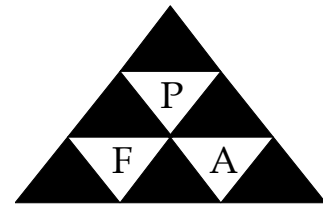


# SAMPLE COPY

28 September, 2004

Mr J & Mrs M Citizen  
atf J & M Citizen Superannuation Fund  
123 ABC Street  
BRISBANE QLD 4000



## PROPERTY FUNDS AUSTRALIA LIMITED

A.C.N. 078 199 569

PROPERTY FUND MANAGERS

Dear Mr & Mrs Citizen,

### **PFA DIVERSIFIED PROPERTY TRUST 2004 ANNUAL REPORT**

I am pleased to enclose your *2004 Annual Report* for the *PFA Diversified Property Trust*. Given the evolution of the Trust, this year's report is in a new and more comprehensive reporting format. In the past, we have also sent a newsletter around this time. However, given the comprehensiveness of this annual report, a newsletter will be sent later in the year.

As you read the report, you will see that the performance of the Trust during the 2003/2004 financial year has been particularly pleasing with:-

- an **11% increase in net asset backing per unit** (up 9 cents per unit over the period);
- distributions of **9.48 cents per unit (annualised)** which were **78.9% tax deferred**;
- revenue and profit **performances above merger forecasts**; and
- the **meeting of merger objectives and goals** including improvements in liquidity and diversity.

We were also pleased to announce in late August, 2004 that well known property funds management specialists, James Fielding Group (JFG), through James Fielding Holdings Limited acquired a 50% interest in Property Funds Australia Limited, the manager and responsible entity for the Trust. JFG are an ASX listed property group with funds under management in excess of \$1.8 billion. We believe that the access to the skill, experience and reputation of JFG and its management team brings an exciting and complimentary opportunity to our property funds management business and more importantly to the Trust and its unitholders. Notwithstanding, it is still very much "business as usual" at an operational level at PFA.

Please do not hesitate to contact Mary Goodwin or myself on (07) 3221-7170 or Freecall 1800 687 170 if you have any queries in relation to the enclosed report or your investment.

Yours faithfully,

**PROPERTY FUNDS AUSTRALIA LIMITED**

**Bronwyn Risk**

Manager – Investment Services

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

AND CONTROLLED ENTITIES  
ARSN 097 860 690



ANNUAL REPORT 2004



**PROPERTY FUNDS  
AUSTRALIA LIMITED**

ACN 078 199 569  
AFSL No. 224106

## CONTENTS

1. Managing Director's Letter	2	2. Operating Highlights	3	3. Manager's Report	4
4. Property Portfolio	8	5. Director's Profiles & Senior Managers	16		
6. Investor Relations	18	7. Corporate Governance	20	8. Financial Report	21
Directors' Report	22	Financial Statements	26	9. Directory (inside back cover)	



PFA Diversified Property Trust,  
a listed Australian unit trust, which owns a  
portfolio of Australian investment grade  
properties currently valued at \$242 million.

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



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 \$242 million. The portfolio is diversified by property sector, geographic location, tenant profile and lease expiry.

The Trust currently has in excess of 3,000 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 evolved as a consequence of the amalgamation on 1 July, 2003 of all of the property funds managed by Property Funds Australia Limited. 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 established in 1885.

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

# Managing Director's Letter



Dear Unitholders,

As managing director of Property Funds Australia Limited ("PFA"), the responsible entity of the PFA Diversified Property Trust ("the Trust"), I am pleased to present the 2004 annual report to unitholders.

This is the first report since the Trust evolved into its current form on 1 July, 2003 – upon the merger of all of the property funds managed by PFA.

At the time of the merger, various objectives and goals for the Trust were stated, many of which were to be implemented over the last financial year. I am pleased to advise that each of those objectives and goals have been met including merger financial forecasts, debt restructures, increased diversity, buybacks, increased liquidity and growth.

Particularly pleasing has been the growth in the net asset backing per unit which is up 9 cents per unit over the financial year – fundamentally due to increases in the market value of a number of the properties in the Trust's portfolio.

The general increase in liquidity that has been delivered during that year has also been noteworthy with 10.6% of the Trust's equity being able to be turned over, either through the Bendigo Stock Exchange or the buybacks that have been offered.

The Trust's acquisition of the Lands Building in Hobart during that year was an example of our ability to source a well priced, high yielding but sound, long term investment which can underpin the Trust's cashflows over the years.

Looking forward, we plan to continue to build on the Trust's recent sound performance by actively managing the properties and acquiring further assets with the potential to provide secure income and capital returns. PFA's ability to do this, I believe has been recently enhanced, through the acquisition of 50% of PFA's own shareholding by the James Fielding Group, an ASX listed specialist property group with funds under management in excess of \$1.8 billion. This has seen the introduction of Mr. Greg Paramor and Mr. Nick Collishaw to PFA's board of directors – both persons of significant property knowledge and skill in the property funds management arena.

I take this opportunity to thank our existing unitholders for their ongoing support and welcome those new unitholders who may have joined us as a consequence of the new capital raising.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Chris Morton". The signature is fluid and cursive, with a long horizontal line extending to the right.

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

# Operating Highlights

## Events

- **1 July, 2003:** Merger of PFA managed property funds to bring about the PFA Diversified Property Trust completed.
- **November, 2003:** Debt restructure finalised resulting in a reduced financiers' margin of 0.25%p.a..
- **February, 2004:**
  - commencement of an on-market buyback offer for 500,000 units at \$1.00 per unit;
  - product disclosure statement lodged with ASIC to raise up to \$25 million at an issue price of \$1.02 per unit.
- **March, 2004:** Acquisition of the Lands Building, Hobart finalised.
- **April, 2004:** Commencement of an off-market buyback offer at \$1.00 per unit after capital raising pre-condition met.
- **June, 2004:** Portfolio revaluation as at 30 June, 2004 resulting in a \$11.48M increase in portfolio value over the Period.
- **September, 2004:**
  - product disclosure statement closed to subscriptions;
  - placement of 3,000,000 units.

## Financial Performance

- Distribution of 9.48 cents per unit for the year ended 30 June, 2004 in accordance with merger financial forecasts;
- Net Profit (before amortisations) for the year approximately \$8.9M;
- Net Profit (after tax and amortisations) for the year approximately \$6.3M;
- Net Profit (before amortisations and merger costs) up 2% on merger financial forecasts;
- Tax deferred component of distributions – 78.9%, 2.9% above Merger forecasts;
- As at 30 June, 2004:-
  - Total assets \$259.9M, up \$43.7M;
  - Net asset backing of \$1.08 per unit, up 9 cents per unit.

## Financial Overview

	As at 30 June 04	As at 1 July 03 (merger date)*
Total assets (\$'000)	259,910	216,220
Total liabilities (\$'000)	158,203	123,580
Total equity (\$'000)	101,707	92,640
Net asset backing per unit (\$)	1.08	0.996
Number of units on issue ('000)	94,167	93,014
Total borrowings (\$'000)	152,826	121,783
% borrowings to total assets (%)	59	56.3
Number of unitholders	2,902	2,796
Vacancy Rate (% by income)	4.0	4.4
	<b>For 12 months ending 30 June 04</b>	
Net profit after tax and amortisations (\$'000)		6,345
Distribution per ordinary unit (cents per unit)		9.48

\* unaudited consolidated figures after the merger

# 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 2004 ("the Period"), being its first year since the amalgamation on 1 July, 2003 of all of the managed property funds managed by Property Funds Australia Limited ("the Merger"). Due to the recent evolution of the Trust, we have used as a benchmark in this report, against which the Trust's performance can be assessed, the financial forecasts contained in the explanatory memoranda relating to the Merger dated 2 June, 2003 ("the Merger Forecasts").**

## Fund Performance

Distributions for the year have been occurring at the rate of 0.79 cents per unit per month (9.48 cents per unit annualised – 78.9% tax deferred) which is in accordance with Merger Forecasts and recent PDS forecasts. In the product disclosure statement dated 27 February, 2004 ("the PDS") the directors of the Manager have forecast that this distribution rate is likely to continue through to 31 December, 2004 (subject to the assumptions on which the forecast is based set out in section 6.2 of the PDS).

Of particular note during the Period were the following positive results compared to the Merger Forecasts:-

- net asset backing per unit increased 9 cents (approximately) to \$1.08 per unit over the Period;
- positive revaluations of seven of the properties in the portfolio;
- revenue being 7% up on the Merger Forecasts;
- net profit (before amortizations and merger costs) up 2% on the Merger Forecasts.

## Fund Management

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

- the debt restructure (which has delivered reduced interest rate margins of 0.25%p.a.);
- the commitment to ongoing diversification (as exhibited by the Lands Building acquisition);
- the increasing of liquidity in the investment (as demonstrated by the Bendigo Stock Exchange ("BSX") trading that has occurred and the availability of the on-market and off-market buybacks);
- the reduction in recurring operating costs;
- an improved exit (e.g. the sale of units on the BSX have been able to occur at greater than the net tangible asset per unit).

## Asset Management

### Acquisition of the Lands Building

The Trust completed the purchase of the Lands Building at 134 Macquarie Street, Hobart for a purchase price of \$28.92M plus acquisition costs on 10 March, 2004. This acquisition was in line with the Trust's stated strategy of growing the Trust by investing in properties in the price range of \$10 million to \$50 million and which provide stability to distributions. It is also consistent with the stated focus to reduce the historical geographical emphasis on Queensland property. This acquisition has reduced the Trust's exposure to Queensland by 9.5% and increased its office exposure by 8.4%.

The Lands Building is a 10 level office building located in the prime southern precinct of the Hobart CBD. It is one block from the core of the Hobart CBD in an area recognised as the centre of state and commonwealth government activity. The precinct is characterised by the 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 1,037m<sup>2</sup>. The building is fully leased with a 14 year remaining lease term to the Tasmanian State Government and houses a number of state government agencies.

The purchase, which was accretive to earnings per unit, was funded initially by debt. Part of the proceeds of the target \$25 million capital raising pursuant to the PDS was later used to reduce the total debt of the Trust which increased as a consequence of this acquisition.

### Portfolio Review

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

### Redevelopment Opportunities

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



## Revaluations

Revaluations of 7 assets during the Period have added \$11.48 million to the portfolio's value. This equates to an increase in NTA per unit of approximately 14% during the Period. The relevant properties subject to valuation increases during the Period were:-

Property	Previous Book Value	New Book Value	Increase
Post Office Square	\$52.0M	\$55.0M	\$3.0M
Centro on James - Stage 3	\$9.76M	\$11M	\$1.24M
The Precinct	\$8.9M	\$10.45M	\$1.55M
544 Kessels Road	\$10.3M	\$12.14M	\$1.84M
Cairns Hypermart	\$16.8M	\$17.0M	\$0.2M
Homeworld Centre	\$28.9M	\$32.5M	\$3.6M
Riverdale Shopping Centre	\$15.7M	\$15.75	\$0.05M

Underlying some of the increases in value was the general firming in capitalisation yields which have occurred in the general property marketplace since the date of the last valuations. As well as this factor, property fundamentals such as new leasing deals, fixed rental review structures, sound lease expiry profiles and a long weighted average lease expiry have also underpinned the portfolio's capital appreciation.

