368,506
Mr D Wildenburg	33,301	-	-	-	33,301
Mr N Collishaw	-	-	-	-	-
Ms J J Hutson	10,201	-	-	-	10,201
Mr G J Paramor	-	-	-	-	-
Mr D Conquest	156,977	21,856	2,140	13,845	194,818
Mr M F White	178,514	67,200	-	-	245,714
	650,162	169,056	6,880	37,275	863,373

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

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 Key Management Personnel Remuneration, but due to impracticability, the insurance premium has not been allocated to each director and key management person.

**(c) Key Management Personnel Remuneration**

In accordance with AASB 124, there are no other Key Management Personnel other than Mr C Morton, Mr D Conquest and Mr M White whose remuneration details are contained in the Director's and Key Management Personnel remuneration section.

**(d) Remuneration Practices**

As the Directors and Key Management Personnel are not employees of the Trust, the remuneration is not paid by the Trust. Such remuneration relating to Directors and Key Management Personnel 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 Key Management Personnel may be paid.

The Manager does in the case of certain Directors and Key Management Personnel 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.

## DIRECTORS' REPORT

### Remuneration Report continued

The cash bonuses granted during or relating to the financial year ended 30 June 2006 were determined as follows:

#### *Directors and Key Management Personnel*

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.

Mr M White - A bonus entitlement based on the acquisition of certain property acquired by Trust during the financial year, and payment of a discretionary bonus.

The Directors and Key Management Personnel do not hold any loans with PFA Diversified Property Trust or Property Funds Australia Limited.

### Related Party Transactions

The Trust paid the Manager \$2,119,260 in management fees for the year ended 30 June 2006 (30 June 2005: \$1,555,194). The Manager held 196,213 units in the Trust as at 30 June 2006 (30 June 2005: 196,213 units).

A summary of other related party transactions are outlined in Note 20 of the financial statements.

### Indemnification and Insurance of Officers and Auditors

No insurance premiums are paid out of the assets of 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 the 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.

### 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 2006:-

	\$
Taxation Services	22,396
Investigating Accountants Report	58,000
IFRS Advice	9,000

### Auditor's Independence Declaration

A copy of the auditor's independence declaration is set out on page 35.

### 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 2006**

## AUDITOR'S INDEPENDENCE DECLARATION



**BDO Kendalls**  
Chartered Accountants  
& Advisers

[www.bdokendalls.com.au](http://www.bdokendalls.com.au)  
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GPO Box 457 Brisbane  
Queensland 4001 Australia

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

20 September 2006

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, 2006, 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*

## INCOME STATEMENT

for the Year Ended 30 June 2006

	Note	Consolidated		Parent	
		30 June 2006 \$'000	30 June 2005 \$'000	30 June 2006 \$'000	30 June 2005 \$'000
<b>REVENUE</b>					
Operating activities	3	39,029	30,953	40,650	17,107
Non-operating activities					
Gain on disposal of investment property	3	5,595	-	-	-
Gain on revaluation of investment property	3	25,457	19,369	14,556	1,672
		70,081	50,322	55,206	18,779
<b>EXPENSES</b>					
Property expenses	3	(9,417)	(7,054)	(5,126)	(2,683)
Amortisation	3	(854)	(205)	(182)	-
Impairment of investment property	3	(6,346)	-	(3,140)	-
Fund expenses	3	(3,560)	(2,878)	(3,235)	(2,495)
		(20,177)	(10,137)	(11,683)	(5,178)
<b>FINANCING COSTS - FINANCIAL INSTITUTIONS</b>					
Interest	3	(12,098)	(9,998)	(5,773)	(3,644)
Amortisation	3	(420)	(236)	(364)	(180)
		(12,518)	(10,234)	(6,137)	(3,824)
<b>Profit before finance costs to Unitholders</b>		<b>37,386</b>	<b>29,951</b>	<b>37,386</b>	<b>9,777</b>
<b>FINANCING COSTS - UNITHOLDERS</b>					
Distributions to Unitholders	3	(24,941)	(11,607)	(24,941)	(11,607)
<b>Profit/(loss) before income tax expense</b>		<b>12,445</b>	<b>18,344</b>	<b>12,445</b>	<b>(1,830)</b>
Income tax expense	1(b)	-	-	-	-
<b>Profit/(loss) after income tax expense attributable to Unitholders</b>		<b>12,445</b>	<b>18,344</b>	<b>12,445</b>	<b>(1,830)</b>

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

**BALANCE SHEET**

as at 30 June 2006

	Note	Consolidated		Parent	
		30 June 2006 \$'000	30 June 2005 \$'000	30 June 2006 \$'000	30 June 2005 \$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	7	2,777	468	2,767	468
Trade and other receivables	8	1,821	2,218	1,448	2,077
Other assets	9	929	832	530	416
<b>Total Current Assets</b>		<b>5,527</b>	<b>3,518</b>	<b>4,745</b>	<b>2,961</b>
<b>NON-CURRENT ASSETS</b>					
Investment – property	10	409,954	331,638	234,121	142,750
Available for sale financial assets	11	-	10,000	69,715	79,715
<b>Total Non-Current Assets</b>		<b>409,954</b>	<b>341,638</b>	<b>303,836</b>	<b>222,465</b>
<b>TOTAL ASSETS</b>		<b>415,481</b>	<b>345,156</b>	<b>308,581</b>	<b>225,426</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	12	8,957	3,548	19,507	2,461
Interest bearing liabilities	13	-	2,436	-	2,436
<b>Total Current Liabilities</b>		<b>8,957</b>	<b>5,984</b>	<b>19,507</b>	<b>4,897</b>
<b>NON-CURRENT LIABILITIES</b>					
Other liabilities	14	196,745	165,110	173,369	140,485
Interest-bearing liabilities	13	209,779	174,062	115,705	80,044
<b>Total Non-Current Liabilities</b>		<b>406,524</b>	<b>339,172</b>	<b>289,074</b>	<b>220,529</b>
<b>TOTAL LIABILITIES</b>		<b>415,481</b>	<b>345,156</b>	<b>308,581</b>	<b>225,426</b>
<b>NET ASSETS</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

## STATEMENT OF CASH FLOWS

for the Year Ended 30 June 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Rent & outgoings received		41,609	32,977	23,534	12,345
Interest received		557	336	557	336
Distributions received – S8 Property Trust		333	462	333	462
Payments to suppliers		(15,428)	(13,967)	(9,395)	(7,668)
Interest paid		(12,219)	(10,106)	(5,848)	(3,778)
<b>Net cash provided by (used in) operating activities</b>	15(b)	14,852	9,702	9,181	1,697
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Net proceeds from sale of property		67,604	-	-	-
Investment in S8 Property Trust		-	(10,000)	-	(10,000)
Proceeds from S8 Property Trust		10,000	-	10,000	-
Purchase of investment – property and capital improvements		(120,711)	(68,146)	(79,041)	(65,976)
<b>Net cash provided by (used in) investing activities</b>		(43,107)	(78,146)	(69,041)	(75,976)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Distributions to Unitholders		(24,941)	(11,183)	(24,941)	(11,183)
Cost of equity raising		(1,309)	(1,272)	(1,309)	(1,272)
Financing costs paid		(623)	(346)	(623)	(346)
Units issued		21,658	55,927	21,658	55,927
Capital raising funds provided for (used)		2,295	(3,512)	2,295	(3,512)
Reduction in debt facility		(2,436)	-	(2,436)	-
Inter-trust loans		-	-	31,595	6,432
Net proceeds from borrowings		35,920	26,705	35,920	26,705
<b>Net cash provided by (used in) financing activities</b>		30,564	66,319	62,159	72,751
Net increase in cash held		2,309	(2,125)	2,299	(1,528)
Cash at 1 July		468	2,593	468	1,996
Cash at 30 June	15 (a)	2,777	468	2,767	468

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



## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the BSX Listing Rules, Corporations Act 2001, Australian Equivalents to IFRS, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board 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.

As this is the first annual financial report prepared under Australian Equivalents to IFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as this report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under Australian Equivalents to IFRS has been included below. A reconciliation of profit and loss and equity between previous GAAP and Australian Equivalents to IFRS has been prepared per Note 2.

Compliance with Australian Equivalents to IFRS ensures that the annual financial report, comprising the financial statements and notes there to, complies with the Financial International Reporting Standards.

#### (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 11.

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) Income Tax

The Trust and its controlled entities adopts the balance sheet liability method of tax effect accounting whereby the income tax expense shown in the consolidated income statement is based on the profit from ordinary activities before income tax adjusted for any non-assessable or disallowed items and distributions of taxable income to beneficiaries. No liability has been raised for income tax as no taxable income has been retained by the Trust and its controlled entities.

#### (c) Investment - Property

Investment - Property consists of investments in property, primarily of land, buildings and improvements to land and buildings. Investment property is measured at cost or fair value less, where applicable, any accumulated depreciation and impairment losses. All investment properties have been independently valued and are recorded at cost or independent valuation.

The Manager reviews the valuations on an ongoing basis with confirmation of previous valuations obtained on at least an annual basis.

A revaluation will be based on market value that represents the price at which the property can be sold at the date of the revaluation assuming a reasonable exposure to the market and settlement period.

Where a material variance arises, a revaluation is required to align the carrying amount of the investment property with its fair value. Changes in fair value are recognised in the net profit or loss in the Income Statement in the period in which they occur.

A revaluation does not take into account any potential capital gains tax on assets acquired after the introduction of capital gains tax on the basis that this liability is transferred from the Trust to the Unitholders.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

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

#### *(d) Leases*

The Trust has adopted UIG Interpretation 115: Operating Leases – Incentives. Lease incentives are required to be capitalised as a separate asset from the investment property to which it relates. The lease incentive is then amortised as a reduction in lease rental income over the lease term on a straight-line basis. Leases with fixed rental increases have been brought to account on a straight-line basis over the term of the lease.

#### *(e) 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 financing cost expense. For taxation purposes, these payments continue to represent distributions under Income Tax Assessment Act 1997. Financing costs on Unitholders' funds for accounting purposes are accrued once the amounts are declared to the market.

#### *(f) Financing Costs - Unitholders*

The amounts paid to Unitholders for accounting purposes are treated as a financing cost expense. Distribution entitlements have been recognised on an accrual basis.

#### *(g) Derivative Financial Instruments*

Derivative financial instruments are recognised in the Balance Sheet at fair value with unrealised gains or losses recognised in the Income Statement for the ineffective hedges or equity for effective hedges.

All derivatives contracts, whether used as hedging instruments or otherwise, are carried at fair value.

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.

#### *(h) Capitalisation of Borrowing Costs*

The Trust has adopted AASB 139 Financial Instruments: Recognition and Measurement, and recognises financing costs incurred in the acquisition of Interest Bearing Liabilities as a reduction in the Interest Bearing Liabilities using effective interest method. Financing costs are expensed over the period of the loan.

#### *(i) 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 tax authority.

#### *(j) Cash and Cash Equivalents*

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

#### *(k) 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 tax authority. 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 Balance Sheet are shown inclusive of GST.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

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

#### *(l) Available for Sale Financial Assets*

Available for Sale Financial Assets are measured on the fair value basis. Unrealised gains and losses arising from change in fair value are recognised in the Revaluation Reserve in the Balance Sheet.

#### *(m) Impairment of Assets*

At each reporting date, the Trust reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. Any excess of the assets carrying value over its recoverable amount is expensed to the Income Statement.

#### *(n) Comparative Figures*

Where required by the Australian Equivalents to International Financial Reporting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### *(o) Statement of Changes in Equity*

The Trust is not required to complete a Statement of Changes in Equity for the year ended 30 June 2006 as all Unitholders' funds have been classified as non-current liabilities.

#### *(p) Directors and Key Management Personnel Remuneration*

Information about the remuneration of Directors and Key Management Personnel of the Manager which is required under Section 300A of the Corporations Act 2001 and under AASB 124 Related Party Disclosures is included in the Remuneration Report within the Directors' Report.

The Trust has taken the relief provided by Corporations Amendments Regulations 2006 (No. 4).

#### *(q) Rounding of Amounts*

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

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Note	Previous AGAAP 1 July 2004 \$'000	Effect of transition to Australian Equivalents to IFRS \$'000	Australian Equivalents to IFRS 1 July 2004 \$'000
<b>NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS</b>				
<b>CONSOLIDATED ENTITY RECONCILIATION OF EQUITY AT 1 JULY 2004</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		4,593	-	4,593
Trade and other receivables		701	-	701
Other assets		726	-	726
<b>Total Current Assets</b>		6,020	-	6,020
<b>NON-CURRENT ASSETS</b>				
Investment – property	2(f)	242,662	639	243,301
Intangible assets	2(a)	7,740	(7,740)	-
Other assets	2(b,e)	3,488	(3,488)	-
<b>Total Non-Current Assets</b>		253,890	(10,589)	243,301
<b>TOTAL ASSETS</b>		259,910	(10,589)	249,321
<b>CURRENT LIABILITIES</b>				
Trade and other payables	2(h)	5,377	744	6,121
Interest bearing liabilities		16,410	-	16,410
<b>Total Current Liabilities</b>		21,787	744	22,531
<b>NON-CURRENT LIABILITIES</b>				
Other liabilities	2(c)	-	91,296	91,296
Interest bearing liabilities	2(b)	136,416	(922)	135,494
<b>Total Non-Current Liabilities</b>		136,416	90,374	226,790
<b>TOTAL LIABILITIES</b>		158,203	91,118	249,321
<b>NET ASSETS</b>		101,707	101,707	-
<b>EQUITY</b>				
Unitholders' equity	2(c)	90,675	(90,675)	-
Asset revaluation reserve	2(f)	11,032	(11,032)	-
<b>TOTAL EQUITY</b>		101,707	(101,707)	-