## Leasing Activity

The vacancy rate (based on income) for the Trust portfolio at the time of this report is 3.24%. This has been a pleasing result with the vacancy rate reducing from 4.4% since the start of the Period.

Leasing deals completed during the Period have predominantly related to the Post Office Square, 544 Kessels Road, Homeworld Centre, Cairns Hypermart and The Precinct properties.

Particularly pleasing was seven lease renewals which occurred in the Homeworld Centre and the completion of a tenancy remix at Post Office Square resulting in three new retailers.

One of the more significant leasing transactions for the Trust occurred after the end of the Period, with a 7 year lease over the former Hudson Building at 544 Kessels Road to Petwise at an increased rent than paid by the previous tenant.

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 78% of the income of the Trust.

The current weighted average lease term of 5.53 years is a strong lease profile and points to the stability of future income. This is not to say that there are not challenges in the forthcoming

12 months as some lease expiries occur and some current vacancies are focussed upon. In particular, in the forthcoming twelve months, the Manager's major focus will be:-

- the reletting of the Coles Myer Limited occupied space in Garden Square Office Park. We recently received advice of their intention not to continue occupancy at Garden Square upon expiration of their lease in December 2004. The Manager is however confident of retaining the majority of the Coles Myer sub-tenants in the Coles Myer space;
- implementation of a strategy for alternative uses (e.g. bulky goods retail) for the CUB Centre component at Cairns Hypermart prior to the expiry of the Carlton & United Breweries lease in March 2005;
- ascertaining Suncorp Metway's future occupancy intentions in relation to their expiring lease in September 2005 at 388 Queen Street;
- review of redevelopment options of surplus land at 544 Kessels Road; and
- implementation of a leasing strategy at the Riverdale Centre to reduce vacancy which has increased at that Centre over the Period.

## Capital Works

The Manager is conscious of the necessity to maintain the assets to keep them competitive in the marketplace. During the Period, it completed the refurbishment of 1,900m<sup>2</sup> at the Garden Square Office Park in preparation for re-letting. After the Period, a refurbishment of the Hudson Building at 544 Kessels Road occurred to accommodate Petwise (a new tenant). Extensive repainting of parts of the Homeworld Centre has also been carried out with further works to be undertaken in the next 6 months to upgrade the retail forecourt at that Centre. Carpet replacements in public areas and electronic variable message signage were installed at Post Office Square. Other works are being considered and will be evaluated during the coming 12 months particularly at the Garden Square Office Park and 388 Queen Street.

## Debt Management

The total borrowings of the Trust as at 30 June, 2004 were \$152,826,000 although this has reduced to \$136,416,000 as at the date of this report as a result of repayments made since the end of the Period. This represents as at the date of this report, a gearing ratio against total assets of 52%.

Of these borrowings, approximately 73% of the Trust's debt funding as at 30 September, 2004 had fixed interest rates or was hedged with the balance being on variable rates. The Manager continues to monitor the interest rate market for opportunities to purchase hedging styles of products at appropriate pricing.



# Manager's Report

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

The weighted average interest rate (inclusive of bank margins) on debt as at 10 September, 2004 was 6.69% per annum.

As mentioned in the Merger explanatory memoranda, the Merger provided the opportunity to restructure the debt for the Trust. The debt restructure was finalised during the year with the new facilities being provided in a joint finance facility by the Commonwealth Bank of Australia ("CBA") and mortgage funds managed by ING Management Limited ("ING"). The resulting finance restructure occurred in two stages with the first stage settling on 6 November, 2003 and the second stage on 5 January, 2004.

The refinancing has been successful in:-

- providing reduced interest margins – the estimated margin reduction of 0.25% per annum mentioned in the Merger explanatory memoranda was achieved;
- eliminated refinancing risks of two debt tranches totalling 61% that matured in 2003/04 and 2004/05 financial years and extended the debt maturity profile of the debt portfolio;
- eliminated some adverse asset specific loan covenants;
- reduced the number of term loan financiers to two with whom the Trust has now built a strong growth relationship;
- produced a structure that allows for flexible and continual adjustment (e.g. repayments/further borrowings of term debt); and
- allowed the Trust to successfully bid on favourable terms to acquire quality new investment properties (e.g. the Lands Building – Hobart).

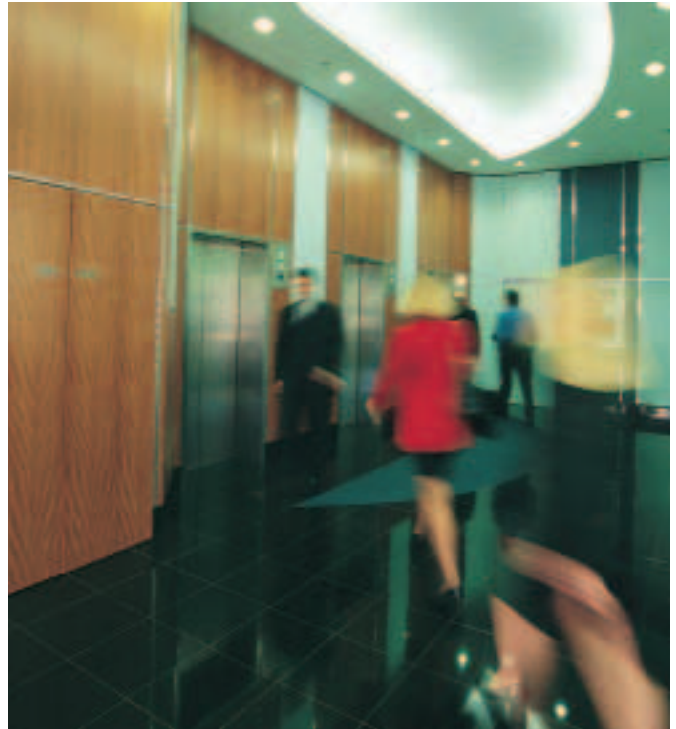
The Trust has entered into an agreement with the Anthony Moreton Group ("AMG") for initially procuring and subsequently managing the joint finance facility. This agreement entitles AMG to an ongoing fee of 0.1% per annum of the total facility amount under the joint facility from time to time including further advances relating to the joint facility.

## Capital Management

### Capital Raising

On 27 February, 2004, the Manager lodged with the Australian Securities and Investments Commission a PDS for the raising of up to \$25 million in units in the Trust at an offer price of \$1.02 per unit. The proceeds of this offer were used to:-

- reduce the debt of the Trust following the increase which occurred as a consequence of the acquisition of the Lands Building;
- implement the buyback offers (discussed later in this report);



- fund capital works which the Manager considers should occur to underpin and add value to the portfolio.

This capital raising was closed on 7 September 2004 after raising \$20,828,533. 20,420,162 units in total were allotted as part of this process.

On 9 September, 2004 the Trust raised a further \$3 million by the placement of 3 million units at \$1.00 each to National Nominees Limited as nominee for the ARA Investment Fund. These funds were used to repay debt and will also be used to fund ongoing capital expenditure needs.

### Buyback Offers

The proposal to carry out buybacks during the Period was contemplated in the Merger explanatory memoranda. The Manager determined that it would utilise both of the proposed methods of buyback that was canvassed in that document.

#### On-Market Buyback

On 5 February, 2004, the Manager commenced an on-market buyback program. The maximum number of units to be purchased under the program was 500,000. Units were purchased on the BSX by PFA as responsible entity for the Trust. The buyback price was \$1.00 per unit with a daily buyback limit of 20,000 units per day. All unitholders were eligible to accept the on-market buyback. The on-market buyback offer was finalised on 15 March, 2004 with 500,000 units being purchased under that buyback. The units purchased as part of this buyback were subsequently cancelled.

### Off-Market Buyback

On 22 April, 2004 the Manager advised eligible unitholders of the off-market buyback offer. Eligible unitholders were those unitholders who were owners/unitholders in the merging trusts and were on the register of those merging trusts on 2 June, 2003. The buyback price was \$1.00 per unit and the buyback was conditional upon the raising of \$5M under the PDS. Acceptance of the off-market buyback offer closed on 24 May 2004. The final acceptance level of the buyback offer was \$5,455,248 and above the prescribed offer level of \$5,000,000. As provided for under the terms of the buyback offer, PFA at its discretion, amended the terms of the offer to accept a greater number of units in the off-market buyback process. All acceptances therefore were met in full and not on a pro-rata basis.

### The Market

During the Period, the weighted average price per unit that units in the Trust have traded on the BSX has been \$0.99. The market capitalisation of the Trust as at 30 June 2004 was \$94.3 million, and total trade volume on the BSX for the Period was in excess of 3.3 million units (including the on-market buyback). Through the provision of the buyback offers and BSX trading, the Manager has been able to deliver during the Period a general level of liquidity equal to 10.6% of the Trust's total units as at the end of the Period. The Manager is hopeful that given the sound financial performance of the Trust and the increase in the net tangible assets per unit in the Trust that subsequent pricing may more fully reflect these events.

### Manager Update

The Manager was pleased to announce on 23 August, 2004 that well known property specialists, James Fielding Group (JFG), through James Fielding Holdings Limited had entered into an agreement to acquire a 50% interest in Property Funds Australia Limited, the Manager and the responsible entity of the Trust. This acquisition was finalised on 27 August, 2004.

We believe that the skill, experience and reputation of the James Fielding Group and its management team brings an exciting and complimentary opportunity to the Manager's property funds management business and more importantly to the Trust and its unitholders.

JFG was co-founded in November 2001 by high profile property expert, Mr Greg Paramor, who was also the driving force behind well known property fund managers Paladin and Growth Equities Mutual. The group is a diversified property group and currently has in excess of \$1.8 billion in property and infrastructure assets under management. The company's wide

range of property activities include investment, development, managing listed and unlisted funds, managing infrastructure funds, property mezzanine debt lending and facilities management services.

The opportunity to join with a successful and experienced partner who has a strong property focus, such as JFG, will enable PFA to continue to grow nationally as a property fund manager and increase its expertise.

Whilst there has been some structural changes to the PFA board, such as Mr Greg Paramor becoming the non-executive chairman and Mr Nick Collishaw (another JFG appointee) becoming a non-executive director, it will be 'business as usual' at an operational level at PFA.

Importantly our investor/adviser service team will remain unchanged and any investment queries will be still handled by our experienced team in Brisbane.

Since the commencement of the Period, Matthew Madsen and Elizabeth Pidgeon have retired as directors of the Manager. We take this opportunity to thank them both for their significant contributions to the Manager as well as for their considered guidance of the affairs of the Trust as directors of the Manager.

### Outlook

At the close of the 2004 financial year, the Trust is in an excellent position from which to move forward. The restructures and complexities associated with the Merger process have now been completed.

The long term fundamentals in those markets in which the Trust holds assets remain positive. This, combined with the Trust's strong tenant profile and balanced lease expiry profile, places the Trust in a solid position from which to move forward. Property by its nature requires active and intensive management. The properties of the Trust are no different. The new financial year will still have its challenges with certain forthcoming lease renewals. Capital expenditures proposed during the year, and assisted by the new capital raising, should assist in underpinning the portfolio's value and future income stream.

# Property Portfolio

## Overview

### Portfolio Status

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

- \$242.5 million in property assets over 11 properties;
- a strong 5.53 year weighted average lease expiry;
- a balanced lease expiry profile;
- a 3.24% vacancy rate;
- approximately 78% leased to national or government tenants;
- 90,438m<sup>2</sup> of Net Lettable Area and a 316 bay public car parking facility;
- sound diversification, particularly by reference to sector and tenant, with a material Queensland geographical bias.

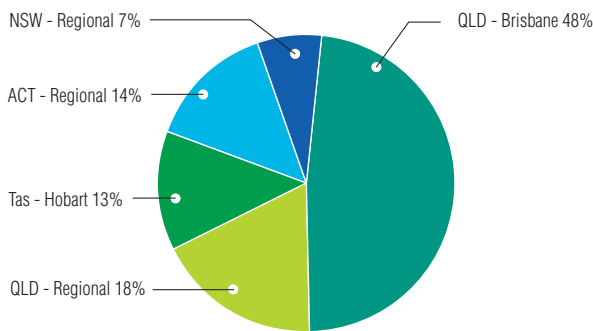
The portfolio comprises 11 properties, summarised as follows:

Asset	Sector	Location	% of Portfolio Value	Current Valuation
Post Office Square	Retail/Car Park	Brisbane CBD, Qld	22.67	\$55,000,000
Homeworld Centre	Retail/Office	Tuggeranong, ACT	13.40	\$32,500,000
The Lands Building	Office	Hobart, Tas	12.69	\$30,796,198
Garden Square	Office	Upper Mt Gravatt, Brisbane, Qld	9.69	\$23,500,000
Anzac Square	Office	Brisbane CBD, Qld	7.50	\$18,200,000
Cairns Hypermart	Retail/Industrial/Office	Cairns, Qld	7.01	\$17,000,000
388 Queen Street	Office	Brisbane CBD, Qld	6.70	\$16,250,000
Riverdale Centre	Retail/Entertainment	Dubbo, NSW	6.49	\$15,750,000
544 Kessels Road	Retail/Industrial	MacGregor, Brisbane, Qld	5.00	\$12,140,000
Centro on James - Stage 3	Retail/Entertainment	Fortitude Valley, Brisbane, Qld	4.53	\$11,000,000
The Precinct	Office/Retail	Coorparoo, Brisbane, Qld	4.31	\$10,450,000
			<b>100.00%</b>	<b>\$242,586,198</b>

## Geographical diversification

The following 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 Lands Building purchase during the Period.

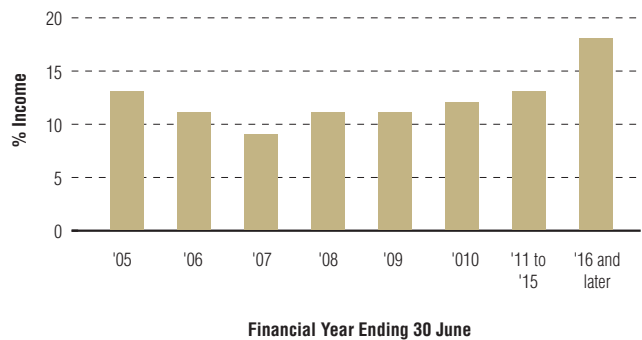
**Geographical Diversification (by NLA)**



## Lease expiry, average lease term and vacancy rate

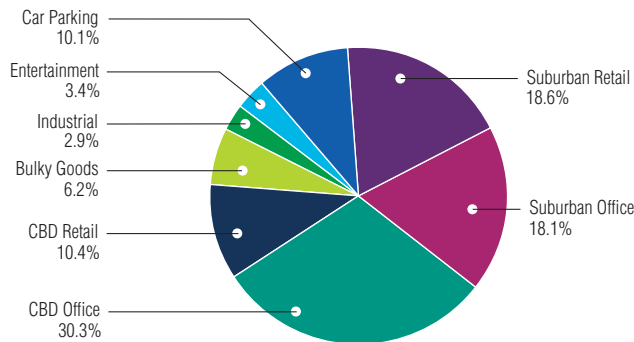
The chart below shows the portfolio's current lease expiry profile. The portfolio has a weighted average lease term of 5.53 years and a vacancy rate of approximately 3.24% (down from 4.4% on 1 July, 2003).

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



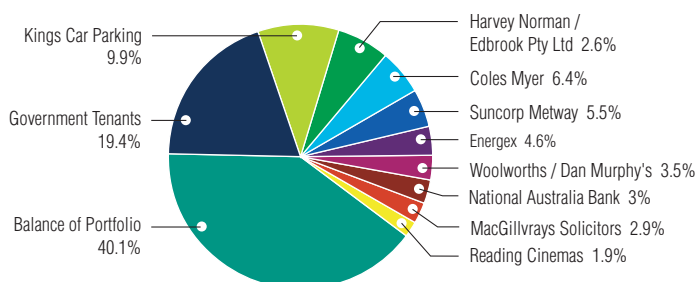
## Property sectors

**Property Sectors - % Income**



## The Tenants

The following pie chart illustrates the contribution by income (approximately 60%) of the top 10 tenants.





### Post Office Square

#### Description

Post Office Square is a landmark property located in the heart of the Brisbane CBD. The property is directly opposite the GPO and 100 metres from Central railway station. It comprises 25 retail shops and a six level underground car park of 316 spaces. The retail component is predominantly food oriented. The property's food court is located in the CBD office precinct. Post Office Square is essentially the gateway to the "Golden Triangle" premium office precinct of the CBD and Central railway station with high pedestrian traffic passing through the complex.

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

#### Key Data

Location:	280 Queen Street, Brisbane, Qld
Title:	Terminating freehold
Principal Use:	CBD retail and car park
Date Built:	1983
Date Acquired:	December 1999
Site Area:	3,311 m <sup>2</sup>
Net Lettable Area:	1,764 m <sup>2</sup> Retail 9,245 m <sup>2</sup> Car Park
Vacancy:	1.13%
Weighted Av. Lease Expiry:	4.71 years
Value:	\$ 55.0M
Valuation Date:	June 2004

Major Tenants	% of Income	Lease Expiry
Kings Parking	46%	30 November 2009
Angus & Robertson Bookworld	8%	16 October 2005
Coffee Club	2%	25 March 2012



### Anzac Square Offices

#### Description

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

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:	3.23 years
Value:	\$18.20M
Valuation Date:	June 2003

Major Tenants	% of Income	Lease Expiry
Energex	57%	30 June 2008
MacGillivrays Solicitors	35%	30 April 2007



## 388 Queen Street

### Description

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

### Key Data

Location:	388 Queen Street, Brisbane, Qld
Title:	Freehold
Principal Use:	Commercial Office
Date Built:	1988
Date Acquired:	December 2001
Site Area:	911 m <sup>2</sup>
Net Lettable Area:	6,266 m <sup>2</sup>
Vacancy:	Nil
Weighted Av. Lease Expiry:	1.86 years
Value:	\$ 16.25M
Valuation Date:	June 2003

Major Tenants	% of Income	Lease Expiry
Suncorp Metway	67%	28 September 2005



## Centro On James - Stage 3

### Description

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

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

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

### Key Data

Location:	39 James Street, Fortitude Valley, Qld
Title:	Freehold and part strata
Principal Use:	Retail and entertainment
Date Built:	2000
Date Acquired:	December 2001
Site Area:	3,301 m <sup>2</sup>
Net Lettable Area:	3,872 m <sup>2</sup>
Vacancy:	Nil
Weighted Av. Lease Expiry:	5.66 years
Value:	\$ 11.00M
Valuation Date:	June 2004

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



### The Precinct

#### Description

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

The property's dominant tenant is the National Australia Bank who occupy 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 26% of its income include Australia Post, Infront Solutions and three 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:	2.20%
Weighted Av. Lease Expiry:	4.57 years
Value:	\$ 10.45M
Valuation Date:	June 2004

Major Tenants	% of Income	Lease Expiry
National Australia Bank	75%	29 April 2009



### Garden Square Office Park

#### Description

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

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

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

#### Key Data

Location:	643 Kessels Road, Brisbane, Qld
Title:	Freehold
Principal Use:	Commercial Office
Date Built:	1984
Date Acquired:	March 1998
Site Area:	1.665 ha
Net Lettable Area:	12,894 m <sup>2</sup> (approx)
Vacancy:	13.31%
Weighted Av. Lease Expiry:	1.36 years
Value:	\$ 23.50M
Valuation Date:	June 2003

Major Tenants	% of Income	Lease Expiry
Coles Myer	52%	2 December 2004
Qld State Govt.	11%	31 August 2007
Trendwest	9%	12 June 2005



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

## 544 Kessels Road

### Description

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

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

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

### Key Data

Location:	544 Kessels Road, MacGregor, Qld
Title:	Freehold
Principal Use:	Retail
Date Built:	Various
Date Acquired:	April 1999
Site Area:	2.764 ha
Net Lettable Area:	8,304 m <sup>2</sup>
Vacancy:	Nil
Weighted Av. Lease Expiry:	5.71 years
Value:	\$ 12.14M
Valuation Date:	June 2004

Major Tenants	% of Income	Lease Expiry
Petwise Store	28%	20 September 2011
JB Hi-Fi	20%	12 March 2012
Encel Stereo (formerly Stereo Supplies)	18%	31 January 2012
Bob Jane T Mart	10%	8 September 2005



## The Homeworld Centre

### Description

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

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

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

### Key Data

Location:	Cnr Anketell Street and Soward Way, Tuggeranong, ACT
Title:	Crown leasehold
Principal Use:	Retail and Office
Date Built:	1988
Date Acquired:	December 1999
Site Area:	2.19 ha
Net Lettable Area:	8,525 m <sup>2</sup> Retail 3,835 m <sup>2</sup> Office
Vacancy:	4.07%
Weighted Av. Lease Expiry:	6.28 years
Value:	\$ 32.50M
Valuation Date:	June 2004

Major Tenants	% of Income	Lease Expiry
ACT Government	34%	30 June 2009
Woolworths (Dan Murphy's)	11%	22 December 2017
ALDI	9%	6 February 2017





### 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 warehouse facility adjoins the retail centre and has been granted council approval to change from warehouse use to retail use. This facility leased by Carlton & United Breweries has been sub-leased to Harvey Norman.

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:	16,064 m <sup>2</sup>
Vacancy:	1.65%
Weighted Av. Lease Expiry:	4.24 years
Value:	\$17.0M
Valuation Date:	June 2004

Major Tenants	% of Income	Lease Expiry
Harvey Norman	37%	30 September 2012
Carlton & United Breweries	23%	19 March 2005
Freedom Furniture	12%	31 July 2005



### The Riverdale Centre

#### Description

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

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

The Riverdale Centre includes a strongly trading Woolworths supermarket, a successful Readings 5-Plex 1,072 seat cinema complex, well patronised tavern and 10 specialty retailers. Reading International Inc. operates multiplex cinemas in Australia, New Zealand, the United States and Puerto Rico and is developing further entertainment centres in Australia and New Zealand.

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

#### Key Data

Location:	49-65 Macquarie Street, Dubbo, NSW
Title:	Freehold
Principal Use:	Retail / Entertainment
Date Built:	1974 (Expanded 1999)
Date Acquired:	September 2002
Site Area:	1.178 ha
Net Lettable Area:	6,158 m <sup>2</sup>
Vacancy:	10.59%
Weighted Av. Lease Expiry:	8.97 years
Value:	\$15.75M
Valuation Date:	June 2004

Major Tenants	% of Income	Lease Expiry
Energex	57%	30 June 2008
MacGillivrays Solicitors	34%	30 April 2007



## The Lands Building

### Description

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

The Lands Building offers tenants generous natural light and impressive views over Hobart and its harbour. The building has floor plates of approximately 1,037m<sup>2</sup> and offers quality office accommodation.