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Note	Previous AGAAP 30 June 2005 \$'000	Effect of transition to Australian Equivalents to IFRS \$'000	Australian Equivalents to IFRS 30 June 2005 \$'000
<b>NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued</b>				
<b>CONSOLIDATED ENTITY RECONCILIATION OF EQUITY AT 30 JUNE 2005</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		468	-	468
Trade and other receivables		2,218	-	2,218
Other assets		832	-	832
<b>Total Current Assets</b>		<b>3,518</b>	<b>-</b>	<b>3,518</b>
<b>NON-CURRENT ASSETS</b>				
Investment – property	2(f)	330,390	1,248	331,638
Available for sale financial assets		10,000	-	10,000
Intangible assets	2(a)	6,634	(6,634)	-
Other assets	2(b,e)	3,131	(3,131)	-
<b>Total Non-Current Assets</b>		<b>350,155</b>	<b>(8,517)</b>	<b>341,638</b>
<b>TOTAL ASSETS</b>		<b>353,673</b>	<b>(8,517)</b>	<b>345,156</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	2(h)	2,380	1,168	3,548
Interest bearing liabilities		2,436	-	2,436
<b>Total Current Liabilities</b>		<b>4,816</b>	<b>1,168</b>	<b>5,984</b>
<b>NON-CURRENT LIABILITIES</b>				
Other liabilities	2(c)	-	165,110	165,110
Interest bearing liabilities	2(b)	175,094	(1,032)	174,062
<b>Total Non-Current Liabilities</b>		<b>175,094</b>	<b>164,078</b>	<b>339,172</b>
<b>TOTAL LIABILITIES</b>		<b>179,910</b>	<b>165,246</b>	<b>345,156</b>
<b>NET ASSETS</b>		<b>173,763</b>	<b>(173,763)</b>	<b>-</b>
<b>EQUITY</b>				
Unitholders' equity	2(c)	143,149	(143,149)	-
Asset revaluation reserve	2(f)	30,614	(30,614)	-
<b>TOTAL EQUITY</b>		<b>173,763</b>	<b>(173,763)</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Note	Previous AGAAP 1 July 2004 \$'000	Effect of transition to Australian Equivalents to IFRS to IFRS \$'000	Australian Equivalents to IFRS 1 July 2004 \$'000
<b>NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued</b>				
<b>PARENT ENTITY RECONCILIATION OF EQUITY AT 1 JULY 2004</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		3,996	-	3,996
Trade and other receivables		1,364	-	1,364
Other assets		256	-	256
<b>Total Current Assets</b>		5,616	-	5,616
<b>NON-CURRENT ASSETS</b>				
Investment – property	2(f)	75,046	-	75,046
Available for sale financial assets		69,715	-	69,715
Other assets	2(b,e)	3,310	(3,310)	-
<b>Total Non-Current Assets</b>		148,071	(3,310)	144,761
<b>TOTAL ASSETS</b>		153,687	(3,310)	150,377
<b>CURRENT LIABILITIES</b>				
Trade and other payables	2(h)	4,033	744	4,777
Interest bearing liabilities		16,410	-	16,410
<b>Total Current Liabilities</b>		20,443	744	21,187
<b>NON-CURRENT LIABILITIES</b>				
Other liabilities	2(c)	-	87,658	87,658
Interest bearing liabilities	2(b)	42,276	(744)	41,532
<b>Total Non-Current Liabilities</b>		42,276	86,914	129,190
<b>TOTAL LIABILITIES</b>		62,719	87,658	150,377
<b>NET ASSETS</b>		90,968	90,968	-
<b>EQUITY</b>				
Unitholders' equity	2(c)	89,172	(89,172)	-
Asset revaluation reserve	2(f)	1,796	(1,796)	-
<b>TOTAL EQUITY</b>		90,968	(90,968)	-

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Note	Previous AGAAP 30 June 2005 \$'000	Effect of transition to Australian Equivalents to IFRS \$'000	Australian Equivalents to IFRS 30 June 2005 \$'000
<b>NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued</b>				
<b>PARENT ENTITY RECONCILIATION OF EQUITY AT 30 JUNE 2005</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		468	-	468
Trade and other receivables		2,077	-	2,077
Other assets		416	-	416
<b>Total Current Assets</b>		2,961	-	2,961
<b>NON-CURRENT ASSETS</b>				
Investment – property	2(f)	142,750	-	142,750
Available for sale financial assets		79,715	-	79,715
Other assets	2(b,e)	3,009	(3,009)	-
<b>Total Non-Current Assets</b>		225,474	(3,009)	222,465
<b>TOTAL ASSETS</b>		228,435	(3,009)	225,426
<b>CURRENT LIABILITIES</b>				
Trade and other payables	2(h)	1,293	1,168	2,461
Interest bearing liabilities		2,436	-	2,436
<b>Total Current Liabilities</b>		3,729	1,168	4,897
<b>NON-CURRENT LIABILITIES</b>				
Other liabilities	2(c)	-	140,485	140,485
Interest bearing liabilities	2(b)	80,954	(910)	80,044
<b>Total Non-Current Liabilities</b>		80,954	139,575	220,529
<b>TOTAL LIABILITIES</b>		84,683	140,743	225,426
<b>NET ASSETS</b>		143,752	(143,752)	-
<b>EQUITY</b>				
Unitholders' equity	2(c)	140,227	(140,227)	-
Asset revaluation reserve	2(f)	3,525	(3,525)	-
<b>TOTAL EQUITY</b>		143,752	(143,752)	-

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Note	Previous AGAAP 30 June 2005 \$'000	Effect of transition to Australian Equivalents to IFRS \$'000	Australian Equivalents to IFRS 30 June 2005 \$'000
<b>NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued</b>				
<b>CONSOLIDATED ENTITY RECONCILIATION OF PROFIT OR LOSS FOR 2005</b>				
<b>REVENUE</b>				
Revenue from operating activities	2(j)	30,740	213	30,953
Revenue from non-operating activities	2(f)	-	19,369	19,369
		30,740	19,582	50,322
<b>EXPENSES</b>				
Property expenses		(7,054)	-	(7,054)
Amortisation	2(g)	-	(205)	(205)
		(7,054)	(205)	(7,259)
<b>FUND EXPENSES</b>				
Direct expenses		(2,878)	-	(2,878)
Amortisation	2(a,e)	(1,572)	1,572	-
		(4,450)	1,572	(2,878)
<b>FINANCING COSTS - FINANCIAL INSTITUTIONS</b>				
Interest		(9,998)	-	(9,998)
Amortisation		(236)	-	(236)
		(10,234)	-	(10,234)
<b>Profit before finance costs to unitholders</b>		<b>9,002</b>	<b>20,949</b>	<b>29,951</b>
<b>FINANCING COSTS - UNITHOLDERS</b>				
Distributions to Unitholders	2(d)	-	(11,607)	(11,607)
<b>Profit/(loss) before income tax expense</b>		<b>9,002</b>	<b>9,342</b>	<b>18,344</b>
<b>Income tax expense</b>		-	-	-
<b>Profit/(loss) after income tax expense attributable to Unitholders</b>		<b>9,002</b>	<b>9,342</b>	<b>18,344</b>
Increase in asset revaluation reserve	2(f)	19,582	(19,582)	-
<b>Total changes in Trust equity other than those resulting from transactions with Unitholders as Unitholders</b>		<b>28,584</b>	<b>(10,240)</b>	<b>18,344</b>



## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Note	Previous AGAAP 30 June 2005 \$'000	Effect of transition to Australian Equivalents to IFRS \$'000	Australian Equivalents to IFRS 30 June 2005 \$'000
<b>NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued</b>				
<b>PARENT ENTITY RECONCILIATION OF PROFIT OR LOSS FOR 2005</b>				
<b>REVENUE</b>				
Revenue from operating activities	2(j)	17,051	56	17,107
Revenue from non-operating activities	2(f)	-	1,672	1,672
		17,051	1,728	18,779
<b>EXPENSES</b>				
Property expenses		(2,683)	-	(2,683)
<b>FUND EXPENSES</b>				
Direct expenses		(2,495)	-	(2,495)
Amortisation	2(a,e)	(466)	466	-
		(2,961)	466	(2,495)
<b>FINANCING COSTS - FINANCIAL INSTITUTIONS</b>				
Interest		(3,644)	-	(3,644)
Amortisation		(180)	-	(180)
		(3,824)	-	(3,824)
<b>Profit before finance costs to Unitholders</b>		<b>7,583</b>	<b>2,194</b>	<b>9,777</b>
<b>FINANCING COSTS - UNITHOLDERS</b>				
Distributions to Unitholders	2(d)	-	(11,607)	(11,607)
<b>Profit/(loss) before income tax expense</b>		<b>7,583</b>	<b>(9,413)</b>	<b>(1,830)</b>
Income tax expense activities		-	-	-
<b>Profit/(loss) after income tax expense attributable to Unitholders</b>		<b>7,583</b>	<b>(9,413)</b>	<b>(1,830)</b>
Increase in asset revaluation reserve	2(f)	1,728	(1,728)	-
<b>Total changes in Trust equity other than those resulting from transactions with Unitholders as Unitholders</b>		<b>9,311</b>	<b>(11,141)</b>	<b>(1,830)</b>

## NOTES TO THE RECONCILIATIONS OF EQUITY AND PROFIT AND LOSS AT 1 JULY 2004 AND 30 JUNE 2005

### (a) Intangible Asset - Goodwill

Under AIFRS, goodwill is subject to impairment testing, and subsequently the Trust has accounted for an impairment at 1 July 2004 and 30 June 2005 and all goodwill has been written off. Previously, under Australian GAAP, goodwill acquired in a business combination, such as the Trust's acquisition of Subsidiary Trusts was amortised over a period of time. All goodwill amortised under previous Australian GAAP has been reversed to retained earnings.

## **NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS continued**

### ***(b) Capitalisation of Borrowing Costs***

Under AIFRS, financing costs incurred in the acquisition of interest bearing liabilities 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, financing 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. The financing costs are expensed over the period of the loan. Previously, under Australian GAAP, financing costs were capitalised as a non-current other asset and expensed over the period of the loan. There is no change to the Trust results in the Income Statement.

### ***(c) Other Liabilities***

Under AIFRS, Unitholders' funds contributed to the Trust are to be recognised as non-current other liabilities. Previously, under Australian GAAP, funds raised from unitholders were recognised as equity of the Trust. 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.

### ***(d) Financing Costs – Unitholders***

Under AIFRS, amounts paid to unitholders will be treated as financing costs in the Income Statement and distribution entitlements have been recognised on an accrual basis. Previously, under Australian GAAP, these payments were accounted for in Unitholders' equity and were recognised on a cash basis. For taxation purposes, these payments continue to represent distributions under ITAA 1997.

### ***(e) Other Assets – Non-current***

Under AIFRS, establishment costs of the Trust are subject to impairment testing, and subsequently the Trust has accounted for an impairment at 1 July 2004 and 30 June 2005 and all costs have been written off. Previously, under Australian GAAP, the costs were recognised in the Balance Sheet at cost less accumulated amortisation, and were amortised over a period of time. All establishment costs amortised under previous Australian GAAP has been reversed to retained earnings.

### ***(f) Investment – Property***

Under AIFRS, the Trust has a choice for measurement of investment properties, at fair value or at cost, less accumulated depreciation and impairment losses. The Trust has adopted the fair value measurement and changes in fair value have been recognised in the Income Statement in the period in which they occur. Previously, under Australian GAAP, valuation adjustments were recognised in the asset revaluation reserve in the Balance Sheet. Under AIFRS, asset revaluation reserves were transferred to opening balances of retained earnings and are recognised in Non-Current Other Liabilities.

In addition, lease incentives have been previously capitalised into the value of the investment property under Australian GAAP. The investment property would subsequently be subjected to revaluation with revaluation increments or decrements adjusted directly to equity. Under AIFRS, lease incentives are now capitalised separately from investment property and amortised over the period of the lease to which the lease incentive relates.

### ***(g) Leases***

Under AIFRS, lease incentives are recognised as a Non-Current Asset and reported as a reduction in lease rental income over the lease term on a straight-line basis. The reduction in lease rental income is offset by a corresponding valuation increment posted to the Balance Sheet to maintain the overall fair value of each building and its associated lease incentives. As a result of AIFRS, the amortisation expense has been accounted for in the Income Statement. Previously, under Australian GAAP, fit out contribution lease incentives were capitalised as part of investment property.

### ***(h) Trade and Other Payables***

Under AIFRS, distribution entitlements have been recognised on an accrual basis. Previously, under Australian GAAP, these entitlements were recognised on a cash basis. The variance between accrual and cash basis treatment has been accounted for in the Balance Sheet.

### ***(i) Derivative Financial Instruments***

Under AIFRS, financial instruments are recognised at fair value in the Balance Sheet with unrealised gains or losses recognised in the Income Statement for ineffective hedges or equity for effective hedges. Previously, under Australian GAAP, unrealised gains or losses for ineffective and effective hedges were accounted for in the Income Statement.