The building is fully leased with a 14 year remaining lease term and houses a number of State Government agencies. The ground floor is home to the Tasmanian State Government's customer service centre, known as Service Tasmania.

The building has an attractive entry foyer and has recently undergone a substantial refurbishment carried out in consultation with the tenant.

### Key Data

Location:	134 Macquarie Street, Hobart, Tas
Title:	Freehold
Principal Use:	Commercial Office
Date Built:	1976
Date Acquired:	March 2004
Site Area:	1,968 m <sup>2</sup>
Net Lettable Area:	11,675 m <sup>2</sup>
Vacancy:	Nil
Weighted Av. Lease Expiry:	13.76 years
Value:	\$30.79M
Valuation Date:	March 2004

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

# The Directors

## **Gregory James Paramor**

*Non-Executive Chairman*

Greg Paramor is the managing director of the James Fielding Group, responsible for the overall management and operations of the Group. Greg, as a co-founder of the Group, played an integral part in the merging of JF Holdings and JF Trust (formerly known as PA Property Trust) to create a merged stapled entity trading on the ASX as the James Fielding Group. The Group manages funds totalling some \$1.8 billion.

He has been involved in the real estate and funds management industry for the past 30 years. He has participated in forming property vehicles for public investment since 1981, with direct involvement in the organisation of approximately \$4 billion of commercial, retail and industrial projects and property securities.

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



## **Christopher Arthur Morton**

*Managing Director*

Chris Morton holds the degrees of Bachelor of Commerce and Bachelor of Laws from the University of Queensland and a Master of Laws from Cambridge University (United Kingdom). He has been admitted as a solicitor for over 22 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 executive of that firm's Brisbane office. In his legal capacity, he was involved in some of the larger property developments in South East Queensland. 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 current president of the Property Council of Australia (Queensland Division). He is also a past president of the Australian Direct Property Investment Association ("ADPIA"). He is a member of the Australian Institute of Company Directors and the Securities Institute of Australia.



## **David John Conquest**

*Executive Director*

David has been involved in the property and financial services industry for over 27 years. He has previously held senior executive positions with Growth Equities Mutual (GEM), Lend Lease, Suncorp Metway and Deutsche Bank. David is a former property lecturer for the Securities Institute of Australia. He has had considerable experience with a range of financial products offered by the Australian funds management industry, with a particular focus on property products. David is well respected by financial intermediaries throughout Australia. David provides an innate understanding of the needs of the users of investment products and their advisers' requirements.



## **Dennis Wayne Wildenburg**

*Non-Executive Director*

Dennis brings to the board over 20 years experience in the financial services and funds management industry. He has been a director of MLC Funds Management Limited and was an associate director of Hill Samuel Australia (now Macquarie Bank Limited). Dennis is currently a compliance committee member of State Street Services Limited and State Street Global Advisors, Australia Services Limited. Dennis has been consulting to the financial services industry for over a decade and has significant national and international fund managers as clients. Dennis' broad experienced includes professional accounting, development of superannuation and unit trust products and financial services marketing.



## **Nicholas Roland Collishaw**

*Non-Executive Director*

Nicholas Collishaw has been involved in property and property funds management for more than 20 years. He has extensive experience in commercial, retail and industrial property throughout Australia. He manages JFG's property assets and trust funds.

In various roles he has co-ordinated and implemented portfolio sales programs from \$30 million to \$300 million. He has managed many large industrial, retail and commercial acquisitions.

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



# Senior Managers

## **Stephen Barnard**

### *General Manager and Company Secretary*

Stephen is responsible for fund financing and debt management, accounting, compliance and continuous disclosure and is also the Company Secretary for PFA. Stephen has completed a Bachelor of Business Degree at the Queensland University of Technology and is a chartered accountant and chartered company secretary. He has had significant experience in senior roles within the banking and finance and insurance industries including senior roles with KPMG and Queensland Investment Corporation. Stephen is also a member of the compliance committee.



## **Shaun Witherow**

### *Investment Manager*

Shaun is responsible for portfolio analysis, fund forecasting and its financial analysis including the impact of potential acquisitions, financing and disposals. Shaun has held the position of National Property Funds Manager for another property fund management organisation and Portfolio Manager for a well known Brisbane property development company. He also held a general manager position within the JLL Asset Management Division and various other property related positions. Shaun has undertaken studies in real estate, management, sales and marketing.



## **Cameron Donaldson**

### *National Portfolio Manager*

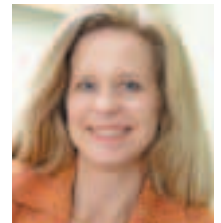
Cameron joined PFA in December, 2001 and since that time has been responsible for the asset management of all Trust property assets. The major focus of his role is on the maintenance and increasing of both property incomes and asset values. Prior to joining PFA, Cameron held various senior property and asset management positions within AMP, with the most recent in the Property Development division. He has also worked as a property valuer. Cameron holds a Bachelor of Surveying from the University of Queensland, Bachelor of Business (Real Property Valuation and Administration) from the University of Queensland – Gatton College, a Graduate Diploma in Project Management from the Queensland University of Technology, a Master of Commerce (Land Economy) from the University of Western Sydney – Hawkesbury and Graduate Certificate in Commercial Property Management from the Property Council of Australia. Cameron is also a registered valuer and has held a real estate salesperson licence (Qld).



## **Bronwyn Risk**

### *Manager - Investment Services*

Bronwyn joined PFA in April, 1998 and is responsible for investor relations, marketing and communications. Bronwyn's role also includes overseeing the operation of PFA's inhouse registry service. Bronwyn has had over 12 years experience in funds management, financial planning and client relations. She is a qualified financial planner and has completed a Diploma in Financial Advising at the Securities Institute of Australia. Bronwyn has held positions with Sealcorp, Perpetual Trustees and Macquarie Bank. Bronwyn is a member of the Financial Planning Association and Securities Institute of Australia (Affiliate).



## **Brett Adams**

### *Acquisitions Manager*

Brett is responsible for the sourcing and delivery of property to form part of the PFA Diversified Property Trust or such other funds as from time to time may be established by PFA. His role includes the due diligence of acquisitions and co-ordination of the disposal of any assets as the PFA board determines. Brett is a Registered Valuer and Land Economist, and holds an Associate Diploma in Real Estate Valuation from the University of Queensland – Gatton College, a Post Graduate Diploma in Project Management (Property Development Stream) from the Queensland University of Technology and is currently undertaking studies for a Graduate Diploma in Applied Finance and Investment through the Securities Institute of Australia. Brett was previously the Head of Corporate Real Estate (Qld) for the National Australia Bank and has held property positions with Telstra, Deloitte Touche Tohmatsu, Sallmanns and CB Richard Ellis.



# 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 27 August, 2004. 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.

## Taxation Information Regarding the Merger

Unitholders who held interests in the seven managed investments schemes (excluding the Trilogy Trust) involved in the merger to establish the PFA Diversified Property Trust, effective 1 July 2003 have been provided with important capital gains tax information regarding the merger. This information needs to be carefully considered for the preparation of their 2003/2004 tax return. The notes which form part of the annual taxation statement and distribution summary also provide important information. Please contact us if you are unable to locate your statement and notes or you have any enquiries relating thereto.

## Unitholder Communications

Unitholders receive:-

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

## Registry

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

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

## Annual Reports

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

## Privacy

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

## Complaints

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

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

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



*Mary Goodwin – Investment Services Officer*

# Corporate Governance

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

## The Responsible Entity

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

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

## The Board of the Responsible Entity

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

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

The Board has access to all documents and information necessary to discharge its duties and responsibilities. During the Period, board meetings were generally held monthly with additional meetings held as necessary.

## 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 specializes in the provision of compliance services as a compliance committee member for a number of significant managed investment schemes.

- **Mr Stephen Barnard** (General Manager and Company Secretary) was appointed 25 February, 2004. Mr Chris Morton (the Manager's managing director) resigned as a member of the Compliance Committee on 25 February, 2004.

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 bi-monthly, or as necessary. It is provided, by the compliance officer, with comprehensive compliance reports. The Committee reports its findings to the Board of the responsible entity.

## Independent Professional Advice

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

## Access to Information

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

## Risk Management

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

## Remuneration of Expenses

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

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

## Audit

The Manager does not have a formally constituted audit committee.

The Manager has appointed an external auditor to audit the operations of the Fund and its financial statements. An external auditor has also been appointed to audit the responsible entity's compliance with the Compliance Plan.

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

# FINANCIAL STATEMENTS

## For the Year Ended 30 June, 2004



<b>Directors' Report</b>	<b>22</b>
<b>Statements of Financial Performance</b>	<b>26</b>
<b>Statements of Financial Position</b>	<b>27</b>
<b>Statements of Cashflow</b>	<b>28</b>
<b>Notes to the Financial Statements</b>	<b>29</b>
<b>Directors' Declaration</b>	<b>47</b>
<b>Independent Audit Report to the Unitholders</b>	<b>48</b>



## DIRECTORS' REPORT

The Directors of Property Funds Australia Limited ("the Manager") as the Responsible Entity of the PFA Diversified Property Trust present their report on The PFA Diversified Property Trust (formerly The Trilogy Trust) (referred to as "the Trust") and its controlled entities for the financial year ended 30 June, 2004 ("the Period").

### Directors of the Manager

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

Christopher A Morton	
David J Conquest	
Elizabeth A Pidgeon	(retired 27 August, 2004)
Matthew B Madsen	(retired 5 September, 2003)
Dennis W Wildenburg	(appointed 22 September, 2003)
Gregory J Paramor	(appointed 27 August, 2004)
Nicholas R Collishaw	(appointed 27 August, 2004)

Directors have been in office since the start of the Period 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 Period are as follows:-

	2004 \$	2003 \$
Gross Revenue	25,571,733	5,451,029
Net Profit	6,345,043	1,454,278
Total Distributions Paid	8,259,994	2,329,993
Total Assets	259,909,865	47,246,361
Net Assets	101,706,576	22,378,790

### Distributions – for the Year Ended 30 June, 2004

Distributions were paid monthly during the Period 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, 2004 as being 0.79 cents per Unit per month. Distributions totalling \$1,513,722 have been paid since the end of the Period 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

#### Merger

As contemplated in the Explanatory Memoranda relating to the merger, and after the unitholder meetings on 27 June, 2003, the Trust merged with effect from 1st July 2003 with all of the other Property Funds Australia Limited managed property funds and was renamed the PFA Diversified Property Trust. The Trust now has an expanded property portfolio of 11 properties. As part of the merger, significant constitutional changes were effected including the change of the fixed term nature of the Trust. Furthermore, units in the Trust were allotted to investors in the other funds involved in the merger at various allotment ratios.

#### Acquisitions

The Trust acquired the Lands Building in Hobart, Tasmania in March, 2004 for \$28.92M plus acquisition costs. This acquisition was funded via the debt facility as detailed below.

#### Unit Buybacks

During the period, the Trust undertook to buyback units held through on and off-market buyback offers. Units bought back under the offers were as follows:-

- On-Market Buyback – 500,000 units @ \$1.00;
- Off-Market Buyback – 5,458,248 units @ \$1.00.

### Capital Raising

The Manager issued on behalf of the Trust a Product Disclosure Statement on 27 February, 2004 to raise \$25M to fund the repayment of debt used to finance the acquisition of the Hobart property, the off-market buyback detailed above and forecast capital expenditure. 7,109,974 units were allotted in total as a result of this capital raising during the Period.

### Debt Refinancing

During the period, the Trust refinanced its debt facilities. The new facilities have been provided in a joint finance facility by the Commonwealth Bank of Australia and mortgage funds managed by ING Management Limited. The overall value of debt by the Trust has increased during the period as a result of the Hobart property acquisition.

There were no other significant changes in the state of affairs of the Trust that occurred during the Period under review.

## After Balance Date Events

### Interest Rate Swap

Since the end of the Period, the Trust entered into an interest rate swap with the Commonwealth Bank of Australia to fix the interest rate on \$10M of debt for a three year period at 5.79% plus appropriate borrower's margin. This transaction had a commencement date of 22 July, 2004.

### Capital Raising Closure

The capital raising pursuant to the product disclosure statement dated 27 February, 2004 closed on 7 September, 2004 after raising \$20,828,533. 13,310,188 units were allotted after the end of the Period as a result of this product disclosure statement.

### Repayment of Debt

Since the end of the Period, the trust repaid \$14,410,000 to its finance facility from the proceeds of capital raised pursuant to the product disclosure statement dated 27 February, 2004 and the placement of units mentioned below. This was in accordance with agreed financing terms.

### Placement of Units in the Trust

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

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 Period and there were no options outstanding at the date of this report.

## DIRECTORS' REPORT continued

### 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
<b>Christopher Arthur Morton</b>	<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 20 years.</p> <p>As a solicitor, he was a partner of the national legal firm Phillips Fox where towards the end of his legal career he headed the property division and was one of the management 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 syndications and trusts since 1994. Chris has also in his career held an accounting position and was an Associate to a Supreme Court Judge. Chris is currently the President of the Property Council of Australia (Qld Division). He is a recent Past President of the Australian Direct Property Investment Association ("ADPIA").</p>	Managing Director	14	15
<b>David John Conquest</b>	<p>David has been involved in the property and financial services industry for over 25 years. He has previously held senior executive positions with Growth Equities Mutual (GEM), Lend Lease, Suncorp Metway and Deutsche Bank.</p> <p>David is a former property lecturer for the Securities Institute of Australia (SIA). He has had considerable experience with a range of financial products offered by the Australian funds management industry, with a particular focus on property products. David is well respected by financial intermediaries throughout Australia.</p> <p>David provides to the company an innate understanding of the needs of the users of investment products and their advisers' requirements.</p>	Director	13	15
<b>Dennis Wayne Wildenburg</b> (appointed 22 September, 2003)	<p>Dennis brings to the Board over 20 years experience in the financial services and funds management industry. Dennis has been a Director of MLC Funds Management Limited and was an Associate Director of Hill Samuel Australia (now Macquarie Bank Limited).</p> <p>Dennis is currently a compliance committee member of State Street Services Limited and State Street Global Advisors, Australia Services Limited. Dennis has been consulting to the financial services industry for over a decade and has significant national and international fund managers as clients.</p> <p>Dennis' broad experience includes professional accounting, development of superannuation and unit trust products and financial services marketing.</p>	Director	10	11
<b>Elizabeth Ann Pidgeon</b> (retired 27 August, 2004)	<p>Liz has been involved in the property industry for 15 years culminating in her gaining industry recognition as President of the Property Council of Australia (Queensland Division), the industry's peak body.</p> <p>She holds a Bachelor of Business – Management Degree and is a licensed real estate agent.</p> <p>Liz's grounding in property started with Richard Ellis, a major real estate agency group. She was appointed as an executive director of F.A. Pidgeon &amp; Son Pty Ltd, a construction and development company which through the 1980s and 1990s was a major builder and developer within south east Queensland. She is now a partner and director of Cornerstone Properties Limited, a development company.</p> <p>She has been on several boards and committees, both professional and charitable including a member of the Brisbane City Council's Urban Renewal Task Force, Urban Design Advisory Panel and Brisbane Marketing.</p>	Director	14	15
<b>Matthew Bradley Madsen</b> (retired 5 September, 2003)	<p>Matthew was the director in charge of funds management for the Manager's portfolio. His role encompassed asset acquisition and subsequent asset and funds management.</p> <p>Matthew has undertaken studies in property investment and finance, shopping centre management and holds a Diploma in Financial Markets from the Securities Institute of Australia of which he is an affiliate member.</p> <p>Prior to joining the Company, Matthew held positions with the major real estate agency group Richard Ellis in the property management area, national property finance intermediary Ashe Morgan Winthrop and was state manager of another property funds management organisation.</p>	Director	3	3

Name	Qualifications	Responsibilities	Directors Meetings During Year	
			Attended	Eligible to Attend
<b>Gregory James Paramor</b> (appointed 27 August, 2004)	<p>Greg Paramor is the Managing Director of the James Fielding Group, responsible for the overall management and operations of the Group.</p> <p>Greg, as a co-founder of the Group, played an integral part in the merging of JF Holdings and JF Trust (formerly known as PA Property Trust) to create a merged stapled entity trading on the ASX as the James Fielding Group ("JFG"). The Group manages funds totalling some \$1.8 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 immediate past president of the Property Council of Australia, a former chairman of the Investment Funds Association of Australia Limited and a Fellow of the Australian Property Institute. Greg is a Director of a number of organisations and companies, including the Garvan Institute of Medical Research and Leighton Properties Pty Limited.</p>	Chairman	0	0
<b>Nicholas Roland Collishaw</b> (appointed 27 August, 2004)	<p>Nicholas Collishaw has been involved in property and property funds management for more than 20 years. He has extensive experience in commercial, retail and industrial property throughout Australia. He manages JFG's property assets and trust funds. In various roles he has co-ordinated and implemented portfolio sales programs from \$30 million to \$300 million. He has managed many large industrial, retail and commercial acquisitions. Nicholas has an Associate Diploma in Business (Valuations) from the Sydney Institute of Technology and a Diploma in Financial Markets from the Securities Institute of Australia. He held senior positions with Deutsche Asset Management, Paladin Australia Limited and Schroders Australia.</p>	Director	0	0

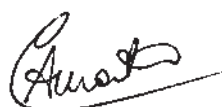
## Indemnification and Insurance of Officers and Auditors

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

## Proceedings on behalf of the Manager

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

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



**Christopher A. Morton**  
Managing Director  
17 September, 2004

## STATEMENTS OF FINANCIAL PERFORMANCE

for the Year Ended 30 June, 2004

	Note	CONSOLIDATED 2004 \$	PARENT 2004 \$	PARENT 2003 \$
Revenue from ordinary activities	2	25,571,733	11,544,986	5,451,029
Expenses from ordinary activities				
Property expenses	2	(5,520,701)	(1,478,518)	(1,148,918)
Fund expenses				
Direct expenses	2	(2,272,044)	(1,840,068)	(562,816)
Amortisation	2	(1,585,907)	(480,113)	(466,294)
		(3,857,951)	(2,320,181)	(1,029,110)
Borrowing costs				
Interest	2	(8,802,833)	(2,432,347)	(1,596,029)
Amortisation	2	(1,045,205)	(471,122)	(222,694)
		(9,848,038)	(2,903,469)	(1,818,723)
<b>Profit/(Loss) from ordinary activities before income tax expense</b>		<b>6,345,043</b>	<b>4,842,818</b>	<b>1,454,278</b>
Income tax expense relating to ordinary activities	1(e)	-	-	-
<b>Profit/(Loss) after income tax expense attributable to Unitholders</b>		<b>6,345,043</b>	<b>4,842,818</b>	<b>1,454,278</b>
Increase in asset revaluation reserve	15	10,669,015	1,432,741	363,475
<b>Total changes in Trust equity other than those resulting from transactions with Unitholders as Unitholders</b>		<b>17,014,058</b>	<b>6,275,559</b>	<b>1,817,753</b>
Basic earnings per Unit (cents)	2	6.83		
Diluted earnings per Unit (cents)	2	6.83		

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

## STATEMENTS OF FINANCIAL POSITION

as at 30 June, 2004

	Note	CONSOLIDATED 2004 \$	PARENT 2004 \$	PARENT 2003 \$
<b>CURRENT ASSETS</b>				
Cash assets	4	4,592,859	3,995,949	449,134
Receivables	5	700,664	1,363,744	136,346
Other	6	725,770	256,343	116,566
<b>TOTAL CURRENT ASSETS</b>		6,019,293	5,616,036	702,046
<b>NON-CURRENT ASSETS</b>				
Cash assets	7	-	-	300,000
Investment – Property	8	242,662,274	75,046,198	42,810,000
Other financial assets	9	-	69,714,987	4
Intangible assets	10	7,740,574	-	-
Other	11	3,487,724	3,309,545	3,434,311
<b>TOTAL NON-CURRENT ASSETS</b>		253,890,572	148,070,730	46,544,315
<b>TOTAL ASSETS</b>		259,909,865	153,686,766	47,246,361
<b>CURRENT LIABILITIES</b>				
Payables	12	5,377,289	4,032,689	285,086
Interest bearing liabilities	13	16,410,000	16,410,000	-
<b>TOTAL CURRENT LIABILITIES</b>		21,787,289	20,442,689	285,086
<b>NON-CURRENT LIABILITIES</b>				
Interest bearing liabilities	13	136,416,000	42,276,000	24,582,485
<b>TOTAL NON-CURRENT LIABILITIES</b>		136,416,000	42,276,000	24,582,485
<b>TOTAL LIABILITIES</b>		158,203,289	62,718,689	24,867,571
<b>NET ASSETS</b>		101,706,576	90,968,077	22,378,790
<b>EQUITY</b>				
Unitholders' equity	14	90,674,086	89,171,861	22,015,315
Reserves	15	11,032,490	1,796,216	363,475
<b>TOTAL EQUITY</b>		101,706,576	90,968,077	22,378,790

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

## STATEMENTS OF CASH FLOWS

for the Year Ended 30 June, 2004

	Note	CONSOLIDATED 2004 \$	PARENT 2004 \$	PARENT 2003 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Rent & outgoings received		27,953,558	7,325,071	5,882,714
Interest received		78,645	63,257	78,040
Sundry income		23,304	-	4
Payments to suppliers		(11,899,256)	(4,884,869)	(2,450,508)
Interest paid		(8,876,580)	(2,286,151)	(1,596,029)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	16(b)	7,279,671	217,308	1,914,221
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net cash assumed as result of merger		(722,908)	-	-
Purchase of investment – property and capital improvements		(31,683,259)	(30,803,457)	(394,864)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		(32,406,167)	(30,803,457)	(394,864)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Distributions to Unitholders		(8,259,994)	(8,259,994)	(2,329,993)
Cost of equity raising		(435,787)	(435,787)	-
Merger expenses		(12,541)	(12,541)	-
Units issued		7,252,172	7,252,172	-
Capital raising funds provided for		3,511,582	3,511,582	-
Off-market buy back		(5,458,248)	(5,458,248)	-
On-market buy back		(499,402)	(499,402)	-
Inter-trust loans		-	3,631,666	-
Reduction in borrowings		-	-	(900,159)
Net proceeds from borrowings		30,872,439	32,103,516	-
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>		26,970,221	31,832,964	(3,230,152)
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		1,843,725	1,246,815	(1,710,795)
Cash at the beginning of the financial year		749,134	749,134	2,459,929
<b>CASH AT 30 JUNE</b>	16(a)	2,592,859	1,995,949	749,134

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

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 30 June, 2004

### Note 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

#### (a) Principles of Consolidation

A controlled entity is any entity controlled by the Trust. Control exists where the Trust has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Trust to achieve the objectives of the Trust. A list of controlled entities is contained in Note 9.