### ***(j) Fixed Rental Increases***

Under AIFRS, fixed rental increases have been brought to account against investment property and rental income on a straight-line basis over the term of the lease. Previously, under Australian GAAP, fixed rental increases in leases were not accounted for.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 3: REVENUE &amp; EXPENSES</b>				
<b>REVENUE FROM OPERATING ACTIVITIES</b>				
Rental Income	33,360	26,624	18,133	9,802
Outgoings recovered	4,629	3,131	3,400	1,480
Distributions – Controlled entities				
The Riverdale Fixed Term Property Trust	-	-	255	382
Garden Square Trust	-	-	1,538	890
The Capital Collection – Diverse Sector Fund Trust No.1	-	-	8,825	2,540
The Metropolitan Collection – Brisbane Trust	-	-	7,459	1,365
Make good Income	-	550	-	-
Interest received	557	336	557	336
Distributions received - S8 Property Trust	483	312	483	312
	39,029	30,953	40,650	17,107
<b>REVENUE FROM NON-OPERATING ACTIVITIES</b>				
Gain on disposal of investment property	5,595	-	-	-
Gain on revaluation of investment property	25,457	19,369	14,556	1,672
<b>TOTAL REVENUE</b>	<b>70,081</b>	<b>50,322</b>	<b>55,206</b>	<b>18,779</b>
<b>EXPENSES</b>				
<b>PROPERTY EXPENSES</b>				
Air-conditioning maintenance	508	430	292	205
Body corporate costs	189	189	3	2
Cleaning	929	860	473	349
Electricity & gas	1,081	1,012	340	281
Fire protection costs	156	110	100	54
Garden maintenance	82	54	53	29
Insurance	559	571	323	225
Land rent	130	-	130	-
Land tax	647	600	319	168
Lift maintenance	318	240	165	105
Other recoverable expenses	554	-	474	-
Professional fees	55	15	39	3
Property management costs	1,017	709	544	260
Rates	2,006	1,594	1,291	761
Repairs & maintenance	612	375	318	163
Security costs	290	150	111	37
Sundry costs	284	145	151	41
	9,417	7,054	5,126	2,683
<b>OTHER EXPENSES</b>				
Amortisation – Lease incentives	854	205	182	-
Impairment of investment property	6,346	-	3,140	-

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 3: REVENUE &amp; EXPENSES continued</b>				
<b>FUND EXPENSES</b>				
Accountancy	123	108	122	108
Advertising	-	43	-	5
Auditors' remuneration	92	57	92	57
Bad debts	67	79	17	-
Bank charges	42	48	42	47
BSX listing fees	12	39	12	39
Commission – leasing	89	59	26	25
Compliance committee costs	53	49	53	49
Consultants' fees	217	250	138	166
Custodian fees	82	71	82	71
Filing fees	5	3	2	3
Finance intermediary fees	164	149	164	149
Legal fees and lease stamp duty	166	173	76	62
Provision for doubtful debts	(12)	(12)	9	-
Registry fees	30	27	30	27
Reporting expenses	79	82	79	82
Responsible Entity's fees	2,119	1,555	2,119	1,555
Sundry expenses	24	-	24	-
Travelling expenses	72	24	72	24
Valuation fees	136	74	76	26
	3,560	2,878	3,235	2,495
<b>TOTAL EXPENSES</b>	<b>20,177</b>	<b>10,137</b>	<b>11,683</b>	<b>5,178</b>
<b>FINANCING COSTS - FINANCIAL INSTITUTIONS</b>				
Interest	12,098	9,998	5,773	3,644
Amortisation	420	236	364	180
	12,518	10,234	6,137	3,824
<b>FINANCING COSTS – UNITHOLDERS</b>				
Distributions to Unitholders	24,941	11,607	24,941	11,607
<b>PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE</b>	<b>12,445</b>	<b>18,344</b>	<b>12,445</b>	<b>(1,830)</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

### NOTE 4: EARNINGS PER UNIT

Earnings per unit information (EPU) is not disclosed for the year ended 30 June 2006, as the units of the Trust are considered to be debt instruments in accordance with AASB 132 requirements.

	Consolidated		Consolidated	
	2006 \$'000	2006 cents per unit	2005 \$'000	2005 cents per unit
<b>NOTE 5: DISTRIBUTIONS PAYABLE</b>				
19 August 2005	1,168	0.79	770	0.79
21 September	1,168	0.79	806	0.79
21 October	1,168	0.79	873	0.79
21 November	1,168	0.79	873	0.79
08 December (Special Distribution)	9,997	6.76	-	-
21 December	1,168	0.79	873	0.79
20 January 2006	1,226	0.79	979	0.79
21 February	1,277	0.79	979	0.79
21 March	1,301	0.79	979	0.79
21 April	1,325	0.79	995	0.79
19 May	1,325	0.79	1,144	0.79
21 June	1,325	0.79	1,168	0.79
21 July	1,325	0.79	1,168	0.79
	24,941	16.24	11,607	9.48

	2006 %	2005 %
<b>Tax Distributions Break Up - Monthly Income distributions</b>		
Taxable income	26.4	31.4
Tax deferred	73.6	68.6

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>NOTE 6: AUDITORS' REMUNERATION</b>				
Audit of financial report	92,280	53,500	92,280	53,500
Other services	89,396	35,900	88,860	35,900
	181,676	89,400	181,140	89,400
	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>NOTE 7: CURRENT CASH AND CASH EQUIVALENTS</b>				
Cash at bank	2,777	468	2,767	468
<b>NOTE 8: CURRENT TRADE AND OTHER RECEIVABLES</b>				
GST receivable	-	1,651	-	1,989
Related entity receivables	590	-	590	-
Trade debtors	405	399	237	37
Provision for impairment	(23)	(35)	(9)	-
Other debtors	20	13	3	4
Hedge derivative receivable	89	-	89	-
Accrued income	740	190	538	47
	1,821	2,218	1,448	2,077
<b>NOTE 9: CURRENT OTHER ASSETS</b>				
Prepaid expenses	920	821	527	413
Deposits	9	11	3	3
	929	832	530	416
<b>NOTE 10: NON-CURRENT INVESTMENT – PROPERTY</b>				
<b>TOTAL INVESTMENT – PROPERTY</b>	409,954	331,638	234,121	142,750
Carrying amount at the beginning of financial year	331,638	242,662	142,750	75,046
Capital improvements	3,747	3,229	294	1,059
Lease Incentives	1,977	1,553	692	-
Fixed rental increase in lease straight-lining	1,356	213	1,095	56
Accumulated amortisation	(854)	(305)	(182)	-
Impairment losses	(6,346)	-	(3,140)	-
Disposals of investment property	(62,008)	-	-	-
Purchase of investment property at cost	114,987	64,917	78,056	64,917
Revaluation increment/(decrement)	25,457	19,369	14,556	1,672
Carrying amount at the end of the financial year	409,954	331,638	234,121	142,750

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 10: NON-CURRENT INVESTMENT – PROPERTY continued</b>				
<b>Property Summary</b>				
Centro on James (Stage 3), Fortitude Valley, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	14,700	11,000	14,700	11,000
388 Queen Street, Brisbane CBD, Queensland Investment in Land & Buildings – at independent valuation	19,000	19,000	19,000	19,000
Cairns Hypermart, 101–113 Spence Street, Cairns, Queensland Investment in Land & Buildings – at independent valuation	20,000	17,000	20,000	17,000
Lands Building, 134 Macquarie Street, Hobart, Tasmania Investment in Land & Building – at independent valuation	29,000	-	29,000	-
	-	30,833	-	30,833
Garden Square, Upper Mt Gravatt, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	35,000	31,300	-	-
The Precinct, Coorparoo, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	13,900	10,450	-	-
544 Kessels Road, MacGregor, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	13,690	12,140	-	-
Riverdale Centre, Dubbo, New South Wales Investment in Land & Buildings – at independent valuation	15,750	15,750	-	-
Homeworld Centre, Tuggeranong, Canberra, ACT Investment in Land & Buildings – at independent valuation	34,700	32,500	-	-
Post Office Square, Brisbane CBD, Queensland Investment in Land & Buildings – at independent valuation	-	61,500	-	-
Anzac Square, Brisbane CBD, Queensland Investment in Land & Buildings – at independent valuation	24,000	24,000	-	-
303 Sevenoaks Street, Cannington, Perth, Western Australia Investment in Land & Buildings – at independent valuation	48,800	-	48,800	-
	-	40,938	-	40,983
33 McDowell Street, Welshpool, Perth, Western Australia Investment in Land & Buildings – at cost	7,489	7,436	7,489	7,436
180-188 Burnley Street, Richmond, Melbourne, Victoria Investment in Land & Buildings – at cost	16,566	16,543	16,566	16,543