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

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

#### (b) Revenue Recognition

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

#### (c) Investment - Property

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

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

### Note 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

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

#### Change in Accounting Policy

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

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

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

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

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

#### (e) Income Tax

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

#### (f) Cash

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

#### (g) Distributions Paid

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

#### (h) Comparatives

There are no comparatives for the consolidated entity as the merger of the relevant trusts to form the consolidated entity occurred on 1 July, 2003. Refer Note 14 for further explanation.

The description Parent entity for the 2003 year includes only the Trust which was not a Parent at that point in time, but for disclosure purposes, has been identified as such.

Where necessary, comparatives for the Parent entity have been adjusted to comply with changes in accounting standards.

**Note 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued****(i) Intangibles**

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

**(j) Other Financial Assets**

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

**(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 Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

All revenue is stated net of the amount of GST.

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

**(l) Derivatives**

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

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

**(m) Interest rate swaps**

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

**(n) Remuneration Disclosures by Managed Investment Schemes that are Disclosing Entities**

The Trust has decided to adopt relief from the requirements of AASB 1046 "Directors' and Executives' Disclosures by Disclosing Entities" provided for under Australian Securities and Investments Commission Class Order 04/0967. This ASIC Class Order only provides relief for the year ending on or up to 30 September, 2004.

## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

	Consolidated 2004 \$	Parent 2004 \$	Parent 2003 \$
<b>Note 2 - REVENUE &amp; EXPENSES FROM ORDINARY ACTIVITIES</b>			
<b>REVENUE FROM ORDINARY ACTIVITIES</b>			
Rent received	22,997,052	5,843,736	4,801,286
Outgoings recovered	2,472,732	813,278	571,699
Distributions – Controlled entities			
The Riverdale Fixed Term Property Trust	-	473,480	-
Garden Square Trust	-	866,616	-
The Capital Collection – Diverse Sector Fund Trust No.1	-	2,143,960	-
The Metropolitan Collection – Brisbane Trust	-	1,340,659	-
Sundry income	23,304	-	4
Interest received	78,645	63,257	78,040
	25,571,733	11,544,986	5,451,029
<b>PROPERTY EXPENSES</b>			
Air conditioning maintenance	280,423	79,980	28,111
Body corporate costs	173,985	1,472	-
Cleaning	686,118	195,920	153,841
Electricity & gas	757,825	191,714	195,349
Fire protection costs	71,964	38,749	37,928
Garden maintenance	31,194	8,413	7,823
Insurance	505,849	149,999	110,708
Land tax	521,191	123,904	111,375
Lift maintenance	172,926	54,364	37,182
Professional fees	11,459	322	11,208
Property management costs	660,772	155,200	119,780
Rates	1,174,262	352,729	249,243
Repairs & maintenance	276,909	92,168	63,357
Security costs	143,189	25,458	23,013
Sundry costs	52,635	8,126	-
	5,520,701	1,478,518	1,148,918
<b>DIRECT EXPENSES</b>			
Accountancy	125,209	115,199	24,175
Advertising	29,888	1,230	1,884
Auction expenses	3,870	-	-
Auditors remuneration	66,383	67,233	15,380
Bad debts	11,336	-	4,070
Bank charges	34,311	18,722	3,928
Borrowing costs – bill facility	-	-	110,896
BSX listing fees	8,509	8,509	9,645
Commission – buy back	2,042	2,042	-
Commission – leasing	128,124	41,090	31,400
Compliance committee costs	46,461	46,543	12,034
Consultants fees	73,514	51,893	21,656
Custodian fees	66,372	66,872	15,005

	Consolidated 2004 \$	Parent 2004 \$	Parent 2003 \$
<b>Note 2 - REVENUE &amp; EXPENSES FROM ORDINARY ACTIVITIES continued</b>			
Filing fees	25,686	25,686	2,209
Finance intermediary fees	68,845	68,845	-
Lease settlement	30,000	-	-
Legal fees	183,550	33,106	34,770
Postage	2,034	1,974	2,540
Registry fees	20,700	20,700	6,580
Reporting expenses	73,592	73,592	27,986
Manager's fees	1,152,237	1,147,451	210,068
Travelling expenses	16,381	16,381	2,390
Valuation fees	103,000	33,000	26,200
	2,272,044	1,840,068	562,816
<b>AMORTISATION</b>			
Establishment costs	480,113	480,113	466,294
Goodwill on consolidation	1,105,794	-	-
	1,585,907	480,113	466,294
<b>BORROWING COSTS</b>			
Interest	8,802,833	2,432,347	1,596,029
Amortisation	1,045,205	471,122	222,694
	9,848,038	2,903,469	1,818,723
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>			
	6,345,043	4,842,818	1,454,278
Basic earnings per unit (cents per unit)	6.83		
Diluted earnings per unit (cents per unit)	6.83		
Net profit used in calculation of earnings per unit	6,345,043		
Weighted average number of units used in calculation of earnings per unit. There were no partly paid units on issue during the year.	92,930,674		
<b>Note 3 - AUDITORS REMUNERATION</b>			
Audit of financial report	75,063	68,513	15,100
Other services	69,218	59,208	8,937
	144,281	127,721	24,037
<b>Note 4 - CURRENT CASH ASSETS</b>			
Cash at bank	4,592,859	3,995,949	449,134
<b>Note 5 - CURRENT RECEIVABLES</b>			
Related entity receivables	-	1,193,049	-
Trade debtors	436,011	110,408	78,413
Provision for doubtful debts	(47,184)	-	-
Other debtors	27,502	27,502	35,316
Accrued income	284,335	32,785	22,617
	700,664	1,363,744	136,346
<b>Note 6 - CURRENT OTHER ASSETS</b>			
Prepaid expenses	717,570	253,793	114,016
Deposits	8,200	2,550	2,550
	725,770	256,343	116,566

## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

	Consolidated 2004 \$	Parent 2004 \$	Parent 2003 \$
<b>Note 7 - NON-CURRENT CASH ASSETS</b>			
Security deposit	-	-	300,000
<b>Note 8 - NON-CURRENT INVESTMENT – PROPERTY</b>			
<b>TOTAL INVESTMENT – PROPERTY</b>	242,662,274	75,046,198	42,810,000
Carrying amount at the beginning of financial year	200,310,000	42,810,000	42,051,661
Capital improvements	887,061	7,259	60,204
Purchase of investment property at cost	30,796,198	30,796,198	334,660
Revaluation increment/(decrement)	10,669,015	1,432,741	363,475
Carrying amount at the end of the financial year	242,662,274	75,046,198	42,810,000
<b>Property Summary</b>			
Centro on James (Stage 3), Fortitude Valley, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	11,000,000	11,000,000	9,760,000
388 Queen Street, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	16,250,000	16,250,000	16,250,000
Cairns Hypermart, 101 – 113 Spence Street, Cairns, Queensland Investment in Land & Buildings – at independent valuation	17,000,000	17,000,000	16,800,000
Lands Building, 134 Macquarie Street, Hobart, Tasmania Investment in Land & Buildings – at cost	30,796,198	30,796,198	-
Garden Square, Upper Mt Gravatt, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	23,500,000	-	-
Development works in progress – at cost	57,326	-	-
	23,557,326	-	-
The Precinct, Coorparoo, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	10,450,000	-	-
544 Kessels Road, MacGregor, Brisbane, Queensland Investment in Land & Buildings – at independent valuation	12,140,000	-	-
Riverdale Centre, Dubbo, New South Wales Investment in Land & Buildings – at independent valuation	15,750,000	-	-
Homeworld Centre, Tuggeranong, Canberra Investment in Land & Buildings – at independent valuation	32,500,000	-	-
Post Office Square, Brisbane CBD, Queensland Investment in Land & Buildings – at independent valuation	55,000,000	-	-
Anzac Square, Brisbane CBD, Queensland Investment in Land & Buildings – at independent valuation	18,200,000	-	-
Development works in progress – at cost	18,750	-	-
	18,218,750	-	-
<b>TOTAL INVESTMENT – PROPERTY</b>	242,662,274	75,046,198	42,810,000

**Note 8 - NON-CURRENT INVESTMENT – PROPERTY continued****Independent Valuations**

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

**388 Queen Street, Brisbane:** An Independent valuation of land and buildings was undertaken by Christopher Andrew AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 31 December, 2003.

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

**Garden Square Complex, Upper Mt Gravatt, Brisbane:** An Independent valuation of land and buildings was undertaken by Gregory P. Bremner AAPI, Certified Practising Valuer of Chesterton. The valuation was based on market value as at 30 June, 2003.

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

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

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

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

**Post Office Square, Brisbane:** An Independent valuation of land and buildings was undertaken by Nicholas Wordsworth AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 30 June, 2004. Post Office Square is held as a terminating freehold property to be transferred to the Brisbane City Council on 4 April, 2059.

**Anzac Square, Brisbane:** An Independent valuation of land and buildings was undertaken by Fraser Bentley AAPI, Certified Practising Valuer of LandMark White. The valuation was based on market value as at 31 December, 2003.

	<b>Consolidated 2004 \$</b>	<b>Parent 2004 \$</b>	<b>Parent 2003 \$</b>
<b>Note 9 - NON-CURRENT OTHER FINANCIAL ASSETS</b>			
Investments in Controlled Entities			
The Riverdale Fixed Term Property Trust	-	8,101,169	1
The Capital Collection – Diverse Sector Fund Trust No. 1	-	34,136,906	1
The Metropolitan Collection – Brisbane Trust	-	16,463,875	1
Garden Square Trust	-	11,013,037	1
Investments in controlled entities	-	69,714,987	4
All controlled entities are 100% owned since the merger on 1 July, 2003 see Note 14			
<b>Note 10 - NON-CURRENT INTANGIBLE ASSETS</b>			
Goodwill on consolidation	8,846,368	-	-
Accumulated amortisation	(1,105,794)	-	-
	7,740,574	-	-

## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

	Consolidated 2004 \$	Parent 2004 \$	Parent 2003 \$
<b>Note 11 - NON-CURRENT OTHER ASSETS</b>			
Borrowing costs	1,093,925	813,926	520,460
Accumulated amortisation	(171,936)	(70,117)	(119,456)
	921,989	743,809	401,004
Establishment costs	3,732,907	3,732,908	3,732,907
Accumulated amortisation	(1,167,172)	(1,167,172)	(699,600)
	2,565,735	2,565,736	3,033,307
	3,487,724	3,309,545	3,434,311
<b>Note 12 - CURRENT PAYABLES</b>			
Trade creditors	776,158	90,923	44,277
Accrued expenses	739,281	353,902	127,146
GST payable	350,268	76,282	83,862
Unit application monies <sup>(1)</sup>	3,511,582	3,511,582	-
Accrued capital works	-	-	29,801
	5,377,289	4,032,689	285,086
<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 dated 27 February, 2004.			
At 30 June, 2004 the Trust held application monies for unallotted units and related investor directed commissions in the Trust of \$3,511,582.			
<b>Note 13 - INTEREST BEARING LIABILITIES</b>			
<b>Current</b>			
Bank Overdraft	2,000,000	2,000,000	-
Mortgage Loans	14,410,000	14,410,000	-
	16,410,000	16,410,000	-
<b>Non-Current</b>			
Mortgage Loans	136,416,000	42,276,000	24,582,485

### Note 14 - UNITHOLDERS' EQUITY

#### Merger of Trusts

#### Background

The merger of PFA Diversified Property Trust (formerly The Trilogy Trust) with the following trusts:-

#### Merging Trusts:

The Riverdale Fixed Term Property Trust	ARSN: 100 666 920
The Capital Collection – Diverse Sector Fund Syndicate No. 1	ARSN: 088 775 375
The Capital Collection – Diverse Sector Fund Trust No. 1	ARSN: 088 775 259
The Metropolitan Collection – Brisbane Syndicate	ARSN: 093 295 544
The Metropolitan Collection – Brisbane Trust	ARSN: 093 313 690
Garden Square Syndicate	ARSN: 104 858 219
Garden Square Trust	ARSN: 104 858 264

was effected on 1 July, 2003. This merger was in accordance with the Explanatory Memorandum dated 2 June, 2003 lodged with the Bendigo Stock Exchange.

**Note 14 - UNITHOLDERS' EQUITY continued****Merger Process**

The merger was effected by merging the eight trusts into one Trust now known as the PFA Diversified Property Trust on 1 July, 2003.

The merger took place by a series of cancellations of units or lots in all the merging trusts (except for PFA Diversified Property Trust). Ultimately the owners of those units or lots in the merging trusts received units in the Trust as consideration. The Trust became the ultimate holding entity and has (directly or indirectly) 100% of all units or lots on issue in the other seven merging trusts. Through this ownership structure the Trust owns and controls the property portfolio.

The merger resulted in the number of issued units in the Trust increasing from 23,300,000 to 93,014,987.

	<b>Consolidated 2004 \$</b>	<b>Parent 2004 \$</b>	<b>Parent 2003 \$</b>
Unitholders equity is made up of:			
Contributed Capital (i)	94,309,509	94,309,509	23,300,000
Accumulated profits at beginning of financial year	2,487,618	2,487,618	1,033,340
Current year profit	6,345,043	4,842,818	1,454,278
Capital raising costs	(823,324)	(823,324)	(387,538)
Accumulated distributions at beginning of financial year	(3,384,765)	(3,384,765)	(1,054,772)
Current year distributions	(8,259,995)	(8,259,995)	(2,329,993)
	90,674,086	89,171,861	22,015,315

	<b>Parent 2004 \$</b>	<b>Parent 2004 Number</b>
<b>(i) Contributed Capital</b>		
Units on Issue at the beginning of the financial year	23,300,000	23,300,000
Units issued 1 July, 2003 to investors in:		
Garden Square Syndicate	11,013,037	11,013,037
The Metropolitan Collection – Brisbane Syndicate	16,463,875	16,463,875
The Capital Collection – Diverse Sector Fund Syndicate No.1	34,136,906	34,136,906
Riverdale Fixed Term Property Trust	8,101,169	8,101,169
Units on issue on completion of the merger	93,014,987	93,014,987
Units issued during the period in accordance with the Product Disclosure Statement dated 27 February, 2004	7,252,172	7,109,973
Units cancelled in accordance with Off-Market Capital Buyback Offer	(5,458,248)	(5,458,248)
Units cancelled in accordance with On-Market Capital Buyback Offer	(499,402)	(500,000)
Units on Issue at the end of the financial year	94,309,509	94,166,712



## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

	Consolidated 2004 \$	Parent 2004 \$	Parent 2003 \$
<b>Note 15 - RESERVES – ASSET REVALUATION RESERVE</b>			
Opening balance	363,475	363,475	-
Asset revaluation increment	10,669,015	1,432,741	363,475
Closing balance	11,032,490	1,796,216	363,475
The purpose of the asset revaluation reserve is to record the revaluation increments and decrements of investment property			
<b>Note 16 - NOTES TO THE STATEMENT OF CASH FLOWS</b>			
<b>(a) Reconciliation of cash</b>			
Cash at the end of the financial year as shown in The Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:			
Cash at bank and term deposits	4,592,859	3,995,949	749,134
Bank overdraft	(2,000,000)	(2,000,000)	-
	2,592,859	1,995,949	749,134
<b>(b) Reconciliation of net cash provided by activities to profit from ordinary activities after income tax expense</b>			
Profit from ordinary activities after income tax expense	6,345,043	4,842,818	1,454,278
<b>Non cash items in profit from ordinary activities:</b>			
Distributions – Controlled entities	-	(4,824,715)	-
Amortisation – Establishment costs	480,113	480,113	466,294
Amortisation – Goodwill	1,105,794	-	-
Amortisation – Borrowing costs	1,045,205	471,122	222,694
Sundry Income	-	-	(4)
Bad debts	-	-	4,070
<b>Changes in Assets and Liabilities:</b>			
(Increase) / decrease in Receivables	(24,035)	(34,349)	52,677
(Increase) / decrease in Current other assets	(376,975)	(139,777)	(47,070)
(Increase) / decrease in Borrowing costs	(817,864)	(813,924)	(265,290)
Increase / (decrease) in Payables	(477,610)	236,020	26,572
<b>Net Cash Provided by Operating Activities</b>	7,279,671	217,308	1,914,221
<b>(c) Credit standby arrangement – Bank Overdraft</b>			
Bank overdraft facilities available	3,000,000	3,000,000	-
Bank overdraft facilities utilised	2,000,000	2,000,000	-
<b>Unused bank overdraft facilities</b>	1,000,000	1,000,000	-
<b>(d) Financing arrangements</b>			
Finance facilities available	150,826,000	56,686,000	24,585,000
Finance facilities utilised <sup>(1)</sup>	150,826,000	56,686,000	24,582,485
<b>Unused finance facilities</b>	-	-	2,515

<sup>(1)</sup> An amount of \$14,410,000 has been repaid to this facility since year end in accordance with the terms of the facility.

**Note 16 - NOTES TO THE STATEMENT OF CASH FLOWS continued**

The major facilities are summarised as follows:

**Overdraft Facility:** The Trust has an overdraft facility of up to \$3M with the National Australia Bank which is used to fund day to day operations. This overdraft facility is secured by mortgages over certain properties.

**Joint Finance Facility:** The Trust has a combined finance facility between the Commonwealth Bank of Australia ("CBA") and mortgage funds managed by ING Management Limited ("ING") collectively referred to as the Financiers. Under this joint finance facility, the total debt is \$150,826,000. 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 from 6 November 2003;

**Lender's Margin:**

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

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

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

**Hedging:** As at 30 June, 2004 53% 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
Less than 1 year	-	-
1 to 2 years	-	-
2 to 5 years	5.10% to 5.90%	\$18,370,000
<b>Total</b>		<b>\$18,370,000</b>

**Interest Rate Swaps**

Settlement	Weighted Average Interest Rate	Notional Principal
Less than 1 year	-	-
1 to 2 years	-	-
2 to 5 years	6.86%	\$61,514,000
<b>Total</b>		<b>\$61,514,000</b>

**Combined Hedging Arrangements**

Fixed to:	Oct 06	Dec 06	Sep 07	Dec 07	Oct 08	Nov 08	Total Hedged
Caps & Collars	\$9,100,000	-	-	\$9,270,000	-	-	\$18,370,000
Effective Interest Rate	5.10% to 5.70%	-	-	5.20% to 5.90%	-	-	
Interest Rate Swaps	-	\$5,885,000	\$10,000,000	-	\$13,917,000	\$12,560,000	\$61,514,000
Effective Interest Rate	-	6.28%	6.98%	-	6.97%	6.98%	6.98%
<b>Total Hedged</b>	<b>\$9,100,000</b>	<b>\$15,885,000</b>	<b>\$9,270,000</b>	<b>\$26,477,000</b>	<b>\$10,000,000</b>	<b>\$9,152,000</b>	<b>\$79,884,000</b>

## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

### Note 16 - NOTES TO THE STATEMENT OF CASH FLOWS continued

Since the end of the Period, the Trust entered into an interest rate swap with the Commonwealth Bank of Australia to fix the interest rate on \$10M of debt for a three year period at 5.79% plus appropriate borrower's margin. This transaction had a commencement date of 22 July, 2004.

After this transaction and the debt repayment detailed above, 66% of the Trust debt funding has fixed interest rates or is hedged.

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

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

### Note 17 - EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the Period, the Trust has paid monthly distributions to Unitholders in the months of July and August 2004 totalling \$1,513,722.

#### *Capital Raising Closure*

The capital raising pursuant to the Product Disclosure Statement dated 27 February, 2004 closed on 7 September, 2004 after raising \$20,828,533. 13,310,188 units were allotted after the end of the period as a result of this Product Disclosure Statement.

#### *Placement of Units in the Trust*

On 9 September, 2004, the Trust allotted 3,000,000 units in the Trust to National Nominees Limited as Nominee for the ARA Investment Fund. The issue price of these units was \$1 per unit.

### Note 18 - CONTINGENT LIABILITY

#### *Sale Performance Management Fees*

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

- (i) 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.
- (ii) 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:-
  - a. 2.5% of the gross sale price (if gross sale price is more than 50% of original gross purchase price); or
  - b. 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.
- (iii) 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.