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 10: NON-CURRENT INVESTMENT – PROPERTY continued</b>				
180 Queen Street, Brisbane CBD, Queensland Investment in Land & Buildings – at cost	19,184	-	19,184	-
Civic Tower, Sydney, New South Wales Investment in Land & Buildings – at cost	58,872	-	58,872	-
Citigate Melbourne Hotel, Melbourne CBD, Victoria Investment in Land & Buildings – at cost	36,932	-	-	-
<b>INVESTMENT - PROPERTY</b>	407,583	330,390	233,611	142,750
Lease Incentives	2,974	1,553	692	-
Accumulation amortisation	(603)	(305)	(182)	-
	2,371	1,248	510	-
<b>TOTAL INVESTMENT – PROPERTY</b>	409,954	331,638	234,121	142,750

### Independent Valuations

**Centro on James (Stage 3), Brisbane:** An Independent valuation of land and buildings was undertaken by Carl Taylor AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June 2006.

**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 2006.

**Garden Square, 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 31 December 2005.

**The Precinct, Coorparoo, Brisbane:** An Independent valuation of land and buildings was undertaken by Carl Taylor AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June 2006.

**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 2006.

**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 2006.

**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 2006.

**Lands Building, Hobart:** An Independent valuation of land and buildings was undertaken by Bernard Smith FAPI, Certified Practising Valuer of Knight Frank Valuations. The valuation was based on market value as at 1 March 2004.

**Sevenoaks, Perth:** An Independent valuation of land and buildings was undertaken by Marc Crowe AAPI, Certified Practising Valuer of Knight Frank Valuations. The valuation was based on market value as at 30 June 2006.

**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.



## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 11: NON-CURRENT AVAILABLE FOR SALE 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	69,715	79,715
All controlled entities are 100% owned since the merger on 1 July 2003				
<b>NOTE 12: CURRENT TRADE AND OTHER PAYABLES</b>				
Rental support guarantee	520	-	-	-
Related entity payables	-	-	13,578	61
Income in advance	603	150	488	150
Trade creditors	952	677	141	100
Accrued expenses	2,789	1,903	2,307	1,509
GST payable	390	-	205	-
Unit application monies <sup>(1)</sup>	2,294	-	2,294	-
Accrued capital works	1,409	818	494	641
	8,957	3,548	19,507	2,461
<sup>(1)</sup> 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 No. 4 dated 5 June 2006. At 30 June 2006 the Trust held application monies for unallotted units and related investor directed commissions in the Trust of \$2,294,552.				
<b>NOTE 13: INTEREST BEARING LIABILITIES</b>				
<b>Current</b>				
Mortgage Loans	-	2,436	-	2,436
<b>Non-Current</b>				
Mortgage Loans	211,014	175,094	116,874	80,954
Financing costs	(2,063)	(1,440)	(1,783)	(1,160)
Accumulated amortisation on financing costs	828	408	614	250
	209,779	174,062	115,705	80,044

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Note	Consolidated		Parent																																																																			
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000																																																																		
<b>NOTE 14: NON-CURRENT OTHER LIABILITIES</b>																																																																							
Contributed capital	14 (i)	171,895	150,237	171,895	150,237																																																																		
Retained earnings	14 (ii)	77,101	40,964	53,725	16,339																																																																		
Accumulated distributions	14 (iii)	(48,937)	(23,996)	(48,937)	(23,996)																																																																		
Capital raising costs		(3,403)	(2,095)	(3,403)	(2,095)																																																																		
Hedge derivatives		89	-	89	-																																																																		
<b>Total Unitholder funds</b>		<b>196,745</b>	<b>165,110</b>	<b>173,369</b>	<b>140,485</b>																																																																		
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## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 15: NOTES TO THE STATEMENT OF CASH FLOWS</b>				
<b>(a) Reconciliation of Cash and Cash Equivalents</b>				
Cash and Cash Equivalents at the end of the financial year as shown in The Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:-				
Cash and Cash Equivalents	2,777	468	2,767	468
<b>(b) Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>				
Profit/(Loss) after income tax	12,445	18,344	12,445	(1,830)
Financing costs – Unitholders	24,941	11,607	24,941	11,607
<b>Non cash flows in profit:-</b>				
Distributions – Controlled entities	-	-	(18,077)	(5,178)
Amortisation – Financing costs	420	236	364	180
Amortisation – Lease Incentives	854	205	182	-
Prior year AIFRS adjustment	(1,248)	-	-	-
Net gain on disposal of investment property	(5,595)	-	-	-
Fixed rental increase in lease straight-lining	(1,356)	(213)	(1,095)	(56)
Impairment of investments	6,346	-	3,140	-
Gain on revaluation of investment property	(25,457)	(19,369)	(14,556)	(1,672)
<b>Changes in assets and liabilities:-</b>				
(Increase) / decrease in Trade and other receivables	486	133	718	82
(Increase) / decrease in Current other assets	(98)	(105)	(115)	(158)
Increase / (decrease) in Trade and other payables	3,114	(1,136)	1,234	(1,278)
<b>Cash Flow from Operations</b>	<b>14,852</b>	<b>9,702</b>	<b>9,181</b>	<b>1,697</b>
<b>(c) Credit standby arrangement – Bank Overdraft</b>				
Bank overdraft facilities available	4,000	4,000	4,000	4,000
Bank overdraft facilities utilised	666	-	666	-
<b>Unused bank overdraft facilities</b>	<b>3,334</b>	<b>4,000</b>	<b>3,334</b>	<b>4,000</b>

The utilised portion of this overdraft facility is included in Cash and Cash Equivalents balance in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 15: NOTES TO THE STATEMENT OF CASH FLOWS continued</b>				
<b>(d) Financing arrangements</b>				
Finance facilities available	214,274	177,530	120,134	83,390
Finance facilities utilised	211,014	177,530	116,874	83,390
<b>Unused finance facilities</b>	3,260	-	3,260	-

The major facilities are summarised as follows:-

**Multi-option Facility:** The Trust has a multi-option facility of up to \$4M with the Commonwealth Bank of Australia which is used to fund day to day operations. This 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 \$211,014,000. 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).