**Note 19 - OPERATING LEASE COMMITMENT RECEIVABLE**

	<b>Consolidated 2004 \$</b>	<b>Parent 2004 \$</b>	<b>Parent 2003 \$</b>
Operating Lease Commitments contracted as receivables:			
- not later than 1 year	28,302,214	9,441,265	5,206,495
- later than 1 year but not later than 5 years	74,664,629	21,684,169	11,289,280
- later than 5 years	59,077,387	35,239,357	7,264,645
Aggregate lease revenue contracted for at balance date	162,044,230	66,364,791	23,760,420

**Note 20 - 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.

**Note 21 - RELATED PARTY DISCLOSURES**

- (i) 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 -

Christopher Arthur Morton  
 Elizabeth Ann Pidgeon (retired 27 August, 2004)  
 David John Conquest  
 Matthew Bradley Madsen (retired 5 September, 2003)  
 Dennis Wayne Wildenburg (appointed 22 September, 2003)  
 Gregory James Paramor (appointed 27 August, 2004)  
 Nicholas Roland Collishaw (appointed 27 August, 2004)

*Custodian*

Trust Company of Australia Limited ACN 004 027 749

Directors who held office during the year were -

Robert Bruce Corlett – Chairman  
 Jonathan W Sweeney – Managing Director  
 John G Macarthur-Stanham  
 Warren J McLeland  
 Duncan P Saville  
 William J Forrest  
 John M Thame  
 Peter C Cadwallader  
 Laurence J Gluskie  
 Robert D Jeremy  
 Robert G Lloyd

## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

	Consolidated 2004 \$	Parent 2004 \$	Parent 2003 \$
<b>Note 21 - RELATED PARTY DISCLOSURES cont.</b>			
(ii) Related party transactions during the year were as follows:-			
<i>The Manager – Property Funds Australia Limited</i>			
<b>Management fee</b> for the year in accordance with the Trust Constitution.	1,152,236	1,147,451	210,068
<b>Product Disclosure Statement</b> production fee as provided for in the Product Disclosure Statement dated 27 February, 2004 and in accordance with the Trust Constitution. This fee was determined on a commercial basis.	100,000	100,000	-
<b>Acquisition fee</b> (purchase of Lands Building, Hobart, Tasmania) as provided for in the Product Disclosure Statement dated 27 February, 2004 and in accordance with the Trust Constitution.	578,400	578,400	-
<b>Capital raising fee</b> as provided for in the Product Disclosure Statement dated 27 February, 2004 and in accordance with the Trust Constitution. This fee was determined on a commercial basis.	105,947	105,947	-
<b>Inhouse accountancy fee</b> for the year. This fee was determined on a commercial basis.	79,992	79,992	20,160
<b>Registry fee for the year.</b> This fee was determined on a commercial basis.	20,700	20,700	4,500
The Manager is a sub-tenant of a tenant of a sub-trust of the Trust at the Anzac Square Offices, 200 Adelaide Street, Brisbane. The sub-lease term is from 10 May, 2003 to 28 February, 2005. The terms of the lease were negotiated on commercial terms with the head tenant. Rent paid for the year:	130,008	-	-
<i>The Custodian</i>			
Custodian fee for the year paid to Trust Company of Australia Limited in accordance with the Custody Agreement.	66,372	66,372	15,005
(iii) Unitholdings in the Trust			
<i>Number of units held in the Trust as at 30 June, 2004</i>			
Property Funds Australia Limited	196,213		
Christopher Morton related entity	97,058		
David Conquest	59,386		
<i>Distributions received during the Year</i>			
There are no comparatives as the unit holdings were originally held in the merging trusts (refer note 14) which were acquired by the Trust on 1 July, 2003.			
Property Funds Australia Limited	18,601		
Christopher Morton related entity	9,201		
David Conquest	5,630		

**Note 22 - CAPITAL EXPENDITURE COMMITMENTS**

As at the balance date the Trust had outstanding lease fitout obligations and committed capital expenditure of \$552,118 expected to be consumed in the next 12 months.

**Note 23 - 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, 2004 was \$1,548,245 for the Consolidated entity and \$496,263 for the Parent entity.

**Note 24 - FINANCIAL INSTRUMENTS****(a) Interest Rate Risk**

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

**(b) Interest Rate Swaps**

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

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:

	Weighted Average Effective Interest Rate 30/6/04	Floating Interest Rate 30/6/04	Within 1 Year 30/6/04	1 to 5 Years 30/6/04	Non – Interest Bearing 30/6/04	Total 30/6/04
<b>Financial Assets</b>						
Cash assets	3.83	-	-	4,592,859	-	4,592,859
Other	-	-	-	-	8,200	8,200
Receivables	-	-	-	-	700,664	700,664
<b>Total Financial Assets</b>			-	4,592,859	708,864	5,301,723
<b>Financial Liabilities</b>						
Interest Bearing Liabilities	6.64	-	16,410,000	136,416,000	-	152,826,000
Payables	-	-	-	-	5,377,289	5,377,289
<b>Total Financial Liabilities</b>		-	16,410,000	136,416,000	5,377,289	158,203,289

The Consolidated entity was established on 1 July, 2003, accordingly no comparatives apply.

**(c) Credit Risk**

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

**Note 25 - SEGMENT INFORMATION**

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

## NOTES TO THE FINANCIAL STATEMENTS continued

for the Year Ended 30 June, 2004

### Note 26 - BENDIGO STOCK EXCHANGE SUPPLEMENTARY INFORMATION

- (a) The information in this note is current as at 1 September, 2004 and is stated as it applies to the PFA Diversified Property Trust.
- (b) Voting rights of Unitholders:  
1 vote for each unit held.
- (c) There are 3,087 unitholders in the PFA Diversified Property Trust.
- (d) PFA Diversified Property Trust spread of Unitholders:

Number	Total No. of Unitholders
1 – 1,000	1
1,001 - 5,000	60
5,001 – 10,000	794
10,001 – 100,000	2,123
100,001 and over	109

- (e) 10 Largest Unitholders of the PFA Diversified Property Trust:-

Investor	As Trustee For	No. of Units held	% of Equity
RBC Global Services Australia Nominees Pty Limited	acf APNFM A/C	7,397,480	7.028%
RBC Global Services Australia Nominees Pty Limited	atf BKCust A/C	1,163,722	1.106%
R.G. Paddon & K.F. Paddon	atf Bay Trust	490,197	0.466%
P.A. Hadley & I.M. Hadley		400,000	0.380%
A.B. Caradine & J.L. Caradine	atf AB & JL Caradine Superannuation Fund	389,329	0.370%
B.Y. Stevenson & T.J. Stevenson	atf B & T Stevenson Superannuation Fund	315,630	0.300%
Torumba Pty Ltd	atf The Patroben Unit Trust	289,060	0.275%
Atholl Robinson		285,263	0.271%
GB Rowlatt Pty Ltd	atf IVAL Family Account	255,000	0.242%
A. Matheson & S. Matheson	atf Golden Dawn Pty Ltd Superannuation Fund	250,300	0.238%

### Note 27 - 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, 2004 are State Government of Tasmania, Lands Building Hobart and Kings Car Parking, Post Office Square Brisbane.

### Note 28 - AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

For years ending on or after 30 June 2006, all general purpose financial reports prepared in accordance with the requirements of Chapter 2M of the Corporations Act will be required to comply with Australian Equivalents to International Financial Reporting Standards (IFRSs) instead of Australian Accounting Standards presently on issue. Comparative financial statements must also be presented in accordance with Australian Equivalents to IFRSs for the year ending 30 June 2005.

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

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

**Note 28 - AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) continued**

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

**Planning Phase**

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

The planning phase has essentially been completed.

**Diagnosis Phase**

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

The Diagnosis Phase also involves a more detailed analysis (than merely of key accounting policy differences) of measurement and disclosure impacts and preparatory work on revised statutory reporting templates. To ensure that quantitative information is available for AASB 1047 disclosures required at 30 June 2005, decisions will be taken on exemptions and options provided in AASB 1 "First Time Adoption of Australian Equivalents to IFRSs" and detailed impairment testing will be performed on opening balance sheet carrying values of assets at 1 July 2004.

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

This phase has commenced and is due for completion by 30 June 2005.

**Conversion Phase**

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

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

**(b) Changes to Key Accounting Policies**

The Trust has identified the following key differences in accounting policies that are expected to arise from adopting Australian Equivalents to IFRSs.

**Intangible Asset – Goodwill**

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

**Revenue on Disposal of Assets**

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

**Recognition of Revenue on Sale of Goods/Services**

When the Trust adopts Australian Equivalents to IFRSs, revenue from the sale of goods and services can only be recognised when the costs incurred or expected to be incurred can be reliably measured. This condition is currently not required and may result in revenue currently recognised being deferred to later periods. To the extent that revenue has been recognised under current standards at transition date that ought to have been delayed under Australian Equivalents to IFRSs, an initial negative adjustment may be required to opening balances of retained earnings at 1 July 2004. The Manager is not aware of any required adjustments on transition to opening balances of retained earnings of the Trust as at 1 July, 2004.



## NOTES TO THE FINANCIAL STATEMENTS *continued*

*for the Year Ended 30 June, 2004*

### **Note 28 - AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) *continued***

#### **Capitalisation of Borrowing Costs**

Currently the Trust capitalises all borrowing costs but will be required to expense all borrowing costs in the period that they are incurred under Australian Equivalents to IFRSs. This will result in additional expenses being recorded by the Trust and therefore lower profits. There will be an initial negative impact on retained earnings at 1 July 2004.

#### **Distributions**

The Trust currently records distributions on a cash basis when they are paid.

No accrual for distribution entitlements is recognised. The Manager believes this policy is in accordance with Australian Equivalents to IFRSs.

#### **Other Assets – Non-Current**

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

#### **Derivative Financial Instruments**

The Trust currently does not recognise derivative financial instruments, including embedded derivatives, in the financial statements. Under Australian Equivalents to IFRSs derivative financial instruments will need to be recognised in the Balance Sheet at fair value with unrealised gains or losses recognised in income if they do not qualify for hedge accounting. This will result in new assets and liabilities being recognised and an increased volatility in future earnings. Recognition of derivatives will also have an initial impact on opening retained earnings at 1 July 2004.

#### **Non-Current Other Financial Assets**

##### *Investments in Controlled Entities*

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

#### **Hedging**

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

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

The hedging rules will impact the way the Trust accounts for hedges of its funding and for hedges of its Balance Sheet. This will result in new assets and liabilities being recognised, increased volatility in future earnings and will have an initial impact on opening retained earnings at 1 July 2004.

#### **Investment Property**

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

## DIRECTORS' DECLARATION

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

1. the financial statements and notes are in accordance with the Corporations Act 2001 and:
  - (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the Trust and the consolidated entity's financial position as at 30 June, 2004 and of its performance for the year ended on that date;
2. 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.



**C A Morton**  
Managing Director  
Brisbane  
**17 September, 2004**

## INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

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

### Scope

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

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, notes to the financial statements, and the declaration by the directors of the responsible entity for The PFA Diversified Property Trust and controlled entities for the year ended 30 June 2004.

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

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

### Audit approach

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

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

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

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

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

### Independence

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

### Audit opinion

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Trust and consolidated entity's financial position as at 30 June 2004 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

BDO Kendalls



**P A Gallagher**

Partner  
Brisbane

**17 September, 2004**

# Directory

## Manager

### **Property Funds Australia Limited**

ACN 078 199 569

## Registered Office and Principal Place of Business

Level 3

Anzac Square Commercial

200 Adelaide Street

Brisbane QLD 4000

Phone: (07) 3221 7170

Fax: (07) 3221 6729

Email: [info@pfaltd.com.au](mailto:info@pfaltd.com.au)

### **Postal Address**

PO Box 10398

Brisbane Adelaide Street QLD 4000

## Directors of Property Funds Australia Limited

Gregory J Paramor (Non-Executive Chairman)

Christopher A Morton (Managing Director)

Dennis W Wildenburg

David J Conquest

Nicholas R Collishaw

## Company Secretary

Stephen Barnard

## Auditor

### **BDO Kendalls**

Level 18, 300 Queen Street

Brisbane QLD 4000

## Custodian

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

ACN 004 027 749

213 St Pauls Terrace

Brisbane QLD 4000

## Taxation Adviser

### **BDO Kendalls**

Level 18, 300 Queen Street

Brisbane QLD 4000

## Corporate Lawyers for The Manager

### **McCullough Robertson Lawyers**

Level 12, Central Plaza II

66 Eagle Street

Brisbane QLD 4000

## Registry

### **Property Funds Australia Limited**

ACN 078 199 569

### **Office Postal Address**

PO Box 10398

Brisbane Adelaide Street QLD 4000

Phone: (07) 3221 7170

Fax: (07) 3221 6729

Email: [info@pfaltd.com.au](mailto:info@pfaltd.com.au)