The major terms of the joint finance facility are:-

**Term:** 5 years to 6 November 2008.

### Financiers' Margin:

**CBA:** 0.45% per annum up to 40% loan to value ratio ("LVR"); and

**ING:** 1.20% 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 2006, 81% 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	
		2006 \$'000	2005 \$'000
Less than 1 year	4.95% to 5.55%	9,100	-
1 to 2 years	5.10% to 5.75%	9,270	9,100
2 to 5 years	5.25% to 7.47%	10,000	19,270
<b>Total</b>		<b>28,370</b>	<b>28,370</b>

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

### NOTE 15: NOTES TO THE STATEMENT OF CASH FLOWS continued

#### Interest Rate Swaps

Settlement	Weighted Average Interest Rate		Notional Principal	
	2006 %	2005 %	2006 \$'000	2005 \$'000
Less than 1 year	6.44	-	25,885	-
1 to 2 years	6.82	6.59	26,477	25,885
2 to 5 years	6.41	6.84	89,152	75,629
<b>Total</b>	<b>6.48</b>	<b>6.78</b>	<b>141,514</b>	<b>101,514</b>

#### Combined Hedging Arrangements

Fixed to:	Oct '06 \$'000	Dec '06 \$'000	Jun '07 \$'000	Sep '07 \$'000	Dec '07 \$'000
Caps & Collars	9,100	-	-	9,270	-
Effective Interest Rate	4.95% to 5.55%	-	-	5.10% to 5.75%	-
Interest Rate Swaps	-	5,885	10,000	-	13,917
Effective Interest Rate	-	6.13%	6.83%	6.24%	6.82%
<b>Total Hedged</b>	<b>9,100</b>	<b>15,885</b>	<b>10,000</b>	<b>9,270</b>	<b>26,477</b>

Fixed to:	Oct '08 \$'000	Nov '08 \$'000	Nov '09 \$'000	Jun '10 \$'000	Jul '10 \$'000	Sep '10 \$'000	Total
Caps & Collars	-	-	10,000	-	-	-	<b>28,370</b>
Effective Interest Rate	-	-	6.55% to 7.29%	-	-	-	
Interest Rate Swaps	10,000	10,000	9,152	10,000	10,000	20,000	<b>141,514</b>
Effective Interest Rate	6.83%	6.89%	6.30%	6.11%	6.36%	6.12%	6.47%
<b>Total Hedged</b>	<b>20,000</b>	<b>9,152</b>	<b>10,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>169,884</b>

**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 0.075% per annum of the total facility amount for the life of the facility.

### NOTE 16: 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 2006 totalling \$2,699,808.

Since the lodgement of Product Disclosure Statement No. 4 on 5 June 2006, the Trust raised \$24.6M and allotted 22,378,234 units. The Product Disclosure Statement No.4 closed on the 25 August 2006. The total units on issue at 1 September 2006 is 190,121,453 units.

#### Potential Sale of Garden Square Office Park

Following considered strategic analysis of the Trust's portfolio, the Manager announced on 4 September 2006, that it decided to market the Garden Square property for sale.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

### NOTE 17: 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.

#### Revolving Cash Advance Facility

As at 30 June 2006 the Trust is to provide a \$1,000,000 cash facility to Citigate Melbourne Pty Ltd as per the Revolving Cash Advance Facility Agreement. The Trust holds shares in Citigate Melbourne Pty Ltd and as at 30 June 2006, \$589,516 was drawn down. Interest is accrued monthly in accordance with the Revolving Cash Advance Facility Agreement.

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 18: OPERATING LEASE COMMITMENT RECEIVABLE</b>				
Operating Lease Commitments contracted as receivables:-				
- not later than 1 year	38,387	32,355	25,527	14,329
- later than 1 year but not later than 5 years	122,587	108,834	89,242	54,433
- later than 5 years	166,035	100,057	140,972	79,085
Aggregate lease revenue contracted for at balance date	327,009	241,246	255,741	147,847

### NOTE 19: 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 2006

### NOTE 20: 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:-

Robert Thomas Summerton	(appointed 9 March 2006)
Christopher Arthur Morton	
Dennis Wayne Wildenburg	
Nicholas Roland Collishaw	
Jennifer Joan Hutson	(appointed 9 March 2006)
Gregory James Paramor	(retired 9 March 2006)
David John Conquest	(retired 9 February 2006)
Michael Francis White	(Alternate Director representing David Conquest and Jennifer Hutson)

##### 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

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>(b) Related party transactions during the year were as follows:-</b>				
<i>The Manager – Property Funds Australia Limited</i>				
<b>Management fee</b> for the year in accordance with the Trust Constitution.	2,119	1,555	2,119	1,555
<b>Product Disclosure Statement</b> production fee as provided for in the Product Disclosure Statement No. 3 dated 20 October 2005 and Product Disclosure Statement No. 4 dated 5 June 2006 and in accordance with the Trust Constitution. This fee was determined on a commercial basis (30 June 2005: Product Disclosure Statement No. 2 lodged on 7 February 2005).	200	100	200	100
<b>Acquisition fee</b> (purchase of 180 Queen Street, Brisbane, Queensland) as provided for in the Product Disclosure Statement No. 3 dated 20 October 2005 and in accordance with the Trust Constitution.	360	-	360	-
<b>Acquisition fee</b> (purchase of Civic Tower, Sydney, New South Wales) as provided for in accordance with the Trust Constitution.	1,043	-	1,043	-
<b>Acquisition fee</b> (purchase of Citigate Melbourne Hotel, Melbourne, Victoria) as provided for in the Product Disclosure Statement No. 4 dated 5 June 2006 and in accordance with the Trust Constitution.	680	-	680	-
<b>Disposal and Performance fee</b> (sale of Post Office Square, Brisbane, Queensland) as provided for in accordance with the Trust Constitution.	2,468	-	2,468	-
<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

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>NOTE 20: RELATED PARTY DISCLOSURES continued</b>				
<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. 3 dated 20 October 2005 and Product Disclosure Statement No. 4 dated 5 June 2006 and in accordance with the Trust Constitution (30 June 2005: Product Disclosure Statement No. 2 lodged on 7 February 2005). 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 \$391,711 to advisors and brokers. This resulted in the Manager receiving \$276,991 in capital raising fees.	669	1,000	669	1,000
<b>In-house accountancy fee</b> for the year. This fee was determined on a commercial basis.	95	93	95	93
<b>Registry fee for the year.</b> This fee was determined on a commercial basis.	30	27	30	27
<b>The Manager is</b> 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. Currently, the lease is on a casual 4 monthly rolling basis until a new lease is negotiated.	124	130	-	-
<b>The Custodian</b> Custodian fee for the year paid to Trust Company of Australia Limited in accordance with the Custody Agreement.	82	71	82	71
<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	214	97	-	-
David Conquest	59	59	-	-
<b>Distributions received during the Year</b>				
Property Funds Australia Limited	32	19	-	-
Christopher Morton related entity	21	9	-	-
David Conquest	10	6	-	-
<b>(d) Leasing Agreement</b> The Trust has appointed Mirvac Investments to provide property management and leasing assistance at the Riverdale Centre, Homeworld Centre and Cairns Hypermart. Mirvac Group owns 50% of the Manager. The terms of the property management and leasing fee were negotiated on a commercial basis.	61	-	12	-



## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

### NOTE 21: 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 2006 was \$1,779,928 (30 June 2005: \$2,112,370) for the Consolidated entity and \$1,038,625 (30 June 2005: \$1,036,290) for the Parent entity.

As at 30 June 2006 the Trust holds income support guarantees covering a maximum period to 31 October 2007 for 180 Queen Street, Brisbane of \$151,219 and a maximum period to 16 December 2008 for Civic Tower, Sydney of \$3,665,392 (half share). The income support guarantee for Civic Tower, Sydney is to provide for capital works, lease incentives and rental income support.

### NOTE 22: FINANCIAL INSTRUMENTS

#### (a) Interest Rate Risk

The consolidated entity enters into interest rate swaps and derivatives 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.

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			
	2006 %	2005 %	Within 1 Year		1 to 5 years		2006 \$'000	2005 \$'000	Total	
			2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000			2006 \$'000	2005 \$'000
<b>Financial Assets</b>										
Cash and cash equivalents	5.45	4.73	2,777	468	-	-	-	-	2,777	468
Available for sale financial assets	-	9.25	-	10,000	-	-	-	-	-	10,000
Trade and other receivables	-	-	590	-	-	-	1,231	2,218	1,821	2,218
<b>Total Financial Assets</b>			3,367	10,468	-	-	1,231	2,218	4,598	12,686
<b>Financial Liabilities</b>										
Other Liabilities	-	-	-	-	-	-	196,745	165,110	196,745	165,110
Interest Bearing Liabilities	6.50	6.62	34,985	2,436	176,029	175,094	-	-	211,014	177,530
Trade and Other Payables	-	-	-	-	-	-	8,957	3,548	8,957	3,548
<b>Total Financial Liabilities</b>			34,985	2,436	176,029	175,094	205,702	168,658	416,716	346,188

#### (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 impairment, as disclosed in the Balance Sheet and notes to the financial statements. The Trust does not have any concentration of credit risk.

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

### NOTE 22: FINANCIAL INSTRUMENTS continued

#### (d) Net Fair Values

The net fair value of assets and liabilities approximates their carrying value. No financial assets and liabilities are readily traded on organised markets in standardised form other than listed investments.

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

	Consolidated Entity			
	2006		2005	
	Carrying Amount \$'000	Net Fair Value \$'000	Carrying Amount \$'000	Net Fair Value \$'000
<b>Financial Assets</b>				
Available for sale financial assets	-	-	10,000	10,000
Trade and other receivables	1,821	1,821	2,218	2,218
	1,821	1,821	12,218	12,218
<b>Financial Liabilities</b>				
Interest bearing liabilities	209,779	209,779	176,498	176,498
Trade and other payables	8,957	8,957	3,548	3,548
Other liabilities	196,745	196,745	165,110	165,110
	416,716	416,716	346,188	346,188
	415,481	415,481	345,156	345,156

### NOTE 23: SEGMENT INFORMATION

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

### NOTE 24: BENDIGO STOCK EXCHANGE SUPPLEMENTARY INFORMATION

(a) The information in this note is current as at 1 September 2006 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
1,001 – 5,000	47
5,001 – 10,000	550
10,001 – 100,000	3,131
100,001 and over	245
Total	3,974

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June 2006

### NOTE 24: BENDIGO STOCK EXCHANGE SUPPLEMENTARY INFORMATION continued

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

Investor	No. of Units Held	% of Equity
RBC Dexia Investor Services Australia Nominees Pty Limited	18,338,968	9.65%
Sandhurst Trustees Limited	11,098,959	5.84%
Australian Executor Trustees NSW Limited	4,155,845	2.19%
National Nominees Limited	3,975,019	2.09%
RBC Dexia Investor Services Australia Nominees Pty Limited	2,359,863	1.24%
DM Ferris & KC Ferris	1,918,029	1.01%
Netwealth Investments Limited	667,127	0.35%
Gladstone Petroleum Pty Limited	600,000	0.32%
PA Hadley & IM Hadley	585,210	0.31%
GB Rowlatt Pty Limited	558,216	0.29%

### NOTE 25: ECONOMIC DEPENDENCY

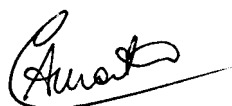
Where the rental income from a tenant is 10% or more of the total Trust rental income, the tenant is considered to be a key tenant. The operation of the scheme is dependent upon the continuation of receipts from a number of key tenants. Those key tenants as at 30 June 2006 are State Government of Tasmania (Lands Building, Hobart) and State Government of Western Australia (303 Sevenoaks Street, Cannington, Perth).

## DIRECTORS' DECLARATION

The directors of Property Funds Australia Limited as responsible entity of The PFA Diversified Property Trust declare that:

1. The financial statements and notes are in accordance with the Corporations Act 2001 and:-
  - (a) comply with Australian Equivalents to International Financial Reporting 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 2006 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 2006 have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and the notes to the financial statements for the financial year ended 30 June 2006 comply with the Australian Equivalents to International Financial Reporting Standards; and
  - (c) the financial statements and the notes to the financial statements give a true and fair view of the financial position as at 30 June 2006 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 2006**

## INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

*Independent Audit Report to the Unitholders of the PFA Diversified Property Trust*

### Scope

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

The financial report comprises the income statement, balance sheet, statement of cash flows, notes to the financial statements, the Remuneration Report contained in the Directors' Report for the purpose of complying with AASB124 Related Party Disclosures 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 2006.

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 Trust has disclosed information about the remuneration of Key Management Personnel ("remuneration disclosures") as required by AASB 124 Related Party Disclosures under the heading "Remuneration Report" as permitted by the Corporations Regulations 2001.

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 and the remuneration disclosure complies with AASB124 Related Party Disclosures and the Corporations Regulations 2001. 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 Australian Equivalents to International Financial Reporting 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, and whether the remuneration disclosures comply with AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

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 as the responsible entity of the PFA Diversified Property Trust on 20 September 2006, would be in the same terms if provided to the directors at the date of this audit report.

## INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS continued

*Independent Audit Report to the Unitholders of the PFA Diversified Property Trust*

### Audit opinion

In our opinion:-

1. 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 2006 and of its performance for the year ended on that date; and
    - (ii) complying with Australian Equivalents to International Financial Reporting Standards in Australia and the Corporations Regulations 2001; and
  - (b) other mandatory financial reporting requirements in Australia.
2. The remuneration disclosures that are contained in the Directors' Report comply with AASB 124 Related Party Disclosures and Corporations Regulations 2001.

Yours sincerely

**BDO Kendalls**



**Paul Gallagher**

*Partner*

Brisbane

**20 September 2006**

## DIRECTORY

### Manager

#### **Property Funds Australia Limited**

ACN 078 199 569

### Registered Office and Principal Place of Business

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Brisbane QLD 4000

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Email: info@pfaltd.com.au

#### **Postal Address**

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Brisbane Adelaide Street QLD 4000

### Directors of Property Funds Australia Limited

Robert T Summerton (Non-Executive Chairman)

Christopher A Morton (Managing Director)

Dennis W Wildenburg

Nicholas R Collishaw

Jennifer J Hutson

### Company Secretary

Michael F White

### 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

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